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Hannover Re securitises reinsurance recoverables worth around EUR 1 billion

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Following successful securitisations in property/casualty and life/health reinsurance business, Hannover Re has now for the first time transferred the risks deriving from so-called "reinsurance recoverables" to the capital market.

Reinsurance recoverables, in other words outstanding claims held by reinsurers against their retrocessionaires, traditionally constitute a substantial item on Hannover Re's balance sheet – both in relation to its competitors and the company's shareholders' equity. These recoverables are of a high credit quality and their level per company has always been strictly limited. Nevertheless they adversely affect the assessment of the Group's solvency by rating agencies, primary insurers and brokers. Therefore monitoring these balances forms an integral part of internal risk management.

With the present securitisation Hannover Re is substantially reducing the default risk associated with reinsurance recoverables. "We assume that the rating agencies of relevance to our industry, will consider this transaction - in quantitative and qualitative respects - positively", Chief Executive Officer Wilhelm Zeller emphasised: "With this transaction Hannover Re has effectively immunised itself against a potential credit risk".

The underlying portfolio has a nominal value of EUR 1 billion; it is comprised of exposures to insurers and reinsurers that are classified according to risk classes. The securities issued as collateral through a special purpose entity are split – in accordance with Standard & Poor's rating categories – into four tranches "AAA", "AA", "A" and "BBB". A payment to Hannover Re – after allowance for its deductible – is triggered by the insolvency of a retrocessionaire.

Since as long ago as 1994 Hannover Re has played a pioneering role in the securitisation of risks for the capital market. This latest example marks another innovation inasmuch as it involves a fully secured synthetic CDO structure applied for the first time to a portfolio of credit risks associated with insurance and reinsurance enterprises.