

Research Update:

# Hannover Rueck SE 'AA-' Ratings Affirmed On Sound Performance And Capital Despite COVID-19-Linked Losses; Outlook Stable

June 18, 2020

## Overview

- We believe Hannover Rueck SE's 2020 performance will be affected by COVID-19-related losses on property and casualty reinsurance business and the deterioration of capital markets.
- We forecast the group's combined ratio (loss and expense) at 99%-102% and a return on equity (ROE) of 5%-8% for year-end 2020, thanks to an effective retrocession strategy and a superior cost base compared with peers.
- We expect a recovery in earnings during 2021 with the combined ratio at 96%-98% and the ROE at 10%-12%, assuming that Hannover Rueck's risk-based capital will remain above the 'AA' confidence level in 2020-2022.
- We are therefore affirming our 'AA-' ratings on Hannover Rueck's core subsidiaries.
- The stable outlook reflects our view that the group will maintain capital adequacy above the 'AA' confidence level in 2020-2022, improve earnings in 2021-2022, and defend its very strong competitive position during the next 12-24 months.

### PRIMARY CREDIT ANALYST

**Johannes Bender**  
Frankfurt  
(49) 69-33-999-196  
johannes.bender  
@spglobal.com

### SECONDARY CONTACT

**Jean Paul Huby Klein**  
Frankfurt  
(49) 69-33-999-198  
jeanpaul.hubyklein  
@spglobal.com

### ADDITIONAL CONTACT

**Insurance Ratings Europe**  
insurance\_interactive\_europe  
@spglobal.com

## Rating Action

On June 18, 2020, S&P Global Ratings affirmed its 'AA-' long-term issuer credit and financial strength ratings on Hannover Rueck SE group's core and guaranteed subsidiaries (see ratings list below).

## Rationale

Hannover Rueck entered 2020 with a strong track record of operating performance including an average return on equity (ROE) of about 12.8% and a combined ratio of about 96.8% over the past five years. Moreover, the group reported strong first-quarter 2020 results, with a 2.5% increase in group net income compared with the same period of 2019. Hannover Rueck also reported

moderate major loss expenditure excluding COVID-19-related losses. However, a higher-than-expected claims and reserves for potential COVID-19-related losses of €220 million, due to its exposure to cancellation and postponement of large events amid restrictions related to the pandemic, led to a 5.4% decline in property/casualty (P&C) reinsurance results to €207 million. Life results improved 24.5% in the first three months of 2020 to €110 million, supporting the group's earnings diversity.

As a result of COVID-19-related losses, we have revised down our earnings projections for the group in our base-case scenario. We now expect a combined ratio of 99%-102% for 2020, assuming a normal level of natural catastrophe and large man-made losses totalling €975 million. We expect the group to report a ROE of 5%-8%, supported by its effective retro strategy, stringent underwriting, a positive reserve run-off result, and solid investment income--albeit at lower levels due to the recessionary environment. For 2021, we expect the group's combined ratio and ROE to improve to 96%-98% and 10%-12% respectively.

We expect the group's capital adequacy, based on our risk-based model, to remain above the 'AA' confidence level in 2020-2022, supported by retained earnings and active capital management. Moreover, the group's solvency ratio will likely remain comfortably above its comfort capital level of 200% in 2020, following a decline to 220%-230% in first-quarter 2020 from 252% at year-end 2019. Therefore, we believe the group remains sufficiently capitalized to cope with further market volatility and possible large man-made losses or natural catastrophe events.

## **Outlook**

The stable outlook indicates that we expect Hannover Rueck to maintain its competitive advantage as a well-positioned, leading global reinsurer. The group will also benefit from moderate price increases in the global P/C reinsurance business in 2020, and growth in structured reinsurance products. We also assume earnings will improve in 2021-2022, which should enable the group to 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 currently expect, or a material erosion of underlying earnings. We may also take a negative rating action if the group'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 P/C reinsurance market, despite the current rate increases that followed large natural catastrophe events in 2017-2019.

## **Ratings Score Snapshot**

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Financial strength rating	AA-
Anchor	aa-
Business risk	Very Strong
IICRA	Intermediate
Competitive position	Very Strong
Financial risk	Strong
Capital and earnings	Very Strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

### Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- 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
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- COVID-19 Pushes Global Reinsurers Farther Out On Thin Ice; Sector Outlook Revised To Negative, May 18, 2020

## Ratings List

### Ratings Affirmed

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**Hannover Rueck SE**

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**Hannover Reinsurance Africa Ltd.**

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**Hannover Re (Ireland) DAC**

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**Hannover Re (Bermuda) Ltd.**

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**Hannover Life Reassurance of Australasia Ltd.**

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

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**Hannover Life Reassurance Co. of America**

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**Hannover Life Reassurance Bermuda Ltd.**

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**Hannover Life Reassurance Africa Ltd.**

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**E+S Rueckversicherung AG**

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Financial Strength Rating AA-/Stable/--

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**Hannover Rueck SE**

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**E+S Rueckversicherung AG**

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**Hannover Re (Ireland) DAC**

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**Hannover Re (Bermuda) Ltd.**

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**Hannover Life Reassurance of Australasia Ltd.**

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**Hannover Life Reassurance Co. of America**

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**Hannover Life Reassurance Bermuda Ltd.**

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Issuer Credit Rating AA-/Stable/--

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**Hannover Rueck SE**

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Senior Unsecured AA-

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Junior Subordinated A

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**Hannover Finance (Luxembourg) S.A.**

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Subordinated A

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Junior Subordinated A

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceId/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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