

## 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

<b>Anchor</b>	<b>aa-</b>	+	<b>Modifiers</b>	<b>0</b>	=	<b>SACP</b>	<b>aa-</b>	
	▲		▲			+		
<b>Business Risk</b>	<b>Very Strong</b>							
Competitive position	Very strong		Governance	Neutral		<b>Support</b>	<b>0</b>	
IICRA	Intermediate							
<b>Financial Risk</b>	<b>Strong</b>		Liquidity	Exceptional		Group support	0	
Capital and earnings	Very strong							
Risk exposure	Moderately high		Comparable ratings analysis	0		Government support	0	
Funding structure	Neutral							
								<b>AA-/Stable/--</b>
								<b>Financial strength rating</b>

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

## Credit Highlights

### Overview

#### Key strengths

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

Very strong capital and earnings and solvency ratio, with well-defined risk controls and solid reserves.

Earnings volatility compares favorably with peers backed by conservative reserving.

#### Key risks

Potential volatility in capital and earnings because of coverage of natural catastrophes and other large risks, similar to peers such as Swiss Re, Munich Re, and SCOR.

*In our view, Hannover Re benefits from its diversified geographical footprint and broad business portfolio, offering property/casualty (P/C) and life/health reinsurance.* The group has a top-three position in the global reinsurance market and strong brand image, supported by its robust underwriting and claim-settlement expertise. It also enjoys longstanding relationships with brokers and key clients, and has leading positions in some reinsurance treaties it underwrites globally. In addition, Hannover Re's very strong competitive position was evident in its above-market-average growth, particularly in the past few years when pricing improved. In 2023 insurance revenue stood at €24.4 billion, up 1.8% compared with 2022 on a IFRS 17 basis. At midyear 2024 reinsurance revenue increased 5.2% to €12.9 billion, mainly supported by its P/C operations. We think the group is well-placed to continue to leverage favorable market condition in the global P/C and life reinsurance market with insurance revenue of more than €25.5 billion in 2024 and €26.5 billion in 2025.

*In our view, the stronger-than-peers' return on equity (ROE) in recent years, with lower volatility of earnings, reflects the group's prudent underwriting, reserving, and financial management.* We expect the group will generate an ROE of more than 17% in 2024-2025 under IFRS 17, assuming natural catastrophes and large losses in line with the annual budget (€1.83 billion for 2024), supported by strong reserving. We think the group will generate net earnings of €2.1 billion-€2.3 billion in 2024 and €2.2 billion-€2.4 billion in 2025 with a combined ratio of 88%-92% in both years. Furthermore, beneficial interest rates allow the group to continue increasing its investment returns and we expect net investment yields to be higher than 3.3% and 3.5% in 2024 and 2025, respectively, further supporting net earnings.

*We continue to assess Hannover Re's capital and earnings at very strong.* At end-2023, the insurer's capital adequacy was comfortably above the 99.95% confidence level, based on our risk-based model. Moreover, the group reported a favorable Solvency II ratio of 269% in 2023, further supporting our view of its capitalization. We think sound retained earnings will finance the group's growth ambitions maintaining capitalization well above the 99.95% confidence level in 2024-2025. Hannover Re's exposure to large tail risks, such as natural catastrophes, could lead to capital and earnings volatility. However, we think it remains sufficiently capitalized to cope with potential large man-made losses or natural catastrophes over our forecasting period.

### Outlook: Stable

The stable outlook indicates that we expect Hannover Re will maintain its competitive advantage as a well-positioned, leading global reinsurer. We also assume the group's earnings will remain sound in 2024-2025, enabling the group to maintain capital securely above the 99.95% confidence level.

### Downside scenario

We might consider lowering the ratings over the next two years if capital adequacy fell consistently below the 99.95% confidence level. This could occur because of large 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. Any rating upside would hinge on capital improving comfortably above our 99.99% confidence level over a sustained period and the group outperforming its peer group.

## Key Assumptions

- We forecast 2.5% GDP growth in 2024 in the U.S. and 0.7% growth in the eurozone.
- In the U.S., we think inflation will drop to 3.0% in 2024 from 4.1% in 2023. Similarly, we forecast inflation in the eurozone will fall to 2.4% in 2024 from 5.4% in 2023.

- We estimate long-term interest rates in the U.S. will decline to 4.0% in 2024 from 4.4% in 2023. In the eurozone, we expect long-term rates to decline as well to 3.1% in 2024 from 3.3% in 2023.

### Hannover Re--Key metrics as per IFRS 17

	2025f IFRS 17	2024f IFRS 17	2023 IFRS 17	2022 IFRS 4	2021 IFRS 4
S&P Global Ratings capital adequacy	99.95	99.95	99.95	Very strong	Very strong
Insurance revenue§	>26.500	> 25.500	24,456.5	33,276.0	27,762.0
Net income	2.200 - 2.400	2.100 - 2.300	1,827.7	1,543.0	1,543.0
Return on equity (%)	>17	> 17	17.4	14.3	10.6
Net investment yield (%)	>3.5	>3.3	3.1	3.8	3.3
P/C: net combined ratio (%)	88-91	89-92	94.0	100.1	98.0
Return on revenue (%)	>9	>9	8.4	6.6	5.7
Financial leverage (%)	~30	~30	31.4	34.1	26.4
EBITDA fixed-charge coverage (x)	>10	>10	10.5	17.1	16.6

\*Data before 2023 is based on IFRS 4. §Gross premium written for 2022 and 2021. IFRS--International financial reporting standards. f--Forecast.

## Business Risk Profile: Very Strong

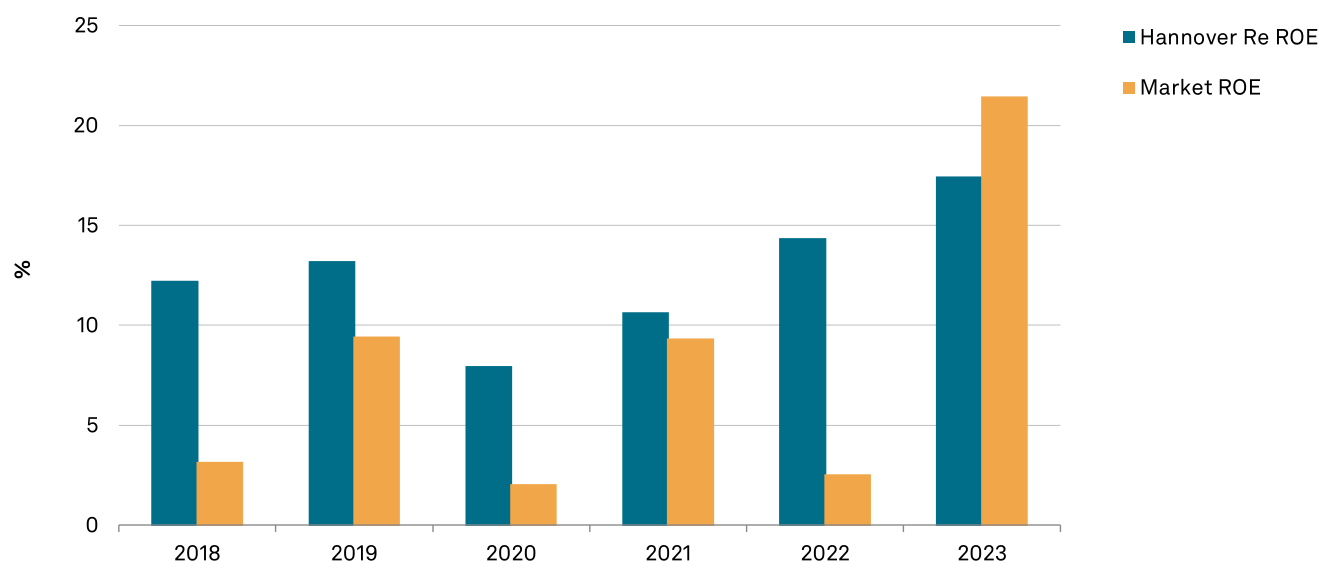
In our view, Hannover Re benefits from its diversified geographical footprint and broad business portfolio, offering P/C and life/health reinsurance. Furthermore, the group's competitiveness is underpinned by its well-established brand, and strong underwriting and claims services abilities. Within P/C reinsurance, similar to its global peers, we think 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, with large natural catastrophe and pandemic-related 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 think the life reinsurance business has low industry risk, owing to its positive underlying earnings. These have less potential to increase capital and earnings volatility than the product risks in P/C reinsurance.

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 volatile capital markets encouraged firmer prices in 2023 and so far in 2024, although we see a sideways movement in rates development. The group's competitive strength has been shown by its above-market-average growth, particularly in the past few years when pricing improved. In 2023, insurance revenue stood at €24.4 billion, up 1.8% from 2022 on a IFRS 17 basis. At midyear 2024, reinsurance revenue increased 5.2% to €12.9 billion year over year, mainly supported by its P/C operations. We expect Hannover Re will take further advantage of favorable rates in the P/C reinsurance market, further improving its technical profitability. For 2024, we expect reinsurance revenue under IFRS 17 to exceed €25.5 billion, mainly fueled by a strong development in structured reinsurance and insurance linked security business, as well in EMEA and North America. We expect that the net growth will be higher than on a gross basis, as the group reduced its retrocession volume. At half-year 2024, P/C gross revenue increased 8.8% to €9.1 billion, whereas net revenue rose 9.9% to €7.9 billion.

Hannover Re's strong growth rates did not reduce its earnings capacity, having demonstrated a consistently higher ROE than the peer average over the past six years (see chart), with lower volatility of earnings. This reflects the group's prudent underwriting, reserving, financial management and retrocession strategy. However, the group's combined ratio and return on equity in 2023 were affected by significantly strengthening resiliency reserves as well as higher retrocession costs. We expect the group will generate an ROE of more than 17% in 2024-2025 under IFRS 17, assuming natural catastrophes and large losses in line with the annual budget (€1.83 billion for 2024), supported by strong reserving. We think the group will generate net earnings of €2.1 billion-€2.4 billion in 2024-2025, with a combined ratio of 89%-92%. Our view is supported by the group's midyear 2024 results, with a reported ROE of 22.3% and combined ratio of 87.8%. We also expect that strong life earnings and sound investment results from higher investment yields will positively contribute to the group's overall profits.

### Hannover Re's operating performance is resilient compared with top global reinsurers'



ROE--Return on equity. Source: S&P Global Ratings.

Copyright © 2024 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 bolsters the group's competitive strength. The group's diverse business mix is another positive factor. Hannover Re's retrocession strategy helped it withstand recent large natural catastrophes. Nevertheless, the group's reinsurance utilization ratio is somewhat higher than that of some peers, which suggests a greater reliance on retrocession capacity than some large peers.

## Financial Risk Profile: Strong

At year-end 2023, Hannover Re held capital adequacy above the 99.95% confidence level, based on our risk-based model. Moreover, the group reported a favorable Solvency II ratio of 269% in 2023 and 276% at midyear 2024, further supporting our view of its capitalization. We think Hannover Re will maintain capitalization well above the 99.95% confidence level in 2024-2025. Furthermore, we think the insurer remains sufficiently capitalized to cope with further possible large man-made losses or natural catastrophes.

In 2023, the group reported an increase in net income of 133.7% to €1.8 billion and ROE of 17.4%. The performance in 2022 was affected by high natural catastrophe claims exceeding the group's large loss budget. Improving life and health results and strong ordinary investment income, supported by higher interest rates and positive inflation-linked bonds returns, contributed to net earnings. We expect investment returns to exceed 3.3% and support net earnings in 2024, 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. This is further supported by a significant increase in the resiliency reserves, which the company reported were about € 2 billion in 2023. This is, in our view, a strong buffer to reduce earnings volatility.

The group is exposed to tail risks from severe natural catastrophes, man-made event claims, and pandemics, which could cause volatility in capital and earnings. The group's large loss budget increased to €1.83 billion for 2024 compared with €1.73 billion for 2023. The increasing large-loss budget reflects the higher business volume, rather than a change in risk appetite, which remains broadly stable. 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 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, the group has a track record in accessing the capital markets. Financial leverage remained stable at 31.4% in 2023. The ratio was influenced by the repayment of a hybrid bond in 2023 of €500 million as well as the change in accounting from IFRS 4 to IFRS 17. Strong earnings supported a fixed charge coverage ratio of 10.5x in 2023. Under our base-case scenario, Hannover Re will maintain a financial leverage of about 30% with a fixed charge coverage of above 10x in 2024-2025.

## Other Key Credit Considerations

### Governance

We do not foresee any material governance issues that could affect the ratings. We think the group can implement its management succession plans with internal and external resources, as demonstrated in recent years. We think that the management team has a consistent track record of strategic planning, strong execution, and transparent, demanding,

and sophisticated financial management.

### **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**

Our analysis of Hannover Re also considers its exposure to environmental and social risks, which we think 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, the group has built a strong capital buffer and an effective retrocession to safeguard its business against material fallout from natural disasters, for example. Given the group's strong risk management and modelling capabilities, we think it is unlikely to experience losses greater than its risk tolerance.

### **Enterprise risk management**

We consider Hannover Re's enterprise risk management 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 do not expect the group to experience losses beyond its risk tolerance over our two-year outlook horizon.

### **Accounting considerations**

We base our analysis primarily on audited financial data prepared in accordance with IFRS. From 2023, Hannover Re applies IFRS 9/17 in its group reporting. Our base-case assumptions for 2024 and 2025 are based on IFRS 9/17 while 2021-2022 ratios are based on IFRS 4.

## **Related Criteria**

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Hannover Rueck SE 'AA-' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable, June 26, 2024

## Appendix

Hannover Re--Credit metrics history as per IFRS 17	
	2023 IFRS 17
S&P Global Ratings' capital adequacy	Very strong
Total invested assets	61,183.8
Total shareholders' equity	11,019.5
Insurance revenue	24,456.5
Reinsurance utilization (%)	13.8
EBIT	1,971.3
Net income	1,827.7
Return on revenue (%)	8.4
Return on assets (excluding investment gains/losses) (%)	3.6
Return on equity (%)	17.4
P/C: net combined ratio (%)	94.0
P/C: return on revenue (%)	6.1
Life: operational ratio (%)	88.2
Life: return on assets (%)	6.5
EBITDA fixed-charge coverage (x)	10.5
EBIT fixed-charge coverage (x)	10.1
Financial obligations/ EBITDA (x)	2.5
Financial leverage adjusted including pension deficit as debt (%)	31.4
Net investment yield (%)	3.1
Net investment yield including investment gains (losses) (%)	2.7
IFRS--International financial reporting standards.	



## 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-/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 September 5, 2024)\*

### Operating Companies Covered By This Report

#### Hannover Rueck SE

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

AA-/Stable/--

#### E+S Rueckversicherung AG

Financial Strength Rating

*Local Currency*

AA-/Stable/--

Issuer Credit Rating

*Local Currency*

AA-/Stable/--

#### 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 Re 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/--

## Ratings Detail (As Of September 5, 2024)\*(cont.)

**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.

Copyright © 2024 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.spglobal.com/ratings](http://www.spglobal.com/ratings) (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.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

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