
# Long-term success in a competitive business

**Ulrich Wallin, Chief Executive Officer**

17th International Investors' Day
London, 23 October 2014

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# Strategy cycles

**2012 - 2014**

**Growing Hannover Re profitably**

**2015 - 2017**

**Long-term success in a competitive business**

2010 2011 2012 2013 2014 2015 2016 2017

somewhat different

# Strategy review

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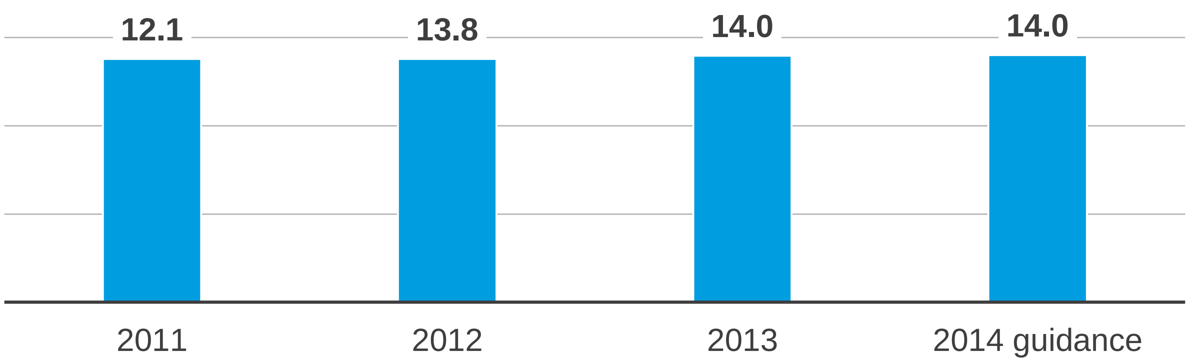
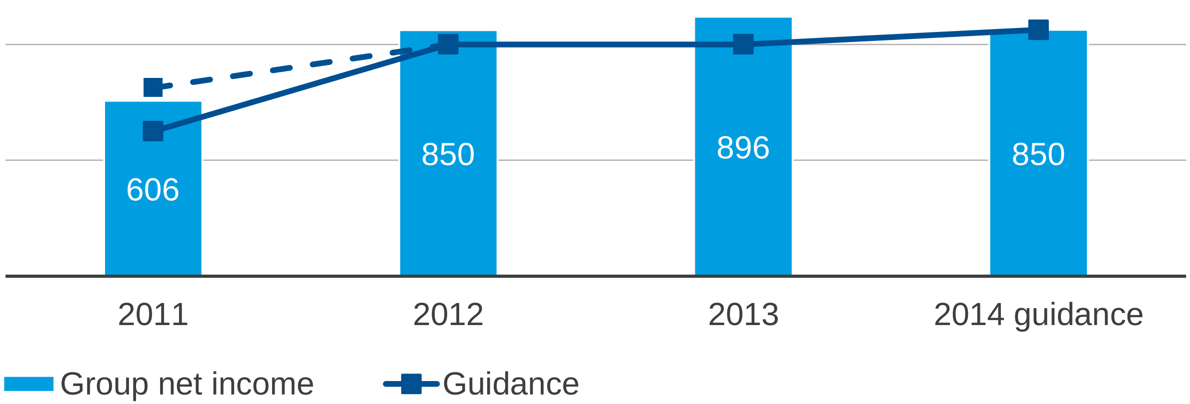
# Successful implementation
## Growing Hannover Re profitably

**Gross written premium** in bn. EUR




▶ CAGR: 5.0%

**Group net income** in m. EUR




▶ CAGR: 11.9%



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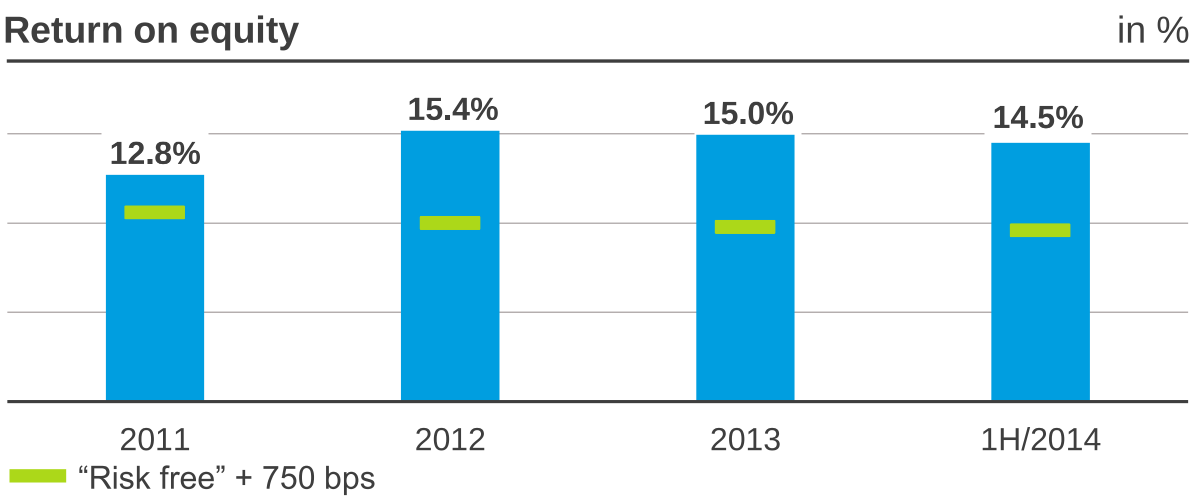
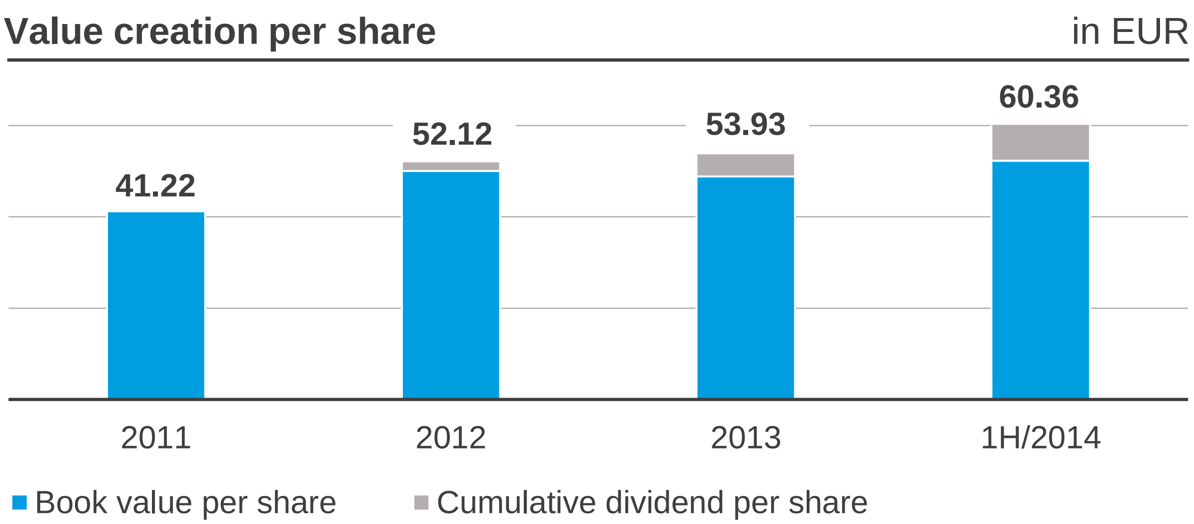
# Successful implementation
## Growing Hannover Re profitably




- Average: 14.4%



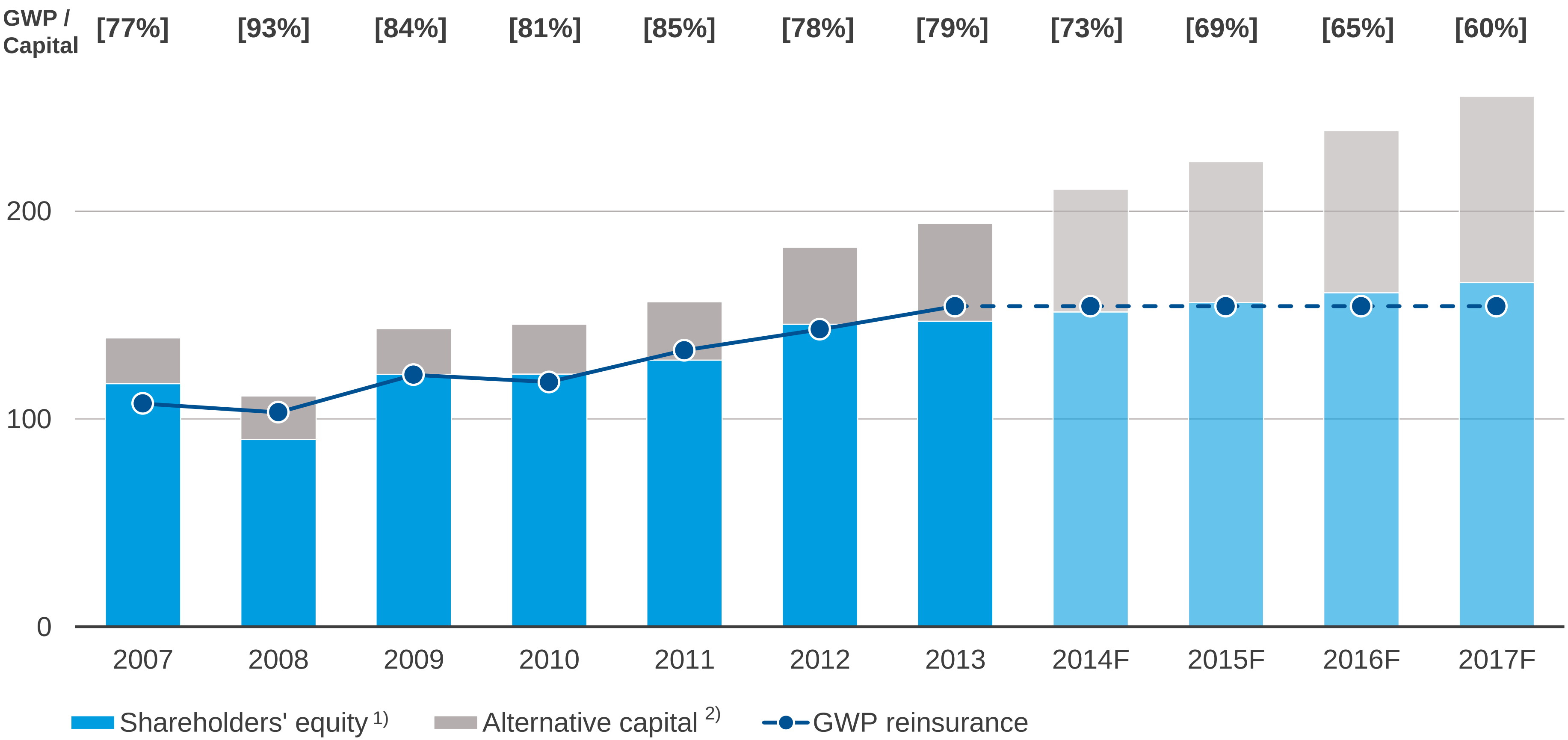

- CAGR: 13.6%

# Current dynamics of the reinsurance business

# Increasing supply of reinsurance capacity
## Decreasing leverage of reinsurers

### Development of reinsurance capital and reinsurance premium

in bn. USD

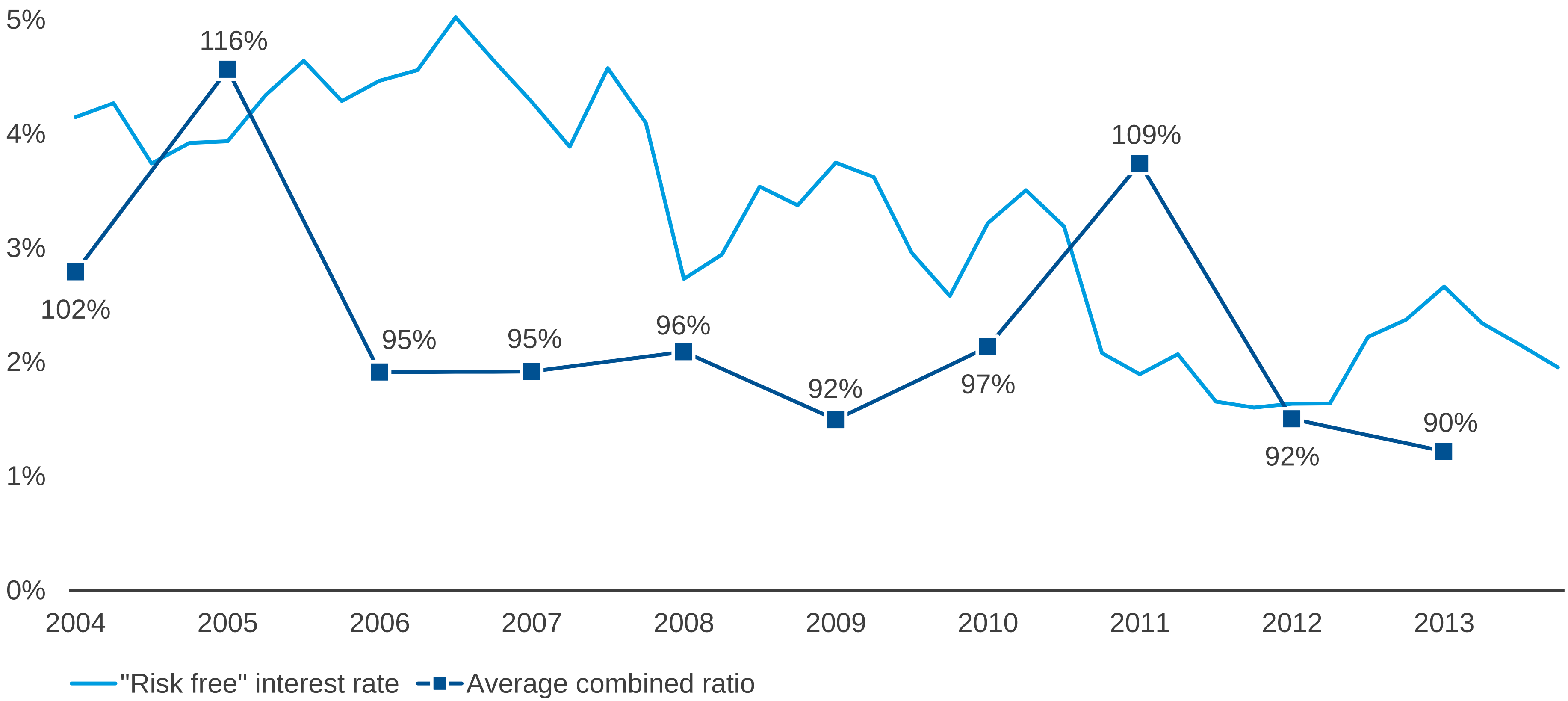



1) Source: A.M. Best, Top 10 Global Reinsurance Groups excl. Berkshire Hathaway
2) Alternative capital based on own estimates
Forecast based on own conservative scenario

# Continued low interest rates

## Focus needs to be on underwriting profitability

### Development of “risk free”* interest rate and combined ratio




Source: A.M. Best, Top 10 Global Reinsurance Groups
* 10 government bond yield (average of German, UK, US)



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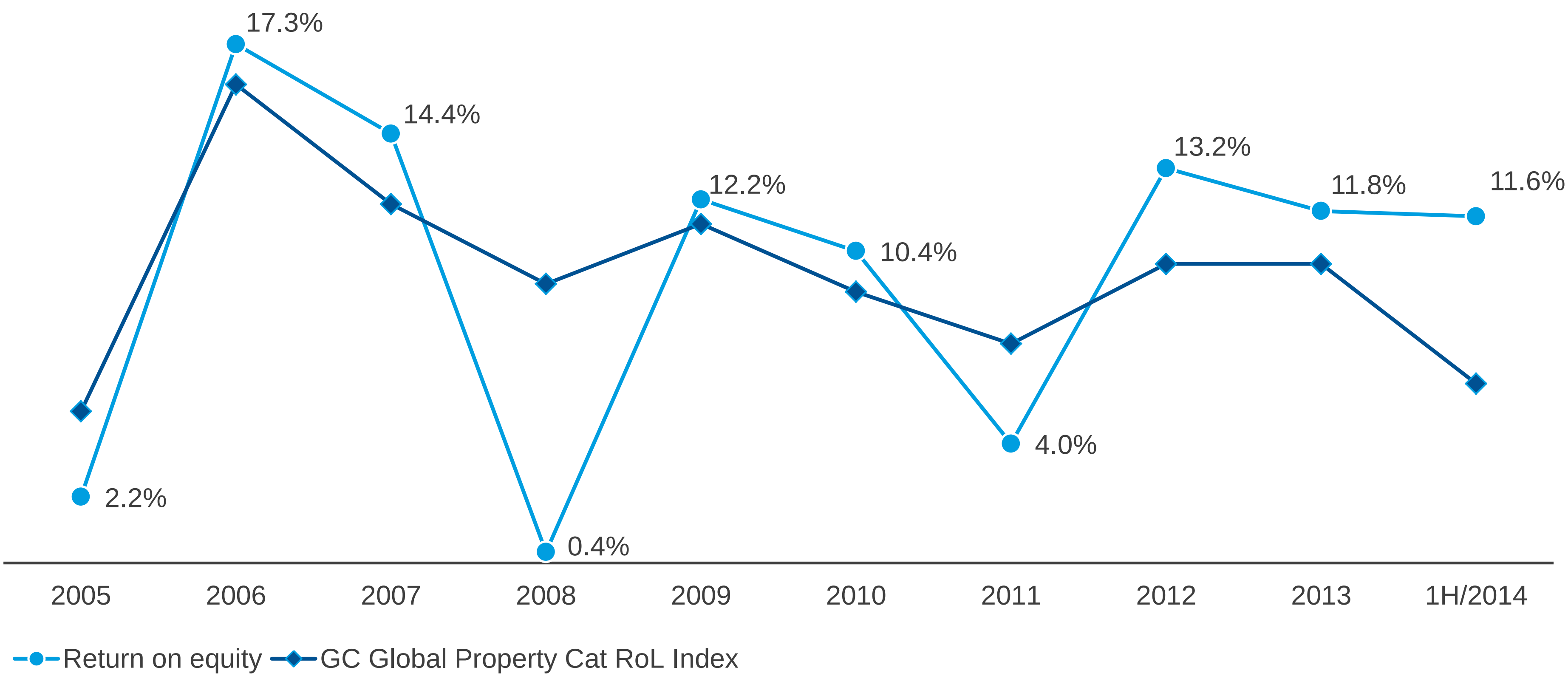
# Reinsurance market conditions will improve. . .
## . . .but when?

### Development of return on equity and Guy Carpenter Global Property Cat RoL Index




Source: Guy Carpenter
Return on equity based on company data (Top 10 of the Global Reinsurance Index (GloRe) with more than 50% reinsurance business), own calculation



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# Hannover Re's response

Long-term success in a competitive market

# Value proposition to our clients

- Capital protection and capital management
- Earnings protection in all lines of business
- Supporting underwriting of new business opportunities
- Supporting product development and pricing
- Supporting distribution capabilities for life & health products
- Strong balance sheet and strong rating
- Long-term consistent approach of our underwriting policy
- Long-term relationship with clients

➥ **We see continued demand for reinsurance from Hannover Re which will allow us to grow faster than the reinsurance market in the long term**



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# Strategic positioning of Hannover Re
## Safeguard profitability

- Being a large worldwide diversified reinsurer is beneficial in the current environment
  - Capability to offset price pressure in individual lines of business
  - Diversification between P&C and L&H is highly valued by rating agencies
    ↪ No pressure on rating, despite price pressure in P&C reinsurance
- Lower expense ratio and competitive cost of capital enable us to earn a higher margin than the competitors at the same price
  - No pressure to grow;
    willing to reduce shares in areas where risks are not adequately priced
- Hannover Re has built up high sufficiency P&C loss reserves
  - Better positioning to defend profitability in a competitive market
- Very positive development of Value of New Business (VNB) in L&H
  - VNB underpins expected growth of future profits
- Stable absolute net investment income despite low interest rates

↪ **Hannover Re is positioned to maintain its profitability in the current business environment**

↪ **Profitability will increase disproportionally strong when market changes**



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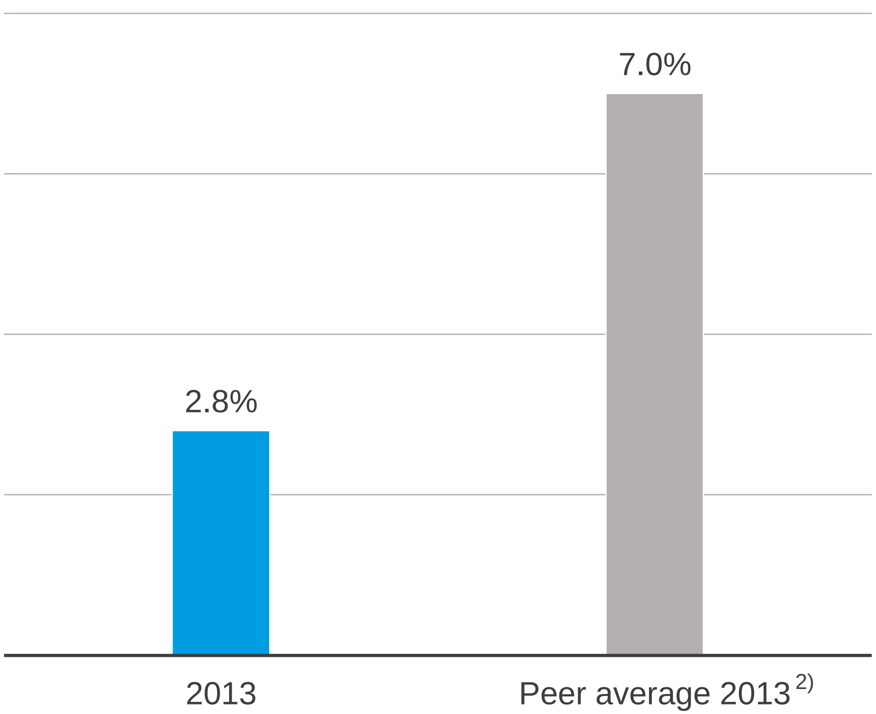
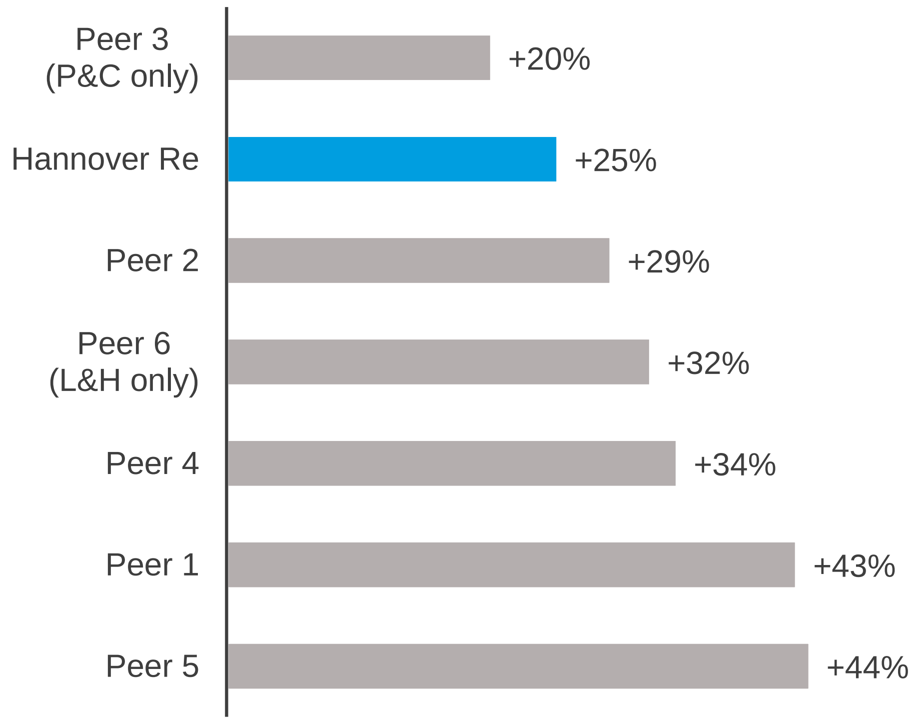
# Keep cost advantage over competitors
## Avoid unnecessary costs

### Administrative expense ratio[1)]




### Cost net revenue ratio[3)] (average 2009 - 2013) R/I




► Find the balance between costs as investment into future profits and need to keep the current cost ratio competitive

Own calculation
1) Administrative expenses + other technical expenses (in % of net premium earned)
2) Alleghany, Everest Re, Munich Re (reinsurance only), PartnerRe, RGA, SCOR, Swiss Re
3) Net revenue = EBIT before costs; Peers: Everest Re, Munich Re (reinsurance only), PartnerRe, RGA, SCOR, Swiss Re

# Strategic positioning P&C reinsurance
## Competitive margin

- Active cycle management, no pressure to grow due to low admin expense ratio
- Above-average profitability of our P&C business because of our stringent underwriting approach → focus on the bottom line rather than on the top line
- Further strengthening of the confidence level of our P&C reserves may be limited due to IFRS accounting constraints → positive effect on C/R
- Less spending on retro at increased coverage
- Flexible cost base due to relatively higher share of business written via brokers
- Better ability to seize opportunities than our competitors

**Large broadly diversified reinsurers are better positioned**



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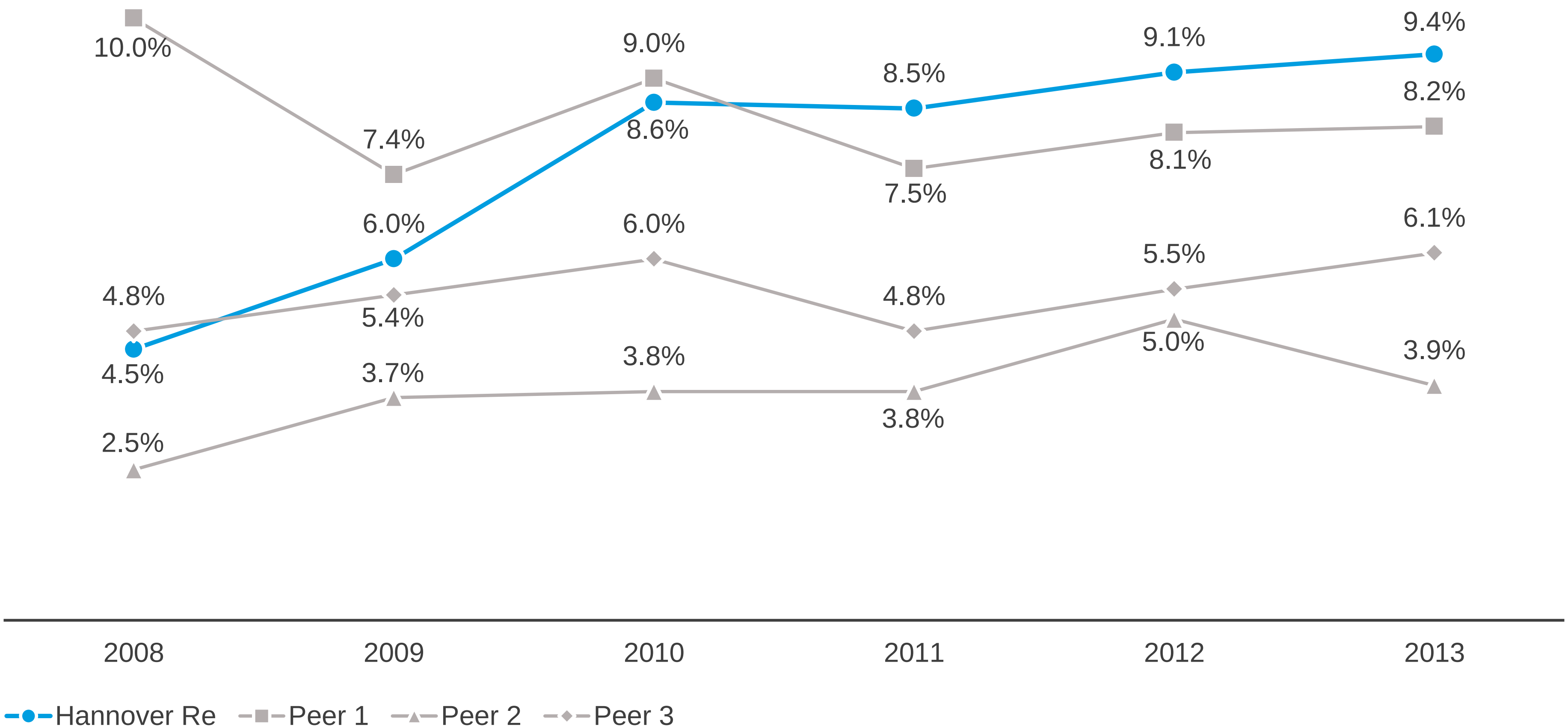
# Improving reserve adequacy compared to peer group

## Conservative reserving policy leads to build-up of reserve redundancies

### Reserve adequacy as a percentage of total reserves




Source: Bank of America Merrill Lynch Global Research; European peers



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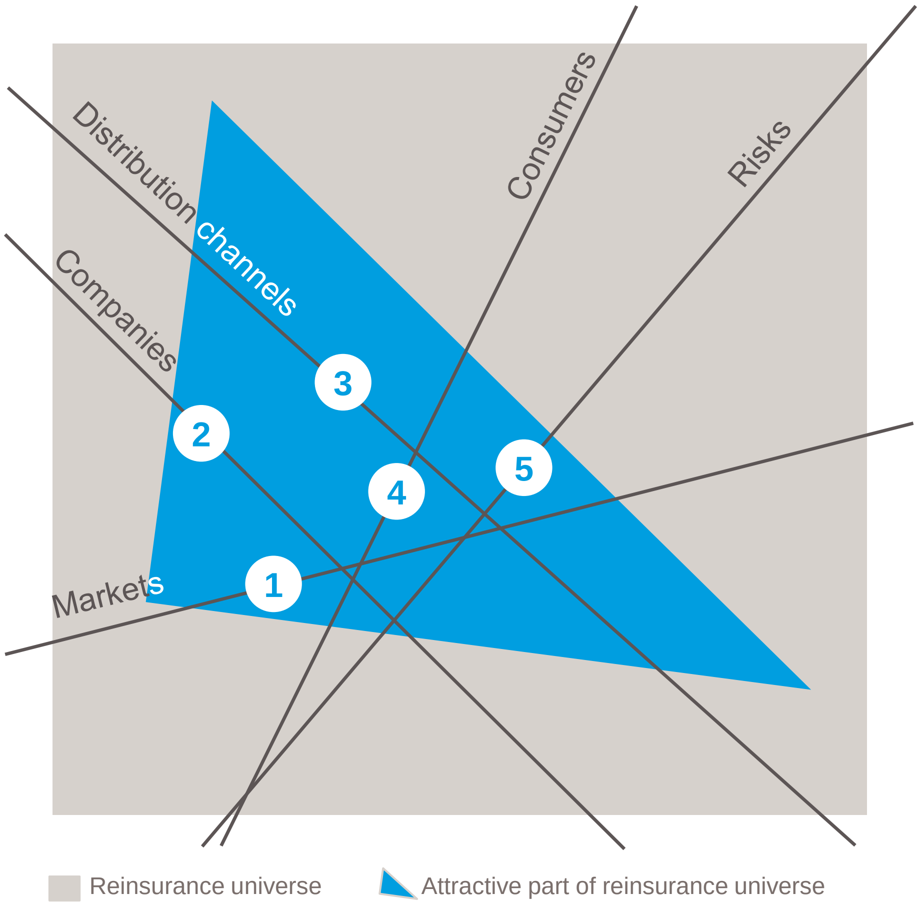
# Strategic positioning L&H reinsurance

## Identifying and addressing the attractive part of the reinsurance universe

### Focus on the attractive part of the market




### Definition

Positive economic value expected

- Traditional life & health reinsurance
- Financing
- Longevity
- Regulatory & accounting arbitrage

### Goal

To outperform the worldwide growth of the L&H business in [attractive part] over a 3-year rolling period



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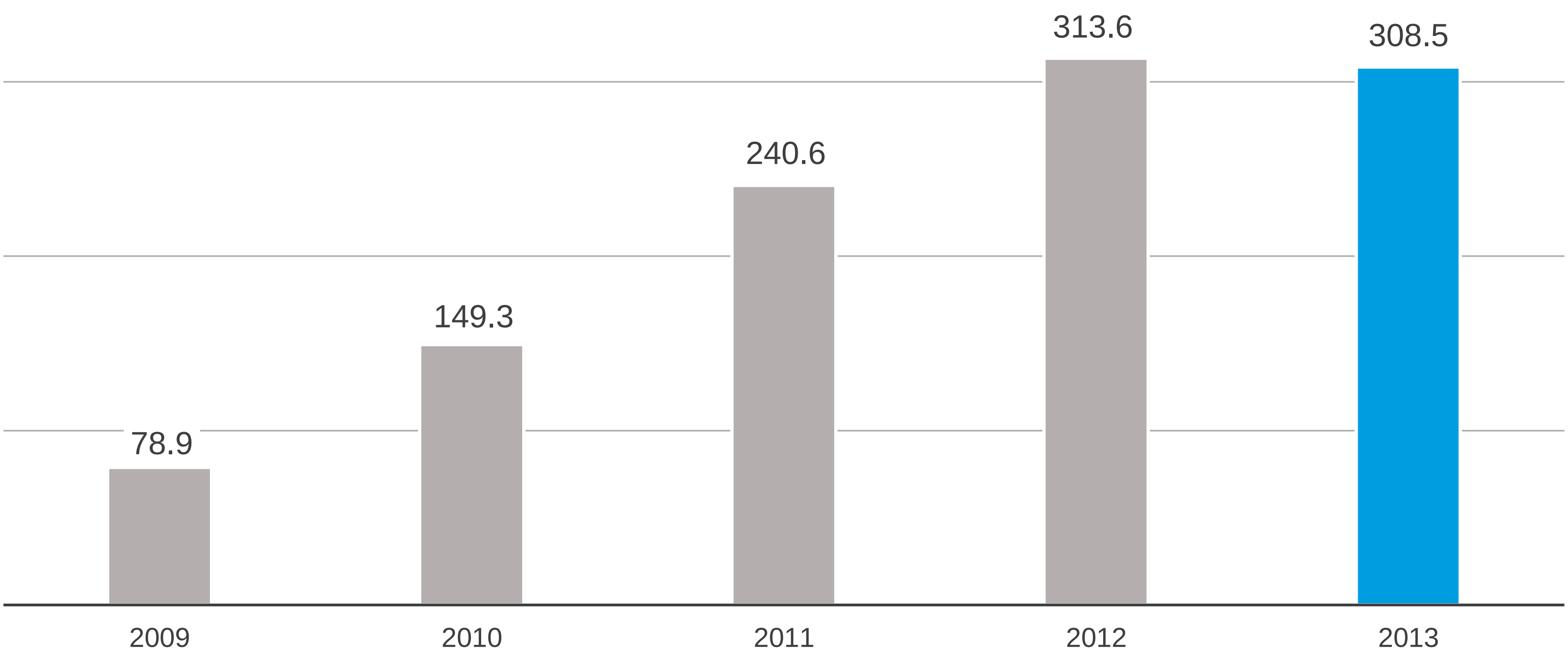
# Value of New Business remains on high level. . .

## . . .and underpins expected growth of future profits

### Value of New Business (VNB)

in m. EUR



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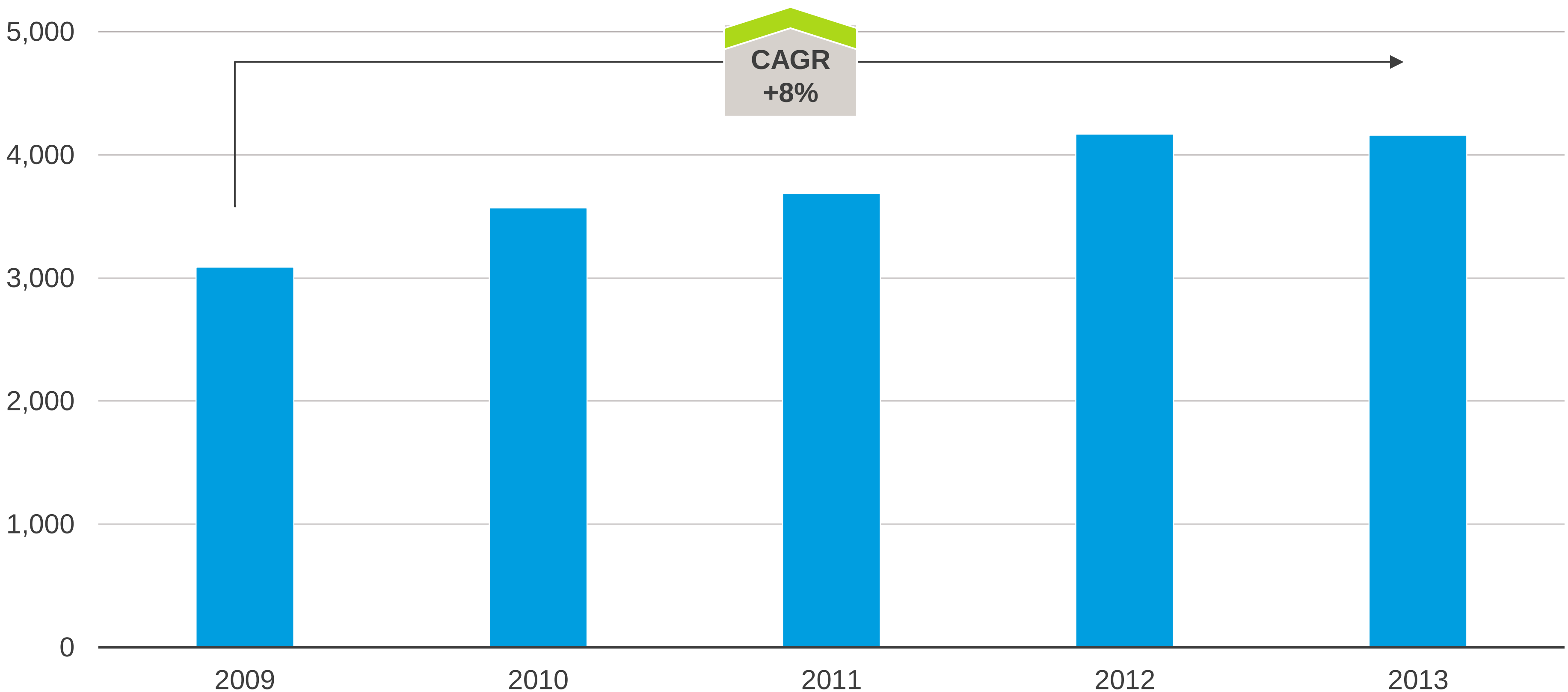
# Attractive growth outside US mortality and AUS disability
## Adjusted net premium earned

**Net premium earned excluding US mortality & AUS disability business** in m. EUR



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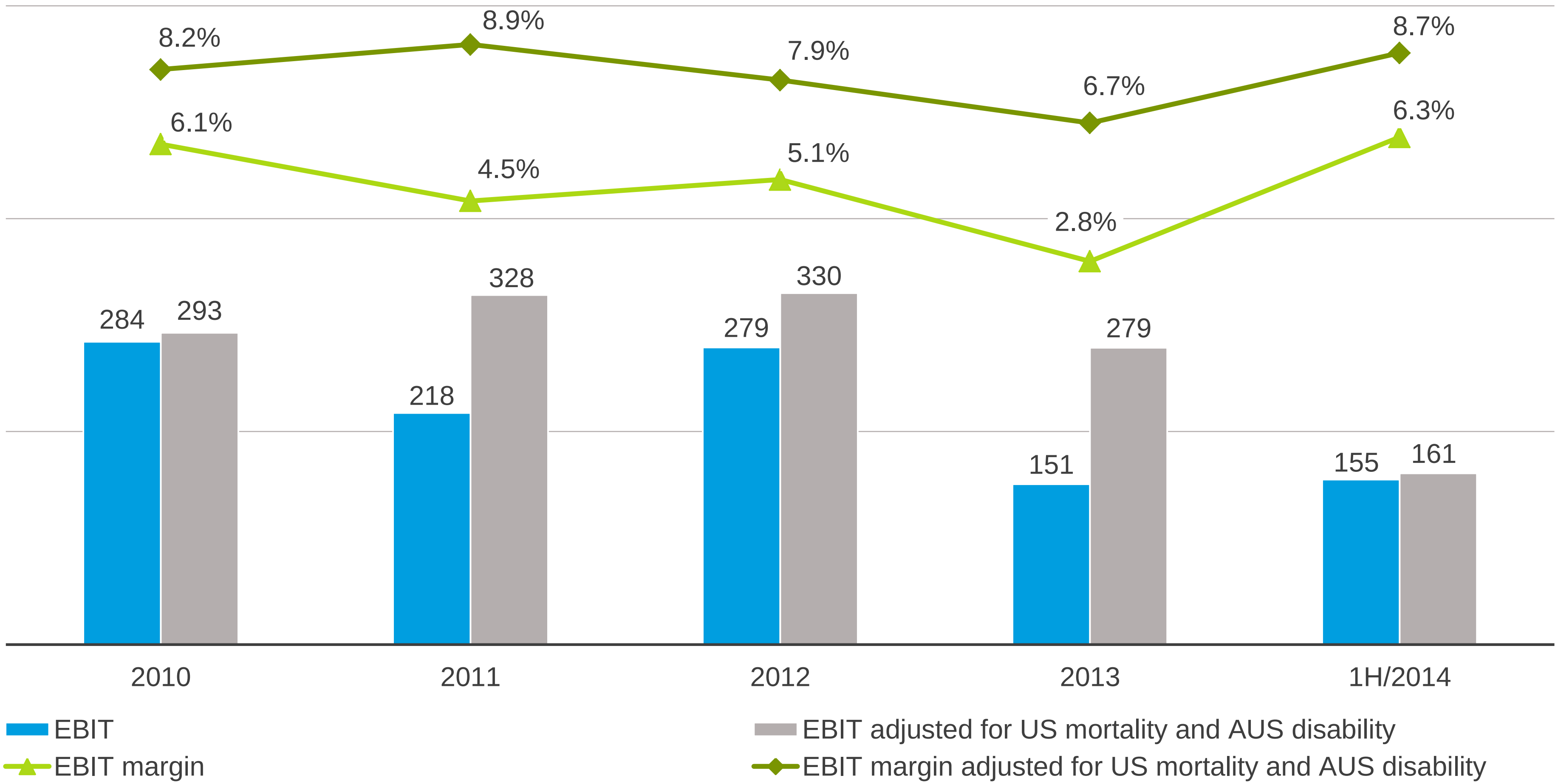
# L&H result will improve significantly

## Current strategic cycle impacted by US mortality and AUS disability business

### Profitability of our L&H business group

in m. EUR



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# Return on equity target increased to 900 bps above "risk free"

## Target Matrix consistently aligned to low interest rate environment

| Business group | Key figures | Strategic targets 2014 | Strategic targets 2015 |
|---|---|---|---|
| Group | Return on investment[1)] | ≥3.2% | ≥3.0% |
| | Return on equity | ≥9.6%[2)] | ≥11.1%[2)] |
| | Earnings per share growth (y-o-y) | ≥10% | ≥6.5% |
| | Value creation per share[3)] | ≥10% | ≥7.5% |
| Property & Casualty reinsurance | Gross premium growth[4)] | 3% - 5% | 3% - 5% |
| | Combined ratio | ≤96%[5)] | ≤96%[5)] |
| | EBIT margin[6)] | ≥10% | ≥10% |
| | xRoCA[7)] | ≥2% | ≥2% |
| Life & Health reinsurance | Gross premium growth[8)] | 5% - 7% | 5% - 7% |
| | Average annual Value of New Business[9)] | > EUR 180 m. | > EUR 180 m. |
| | EBIT margin[6)] financial solutions/longevity business | ≥2% | ≥2% |
| | EBIT margin[6)] mortality and morbidity business | ≥6% | ≥6% |
| | xRoCA[7)] | ≥3% | ≥3% |

1) Excl. inflation swap and ModCo (2015: planning)
2) 750 bps/900 bps above 5-year rolling average of 10-year German government-bond rate ("risk free"), after tax
3) Growth of book value + paid dividend
4) In average throughout the cycle; at unchanged f/x rates
5) Incl. expected net major losses of EUR 670 m.
6) EBIT/net premium earned
7) Excess return on the allocated economic capital
8) Organic growth only; at unchanged f/x rates; 5-year CAGR
9) 5-year average



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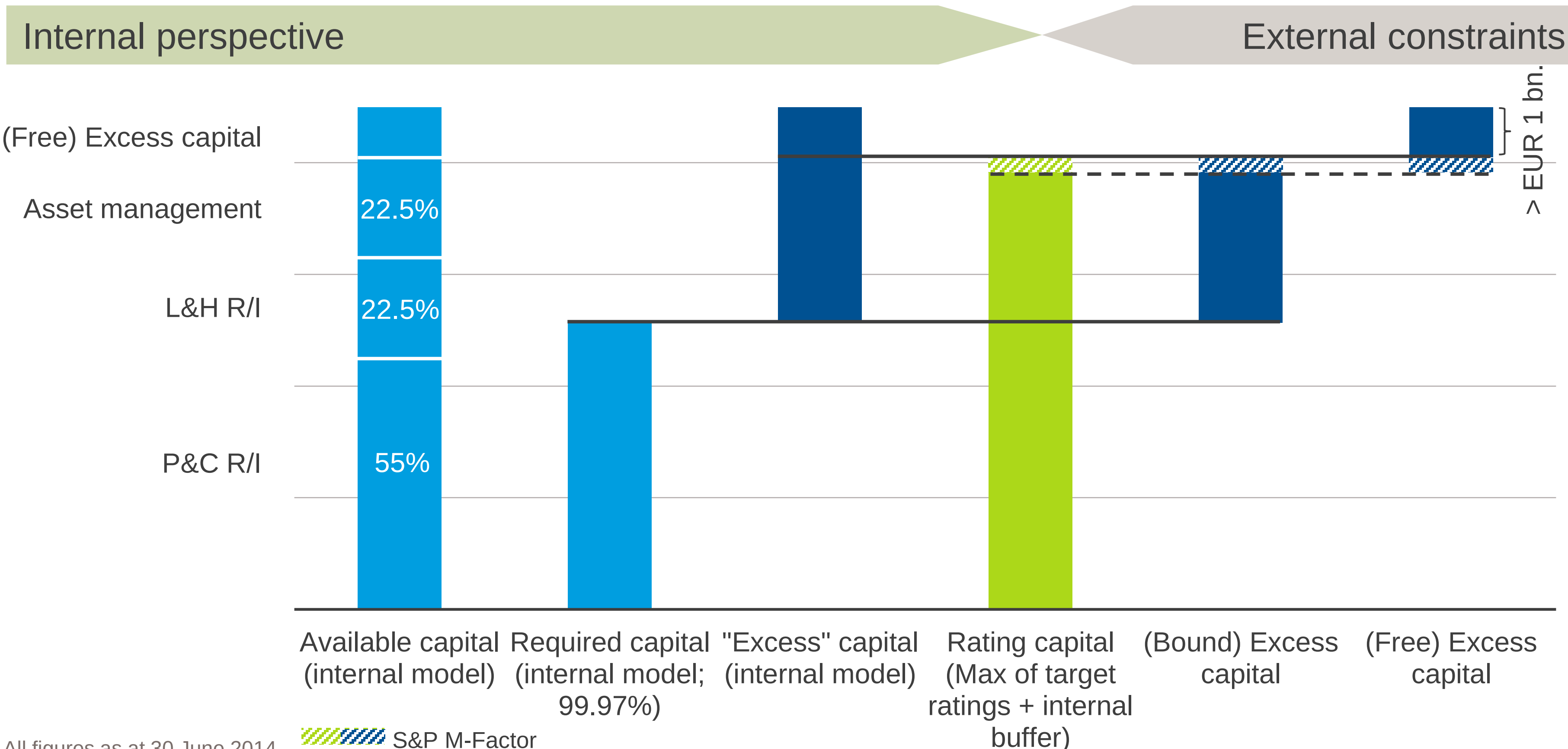
# Capital management

# Holding excess capital for future business opportunities
## Capital requirement




All figures as at 30 June 2014

**Capital management based on long-term capital requirement**



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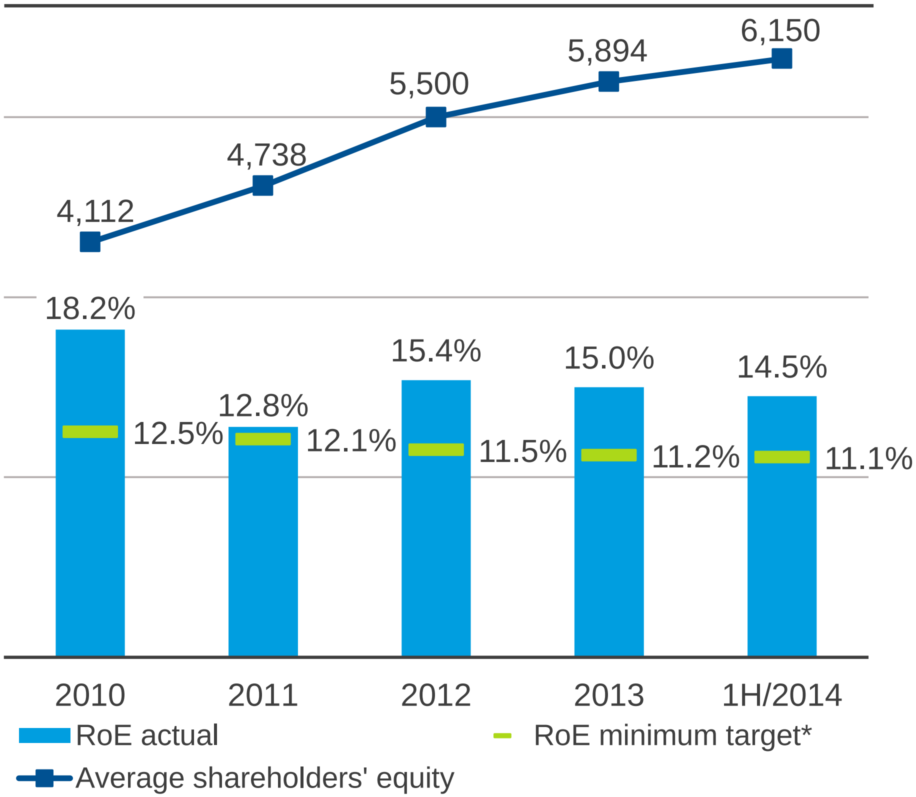
# Currently no pressure to reach RoE target

## Capital enables us to act on future business opportunities

### Equity and Return on Equity (RoE)




- Currently no pressure to reach our new RoE target of 900 bps above “risk-free”*
- Maintaining a sufficient equity buffer and high diversification of our business enables us to act on available business opportunities at all times
- Reduced volatility of dividend payments
  - (Free) Excess capital as a buffer to pay a dividend in difficult years (not the case in 2001, 2005 and 2008)
- Opportunities for M&A
- Currently capital is growing faster than profitability

* 900 bps above 5-year rolling average of 10-year German government-bond rate ("risk-free"), after tax

**Capital management will become more important for Hannover Re**

# Our strategy is oriented to long-term success and profitability

- Hannover Re is well positioned to outperform in the current cycle



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