Property & Casualty Treaty Renewals 2021

Company Participants

- Jean-Jacques Henchoz, Chairman of the Executive Board
- Sven Althoff, Member of the Executive Board, Property & Casualty
- Unidentified Speaker

Other Participants

- Andrew Richie
- Kamran Hossain
- Michael Hermann Haid
- Thomas Fossard
- Vikram Gandhi
- Vinit Malhotra

Presentation

Operator

Good morning, ladies and gentlemen. I welcome you to today's Hannover Re International Conference Call on 1st January, 2021, 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>}

Hi, good morning, ladies and gentlemen, and thank you for joining this conference call presenting the outcome of the January renewal for our P&C treaty reinsurance book. As usual, I'll start with an overview before our Executive for P&C Business Coordinator, Sven Althoff goes over the details of the renewals outcome. I'll then comment on the outlook for the year thereafter.

Let me start with a few general comments on the market environment. Overall, I'd say, the positive momentum we have observed in the last couple of years and in particular in 2020 has continued and we've seen another year of improving rate quality for the reinsurance industry. Additionally, the primary insurance markets have experienced a significant improvement in many geographies and lines of business. In some case we've seen the second or even the third consecutive year of increased premium quality, which is of course particularly positive for our proportional reinsurance business where we directly benefit from the developments in the primary markets.

Drivers for these developments were higher than average loss experienced in the past four years and the continued challenging interest rate environment. As COVID was a significant loss complex, but not capital event in 2020 for the reinsurance industry. We're not in a disruptive market environment. We have seen capacity available. So I would call this an orderly renewal and hence price changes were in my view overall satisfactory but of course more moderate than some market observers had initially expected.

As always the status of the cycle depends on the capacity and demand mechanism and even though capital was available for the January renewals. This time, the pricing power was more favorable to the suppliers, which largely acted in a disciplined manner. Therefore, the market firming was broad-based and accompanied by improving terms and conditions, particularly regarding pandemic exclusions and silent cyber exposure.

As usual, the trends in this renewal did vary quite notably depending on geographies and lines of business, when it comes to the level of pricing adjustments. In general most dynamic development could be observed in North America, in the UK, and in the specialty business classes.

Finally, I'd say that, this renewal has underlined that the reinsurance market was willing to allocate capital and to support their client's needs, and has therefore shown the relevance of the reinsurance market in this turbulent environment.

Moving on to the Hannover Re Treaty Renewal, I'd say that the most of the described factors were also true for our own portfolio with improvements in the primary markets, reinsurance rates being adjusted up as well as terms and conditions, adding up to a clearly improved quality of the portfolio. Additionally, we at Hannover Re have continued to benefit from the flight to quality which is a long-term trend in our business and given our financial strength and the excellent market positions, we could feel that trend again during the renewals.

Therefore, I'm very pleased with the outcome of this renewal. The total price increase was 5.5% and the risk adjusted price change for non-proportional business was even higher at 8%. Sven, will show you in a minute that this brings our book to a level surpassing the risk-adjusted trade quality seen in 2012 and '13, before the last phase of the significant market softening started.

Looking at the premium volume, our book grew by 8.5% in a firming market. You've seen high growth rates. At Hannover Re in the past years, our focus here was on improving the portfolio quality, and therefore, the growth of our portfolio was mainly driven by price increases and less by an additional expansion of the P&C book. We also did not shy away from not renewing business or not fully renewing our lines where the profitability targets were not met by our underwriters judgment.

Additionally, the growth we have seen it does not include our facultative business, structured reinsurance and other non-traditional reinsurance business. On top of this, we do expect to see some more growth opportunities in the upcoming renewals as well as in the non-traditional lines. Last but not least, the demand for insurance was in some cases dampened by reduced reinsurance commissions, by the fact that some primary insurance premium is calculated on business activity i.e. turnover or mileages et cetera.

In addition we have clearly steered our risk appetite in the nat cat segment, and we're successful in diversifying the book outside of the U.S., where we were not willing to allocate significantly more capital.

I'm particularly pleased with our team managing our retrocession. They've successfully renewed the retro programs and placed the targeted level of coverage at a reasonable price, which is risk-adjusted, well in line with the reinsurance market and could be absorbed by our own business portfolio.

Last but not least, the ability to grow our book and to achieve high profitability is also based on one of our key competitive advantages, namely our low admin expense ratio. Therefore, it is important for us to further build on this advantage. This is in a nutshell the development of this renewal and I'm pleased to hand over to Sven who will give you some more insights on our renewal performance.

Sven Althoff {BIO 19104724 <GO>}

Thank you, Jean-Jacques and also a very warm welcome from my side. Today, we are reporting about the treaty business which was up for renewal at the 1st of January. This represents a total number of EUR7.7 billion of premium out of our EUR15.9 million of premium. So overall 67% of our treaty business and 49% of our total P&C business.

On the right hand side of the graph, you can see the regional splits of our renewable portfolio, EMEA is of particular importance for us at the 1st of January, given that almost 90% of our total EMEA portfolio renews at 1st of January and also when it comes to the specialty lines, a very significant part of that business is also focused at around 1/1. If you're interested in the details, you can see a slide in the appendix where we show the premium that is going to renew later in the year and from that slide, you will notice that when it comes to the Americas and the APAC regions, there are significant volumes to come at the first of April, 1st of June and 1st of July renewal dates.

Out of the EUR7.7 billion of premium that was up for renewal, we non-renewed our ceding companies restructured business of -- in the amount of more than EUR700 million leaving EUR7 billion of premium that we actually renewed. After the renewal this turned into EUR715 million more, where the most influential part of this increase is actually the increase in price which was 5.5%. This compares to 2.3% which we had reported a year ago, so much more positive. And we had smaller contributions from the change in our shares and the change in the underlying premium from our ceding companies.

The EUR680 million we could again show a significant amount of new business. This was very diversified again like in the last years with particular emphasis in the German market this year and our North American portfolio and business coming from the London market. Overall, we grew the business by 8.5% up to 8.4 trillion[ph].

As you can see, we had premium and price increases across all lines and regions with the most dynamic development in the U.S., London market and specialty lines. The only area where we had a slight drop in premium income, despite positive price momentum is our agricultural portfolio and I'll come back to that in a few slides to give you the reason, why? We look into our business on a proportional and non-proportional basis, this slide is giving you more details. So you can see that the proportion of portfolio shows an overall price increase of 4.4%, all regions and product lines have contributed to this and again, it compares favorably to the 2.1%, which we reported a year ago.

On the non-proportional business, we have seen even more positive momentum with an overall price change of 8.8%, this is significantly higher than the 2.9% we had reported a year ago and only slightly below the 9.9% we reported for our 1st of June, 1st of July renewals last year. But you have to remember that the 1st of June and 1st of July business last year was very involved in previous loss activity. So mainly in the U.S., Chile and Australia and at the 1st of January renewal, we have a much more diversified portfolio.

The best price momentum we can -- could see from a regional perspective coming out of the Americas, both North and South America and from our specialty lines of business. Jean-Jacques already mentioned that adding our 8.8% of positive price development on the non-proportional business, this has been the most pronounced rate increase we could observe in the last 10 years cycle and adding or deducting all the price movements we have reported over the last 10 years to you, this now brings us to a level exceeding 2011. But let me give you a little more detail when it comes to our various portfolios starting with EMEA.

In EMEA, the overall premium grew by 10.6% and this is on the back of a price increase of 3%. We had firming of the rates both on the primary side and on the reinsurance side. The most notable firming on the primary side was coming out of our UK portfolio. Reinsurance rates were firming across all geographies and as Jean-Jacques already indicated, we were also able to improve terms and conditions.

We have increased our share in Lloyd's markets with a particular emphasis behind our wholly owned subsidiary Argenta. The flagship syndicate of Argenta 2121 is not a fully aligned syndicate, but we have now grown our participation behind that syndicate to more than 50%.

Germany was particularly successful renewal, our subsidiary E+S is one of the market leaders in that market and despite this already very strong market position we could again widen our client base and increase our participation on existing programs.

In North America, the premium growth was even more pronounced at 15% on the back of a price increase of 8.3%. Here again, we had very positive trends both on the primary and on the reinsurance side across both Property & Casualty, we could successfully introduce pandemic exclusions and made very many cases also silent cyber exclusions in our renewal portfolio, and this allowed us to materialize premium growth across both Property & Casualty lines. Also Latin and South America was a successful renewal, in particular

Chile, again showed good levels of the rate increase following the losses we had in Chile from the riots, a year ago.

On the APAC side, the growth was a little less pronounced compared to previous years was 4.1%. Here the price increases actually exceeding our premium growth with 6.1%. We had successful renewal in Southeast Asia and Korea, where we were able to write more volumes of business at more attractive terms and conditions. But where we had to drop in volume was out of our Mainland China portfolio which from a single territory perspective is the biggest contributor to our APAC premium. And the reason behind that is twofold; firstly, we did not achieve the levels of rate improvement that we wanted to achieve. And secondly, we have a few market dynamics in China like the deregulation of the motor business, which has led to a reduction in our premium income from the Chinese market overall.

Turning to the specialty classes, we grew our credit, surety and political risk portfolio by slightly above 5% with a very pleasing development on the pricing side where we almost hit 10% as an overall increase. This was a first step of a hardening as a result of the uncertainties linked to COVID-19. There are relatively few incurred losses in credit and surety at this stage given the various government stimulus packages and monetary stimulus packages plus the fact that in quite a number of the countries credit insurers had spec stop solutions from the governments.

But nonetheless, given the overall economic recession, we still have to expect a certain vehicle of insolvencies, once those packages and protection mechanisms are phasing out and given that level of uncertainty in this portfolio we were able to successfully negotiate strong price increases. We have only very selectively grown our client and exposure base, given the background of the economic recession, but overall, a very pleasing renewal.

In marine and aviation, the growth was a little more pronounced. It was 8.2%, again, very good pricing momentum with 11% of an overall increase, this was on the back of various losses both on the aviation and on the marine side. So we were able to not only significantly increase the rates on the non-proportionate business, but could also negotiate lesser commissions on the proportionate structures. In both markets, we see a strong momentum on the insurance pricing, so the quality of our pro rata book has certainly significantly improved. However, premium volumes continued to be more stable due to the depressed turnovers given the global situation particularly with that particular impact on flying activity and the airline industry.

As already mentioned a few slides ago on the agricultural side, we have dropped our premium income by almost 15%, despite the fact that we are able to show an overall price increase of 3.4%. We had various developments in this particular portfolio. So a good growth and increased shares in countries like the Americas, Eastern Europe and Turkey but a rather significant drop of our premium income in China.

Here the background is the fact that following the African swine fever, China experienced at the end of 2019. The Chinese government decided to establish a state-owned reinsurer for agricultural health and they are given the priority session before the open market and that priority session made the overall premium pool for the open market significantly smaller, and hence, resulted in a drop of our Chinese agricultural premium.

When it comes to the non-treaty business, so restructured reinsurance and the facultative reinsurance, we wanted to give you a little bit of an insight of how we fared at the 1/1 renewal. In structured reinsurance, we continue to see a very high demand for solvency relief transactions worldwide. We have been successful to close an exceptional high number of new transactions at the 1/1 renewal. We lost only one contract, so a good growth in our structured portfolio at 1/1. We expect that trend to continue throughout the rest of the year. And overall we do expect a premium development in the lower double-digits area for this portfolio.

In the facultative side, we are participating in the positive development on the insurance side, we have seen a significant flight to quality. So policyholders in facultative reinsurance, buyers have been very security-minded and there was a lot of demand for Hannover Re securities, which we could successfully turn into new business opportunities. In addition to the pandemic exclusions and silent cyber exclusions I have already mentioned earlier, we can also report further improvements in terms and conditions on the facultative side. So very often we have seen increases in underlying deductibles and reductions in supplements for certain exposures like, non-damage business interaction coverage, and overall the rate increase we can report as 8%, but up to 20% in territories like North America, or product lines like particularly downstream energy.

Summarizing, our cat renewal at the 1st of January, we can see that there was widespread improvement of our portfolio on a -- from a terms and conditions point of view in most regions. The most positive rate movement we can report from our U.S. renewals with about 10% risk adjusted Europe and the rest of the world was ranging in the 2.5% to 5% range. Our premium nonetheless grew more pronounced in APAC and EMEA for the reason that was already mentioned by Jean-Jacques, despite the fact that the strongest rate increase came from the United States renewals.

We were not willing to dedicate more capital to particularly U.S. wind coverage. So we are participating in the positive rate increase of 10% for that (inaudible), but we have not seen this as an opportunity to significantly widen our exposure base on that side. Overall, we can report that we had diversified growth of almost 10% in our cat portfolio.

Coming to my final slide on the retrocessional side, we had a rather positive renewal season. We were able to increase the limits that have been placed both in our aggregates on large loss, excess of loss structure from EUR200 million to EUR225 million. We have also placed slightly more of our whole account protection coming from EUR325 million, going up to EUR337 million, where we have placed a little less as our proportional of co-efficient, where last year we secured a paid-in capital of $680 million, this year of $610 million. We could have placed more, but we did not wish to compromise on terms and conditions more substantially also in light of the fact that the protected portfolio has been seeing good improvements on the incoming side.

So overall, we have been able to place according to our net risk appetite targets and the price adjustments we had to pay we're fully in line with the price increases we achieved on the incoming portfolio. So from a net position, a very welcome outcome of our retro renewals.

With that, I would hand over to you, Jean-Jacques.

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you very much, Sven for this overview. Now let me come to the guidance for 2021. Firstly, showing you the usual overview of the volume and profitability expectations. Just as a reminder, we're now looking at the financial year perspective. As we have seen in the 1/1 renewal report in most of the markets and segments, we continue to grow based on the positive change in pricing, in terms explained before. We expect particularly strong profitability in North America and EMEA and specialty lines, but more importantly all lines are expected to earn an at or above cost of capital level. Therefore, the overall picture is quite satisfactory from our own point of view.

In terms of guidance, even though there are some moving parts with the development of the pandemic and the P&C renewals, I can confirm the outlook for 2021 already communicated last year in November in terms of volume. The renewals have confirmed our growth target, but we also have some important renewals later in the year, and there might be further opportunities to grow.

Additionally, as Sven reported the structured reinsurance and facultative business which are not only 1/1 renewals have a good pipeline for the remainder of the year. And finally, the -- in Life & Health, we have a strong pipeline for new business, particularly in financial solutions, but it's too early to revisit our guidance for the year. Therefore, we left the volume guidance for the group unchanged, but there is probably more upside potential than downside risk in my view.

The return on investment is at 2.4%, taking into account the deterioration of the interest rates levels. We have maintained the group net income target in the range of EUR1.15 billion to EUR1.25 billion. In P&C, we now feel much more comfortable with achieving our 96% combined ratio target but this is also needed to offset the declining ROIs. This is also supported by the reserving for COVID-19 related losses we did in Q4, 2020, which has significantly reduced the risk for further additional reserving in 2021.

On the other hand, we have to expect further COVID losses in our Life & Health business group in particular driven by the expected development in the U.S. at least until we see the positive effect from the vaccination campaigns. So I would expect Q1 and Q2 to be impacted with a significant improvement later on in the year. We still do not see the need to change our group guidance firstly as a part of this development was initially already included in the outlook, but secondly also because we expect to see a positive one-off effect in Q1 2021 triggered by a restructuring of the reinsurance arrangement or the ING portfolio. Altogether, this will help to mitigate the somewhat increased expectation or additional COVID losses.

Regarding the dividends, we continue our policy of paying out 35% to 45% of the group's net income, as an ordinary dividend and consider an additional special dividend if we reach our profit guidance for the year and have a comfortable level of capitalization. As usual, we published at this time of the year our preliminary key figures for the previous year. The full set of numbers, as you know, will be presented to you on March 11. So at this stage just a few comments on these preliminary figures.

In terms of gross written premium we were able to exceed our guidance. In the end, we achieved a growth rate of around 12%. This is predominantly due to the expansion of our P&C business, where we continue to have strong momentum in 2020. The return on investment is expected to reach 3%, which is well in excess of the 2.7% and which we mentioned last time, benefiting from a higher realized gains and one-off effect from an equity participation in the fourth quarter.

The group net income of EUR883 million is very satisfactory and this bearing in mind that we're looking back at an extraordinary year with total claims related to COVID-19 of around EUR1.2 billion for the Hannover Re Group life and non-life.

The P&C, COVID loss estimates increased by EUR250 million in the fourth quarter, which is more than we indicated in November. Here, we've taken a more conservative and also more long-term view on the loss expectations with further reserves added for event cancellations, credit and surety and also long tail lines like casualty. This also entirely explains the combined ratio of 101.6% which would be around 97% excluding the exceedance of our large loss budget. The COVID related losses in Life & Health were at about EUR100 million in the fourth quarter, mainly from our U.S. business, which should be less surprising given the development in this country. As usual, we will communicate the decision on our dividends in March, together with the full details of numbers for the full-year financial results.

At this stage, however, I can confirm that we expect to pay at least, EUR4 per share regarding the decision on the possibility of a special dividend. We will particularly look at the expected growth opportunities over the course of this year, as well as 2022, where we expect continuous growth momentum.

All together, Hannover Re again proved its resilience and the ability to achieve solid results even in a very difficult year like, 2020. We'll give you the figures in full detail on the conference call on March 11, as mentioned.

So with that, I close the presentation part and would welcome your comments, feedback or questions.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin our question-and-answer session. (Operator Instructions) And the first question is from Kamran Hossain, RBC. Your line is now open. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning, everyone. Two questions. One on 2020, and then another one on the 2021 guidance. I guess given your decision to take a more cautious view in the fourth quarter for 2020, could you maybe give us an idea of how much IBNR is as a percentage of total COVID claims and how material kind of this conscious for you has been in changing that? So that's the first question.

The second question is just really interested in the sake of guidance for 2021. My kind of way to put to what you're saying this morning is that you feel more positive in P&C, but clearly excess debts on going away in the near term. Are you now thinking about the guidance being kind of slightly worse in Life and slightly better in P&C?

And I guess, the second part to that question is, I guess, one of the footnotes in your guidance talked about for 2021, excluding material impact from excess kind of mortality trends. But you talked about Q1, Q2 probably having those trends. So is that factored into EUR1.15 billion to EUR1.25 billion? Any thoughts about kind of the meaning of the word materiality would be really helpful? Thank you.

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

Very good. Maybe I'll ask Sven to give the percentage of IBNR at this stage.

A - Sven Althoff {BIO 19104724 <GO>}

Yes, as you would expect we had additional losses reported from our -- companies due in the course of fourth quarter. One of the drivers behind our decision to increase our -- reserves was to keep a robust level of IBNR, what we could report in the previous quarters. So, the EUR950 million we are showing on the P&C side is still 2/3 -- approximately 2/3 IBNR.

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

And for '21 Kamran, I'd say P&C it's a bit early to say I mean the momentum interim we have on the price side is broadly speaking in line with our expectations before the renewals. We will need to see how much growth we continue to have. But certainly there is some upside and some of the upsides is not only price related, but also related to the pipeline of non-traditional solutions. There is good demand and good momentum there as well. So depending on the -- on how it plays out it might be within our expectations or ahead of them. So too early to say, I would say, for P&C.

For Life & Health, clearly the expectations or the excess mortality, particularly in the U.S. last time we talked in the fall was a bit less than what we incurred. So Q4, roughly speaking EUR100 million. It may reflect what comes out in Q1, possibly Q2 a lot will depend on the vaccination programs. Of course, the vaccinations are focused on the high-risk groups. So that might lead to a better effect on what we see in the first half of the year. We also see that the delta between overall population and insured population continues to be quite material. We have an excess mortality on our U.S. book of about 6% at this stage versus roughly speaking 15% in the overall population. So this remains stable.

So probably some more exposures and in Q1, possibly Q2, but on the other hand, we have some positive one-off effect on our business which will to a great extent compensate possible higher exposure in Q1. And we continue to have very, very good momentum in the transactional space in financial solutions, which partly is reflected in our 2020 results, but I also see very, very strong pipeline for '21. So, I would say, yes, possibly a slightly worse in terms of COVID burden initially in the year, possibly, compared to what we said in November, but we have one-off effect and better traction than expected in in financial solutions. So overall, I'd say the guidance that is can be confirmed and the level of confidence we have in this guidance has been increased based on what we know.

Q - Kamran Hossain {BIO 17666412 <GO>}

Fantastic. Thanks very much for the answer.

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

Thank you.

Operator

The next question is from Vinit Malhotra, Mediobanca. Your line is now open. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Good morning. Thank you very much. So my first thing is that the -- just a little bit on the exceptional disclosure on the structured book, one of the things I noticed in your outlook is that your profitability or structure reinsurance impairment showing good positive sign. So, I'm just curious if it's the function of supply and demand? Is it likely that we should think of a better combined ratio for the structured reinsurance going forward or in '21 at least? Any comment on that would be helpful.

Second thing is, I just noticed the comment you made about the fourth quarter COVID claims, could you just shed a bit more light on the casualty element you said, where workers driven by some COVID-related social inflation impact? And secondly also will there be any growth and net disclosure that you're able to share now, or we wait for 11th March? And my third and final question is on Sven's comment on U.S. nat cat where 10% pricing achieved, but lower volume, could you just share any more comment on that, please? Thank you.

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

Maybe I can say just a few words on the non-traditional business and ask Sven to comment on casualty and nat cat, also complement on structure. But I'd say this is the non-traditional space is a little bit different in terms of dynamics. What we see is its continued demand, I think the uncertainty on our clients' financials and strategic shifts create demand, so we see that increase in demand. It's not a segment, which is totally in line with the traditional market in terms of supply and demand, you need to look at it separately.

So you don't have the same type of swings. It's more tailor-made. It's one-off. So, I would say there is possibly a bit more demand, but we don't have the totality of the market, it's very difficult to know. A lot of the opportunities are created, they are not part of an existing book of business being reviewed -- renewed. So, I would say, very, very difficult to say at this stage. I would not really anticipate a significant change in combined ratio performance for our non-traditional book, but I would expect this increased demand to continue over the year.

A - Sven Althoff {BIO 19104724 <GO>}

When it comes to COVID and casualty, we still have very few loss situations reported from our -- companies. So out of a certain prudency, we have decided to look a few additional loss ratio points across most of our casualty portfolio. We have no insight into which particular area of capacity will be impacted by COVID-19. So, we do of course expect certain losses to be reported under the coverages for example, but overall our approach has been a little more broad -- by increasing our -- last in order to recognize this uncertainty, which in the end in a few years' time, I'm sure we'll show that in some product lines, we will have been too high, in some product lines we will have been too low, but overall when it comes to Casualty, we are comfortable with the recent inquisition that we have now established.

On the U.S. -- catastrophe side, we have renewed a stable portfolio from an exposure base, so we have not reduced our participation on the U.S. -- side, but we had no interest in further increasing our participation in that particular peril. For the reason that it is our peak peril by quite a margin from a net exposure base followed by U.S. earthquake and from a diversification point of view, we have decided already in 2019, that for us, it makes more sense to have other country peril combinations grow more significantly, i.e., catch up with our existing U.S. winds portfolio, and that maybe in a few years' time, we start growing the U.S. winds side again, but we didn't want to have this peak peril to basically yes, exceed the other perils we can write from a diversification point of view even more than it already does.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Concerning the capital allocation on nat cat remained around 18% or?

A - Sven Althoff {BIO 19104724 <GO>}

Could you say that again, please?

Q - Vinit Malhotra {BIO 16184491 <GO>}

The capital allocation to NatCat, it went sort of stable as well, 18% or has it gone up?

A - Sven Althoff {BIO 19104724 <GO>}

It's around 18% slightly up from the 16-and-a-bit percent in previous years.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

Operator

The next question is from Andrew Ritchie, Autonomous Research. Your line is now open. Please go ahead.

Q - Andrew Richie {BIO 20585998 <GO>}

Hi, there. A couple of questions. So, Sven, could you just give us some perspective on what you expect in later renewals? I'm sort of not sure to what degree some of those later renewals on loss affected or not. Clearly, Japan is less effective than it was, but in mid-year, some of it will -- some of it weren't -- just give us a perspective as to what you're thinking about those later renewals?

The second question and I'm still quite judging what in the U.S. your growth -- was it casualty versus property? Was it that we have to grow both? Was there a bias in it? Just give us a sense as to how comfortable you are particularly growing U.S. casualty?

And the final one is I think it's a very quick answer to this, but I'm assuming the reduction in the capital of the -- won't materially affect the session rate, I think is 42% of your cat exposed business, but I presume that won't change much but you did mention that you're going to retain the bit more. So what will the recession rate be? Thanks.

A - Sven Althoff {BIO 19104724 <GO>}

Okay. Thank you for those questions. We are positive when it comes to the renewals at the 1 April, and 1 June, 1 July date. You're right. Japan has been a benign loss environment in 2020 from a NatCat point of view. But at the same time we had a very active hurricane season in the two previous years, and at least according to the conversation we had with our clients in Japan, they made it clear, that the rate increases we achieved in 2020 is not 100% sufficient to cater for our new -- risk. So there is more to come at the 2021 renewal. This development maybe less pronounced compared to last year, but it will still be a positive momentum.

The U.S. had lots of nat cat activity is this year, we had a very significant tornados the racial situation. We hadn't record high number of hurricanes, and one of them was Laura was of a certain significance. So, overall, again, a situation where there was a lot of frequency and that should keep the momentum positive on the net cash renewed in North America. And lastly in Australia, I mean, Australia will have really had terrible two years on the net cash side and not all of that is completely priced in. We could see that with the very few renewals in Australia, we had at the first of January renewal that there was strong positive momentum on the non-proportional business and I would see no reason why that's momentum should not materialize the gap 1st of July renewals.

Our growth in North America Andrew is very, very diversified, so we have grown in property, we have grown in casualty more or less to the same proportions, part of North America is obviously also Canada. So in Canada, we have also shown significant growth on the motor side. So overall a diversified approach with us not emphasizing property over casualty or the other way around, so rather similar approach compared to both approach we have taken in the last two renewal cycles. And finally your question on the -- session that's dropped by approximately 5 percentage points to 37%, but as you have mentioned and that explained by me when I talked about our red processions. This comes at a moment in time when the incoming portfolio is at a much better rate in quality compared to previous years. So from a momentum -- cycle management point of view, we felt that an appropriate moment in time to have the session to go drop a little bit.

Q - Andrew Richie {BIO 20585998 <GO>}

Okay. Thanks.

Operator

The next question is from Thomas Fossard, HSBC. Your line is now open. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. I have two questions. The first one will be relating to your one-one renewals and the impact of COVID-19. Reading the reinsurance brokers for stake at the start of the year. It looks like somewhere saying that COVID-19 has been to some extent side of the renewals because of two complex issues colliding at the same time. So, I'm a bit wondering if you believe that COVID-19 has been already reflected in the pricing through terms and conditions and exclusions or do you think that potentially there could be some pricing momentum in the coming or newest come or later in 2022 more to adjust specifically for the COVID-19 losses. So just better understanding of what has been the impact there?

And the second question will be on the 4.4% increase in personal. I think that's when last year you commented that usually when Hannover Rueck is showing this number on proportional -- this is mainly the change in the ceiling commission and that you're not taking a view on the underlying pricing change. Now you're showing 4.4 this year. So I get that, 4.4 is not the only impact from changing ceiling commissions, but you can say, well done this. Thank you.

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

Sure. Happy to comment on both. To what extent has COVID been reflected in the renewal pricing here? I have to report that this is a very diverse situation in some portfolios like, the event cancellation portfolio where coverage on the reinsurance contract is very clear. The impact of COVID was fully priced in the regional community has introduced introduce the exclusionary language on the going-forward basis, so the situation is very clear. In -- nothing has really happened yet. So from an incurred perspective, there were relatively few insolvencies reported in 2020.

So despite all that there is of course significant inherent uncertainty in the further development of the economic cycle and hence the situation on the insolvency site. So when we negotiated the renewal pricing with our credit insurance partners, we talked about their perception, our perception and came to a conclusion, how this will turn out in the -- years 2021, 2022 when it comes to the When it comes to the real world insolvencies, we still have to wait and see that's why we try to phrase it carefully when we commented on our credit and surety renewals that we see that as a first sign of hardening, when it comes to COVID-19 related losses.

On the catastrophe driven business, I would say the situation is the most complex. There still discussions going on between feeding companies and reinsurers about aggregation of losses, number of events, and as you said, this is another complex. And I would say that in more cases rather than not, therefore your comment is correct that the COVID situation has been put to one side to be discussed at a later stage, but get the renewal done first, and then they deal with the COVID losses during the course of 2021.

So from that point of view, yes there may be further rate increases, but -- companies may also be minded to maybe seed traditional business, which they have not seeded historically in order to come to a good level of understanding of what is covered, what is not covered on the COVID side. So there may be more to come but that situation is a little unclear right now. When it comes to the price development of 4.4% on the proportional side, you're absolutely right that I commented last year that for the most part we are reporting about the movement of the seating commissions in our contracts and only to a lesser part.

We are reporting about the underlying great momentum on the insurance side like in previous years. This is a mix, the 4.4% of mainly the development on the ceiling commission side, but also allowing some of the positive right momentum on the instruments item on the insurance side to come through in our expected loss ratios for the proportion of business, but our usual assumptions on proportion of business tends to be rather sticky. So like I said, last year when we have increases in rates and terms and conditions, we tend to only adjust the slightly downwards, but at the same time and that's something I also said last year, if we have rate reductions, we also only adjust them slightly upwards. So we are not translating those insurance products momentum's 1 to 1 into what we report on the technique the price development in our presentation.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you, sir.

Operator

The next question is from Michael Hermann, Commerzbank. Your line is now open. Please go ahead.

Q - Michael Hermann Haid {BIO 1971310 <GO>}

Thank you very much. Good morning. Two questions first of all, on the retro renewal. You mentioned it was successfully renewed. Can you talk a little bit how your retro protect you changed year-over-year? I think, you already mentioned such the K session, but I would be interested in the rest of your -- Second question on future claims inflation. How much did it play a role in the one -- renewals we have seen a significant expansionary monetary policies of central banks. So maybe, we should expect more loss cost inflation going forward. Did you change your assumptions regarding future claims inflation going forward or did you leave them these unchanged? These are my two questions.

A - Sven Althoff {BIO 19104724 <GO>}

Okay. On the retro questions as you know, K is a proportional reinsurance vehicle. The protected portfolios were kept unchanged. So with our peak catastrophe exposure in North America, Europe, Japan and Australia on the property side and in addition, we have our marine and aviation access of loss business protected under case. So there was no change in that at all. And from that point of view, there are no structural change to report. The only change is that we have to report as the change in the -- capital behind, which I already did.

On the non-proportional structures, there were structural changes in addition to the price -- already mentioned. In both vehicles, we have adjusted our retention slightly upwards, which is in line with the exposure growth that we have shown over the last few years, you know that Hannove Re has grown significantly on the P&C side in the last the last three years which of course also made our underlying exposure base grow and hence we adjusted our retention slightly upward. But other than that, the structure of our reinsurance or retrocession program fundamentally unchanged.

On the inflation side, when we priced the business on the P&C side, of course inflation plays the role, but also the interest rate environment plays the roll. So on the inflation side -- on the interest rate side, of course, we could only use much lower interest rates when it comes to discounting of premiums and losses, which was certainly influencing our pricing up board. On the inflation side, we are trending the inflation assumption we are having every year, and of course, we did the same again for towards 2021. So that's -- those were routine adjustment and from that point of view, nothing unusual to report.

Q - Michael Hermann Haid {BIO 1971310 <GO>}

Okay. Thank you very much.

Operator

The next question is from Vikram Gandhi, Societe Generale. Your line is now open. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, morning. It's Vik from SocGen. Just a couple from my side. First of all, can you share what your view is on the potential BI impact from the UK Supreme Court judgement in other geographies like Australia and South Africa? And separately, if you are seeing some headwinds coming in the U.S. as well from that as well from that perspective? Secondly, can you give us a feel of half year redundancy level in the P&C loss reserves should have developed by year end '19? Thank you.

A - Unidentified Speaker

Yes, thank you, Vik. I mean, of course, we have tried to understand the Supreme Court ruling not only in the UK context, but also, when it comes to other common law jurisdictions like, London, Australia and South Africa, which you have just mentioned. So I would say that, we have tried to bake in the development we have seen in the UK, also into those territories. But as you know, in both countries, you will have independent court cases.

So therefore, it's not guaranteed that the local courts will take want to have one identical position to what the UK Supreme Court has decided, but as we said here today, I would say we have tried to make that development into our numbers when we looked at our year end reserves of COVID-19. When it comes to the redundancy level, I would say it is still a little bit too early to comment on that and I would like to refer to our 1st of March call when we get the full year numbers and where we will certainly also comment on the development of our redundancy levels.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

Operator

There are currently no further questions. (Operator Instructions) we have a follow-up question from Thomas Fossard, HSBC. Your line is now open again.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Thank you. Just wanted to check -- If you could be a bit more precise on this one-off positive that you are expecting from your reinsurance or structuring of your ING Re book and either going to be Q1 or Q2? That would be the first question. And actually, on the -- sorry on the dividend. Why you are not coming with a peer review today? I mean, what do you expect to be more able to understand our Q4 cat between now and the date of the publication of your full year number to be more precise on dividend proposal? Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Thank you, Thomas. On the one-off effect indeed, this is triggered by -- in the United States selling its life -- business which as you know include security life of Denver, which has been ceded -- which has seeded and we continue to seeded the mortality business we acquired in 2008. So therefore, on the mortality portfolio nothing is changing but the transaction led to some changes particularly in the collateral structure and a transfer of assets with some fees which will lead to the mentioned one of -- that's something we were in the process of quantifying and will confirm that in due course, but it's a material change and we expect this to be booked in Q1. And obviously this helps compensating some potential increase in expected excess mortality impacting our book of businesses in the U.S. with a strong offset in Q1.

On the dividends, of course, the situation is evolving we reflected on the capital management, we still have some discussions to go in the coming weeks and we wanted to have an orderly planned announcement as in prior years. We generally talk about and we talked about the dividend in March, therefore, we opted for the 11th of March, for a final recommendation. At this stage, we feel confident about the EUR4, that's why I said, at least, EUR4 per share and we'll consider that in the next few weeks or so. That's the reason, I don't think that will be earth-shattering developments. But I think they are --a lot of moving parts we need to look into the capital plan, from a solvency perspective, from a rating agency perspective. That's why we wanted to give ourselves a little bit of time and to announce it -- as in the previous year in with March announcements and the conference call. That's it. No, uncertainty if you want, but just the validation exercise, which we're currently undertaking.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay, understood. Thanks.

Operator

And the next question is from Vinit Malhotra with Mediobanca. Your line is now open again.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks for the chance. Just curiosity on, Sven are you able to break out the COVID EUR950 million split into some of the lines that you could share if anything, so that's my first question. Everything is just on the comment on prudence on the reserving actions in COVID and then if the -- was 71% for and now it's -- what would the effective that we should be guiding us go up because of prudence so how would we how should we see that? And in that same comment, are you able to also just discuss the retro mechanism of the COVID recoveries, and whether it was helpful in fourth quarter, please? Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Could you repeat the last question, please.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So, in the fourth quarter what would be retrocessional recovery because of the whole -- being allocated to individual -- K series recovery? Could you just comment on whether they were going to be recovery quarter from retro for COVID?

A - Sven Althoff {BIO 19104724 <GO>}

Okay. I will try my best. Unfortunately your line is very bad. So your questions didn't come through very well. So starting with your question on the split of the EUR950 million. I would rather refer to our call on the 11 March, the way of course, we will give that full disclosure. But given that, it's a preliminary result announcement today, you will appreciate that similar to what Jean-Jacques has mentioned on the dividend side, we are still doing a lot of validation effects right now. So I would hesitate to give you a precise split which may them be subject to small changes before the 11th of March.

On the prudency question side, if I heard your question correctly, you're right that we are coming from a 71% and now we are at the 2/3 IBNR situation, but that of course has to be seen in seen in the context of significantly more activity from our seedubg companies, -- their losses to us. When we look at that development there was no loss -- in Q2. We started to see a little bit of a lot -- action from us seeding companies in Q3, but now with the imminent 1st of January renewal there was much more activity from our seeding companies making their case and presenting their losses to us. So that number has increased significantly during the fourth quarter.

So therefore, I would say, the 65% we are going to report with a full year number comes from a much more solid base and it comes to underlying information from our seeding companies. So therefore, the level of prudency even though the percentage number has gone down should actually be up given the underlying quality of the information we have from our seeding companies. And on the retrocessional question again, hoping that I heart your question correctly, you will understand that given what I said initially about the business mix of our COVID-19 EUR950 million reserve, I'm also hesitating to give you a precise number now, but you will certainly see that on the 11th of March.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you, Sven, and sorry for the voice quality. Thank you very much. Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

No problem. Thank you.

Operator

And there are currently no further questions. I hand back to the speaker for closing remarks.

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

Well, thank you very much for joining everyone, and I hope this session was informative and gave you valuable insight and background on the renewals. We wanted to convey the message that we're satisfied with the renewal round. It's an orderly renewal as I said and some continued momentum which we will see further down the year, but also in '22. COVID reserving is adding a level prudency and we wanted to take a longer-term view, so that we can protect our performance in 2021.

Therefore, we're confirming the guidance for '21 and feel comfortable that we'll make it. We see momentum on the business side, we see rates continuing to improve in P&C, we see some growth opportunities in various segments particularly in non-traditional business, life and non-life, and therefore, the outlook for '21 is positive, but also for '22, I think the momentum is a multi-year development. So that, these are key messages, as we said, a number of times some of the answers to your questions will be clarified on the 11th of March. So thanks for your patience on this. But we'll deliver some full-year information and more granularity as we have our next conference call. So thank you all for joining, and talk to you at the latest on March the 11th. Thank you.

Operator

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