Business Update Call

Company Participants

- Jean-Jacques Henchoz, Chief Executive Officer
- Sven Althoff, Member of the Executive Board

Other Participants

- Andrew Ritchie, Analyst
- James Shuck, Analysrt
- Jonathan Urwin, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Sami Taipalus, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good morning ladies and gentlemen. I welcome you to today's Hannover Re International Conference Call on January 1, 2020 Property and Casualty Treaty Renewals. For your information, this conference is being recorded.

At this time, I would like to hand the call over to your host today, Mr. Jean-Jacques Henchoz, Chief Executive Officer. Please go ahead, sir.

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Good morning everyone and thank you very much for joining this call. I'm joined by the team here. Sven Althoff will comment in more details on the renewals for 1/1, but just to get started a few comments on my side. First of all, on the general market conditions, on the presentation on slide 4, a few comments. Generally I would say that demand for reinsurance continue to be strong and we saw some good momentum in terms of global market conditions, some improvement, which reflected the loss activity in the previous years, but also some increased underwriting discipline in the allocation of capital from the market players and some tightening of terms. At the same time one has to acknowledge that global capacity remained sufficient to cover the needs of the reinsurance market. There were some withdrawals which you are aware of at Lloyd's in Asia, in particular, and alternative capital had some challenges to face, some trapped capital which affected the retrocession market. But generally traditional capacity was available and they were even increases in terms of available capacity. So I would say a balanced supply-demand relationship with good underwriting discipline and some momentum on pricing.

On the primary side, we've seen as well some improved conditions and some momentum across the world, particularly in North America. And as you know, we have a large book of business on the proportional side. So this will lead to some positive impact on the expected profitability of proportional treaties and our clients in America have reported back that they are seeing substantial increase, sometimes double digit in some of the long tail lines of business. Nat cat market remained stable to slightly improving from our standpoint, this is a bit below our expectations. We had some large losses, of course, '17 and '18. '19 was a bit milder in comparison, closer to the average, but still a loss burner, which is higher than historic average in the last three years. So, the movement up is a bit more moderate. Retro capacity was a bit tighter and led to some tightening on the reinsurance side, but retro capacity was available. As far as we are concerned, we are very happy with the outcome of the negotiations on our retrocession cover and we'll be able to reflect the slightly increased terms in our reinsurance programs. In nat cat, of course, as you know, on April 1, we have the Asian Japanese renewals in July 1. You have a number of North American treaties being renewed. So we'll see over the next few months how the nat cat business evolves, there might be some increased momentum, but it's early days. Generally, I would say, my perception is that the industry proved its resilience and was able to react on losses. And generally we see some positive momentum, but certainly not as pronounced as for example in primary lines in North America, but good movement of global market conditions. Let me maybe comment now more specifically on our own results. And I move to page 6, of the slide deck. As you know, the 1st of January is an important renewal date. This is roughly two-third of our P&C business being renewed and I'd say that we're satisfied with the outcome of the renewal season. We were very well positioned from the beginning in the market as many clients were keen to continue to expand their relationship with us. And we were often a go-to-market when it comes to new business. There were few withdrawals, as I mentioned and we're able to attract some new business at satisfactory terms. We managed again to have a strong increase in our premiums level at satisfactory terms and rate increased and reduced commissions were more frequent this renewal than in the previous year. Having maintained the underwriting discipline, we tried to focus on our key clients as far as growth is concerned. We managed capacity diligently and had of course some negotiations where the result was below our own benchmarks and risk appetite with the client, some business as well. As mentioned, nat cat -- the nat cat market was stable to slightly improving, and in economic terms, the proportion of our nat cat exposure is in line with the recent situation, although we've grown a little bit there. Retrocession, I mentioned already, we renewed our whole program in line with exposure growth and we have slightly higher risk-adjusted prices, but as mentioned, we believe we can reflect this change in pricing into our own pricing and we were able to do so on 1st of January and expect to see the same in the next few deadlines for renewals. And last but not least, I think the low-cost ratio, the cost leadership, which characterized Hannover Re for many years, continues to be a key competitive factor and allows us to, to continue to grow our book of business. So this is just one part of the mix, but continues to be important to be competitive in the market. So, overall, I'd say satisfying outcome. Maybe nat cat a little bit less movement than initially expected. But we should see in the coming months if this gains a little bit traction. But overall, we were able to meet our profitability targets and at the same time could grow and expand our market share I give the floor now to Sven to give you a bit more detail on our own portfolio.

Sven Althoff {BIO 19104724 <GO>}

Very good. Thank you, Jean-Jacques, good morning from my side as well. I will start on slide 8, where you can see that out of our almost EUR15 billion of P&C premium, EUR10.5 billion is what we would call traditional treaty reinsurance, i.e. the proportional and non-proportional covers for portfolios of our ceding companies. We are today not reporting about the facultative or the structured and ILS activities we have. And out of the EUR10.5 billion of traditional premium, two-thirds, i.e., a little more than EUR7 billion came up for renewal at January 1. As you can see the EUR7 billion portfolio has a broad diversified split across all lines, all territories, and is therefore, a good indicator about the quality of our overall business. The highest percentage of renewals from January 1 point of view we have from our European scenes [ph] and out of some of our specialties like Credit and Surety and Marine business where more than 90% of our business is renewing at 1/1. On slide 9, we are showing you from a regional footprint what we will renew later in the year, the EUR3.5 billion we are not reporting about today. As you can see, territories like the US, Australia or the Japanese business, which is a significant part of the EUR726 million we are showing for the region here are coming up for renewals later at 1/4, 1/6, 1/7. These are the territories which experienced significant losses on the natural catastrophe side in 2019. So just to name a few, Dorian, Faxai, Hagibis and the Australian bush fire, and we do expect higher average increases from those loss impacted areas than we could observe on average at January 1 renewal. But let me explain the January 1 renewal in a little more detail now. On page 10 you can see that the bulk of our growth is actually coming from our renewal book. We lost EUR744 million of business due to cancellations or due to restructuring and we gained new business of EUR810 million on the new business, or out of those restructures, but the bulk of the growth, i.e. EUR919 million is coming from our renewal book. This of course is a book we know well. In many cases we had for many years. And from that point of view, it is very, very pleasing that we could show the growth from that solid base at January 1 renewals. In total, we are reporting EUR1 billion more in premium, which translates into a currency adjusted increase of 14%. On slide 11 you can see the various reporting lines, what's their premium development and the price changes. The overall price change at January 1 renewal was 2.3%. This compares with 0.9% from last year's report on the January renewals, so it's pointing in the right direction. Most regions and product lines are now trending positive. In addition, we can observe increases and sometimes very significant increases in many insurance markets, which of course directly translates into more premium for our proportional business. And out of the combination of the higher reinsurance pricing higher shares or some new shares, hence the underlying price increases on the primary insurance business, we could grow our premium by the 14%. I have already mentioned. On page 12, you can see the difference between the increases on the proportional and on the non-proportional business. The proportional business overall increased by 2.1%. This was 0.8% a year ago. And the non-proportional business increased by 2.9%. Again, a year ago, it was 1.1%. Overall, you see much more pluses than a year ago. The reporting at the time was much more mixed. And as you can see now, most of those lines are actually in the positive territory with only two minus areas, but I will report on those in a little while. From a non-proportional perspective, slide 13 shows you that we had now three consecutive years of increases. We have regained some ground. So the pricing on the non-proportional side overall is now at 2011 level again, which of course is a good development. But you can also see that we are not quite at 2012 levels yet. As you will remember, 2011 was a particularly heavy year from a natural catastrophe point of view and triggered some significant repricing at the time, but at least we have managed to get to the 2000 level, pre-losses level again. Let me now come to the details in the various reporting lines, starting on page 14. Our North American portfolio showed some elements of growth. This is driven by mainly the reinsurance price increases, but also from the underlying insurance pricing. We managed to take the advantage of certain capacity withdrawing, which we saw particularly in the long-tail class of business, where there was less supply than in previous years and we could selectively write some more of the long-tail exposures, again mostly in areas which we have supported historically. There were also some new business opportunities, as you can see. The most significant came from Canada where we have supported client on their motor business on a proportional basis, which we felt was attractive due to the underlying strong rate increases on the insurance side. On the casualty reinsurance side, we saw more restructuring of programs than in previous years. So the retentions were slightly up at times, clients also introduced annual aggregate deductibles and that's the reason why despite the rate increases and despite the increase in shares you see relatively impact on the volume side, because clients decided, based on the new reinsurance pricing, to retain some of the business net, which they had previous -- seen in previous years. In the reporting category, Latin America, Iberian Peninsula and agricultural business, the overall price increase was 2.1%, but we have seen a significant difference here on the agricultural side at least in certain territories. As you may have observed yourself, there was a significant swine fever influencer in China, which impacted the profitability on that class of business in 2019. And due to a significant repricing of that portfolio, we managed to increase our share substantially on what we felt are now attractive reinsurance terms and conditions. That is a bulk of the increase we are showing under this reporting category. But we also had some growth from the property and casualty side in Latin America. Here the main drivers are the continued strong underlying insurance growth in those developing markets and some increased premiums, particularly in Chile, following the social unrests, which we had in the autumn and winter of this year. In Germany, Switzerland and Austria and Italy, we had a satisfying renewal outcome. From a pricing perspective this portfolio was very, very stable, as expected, I can say. But we have managed to maintain our shares, despite original signs that cedings may keep a little more net than they did in the previous years, but they kept our share stable. We managed to find from new clients, which is a very remarkable development given that our market share, particularly in Germany is already at such a high level. And what we could also see is some meaningful price increases in Italy. Italy had some hail and flood events in 2019, which we will not see on our major loss list, because it was more a frequency than a severity problem, but it nonetheless led to a repricing of the business and we could take advantage from that development. The UK and London markets portfolio showed a very significant increase in reinsurance pricing. This had a number of drivers, some of which, of course, were result driven, but we could also see some capacity-driven drivers with syndicates at least partially closing down or closing down in their entirety. And so that's led to a situation where there was less supply than in previous years, and pleasingly this translated into increased reinsurance pricing. We have on the London market book written a relatively stable portfolio. So we used the opportunity of the price increases to work on our portfolio composition. On some of the casualty classes we de-emphasized some of the lower, more frequency-driven layers, so therefore we didn't increase our shares substantially. And the same goes for the UK motor business, which is the line that saw the most consistent rate increases. The driver for those rate increases of course was the second Ogden rate change within the last three years from minus 0.75% to minus 0.25%, which was below the expected change in the Ogden rate for many market participants and translated into increases on motor excess-of-loss programs of 20-plus percent on a regular basis. Again, we more or less concentrated on our renewal book and did not write significantly more layers or more programs, but stayed with our clients, which we have supported in the last couple of years. The last very significant driver behind the strong premium increase in this reporting category is our increased support behind our Lloyd's platform. You know that we purchased Argenta in 2017. We had kept our capacity behind the Argenta underwriting relatively stable in the initial years, but we now saw the opportunity to increase our position on the organic business, which from a timing point of view, given the very strong increases on the insurance side seemed the right moment in time to do so, plus the fact that we have invited a new casualty team to join Argenta, and they will come with a substantial renewal portfolio. The incumbent is no longer writing that class of business. So we would expect that we can get this business at stable or improved terms in line with the rest of the market development in long-tail classes. Continental Europe and Africa is similarly stable as the rest of Europe with some mixed developments country by country. Overall, the price development was one of the few areas which still had a slight minus with minus 0.9%. We continue to write a stable portfolio, but also used the opportunity to emphasize some countries, some clients a little more than in the past and we also decided to discontinue with programs that had further price deterioration, particularly in Eastern Europe. So therefore, you can see that when you look at the balance of new versus cancelled business with EUR3 million, this is a very, very stable portfolio with some element of cycle management, but the bulk of the growth is coming from our renewal portfolio, where we could particularly benefit in the increased underlying volume, which mainly results from the better insurance pricing that our clients can achieve on our proportional book of business. In Asia, Australia and Middle East, we had mainly the ASEAN countries and China renewing at January 1. Australia is more a July 1 renewal season and Japan and Korea is more a April 1 renewal season. On the ASEAN countries, the development was more positive than in previous years, we could actually experience some slight rate increases. Here you may have followed that some reinsurers either had to reduce their portfolios due to rating situations they have or discontinued their business entirely. We were able to benefit from that development by picking up some of the shares that became available on programs which are priced in line with our expectations and tap the market in general, because this territory was softening last year, but has now turned the corner into a slight hardening. In China, we could benefit mostly by -- from the organic growth of our ceding companies. The Chinese insurance market is still growing significantly. Our portfolio is very much concentrated on the top 5 companies in the Chinese market. They are growing in line with the markets and therefore you can see that the bulk of our growth is actually coming from volume, i.e. underlying organic business. But in addition to that we could also broaden some of those relationships with the top 5 insurance companies in China. So, overall, a very pleasing outcome of the Asian renewal season. This is all fully in line with what we told you about our APAC initiative during the Investors Day in October. So we are in line with expectations on that side. And as I said before, with particularly Japan and partly Australia, we will have renewals later in the year. Given the losses, we do expect very positive pricing momentum on those future renewals. Credit, surety and political risk, again a very stable renewal, the pricing was more or less at last year's level. We did see some price increases on the non-proportional book of business. This was partly Thomas Cook related. We also found some new clients, 15 to be precise, which again is pleasing, given our significant market share also in this portfolio and just demonstrating that our client relationship activities are bearing fruit. You may wonder why this line has not seen more significant rate increases due to the Thomas Cook situation, but here only a few market players were impacted. Those programs are seeing increases and this reporting line, despite Thomas Cook, is making solids in the 90s combined ratio for our portfolio in 2019, despite the loss. So it shows you the resilience of the pricing, even in a situation where we have a slight loss like that. Aviation and marine, some very mixed picture. Let me start with marine. Here the market is still very competitive. We are now at a period of relatively benign losses on the marine and offshore energy side. From a loss point of view, there was no reason, there is no technical reason why prices should go up, and we could certainly see that this line still has significant overcapacities for some market participants trying to increase their market share. So on the marine and offshore energy side, we can report about a stable pricing, at best, slightly down, and due to that we also Part 12 lost some business on the marine side, because we felt that pricing came to a level which was no longer attractive to us. Aviation is a completely different story. You will all have followed the losses on both the aviation, the product liability and on the space side we had in 2019. This hit the market, which came through a period, a very long period of rate reductions and we guided before that we felt that the aviation pricing was at a pricing level which was not sustainable over the long term. And in line with our expectations given those losses, we now had a significant repricing exercise on both the insurance and on the reinsurance side. On the reinsurance side, we managed to bring down ceding commission levels back to 2016 levels, and on the excess of loss side, even on loss-free programs, the starting point for negotiations was a double-digit rate increase. So in aviation, we took the opportunity to regain a little bit of the market share which we had voluntarily lost over the last couple of years, So the growth you are seeing in this reporting category is more or less exclusively coming from our aviation practice. Last but not least, the natural catastrophe business. Jean-Jacques already commented on that a little bit in his initial remarks. Overall nat cat was relatively flat. There was relatively little business renewing that had losses in 2019. On the business that came up for renewal with losses, price increases were 10% or higher. So, the market was reacting on that, but the main bulk of the loss impacted business will come later in the year. The only area where we can say that even on loss-free business, we had more meaningful rate increases was the US nat cat business where on average on loss-free business we saw increases between 3% and 8%. With that I would end my report and hand over to you, Jean-Jacques.

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you very much Sven for this overview. Let me come now to the guidance for 2020, first showing the usual overview on our expected profitability. From a financial year point of view, as mentioned Part 12 Part 13 there has been some momentum in the market and the profitability level has slightly improved. So the overall picture looks a little bit better in terms of volume. We have a number of markets and segment where we continue to be able to grow, as we've seen. We're trying to be a little bit more diligent when we are at the required profitability, but not exceeding that level when it comes to renewing the book of business. But generally an overall picture which is satisfactory from our own point of view. And in terms of guidance, I can simply confirm that the guidance communicated already for 2020 is confirmed. Clearly, on the gross written premium, we seem to be able to exceed what we set ourselves for 1/1. But I would want to see a little bit more into the year, we have some important renewal. The structured reinsurance business has not been included yet and we need to have full visibility on that. And last but not least, the life and health business needs to be reviewed. So it's a little bit early to change. For me, the guidance is confirmed and there is good confidence to reach these targets. Return on investment is at 2.7%, as you know, taking into account the interest rate level and the Group net income target is maintained at EUR1.2 billion. We continue to feel that the dividend guidance for this year is -- can be met. So fully confirmed on all indicators And to close this introductory part, just a few words on our preliminary figures for 2019. In terms of gross written premium, we were able to exceed the previous guidance we had set at 10%, as you remember, and we achieved 15%. This is predominantly due to the P&C business. And we have had real momentum in 2019. The return on investment is expected to reach 3.5%, which is in excess of the 3.2%, which we mentioned last time, benefiting of course Part 13 from one-off effects, as you know, which allowed us to improve the performance on investment managed by Hannover Re. And Group net income is a little bit higher than the previous guidance at EUR1.28 billion. The combined ratio is higher than anticipated, this is largely due to the frequency of large losses. In terms of nat cat, we were more or less within budget, but a number of man-made losses occurred last year. Thomas Cook was mentioned by Sven a few minutes ago. The credit and surety business is not protected by our retrocession and that explains that it went a little bit above budget for our large losses. So 98.2% is the KPI, slightly above our target. We will say more on these numbers as soon as we're ready, and on March 11, we'll have our con call, where will give you full details on the figures, but I wanted to share the preliminary key figures for 2019 this morning. With that I close the presentation part and welcome your comments or questions.

Questions And Answers

Operator

We will now begin our question-and-answer session. (Operator Instructions) The first question is from Kamran Hossain of RBC. Your line is now open.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, morning everyone. Three questions from me. The first one is just on I guess how price improvements flow through into profitability. I guess you talked about a 97% combined ratio last year. Should we expect some improvement there or are there any kind of business mix impacts that we should think about when we're thinking about our numbers? And the second question is, I kind of understand the comments around growth and you agree 14, you're still aiming for 5, and you've said that you want to see how the year progresses. Could you maybe talk about the pipeline for structured business? Do you think it's as strong as it was last year, or do you think actually there were some mitigating things here that could offset what looks like a very strong start to the year? Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Happy to take those. From the business mix point of view, we have no significant developments. So the 1st of January renewals would certainly confirm our target of 97% or lower combined ratio. So, no change from that point of view. Advanced solutions, we have a good pipeline, also some successes already for the '20 year. This year the pipeline is more full with smaller transactions. The drivers are still very much the same like in previous years; those are solvency capital model-related drivers, but it's no significant single transaction we would be able to support on, but a good flow of smaller transactions. So also a reasonable start on the advanced solutions structured reinsurance practice, in line with our expectations.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks for the color, Sven.

Operator

The next question is from Jonathan Urwin of UBS. Your line is now open.

Q - Jonathan Urwin

Hi guys, good morning. Thanks for taking my questions. Two please. So firstly, could you please provide a bit more detail on how your retro renewal has gone, any key changes in coverage terms and conditions and prices would be great? And then secondly, what level of price improvement would you need to see on your books to offset the higher retro costs and claims inflation as well? It feels like 205 [ph] bps is a good starting point for the 2020. But based on our expectation it doesn't really lead to much margin improvement as you're kind of highlighting with the consistent 97% combined or below [ph]. Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Yes, thank you. On the retro slides, I'm happy to give you a little more detail on our three main retro covers, on the property side, let me start with our K transaction. Our K investors are a mix of ILS markets, but also traditional insurance or reinsurance companies. We could certainly see that the capacity for proportional retro covers was not that well supported from the ILS market as in previous years. Luckily, we were an outlier in that trend. So in the end we managed to actually have more capital supporting our K [ph] transaction than in 2019. This was also required due to the underlying exposure change. So from that point of view, depending on how you look at it, we have more support from the capital funding the K transaction. From a proportional session on our portfolio, this translates into a slightly down transaction, but overall very pleasing. Why are we maybe an outlier here whilst others did find it more difficult to replace their proportional retro vehicles? One, we have done it for a very long time. Two, we were told that particularly on the reporting side, given our long experience, we are seen as best in class. So even if our loss picture -- result picture is also challenging for those investors, at least we give them the news in a consistent way and in an early way, which is appreciated by them. So they would see a very high level of professionalism on our side. And thirdly, they would feel that given our well diversified K portfolio we are in a very good position to take advantage of an improving market overall. So that was K. Our aggregate cover on the large loss portfolio, we could fully place this year. We had a little bit of a shortfall in 2019. But in 2020 we could place what we wanted to place. Retention and pricing on the -- aggregate on large loss increased in line with our exposure growth. So from a technical point of view, a relatively stable situation. If you look at it from the absolute numbers, the retention and the premium is higher. And thirdly, our whole account property protection which is covering us on and each and every loss basis rather than in the aggregate, here we could keep our retention stable. The pricing increased in line with the underlying exposure increase and we did buy a little more cover than in previous years. So overall, one can say we managed to renew our covers as in 2019, or on the limit side, even slightly up at prices which were flattish from a technical exposure development point of view. Are those retro covers earnings accretive? I mean if you've already summarized the situation, and I mentioned a number of times that our covers front load in proportion the underlying growth of our exposure. So the answer is no, they are not more earnings accretive than they were in the last year. And from that point of view, our situation has not deteriorated on a net basis, but it has also not improved compared to 2019.

Q - Jonathan Urwin

That's great, thanks very much.

Operator

The next question is from Vinit Malhotra of Mediobanca. Your line is now open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good morning. Thank you very much. So just if I can follow up, is the commentary that you have provided for the man-made losses. You mentioned Thomas Cook, but again that was, I assume, already booked in the third quarter and it was actually booked. Is there any commentary around the fourth quarter Jean-Jacques that would help us understand, because if you see sort of a 97-ish combined ratio is one of the highest fourth quarter numbers in recent history of Hannover. Does it indicate the reserve relief change of approach, does it just indicate that fourth quarter was rather heavy on man-made that you could flag, if not on nat cat? Just some color would be very, very helpful for us. And just following up on the retrocession effect, so this 2.3% of pricing, how should we -- I mean is retrocession going to eat up maybe a few basis points from here, and then the rest goes into just reserve buildup? How would you like us to think of this 2.3% in relation to the flat 97% please? It could be structured as well, but just wanted to hear your thoughts again. And thanks for that.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Well, thank you very much. I'll take the first question. We had a large loss budget, a total of EUR875 million, and we ended roughly at EUR950 million, and this was indeed driven by man-made. The nat cat budget was close, but within budget, and we were above budget on man-made. So we are approximately at 109% of the large loss budget. Indeed, you are right, I mentioned Thomas Cook, but it was actually already booked at Q3. I think the main driver, if I'm not mistaken, would be the riots in Chile, which contributed to the Q4 results. We will comment a little bit more in detail when we are on the phone again on March 11, but I believe this would be the main driver if I'm not mistaken. Sven, any other man-made...

A - Sven Althoff {BIO 19104724 <GO>}

We had two fire losses in addition to that, which made it over the EUR10 million large loss hurdle. So from that point of view, the man-made losses were well over and above the Q4 budget for man-made losses. And given Hagibis, which we of course had not booked in Q3, yet there was nothing spare from the nat cat side either.

But leading over to the second part of your question, I mean there was no change in our reserving practice. We continue to significantly -- I mean with our very prudent initial reserving of younger underwriting years, so like in 2019, also in 2020, we will reserve our 2020 underwriting year well above our pricing view -- from that point of view, the 2.3%, I would say, you can see as giving us confidence that we will be able to achieve our 97% target on the combined ratio side, but it's not a development that would be significant enough for us that we would reassess whether the 97% combined is the right target for us.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, thank you very much.

Operator

The next question is from James Shuck of Citigroup. Your line is now open.

Q - James Shuck {BIO 3680082 <GO>}

Hi, good morning. Three questions from my side, please. So if you could just comment around some trends you're seeing on the social inflation side of things. I am particularly interested in how things might have developed in Q4, both on proportional book and the excess-of-loss book, please.

Secondly, in terms of coronavirus, could you just speak a little bit about the rate of infection and mortality rates that you're experiencing, and put that in context of probable maximum losses in one and 250 year events, please.

And finally just on the SCR. So the 14% growth in the January renewals, what kind of growth in SCR do you expect for 2020 please? Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Let me start with the social inflation, mainly from a US casualty perspective where I guess you are coming from. As we have already reported in our Q3 call, I mean, there are number of loss situations which we are observing closely, starting with the opioid crisis, but also topics like concussion in amateur or professional sports, or the lifting of the time bar on sexual molestation [ph] losses in the United States. Here we don't have a changed situation in Q4. So what I said in Q3 is still the case. We are still comfortable with our ultimate loss ratio picks, but nonetheless we have decided to book some extra reserves over in the back of what the ceding companies are reporting to us on those loss situations. But we did not have to significantly reassess our older casualty years due to social inflation aspects.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

I'll take the question on the coronavirus, James. So generally, of course, it's early to say, this is still an event which we're following very, very carefully. There are some pandemic covers in force in the Asian region. We're not participating, or to a very limited extent in such covers. So we don't have any significant exposure from that point of view. Obviously, the mortality business in case of an extreme scenario would be hit, but it would be really at extreme events, which would go beyond what we experienced with SARS27 years ago. Stress testing is done systematically for pandemic. And this would in an extreme scenario could lead to a net loss of up to EUR150 million based on risk management reporting, but we are very far away from that. Maybe as a benchmark we had so far 361 cases of death as of February 2, the last number I got. If you take the normal level of influenza season, just in Germany, you have 20,000 people who die every year. So just to put things in comparison. So there is some business which could be affected. I think the Chinese business, when it comes to business interruption, particularly, infectious diseases are excluded from the covers. So this would not lead to significant exposure. The exception would be if some of the plants, which stopped production and will restart, if there would be any property damage, then there would be some exposure. So it's very early to say. Medical reimbursement business, we heard that the Chinese government said they would take over the cost of treatment for people. So we would not expect a significant impact. Critical illness, very small exposure for us. Personal accident covers, generally, have exclusion clauses for infection diseases. So again a bit early to say -- to make a real substantial statement, but at this stage we would feel that the coronavirus would not lead to very significant losses, but of course we follow progress and hope this will be mitigated in the coming weeks. On the SCR, I cannot give you the exact figure in terms of including the growth for 2020, but the latest status I have for the SCR is 238%. That would be where we stand today. If you need a bit more, we might need to talk offline or might come back to it when we meet next.

Q - James Shuck {BIO 3680082 <GO>}

I guess if the renewals were up EUR800 million or so in absolute terms, is a good rule of thumb about 100% of underwriting risk to back that if I'm to try and forecast the increase in the SCR through the year?

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Difficult to say. We might need to come back to you offline on this.

Q - James Shuck {BIO 3680082 <GO>}

Okay, all right, thank you very much.

Operator

The next question is from Andrew Ritchie of Autonomous. Your line is now open.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there. Just a couple of clarifications. Could you just confirm that when you talk about proportional price changes that is allowing for any lowering of ceding commission is included in there, I shouldn't think about the lower ceding commission on top. I'm guessing where you saw most of the reduction in ceding commissions was US casualty exposures. A second question in relation to that your US casualty book you've always talked about as being mostly regional, small ticket, regional carriers, smaller ticket type exposures. You grew the book, you indicated at 1/1. Are you happy to go up the sort of scale curve, are you seeing attractive pricing even allowing for the loss cost uncertainty in higher, larger value casualty books now? Thanks.

A - Sven Althoff {BIO 19104724 <GO>}

Well, we have not gone up the scale, Andrew. We have written a very similar exposure profile. If you want to pick one casualty class where we have grown the most significant, it would be medical malpractice, which was always a strong component of our US casualty portfolio. So this grew from roughly 115% to 140% -- million [ph] this year. So it's a little more than 20%. But other than that the profile of our US casualty portfolio has not changed in any meaningful way due to the improved terms and conditions on the renewals.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And on the ceding commission?

A - Sven Althoff {BIO 19104724 <GO>}

On the ceding commission, what you are seeing in our reporting, those movements are mostly movements in ceding commissions. So what we are not really doing, at least it's very significantly diluted is translating the movements in the direct insurance pricing into a technical risk-adjusted reinsurance pricing. So we are not trying to do that and therefore the improved pricing which we are reporting this year on the proportional of business is more or less exclusively the lower ceding commissions we are paying.

Q - Andrew Ritchie {BIO 18731996 <GO>}

That's why we are understating the real improvement in profitability then?

A - Sven Althoff {BIO 19104724 <GO>}

You could say so. But normally you only have increases in insurance pricing, because of good reasons. So in relative terms that's why we hesitate to do that translation. If you get 10% rates more, then most likely not all the 10% will directly contribute to bottom line, but are unnecessarily -- necessary to the -- because of a technical reassessment of profitability on the insurance side, and as we are one step too far removed from those calculations, we are concentrating and measuring the ups and downs of commission level.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And just to go back on to the -- where you are happy to grow, I mean med mal is an example where there does seem to be a very heightened level of discussion even amongst the smaller carriers about loss cost trends and the outlook. Do you feel the pricing is sufficiently compensating for those loss cost trends?

A - Sven Althoff {BIO 19104724 <GO>}

Yes, we do, and I mean we have always written a selected profile of med mal business. We are not supporting the big hospitals in a meaningful way. We are going more for the smaller practices and we are avoiding certain professions within the medical space, which is giving the highest exposure to the topics you were just mentioning. So we are still comfortable with our medical malpractice business mix, or indeed comfortable enough to even grow that portfolio again by 20%.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thanks very much.

Operator

The next question is from Sami Taipalus of Goldman Sachs. Your line is now open.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah, morning everyone and thanks for taking my question. First one just staying on the US casualty topic, I think your book traditionally has been quite focused on non-proportional business in US casualty. Is the pricing environment, or what you're seeing in terms of changes in the pricing environment, I guess claims dynamics as well, is it tempting you at all to change that more into a proportional book or is this more a, I guess, fundamental positioning that you wish to keep? So that's number one. Number two on the results, more broadly, it looks like you've got roughly to your guidance. P&C was pretty much in line with guidance. Investment income was a bit stronger. So I guess it suggests that the life reinsurance technical result might have been a bit weaker in Q4 on a standalone basis. Is there anything to flag there that we should think about? And then finally just on your specialty business, you talked already a little bit about Argenta and increasing capacity there. Are you seeing opportunities to grow the JV you have with Talanx a little bit more quickly now given the improving environment in specialty pricing? Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Yeah, I am happy to take the US casualty and the HDI global specialty part. Our profile of US casualty business as you rightly said is more heavily geared on the non-proportional business, but to clarify we have always also written a proportional portfolio on the business, which on an original basis is written on an excess basis. But we have historically de-emphasized its quota share on ground-up casualty business in the United States. Our risk appetite has not changed, at this year's renewal, I mean in order to have a more substantial risk appetite on the pro rata basis, we would see -- need to see more development in pricing, in terms and conditions on the insurance side. There is positive momentum, but in our judgment it would be too early to change our overall US casualty strategy yet. But as you can imagine, this of course is under review, but I have no indication that we will change our mind any time soon as we would need to see more substantial rate increases there.

On the specialty business, the joint venture with HDI, that company can report more significant growth in 2019. And therefore they will also be able to grow a little more in 2020 if compared with original expectations. They have been able, particularly in the loan market, to take advantage of some players closing down or closing portfolios down. So we were able to hire teams on that side. A little earlier than we originally expected on good opportunities. So from that perspective, the most meaningful increase on the specialty insurance side is definitely coming from Argenta, but also the HDI global specialty side is performing slightly ahead of plan.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

And on your question on guidance, Indeed, the main driver for Q4 has been a very satisfactory investment performance. The P&C results were affected. As we discussed, given the overall picture, we felt that that was the level which was in line with the reality of the portfolio. The life business is fully on track and in line with expectations. So, no new development. The mortality trends are in line with our expectations. The US book in force is being managed very diligently. So we're quite optimistic that we will continue to see profitability emerge and the in-force book on track so far. So, no significant development. Life business should meet our guidance.

Q - Sami Taipalus {BIO 17452234 <GO>}

Great, thank you very much.

Operator

The next question is from Michael Haid of Commerzbank. Your line is now open.

Q - Michael Haid {BIO 1971310 <GO>}

Good morning, everyone. Thank you very much for my questions. Two of them. I'm interested in the dynamics of your canceled and the newly written business. So the EUR744 million which are canceled and EUR810 million newly written, are there any special developments or concentrations by regions or type of business in these two items? I think you mentioned already kind of expansion in Canadian motor or I think also credit insurance, but anything special here? The motivations why some businesses were canceled, is it only price?

Then the second question is on volume, the EUR22.6 billion gross premiums written in 2019, that is a little bit higher than what I had expected. When I look into the fourth quarter then the gross premiums IFRS grew by almost 25%. Anything special there or is there an explanation why this growth, especially in the fourth quarter was so strong, also when I compare it to the previous quarters?

A - Sven Althoff {BIO 19104724 <GO>}

So let me take the first question, the -- outside of what I had already mentioned on Canadian motor business, for example, or the credit and surety. There was no particular trend when it comes to the canceled and restructured or the newly written business. Quite a bit of the churn between the two categories is actually coming from restructuring, sometimes clients restructuring their sessions so significantly in structure that we are rather canceling the old contracts in our systems and establish a new treaty. So we saw that happening this year again. I mentioned the agricultural business in China where we have written higher shares, but also some new shares, but at the same time we have also reduced shares on the agricultural business in other parts of the world. So no, unfortunately, no particular trend I can report, it is just the usual churn and restructuring we would expect in any renewal On the second question, could you please repeat the question, I don't think I fully did get what you asked?

Q - Michael Haid {BIO 1971310 <GO>}

Hannover Re, in the full year 2019 achieved gross premiums written, if I read correctly, of EUR22.6 billion, and that was a little bit higher than what I had expected. And when I look at the fourth quarter, the gross premiums written were EUR5.2 billion if I calculated correctly and that implies 25% increase versus the fourth quarter 2018. Normally, I don't looked at much at growth of IFRS premiums because it's volatile anyway, but at this time, it's struck me a little bit that this growth in the fourth quarter was so high. Maybe it comes from life and health, or it could come from --

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

I don't have the exact figures in front of me, but my assessment would be that part of the answer is that the life and health business experienced strong growth in the last quarter of the year and there might be foreign exchange translation in the mix which might change the number, but I don't see anything on the P&C side, which would be outside of the (Multiple Speakers). But I think life and health and ForEx might be two big drivers for this movement. I hope it helps.

Q - Michael Haid {BIO 1971310 <GO>}

Perfect. Thanks so much.

Operator

The next question is from Vikram Gandhi of Societe Generale. Your line is now open.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, thank you for the opportunity. Just one question from my side. I heard your comment around the complication around pricing change versus expected loss change on the proportional business. But overall, looking at the 2.3% figure, how should we think about the net effect, i.e., should we think about it as a risk adjusted pricing or just a nominal pricing change figure? Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Well, it's definitely a fully risk adjusted figure for the non-proportional business and on the proportional side it comes with the limitations I have already described. It is just risk adjusted from a pure reinsurance point of view with outgoing -- the extra step to ask ourselves, how much of the original insurance rate increases we are seeing is technically required, how much is bottom line accretive. This we would not be able to do across our entire portfolio. So it's risk adjusted from just a reinsurance pricing point of view, mainly concentrating on the movement of the ceding commission.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, that's very helpful. Thank you.

Operator

(Operator Instructions) As there are no further questions, I hand back to the speakers for the closing remarks.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Well, thank you very much again for participating and for the active discussion. Hope this provided you with a good overview on our P&C renewal season at 1/1. And as mentioned, we will be able to give you a bit more detail and granularity on our 2019 figures next time we are on the phone together on March 11. Thank you very much and have a good day.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect now.