

## Monte Carlo Press Breakfast

7 September 2009

### Current status of the p/c reinsurance markets and expected changes for the upcoming January 2010 renewals

The current situation on the reinsurance markets has improved considerably compared to 2008. A key factor is the capital squeeze on the primary side triggered by the financial market crisis. This has stimulated demand for reinsurance, hence pushing up prices, especially in capital-intensive classes. Nevertheless, the picture is a mixed one as far as reinsurance prices are concerned. Particularly in the area of casualty business in the United States, where the market continues to be relatively soft, meaningful rate increases are necessary in order to reach risk-adequate price levels. In the case of catastrophe covers, too, not all expectations for rate increases were fulfilled. Given that sufficient capacity is available and provided there are no major cat losses prior to the renewal season, we anticipate a stable pricing environment at the January 1<sup>st</sup> renewals.

In some lines, for example worldwide credit and surety reinsurance or aviation business, further price increases and improvements in conditions are expected. These are mainly the result of increased loss activity necessitating upward price adjustments.

Structured reinsurance covers have also profited from the scarcity of capital in the primary sector. These products are designed to support primary insurers' solvency position. In light of the repercussions of the financial market crisis, demand for surplus relief contracts has consequently risen sharply.

All in all, we expect rates to remain broadly stable in the upcoming January 2010 renewals in non-life reinsurance. Details of the current status of the individual markets and our expectations for them going forward are provided in the following.

- **North American market**

*Property business:* rate stabilisation in the primary market should continue. No further hardening of the market expected if hurricane season passes off without major events. Reinsurance terms and conditions in pro rata business stable and have generated the expected margins. General trend remains positive in non-prop. business.

*Casualty business:* pace of rate reductions in primary market is currently slowing, especially in commercial lines.

Outlook will remain mixed. Classes such as D&O for financial institutions may see another round of sharp rate increases driven by adverse loss experience. Other classes such as workers' compensation are exhibiting a disciplined response to calls from rating agencies and information institutes recommending rate increases. Improvements in terms on the reinsurance market are mixed, depending very much upon line of business. Rate increases for workers' compensation obtained in July 2009. Good security very much in demand. Outlook for casualty reinsurance should become more promising in the medium term. Underwriting result assuming greater importance as investment income dwindles. Reinsurers with good rating should benefit from flight to quality as insurers become more security-conscious in response to financial crisis.

- **Germany**

*Industrial property business:* rates are no longer declining. Policy limits were reduced while keeping premiums stable; on reinsurance side full transparency, e.g. for allied perils such as flood, is needed; competitive environment compels reinsurers to write business very selectively and to ensure the quality of cedants' underwriting standards.

*Industrial casualty business:* unchanged competitive climate at primary level; limited capacity for casualty business available from reinsurers with quality ratings, therefore limited competition; call for unchanged terms and conditions.

*Motor business:* prices in primary market expected to stabilise at current level; further increase in non-proportional reinsurance rates anticipated in motor liability due to claims development and reduced investment yields; close monitoring of primary rates in proportional business necessary.

*Catastrophe business:* in anticipation of Solvency II more demand/capacity for catastrophe covers at commensurate prices expected.

- **Specialty lines**

*Aviation:* after a string of losses market conditions for primary and non-prop. business are hardening, albeit from a low level. Further increases for primary and reinsurance market to risk-adequate levels expected.

*Marine:* depending on loss situation, stable to slightly increasing rates in the primary market in all lines of marine

and offshore energy business expected; in non-proportional reinsurance stable rating environment expected; business well above pricing levels of 2005 still available in US and London markets.

*Credit/Surety:* difficult situation currently in trade credit (re-)insurance in view of rising insolvencies; surety has performed well to date. Economic environment should improve slowly; frequency and severity risk still at increased level, but slowly diminishing; drastic price increases and very restrictive underwriting on the primary and reinsurance side should help to improve results in 2010; reinsurance capacity crunch expected for renewal 2010.

- ***Property catastrophe market***

*Property catastrophe business:* 2009 started with European winter storm Klaus, followed by severe bushfires in Australia, floods in Eastern Europe and an earthquake in Italy. These events caused minor losses for the reinsurance markets and stayed mainly within the retention of primary companies.

*USA:* capacity tight but sufficient. Capital from financial markets is not moving back into the reinsurance sector to the full extent. Even with no major hurricane or earthquake losses in 2009 pricing level will stay at its current level. In the event of a moderate hurricane season ROLs will increase by up to 10%. If capacity is available cedants will try to buy more limits to protect their balance sheets.

*Europe:* only minor rate changes expected unless programs suffered a loss in 2009; large European programs might see some price pressure due to demand for highly rated capacity. CEE primary market seeing stronger demand for catastrophe protection as a result of increased values; flood events of 2009 should lead to price increases.

*Japan:* further rate increases for earthquake covers, rates for typhoon covers stable to slightly positive.

*Asia/China:* no drastic changes in cat pricing expected since most reinsurers still have more capacity available.

*Australia:* due to the severe fire losses rate increases in excess of 10% can be expected for property cat protections.

- **Other markets**

*Western Europe:* property per-risk covers stable, rates for non-proportional motor are increasing.

*CEE:* primary market will see greater demand for insurance products in the years to come; on reinsurance side rates should continue to be commensurate with the risk, significant demand for property/casualty lines is expected.

*Asia:* high competition on primary level but less pressure on rates on reinsurance side. We expect stabilisation on the primary and reinsurance side.

*China:* rates in primary insurance stabilising at low level, high competition on reinsurance side. For 2010 price increases anticipated; both demand for reinsurance and rates expected to rise.

*Arab world:* increased demand for insurance and reinsurance covers, which will be met by competitive market.

*Australia:* due to high frequency of losses increased rates anticipated at primary level with positive impact on reinsurance side. Reinsurance conditions will continue to range from stable to slightly improving.

- **Structured reinsurance**

*Worldwide:* in the wake of global financial crisis increased awareness of significance attached to capital optimisation and risk management; hybrid capital is still scarcely available or affordable with an eye to managing regulatory solvency margins or target rating capital; substantially increased demand in structured reinsurance will be sustained; continued application of improved regulatory and accounting frameworks as well as high level of compliance standards.

*Non-US/non-UK:* high demand for surplus relief quota shares, adverse development covers and net retention protections due to financial crisis.

*US/UK:* increase in demand for surplus relief quota shares and other structured reinsurance concepts in the wake of the global financial crisis, 2008 catastrophe losses and limited access to capital.

## **Hannover Re's stance on the upcoming renewals**

Overall, Hannover Re views the current climate as offering opportunities in several segments. Whilst we see stable premiums in the German, US and Asian markets for our book of business, we expect solid growth rates in the specialty lines, particularly in aviation and credit/surety. For our facultative business as well as structured solutions we also anticipate premium increases in 2010. Furthermore, we will strengthen our writings of agriculture reinsurance and in emerging markets. We are currently observing an improvement in market conditions for insurance-linked securities and therefore expect more business in this area.

On the retrocession market we anticipate conditions at the same level or slightly better. We see a possibility to increase the volume of the K6 transaction.

Given the current profitability of the company, Hannover Re is well positioned with its strong capitalisation and ratings to benefit from the opportunities in the year ahead. We will most likely see a further expansion of our business in 2010. As in the past, brokers will remain our most important distribution channel.

Our well-established cycle management ensures that we provide support to our clients in those areas where we are most needed and which typically are the most profitable for us.

Our adherence to profitability as our main goal remains unchanged. For the current year, we are increasingly confident that we will achieve our earnings. Based on the expectations for the upcoming renewals we are also optimistic that in 2010 we will achieve a return on equity of at least 750 basis points above the risk free rate.\*

For the years to come we will strive to increase the stability of our earnings. In the case of non-life reinsurance this means that we will focus on the non-catastrophe classes.

\* As always, this is subject to the premise that the burden of major losses does not significantly exceed the expected level of 10% of net premium in non-life reinsurance and that there are no further adverse movements on capital markets.