Outlook

- Positive business prospects for 2017
- Gross premium volume in total business expected to grow by a low single-digit percentage
- Targeted return on investment of 2.7% for assets under own management
- Group net income forecast to exceed EUR 1 billion

Despite the challenging business conditions facing the international (re)insurance industry and the protracted low level of interest rates, Hannover Re expects to continue operating with sustained success even in this difficult environment. Thanks to gross premium that exceeded our expectations, we raised our gross premium target for total business in February: we now anticipate an increase in the low single-digit percentage range for 2017.

In property and casualty reinsurance, which remains intensely competitive, we shall continue our selective underwriting policy and write only business that satisfies our margin requirements. In the treaty renewals as at 1 April 2017 we again adhered to this strategy. It is at this time of the year that all Japanese business is traditionally renegotiated; treaties also come up for renewal – albeit on a lesser scale – in Australia, New Zealand, Asian markets and North America. Faced with predominantly soft market conditions, we essentially concentrated on our existing business so as to safeguard the continued good quality of our property and casualty reinsurance portfolio.

In Japan rates slipped again in property business, although the decline was more moderate than it had been in previous rounds of renewals. We slightly reduced our premium volume here. In liability reinsurance, on the other hand, we were able to push through substantial rate increases on account of past losses. This resulted in additional premium income. In New Zealand the earthquake that occurred in November 2016 served to halt the trend towards declining rates, with modest premium increases even recorded under loss-impacted programmes. In India we were able to write business locally for the first time out of our new branch. In view of the soft market we did so selectively, as a consequence of which the premium volume remained broadly stable.

The renewal of part of our North American business passed off highly satisfactorily for our company. As was already evident at the time of the 1 January 2017 renewals, the pressure on rates has eased appreciably across the various lines of business. Both on the property side and in the casualty sector we achieved largely stable prices. Moderate reductions were recorded for loss-free, profitable programmes.

For the full 2017 financial year we anticipate modest growth in property and casualty reinsurance based on unchanged exchange rates. This will be driven above all by stronger demand for structured reinsurance solutions. Even though market conditions in property and casualty reinsurance are likely to remain soft, we are looking to post a good underwriting result. This is conditional on major loss expenditure remaining within the budgeted level of EUR 825 million. We are aiming for a combined ratio of less than 96%. The targeted EBIT margin for property and casualty reinsurance is at least 10%.

In worldwide life and health reinsurance we anticipate promising business opportunities in the various markets. Adjusted for exchange rate effects, gross premium income is expected to show moderate organic growth. It should be borne in mind here that changes affecting specific very high-volume treaties can have significant implications for the business volume that may be reflected in either increased or decreased premium. The value of new business is expected to exceed EUR 220 million. Our target EBIT margins remain unchanged at 2% for financial solutions and longevity business and 6% for mortality and morbidity business.

With regard to our IVC targets – which we use to map economic value creation –, we are aiming for at least 2% xRoCA in property and casualty reinsurance and at least 3% xRoCA in life and health reinsurance.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates and yield levels – lead to further growth in our asset portfolios. In the area of fixed-income securities we continue to emphasise the high quality and diversification of our portfolio. As far as the allocation of our investments to the individual asset classes is concerned, we are planning – aside from the temporary exceptions on the USD side already discussed – to further expand our holdings of fixed-income securities rated BBB or slightly lower while at the same time enlarging our portfolio of government bonds.

Similarly, we shall further expand our exposure in the real estate sector as attractive openings arise. Overall, the primary focus will remain on stability while maintaining an adequate risk / return ratio that will enable us to respond flexibly to general developments and emerging opportunities. For 2017 we are targeting a return on investment of 2.7%.

Having successfully written several financial solutions treaties in life and health reinsurance, we raised our guidance at the beginning of the year for Group net income in 2017 from more than EUR 950 million to more than EUR 1 billion. This continues to be subject to the premise that the burden of major losses does not significantly exceed the budgeted level and that there are no unforeseen distortions on capital markets.

Hannover Re envisages a payout ratio for the dividend in the range of 35% to 40% of its IFRS Group net income. If the comfortable level of capitalisation remains unchanged, this figure will increase in light of capital management considerations.