News Release

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Talanx's net income very robust despite substantial coronavirus impact

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- Gross written premiums up 5.2 percent to EUR 31.9 (30.3) billion
- Coronavirus claims expenses top EUR 1 billion
- Operating profit of EUR 1.3 (1.9) billion
- Group net income of EUR 520 (742) million
- Excluding the coronavirus impact, Group net income would have been up clearly year-on-year
- Combined ratio of 100.7 (98.5) percent
- At a robust 187 percent, Solvency II ratio is in upper part of target corridor
- Forecast for 2020: Group net income clearly above EUR 600 million
- Forecast for 2021: Group net income of EUR 800–900 million
- Dividend at prior-year level of EUR 1.50 per share planned

Hannover, 12 November 2020

The Talanx Group is in very robust shape despite coronavirus claims expenses topping EUR 1 billion and higher large losses from natural disasters in the third quarter. It generated Group net income of EUR 520 (742) million in the first nine months of the financial year and continued its successful development. The coronavirus pandemic depressed net income by EUR 356 million. Gross written premiums rose by 5.2 percent to EUR 31.9 (30.3) billion, or 7.2 percent after adjustment for exchange rate effects. The combined ratio was 100.7 (98.5) percent. Adjusted for the effects of the coronavirus, the combined ratio would have improved by 0.9 percentage points to 97.6 percent. The Talanx Group is expecting Group net income for full-year 2020 to be clearly above EUR 600 million, and for it to grow in financial year 2021 to EUR 800–900 million. The company is aiming to pay a dividend for financial year 2020 at the prior-year level of EUR 1.50 per share, subject to the approval of the supervisory authorities.

“The coronavirus pandemic is and remains a challenge”, said Torsten Leue, Chairman of Talanx AG’s Board of Management. “Luckily we are seeing profitable growth and are in robust shape. Group net income is impressive given the pandemic and the high level of losses seen in the hurricane season. A better overview of pandemic-related expenses means we are now able to issue an earnings forecast: we are confident both for the coming months and for next year. We are expecting Group net income for 2020 to be clearly above EUR 600 million and for it to grow in 2021 to EUR 800–900 million. In addition, we are confirming our medium-term Group targets for the period up to 2022. We are maintaining our dividend strategy and are aiming to distribute the same amount as in the previous year.”

The ongoing improvements being made in the divisions paid off again in the nine-month period. Industrial Lines is continuing to enhance its profitability. The Retail Germany Division produced good results with its “KuRS” programme excluding coronavirus expenses. The Retail International Division almost matched its prior-year result despite negative exchange rate effects.

In total, losses from the pandemic in the first nine months of the year amounted to EUR 1,058 million. Other negative effects relate to investments (EUR 170 million) and provisions for future premium decreases (EUR 104 million). By contrast, the coronavirus led to improvements of EUR 156 million at individual lines due to lower losses and other effects.

At EUR 1.6 (0.8) billion, large losses were twice as high as in the prior-year period. EUR 1,149 million of this amount was attributable to reinsurance and EUR 452 million to primary insurance. Large losses exceeded both the nine-month budget of approximately EUR 1,020 (900) million and the full-year budget of EUR 1,335 (1,190) million. Due to the coronavirus pandemic, they primarily related to business interruption, event cancellations and credit insurance. At EUR 899 million, large coronavirus losses were far greater than losses from natural disasters, although the latter were also higher than in the prior-year period at EUR 507 (455) million. The largest losses from natural disasters were caused by Hurricane “Laura” (EUR 103 million), Hailstorm “Derecho” (EUR 84 million) and Tornado “Nashville” (EUR 47 million) in the USA.

Net coronavirus expenses of EUR 842 million impacted operating profit, which amounted to EUR 1,291 (1,863) million. The underwriting result fell by more than 50 percent due to the coronavirus to EUR –1,972 (–1,282) million. Net investment income fell slightly to EUR 3.1 (3.2) billion, partly as a result of continuing extremely low interest rates. Excluding transitional measures, the Solvency II ratio as at 30 September 2020 was a robust 187 (30 June 2020: 191) percent, in the upper part of the target corridor.

Third quarter: Improved combined ratio

In the third quarter, gross written premiums rose by 4.7 percent to EUR 9.9 (9.5) billion. The underwriting result was EUR –843 (–574) million due to the coronavirus. The combined ratio improved to 99.7 (100.4) percent. Without the impact of the coronavirus, it would have been 97.8 percent. Net investment income rose by 8.9 percent to EUR 1.3 (1.2) billion, largely as a result of realising hidden reserves to finance the *Zinszusatzreserve* (ZZR – additional interest reserve). Operating profit (EBIT) dropped to EUR 546 (619) million and Group net income to EUR 194 (265) million.

Industrial Lines: Rise in premiums due to specialty business

Gross written premiums in the Industrial Lines Division rose by 6.9 percent to EUR 5.2 (4.9) billion. Adjusted for exchange rate effects, the increase was even higher, at 8.1 percent. HDI Global Specialty SE was the main growth driver. Provisions of EUR 59 million were recognised as of the end of the quarter for the expected negative impact of the coronavirus on earned premiums in the current financial year.

Coronavirus claims of EUR 129 million led to the large loss budget being overshot. The full-year large loss budget for Industrial Lines (EUR 301 million) had already been exceeded by EUR 20 million as of the end of the third quarter. This also had a negative impact on the segment's underwriting result and combined ratio. The underwriting result for the first nine months of the year was EUR –107 (–30) million, while the combined ratio was 104.8 (101.4) percent. Adjusted for the effects of the pandemic, the combined ratio would have been 98.3 percent. One key driver here was the successful profitabilisation of the fire insurance via the now-completed "20/20/20" programme. After adjustment for the effects of the coronavirus, the combined ratio for this line improved to 99.9 percent. As a result, the full-year 2020 goal of a combined ratio of approximately 100 percent for fire insurance is within reach.

At EUR 171 (215) million, net investment income was down on the prior-year period, which had benefited from substantial distributions from alternative investments. Operating profit fell to EUR 28 (133) million due to the impact of large losses from the coronavirus and the drop in net investment income. The segment contributed EUR 10 (84) million to Group net income.

Third quarter: Group net income hit hard by coronavirus

In the third quarter, gross written premiums fell by 2.3 percent or EUR 32 million year-on-year to total EUR 1.4 (1.4) billion. This was due to exchange rate effects, among other things. Growth after exchange rate adjustments amounted to 1.0 percent. The underwriting result declined to EUR –40 (2) million because the large loss budget was exceeded due to the coronavirus. In line with this, the combined ratio rose from 99.8 percent to 105.0 percent. Adjusted for the impact of the coronavirus, it would have been 97.8 percent. Net investment income declined to EUR 65 (82) million. Operating profit fell to EUR 10 (65) million, while the segment's contribution to Group net income was EUR 3 (43) million.

Retail Germany: "KuRS" programme targets within reach

The Retail Germany Division was relatively robust in the first nine months of the year despite the headwinds caused by the coronavirus. Gross written premiums fell by 5.8 percent year-on-year to EUR 4,5 (4,7) billion. Operating profit declined by 9.1 percent to EUR 168 (185) million due to coronavirus effects of EUR 28 million and the adjustment made to the bases of calculation to reflect lower interest rates. The "KuRS" modernisation programme continues to make good progress. Leaving aside the impact of the coronavirus, the target operating profit for 2021 of at least EUR 240 million is already coming into range at the end of the current financial year. The division's contribution to Group net income fell to EUR 102 (110) million.

Property/Casualty Insurance segment: Clear growth in operating profit

Gross written premiums in the Property/Casualty Insurance segment fell by 5.1 percent to EUR 1,270 (1,337) million. The driver for this development was the negative net motor vehicle renewal business and a drop in new business caused by the coronavirus. By contrast, the segment's business with small and medium-sized enterprises grew in line with its strategy. The underwriting result improved by 150.1 percent to EUR 45 (18) million despite the impact of the coronavirus thanks to a lower frequency loss ratio year-on-year and the absence of accumulated claims. The overall impact of the coronavirus was limited to approximately EUR 21 million due to the reinsurance protection in place, among other things.

The combined ratio improved by 2.6 percentage points to 95.8 (98.4) percent, down a further 1.0 percentage points on the first six months of the year. Without the coronavirus and expenditure on the “KuRS” programme – which is now increasingly declining – it would have been 94.2 percent. Net investment income fell by 24.6 percent year-on-year to EUR 64 (85) million. Operating profit jumped by 23.2 percent to EUR 96 (78) million thanks to improved underwriting.

Third quarter: Improved combined ratio

In the third quarter, gross written premiums fell by 10.3 percent to EUR 265 (295) million as a result of the coronavirus. The underwriting result rose to EUR 23 (8) million. The combined ratio improved by 4.2 percentage points to 93.6 (97.8) percent. Adjusted for coronavirus effects and the costs of the “KuRS” modernisation programme, the combined ratio was 92.9 (95.7) percent. Net investment income fell by 19.5 percent to EUR 25 (31) million. Operating profit climbed 71.2 percent to EUR 42 (24) million.

Life Insurance segment: Lower premium income – profit-driven underwriting policy

Premium income in the Life Insurance segment fell by 6.1 percent to EUR 3.2 (3.4) billion due to the impact of the coronavirus and our strictly profit-driven underwriting policy. Branch office closures by banks and companies’ reluctance to take out occupational pension insurance policies had an impact here. The pandemic is estimated to have pushed down premium income by approximately EUR 150 million. In addition, a highly restrictive approach was adopted to single-premium business offerings so as not to weaken the portfolio and hence the capital base.

The underwriting result declined over the financial year to date to EUR –1.3 (–1.1) billion. Net investment income improved by 13.1 percent to EUR 1.4 (1.2) billion. This was mainly due to the increased realisation of hidden reserves to finance the *Zinszusatzreserve* and the active exploitation of market opportunities caused by the temporary capital market turbulence. Operating profit dropped to EUR 72 (107) million as a result of the coronavirus.

Third quarter: Coronavirus impacts operating profit

In the third quarter, gross written premiums in the Life Insurance segment fell by 5.7 percent to EUR 1.0 (1.1) billion. The underwriting result deteriorated to EUR –675 (–445) million. Net investment income improved by 47.0 percent to EUR 719 (489) million. Operating profit declined to EUR 32 (36) million due to the coronavirus.

Retail International: Higher operating profit after adjustment for exchange rate effects

In the Retail International Division, the coronavirus pandemic initially had a positive effect on the underwriting result (EUR 72 million) due to lower loss frequencies for motor vehicle insurance. However, the decline in premium volumes caused by the virus is expected to negatively affect the underwriting result in 2021, after a significant time lag. Provisions of EUR 35 million have been recognised for coronavirus effects in the current year, impacting the combined ratio by 1.4 percentage points.

Gross written premiums fell by 11.0 percent year-on-year to EUR 4.0 (4.5) billion. Adjusted for exchange rate effects, the drop was a mere 3.9 percent. In Europe, the decrease amounted to 7.9 percent (4.8 percent after adjustment for exchange rate effects), while premium volumes were EUR 3.0 (3.3) billion. By contrast, Turkish company HDI Sigorta lifted its premium volumes by 45.6 percent after adjustment for exchange rate effects, helped by last year's takeover of Ergo Sigorta. In Latin America, premium income fell by 18.7 percent (1.5 percent after adjustment for exchange rate effects) to EUR 1.0 (1.3) billion. In addition to exchange rate effects, this development was largely due to the drop in new motor vehicle policies in Brazil, Mexico and Chile caused by the coronavirus.

Net investment income decreased by 14.3 percent to EUR 245 (286) million. Operating profit fell by 3.0 percent year-on-year to EUR 220 (227) million. Adjusted for exchange rate effects it rose by 3.0 percent. The contribution made by the division to Group net income was 3.8 percent lower, at EUR 127 (132) million.

Third quarter: Slight rise in combined ratio

In the third quarter, gross written premiums fell by 7.3 percent to EUR 1.3 (1.4) billion. Adjusted for exchange rate effects, they rose by 3.0 percent. The underwriting result dropped to EUR –1 (10) million. The combined ratio was up slightly, at 95.9 (95.0) percent. Net investment income declined by EUR 79 (98) million. Operating profit fell by 21.1 percent to EUR 64 (81) million. The contribution made by the division to Group net income decreased to EUR 38 (47) million. Talanx increased its presence in Italy after the reporting date by making a bolt-on acquisition. It purchased 100 percent of the shares in non-life insurer Amissima Assicurazioni via HDI Assicurazioni.

Reinsurance: Coronavirus impacts large loss budget at Property/Casualty Reinsurance by EUR 700 million

The Reinsurance Division increased its growth in the first nine months of the year despite the coronavirus. Gross written premiums rose by 10.9 percent to EUR 19.3 (17.4) billion. Nevertheless, the high level of coronavirus claims depressed operating profit by 32.6 percent to EUR 916 (1,359) million and the contribution made by the division to Group net income to EUR 334 (480) million.

Property/Casualty Reinsurance segment: Strong premium growth

The marks left by the measures taken to combat the coronavirus can be seen particularly clearly in the Property/Casualty Reinsurance segment, and especially in the areas of business interruption insurance, commercial credit insurance and event cancellation insurance. In line with this, the coronavirus reserves were increased by a further EUR 100 million in the third quarter to a total of EUR 700 million.

Reinsurance prices and conditions are improving significantly in reaction to current challenges. Gross written premiums rose by 14.5 percent year-on-year to EUR 13.3 (11.7) billion. Adjusted for exchange rate effects, the increase amounted to 15.9 percent. At EUR 1.1 (0.5) billion, net large losses were twice as high as in the comparative period and also substantially exceeded the pro rata large loss budget figure for the nine-month period of EUR 750 million.

The underwriting result declined to EUR –187 (89) million. The combined ratio was 101.4 (98.7) percent. Net investment income fell by 11.3 percent to EUR 725 (817) million. Operating profit amounted to EUR 606 (887) million.

In the third quarter, gross written premiums rose by 9.7 percent to EUR 4.2 (3.8) billion. The underwriting result improved to EUR 0 (–84) million. The combined ratio declined to 99.6 (102.2) percent. Net investment income fell by 16.9 percent to EUR 256 (308) million. Operating profit was EUR 307 (226) million.

Life/Health Reinsurance segment: Coronavirus effects of EUR 160 million

Premium income in Life/Health Reinsurance rose by 3.6 percent in the first nine months of the year to EUR 5.9 (5.7) billion. Adjusted for exchange rate effects, growth amounted to 5.0 percent. Coronavirus claims expenses, which had totalled EUR 63 million as of the first half of the year, amounted to EUR 160 million following the addition of the third quarter but remained within expectations. A large proportion of the claims relate to cases of sickness and death in the USA. The underwriting result declined to EUR -421 (-275) million. Operating profit fell by 34.4 percent to EUR 309 (472) million.

In the third quarter, gross written premiums rose by 4.3 percent to EUR 2.0 (1.9) billion. The underwriting result fell to EUR –137 (–65) million. Net investment income declined to EUR 141 (162) million. Operating profit dropped to EUR 100 (190) million.

Outlook for 2020: Group net income clearly above EUR 600 million

Talanx is now in a position to issue a forecast for 2020 and 2021, based on the results for the first nine months of the year and a better visibility of the effects of the coronavirus.

It is expecting gross premiums to rise by roughly 5 percent in full-year 2020 compared to 2019 after adjustment for exchange rate effects. The net return on investment under the IFRSs is likely to be approximately 2.9 percent including realised gains. Group net income is expected to be clearly above EUR 600 million. This should correspond to a return on equity of approximately 6 percent, approaching Talanx's strategic goal of a minimum of 800 base points above the risk-free rate despite the impact of the coronavirus. The earnings target assumes that large losses in the fourth quarter will be within the expected range and that the coronavirus pandemic does not lead to any renewed turbulence on the capital markets. Subject to the approval of the supervisory authorities, Talanx is aiming to pay a dividend for 2020 at the prior-year level of EUR 1.50 per share. In principle, the Group's policy is to pay out 35 percent to 45 percent of its net income under the IFRSs as dividends.

Outlook for 2021: Group net income of EUR 800–900 million

Talanx is also publishing for the first time an earnings outlook for financial year 2021 together with its results for the first nine months of the current year. It is assuming premium growth of approximately 5 percent compared with 2020; this is likely to be attributable solely to premium increases in the Industrial Lines and Reinsurance Divisions. By contrast, the Group is expecting premiums in its Retail Divisions to decline due to delayed coronavirus effects and to exchange rate effects in its foreign business. The net return on investment under the IFRSs is forecast to be approximately 2.5 percent, with the even lower interest rate environment impacting Group net income by roughly EUR 25 million compared to 2020. Talanx is expecting Group net income to be in the range of EUR 800–900 million. This should correspond to a return on equity of between 7.5 and 8.5 percent, which would be achieving or close to achieving our strategic minimum target.

As usual, the targets for financial year 2021 are subject to the proviso that no turbulence occurs on the currency and capital markets and that large losses are in line with expectations.

The Group is continuing to pursue its medium-term targets for the period up to financial year 2022, and especially average annual growth in earnings per share of at least 5 percent compared with the original target of EUR 850 million for financial year 2018.

Key figures from the Talanx Group income statement, 9M 2020, consolidated (IFRS)

EUR million	9M 2020	9M 2019	+/–
Gross written premiums	31,907	30,325	+5.2%
Net premiums earned	25,301	24,186	+4.6%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[1]	100.7%	98.5%	+2.2 ppts
Net investment income	3,059	3,156	–3.1%
Operating profit/loss (EBIT)	1,291	1,863	–30.7%
Group net income (after non-controlling interests)	520	742	–30.0%
Return on equity[2]	6.8%	10.4%	–3.6 ppts

Key data from the Talanx Group income statement for Q3 2020, consolidated (IFRS)

EUR million	Q3 2020	Q3 2019	+/–
Gross written premiums	9,901	9,461	+4.7%
Net premiums earned	8,555	8,269	+3.5%
Combined ratio for property/casualty primary insurance and property/casualty reinsurance[1]	99.7%	100.4%	–0.7 ppts
Net investment income	1,274	1,170	+8.9%
Operating profit/loss (EBIT)	546	619	–11.8%
Group net income (after non-controlling interests)	194	265	–26.7%
Return on equity[2]	7.6%	10.7%	–3.1 ppts

1) Including net interest income on funds withheld and contract deposits.
2) The ratio of annualised net income for the reporting period excluding non-controlling interests to average shareholders' equity excluding non-controlling interests.

Full documents relating to the quarterly statement

Financial calendar

About Talanx

Talanx is a major European insurance group with premium income of EUR 39.5 billion (2019) and roughly 23,000 employees worldwide. Based in Hannover, Germany, the Group is active in more than 150 countries. Talanx is a multibrand provider with a focus on B2B insurance. Its industrial insurance and retail business in Germany and abroad is operated under the HDI brand, which has a rich tradition stretching back about 120 years. Other Group brands include Hannover Re, one of the world's leading reinsurers; the bancassurance specialists Targo insurers, PB insurers and neue leben; and Polish insurer Warta. Ampega, one of Germany's largest asset management companies, manages the Talanx Group's assets and is also an experienced provider of asset management solutions for non-group institutional investors. Rating agency Standard & Poor's has awarded the Talanx Primary Insurance Group a financial strength rating of A+/stable ("strong") and the Hannover Re Group one of AA–/stable ("very strong"). Talanx AG is listed on the Frankfurt Stock Exchange, where it is a member of the SDAX, and on the Hannover and Warsaw stock exchanges (ISIN: DE000TLX1005, German Securities Code: TLX100, Polish Securities Code: TNX).

Talanx – Together we take care of the unexpected and foster entrepreneurship

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