P&C strategies in a competitive market

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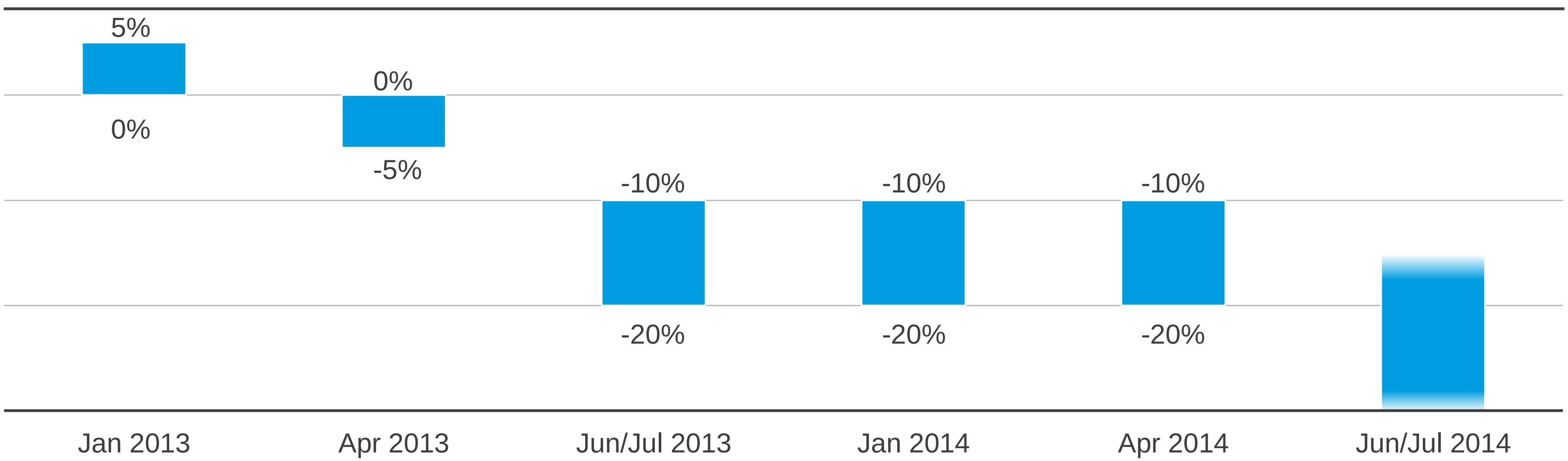
London, 23 October 2014

Today: "intense competition and ongoing pricing pressure"*

State of the property cat market

Worldwide property cat risk-adjusted rate-on-line changes



- How to compete in these market environments? Dowling said, we need
  - great risk assessment
  - great access to business
  - rigorous management of the cost of capital

* Source: IBNR weekly, broker reports, D&P Analysis

We experienced many cycles in the past. What is different today?

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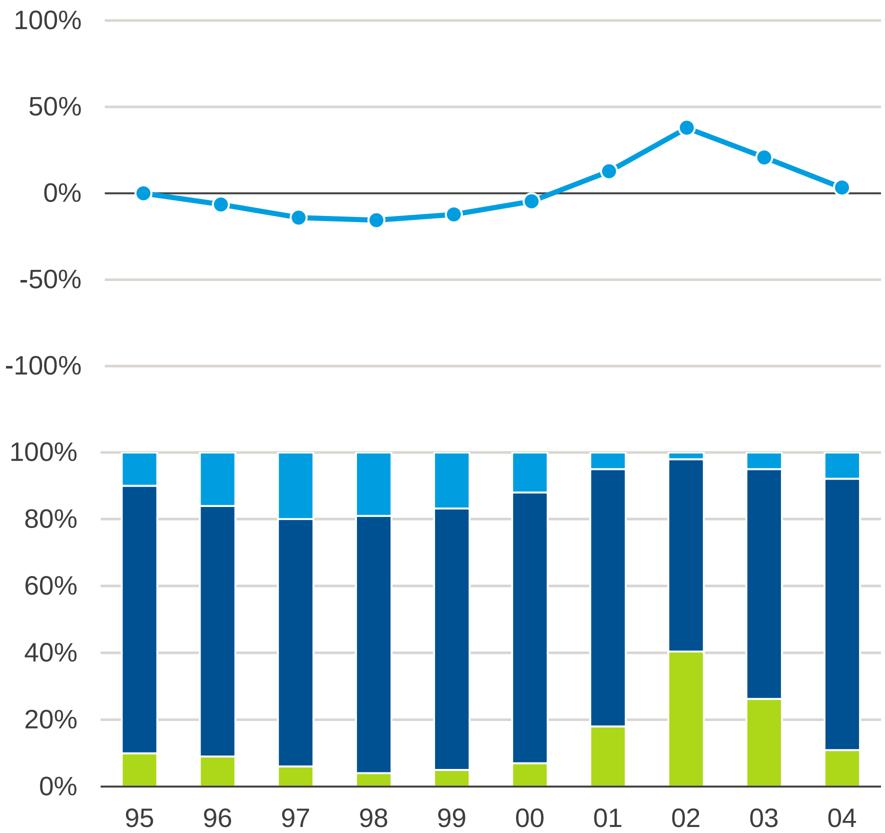
Comparing cycles: proportional business cycles have flattened

Market cycles from Hannover Re's perspective

Then*



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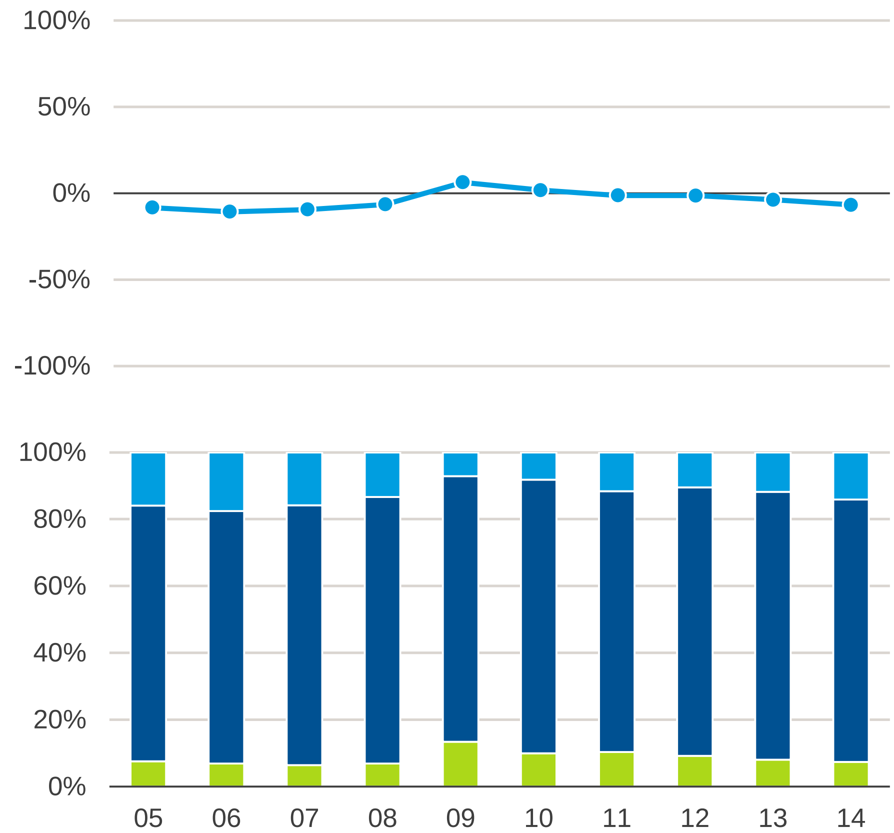


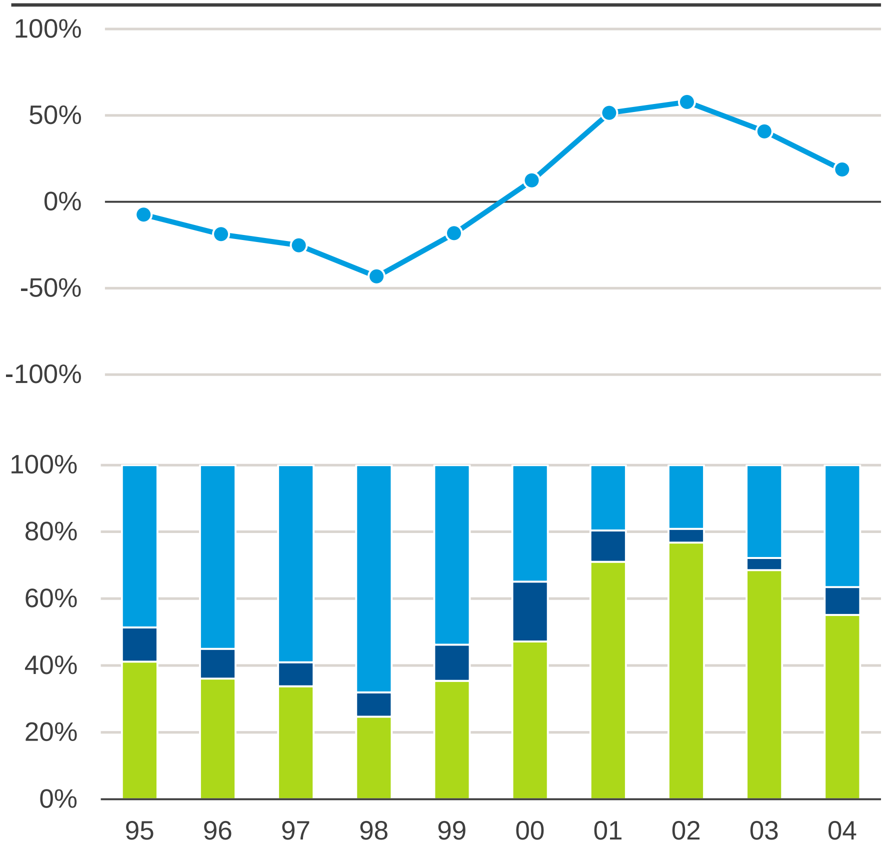
Net change (improvement - deterioration)   Improvement   Unchanged   Deterioration

* Comparison of commission, Hannover Re portfolio

Shorter cycles in non-proportional biz for a variety of reasons

Market cycles from Hannover Re's perspective

Then*



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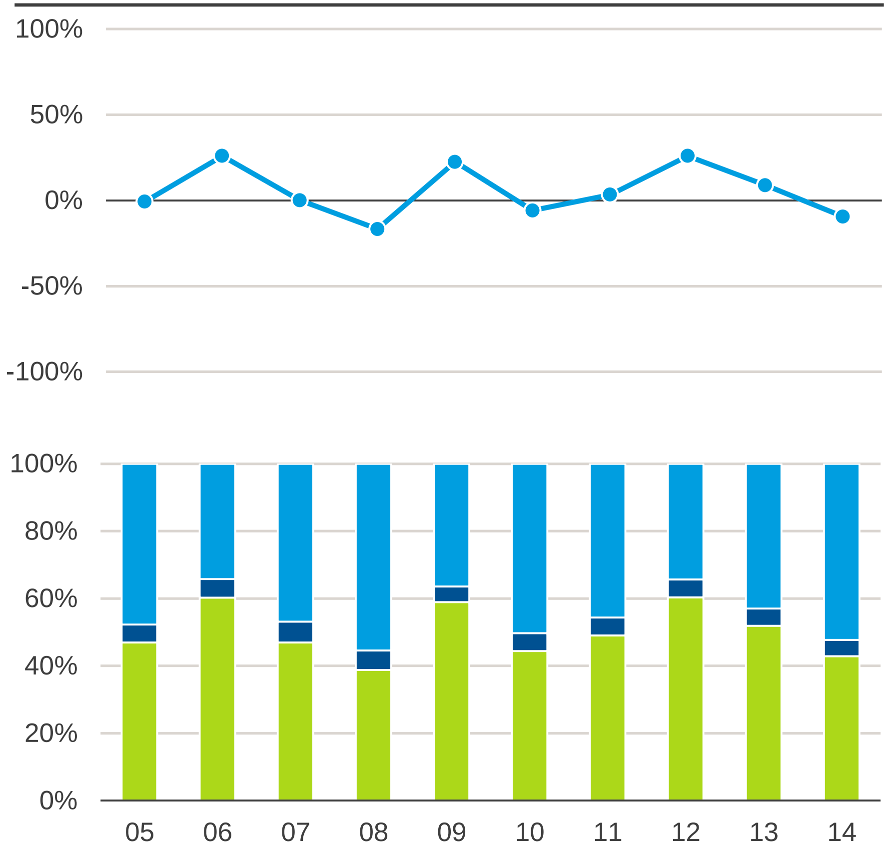

Net change (improvement - deterioration) | Improvement | Unchanged | Deterioration

* Comparison of rate on line (RoL), Hannover Re portfolio

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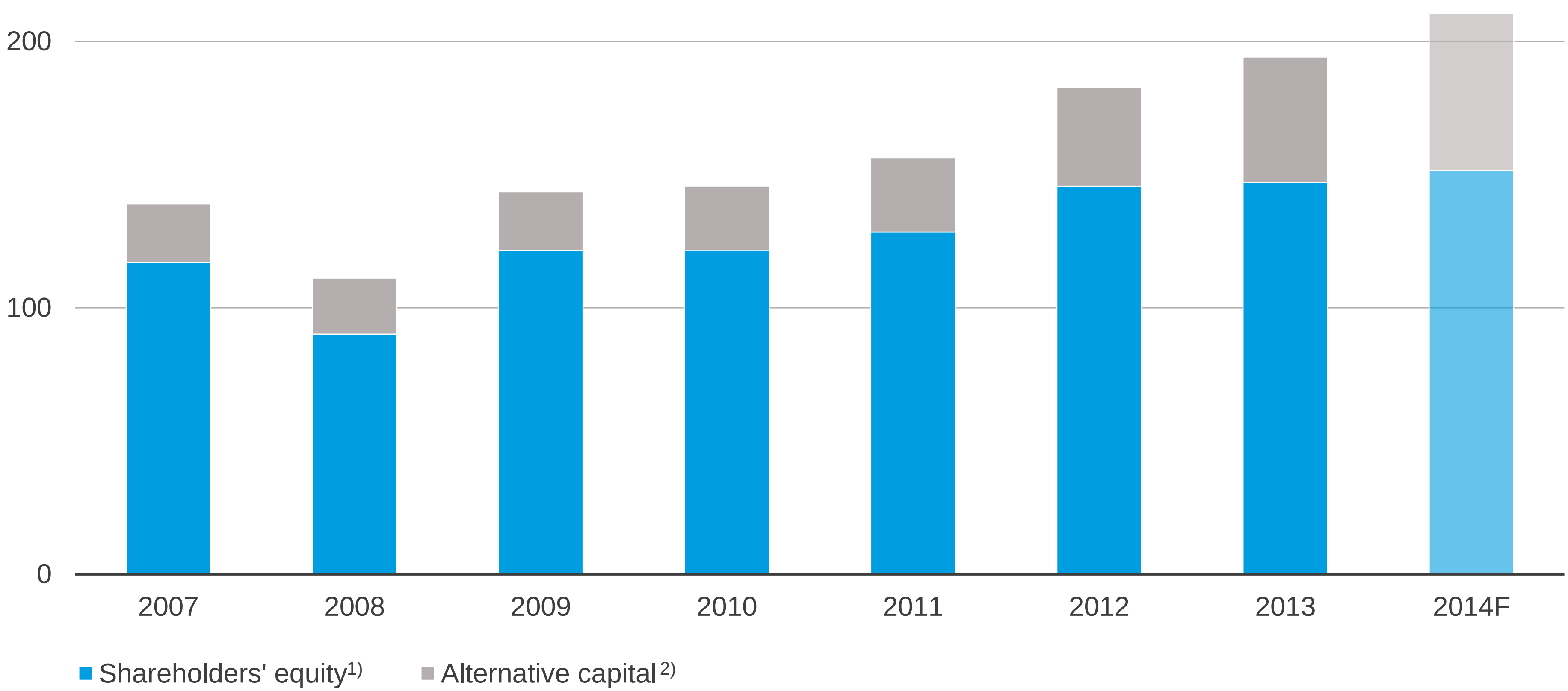
What differentiates the cycles: increase in capital

Taking into account both traditional as well as non-traditional capital

Development of reinsurance capital 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

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What differentiates the cycles: new classes of R/I capital

▶ 1970s	Development of Bermudian captive insurance market
▶ 1980s	Development of islands' excess liability insurance market
▶ 1990s	Development of highly technical, modelling-oriented R/I market
▶ 1992	Led to rapidly increased rates and attracted significant amounts of capital "Class of 1993" (8 in all) Cat Ltd., Global Capital Re, IPC Re, LaSalle Re, Mid-Ocean Re, Partner Re, Renaissance Re and Tempest Re
▶ 2001	"Class of 2001" companies (7 in all) Arch, AXIS, Allied World Assurance Company Ltd., Endurance Specialty Holdings Ltd. and Montpelier Re Holdings Ltd. Additionally, two special-purpose vehicles, Olympus Re and DaVinci Re
▶ 2005	Amlin, Ariel Re, Brit, Catlin (moved headquarters to BDA), Flagstone Re, Hiscox, Lancashire, Omega, Validus Re 2006 start-ups, side-cars and Lloyds Syndicates
▶ 2012	Alternative markets replace the waves of new company classes

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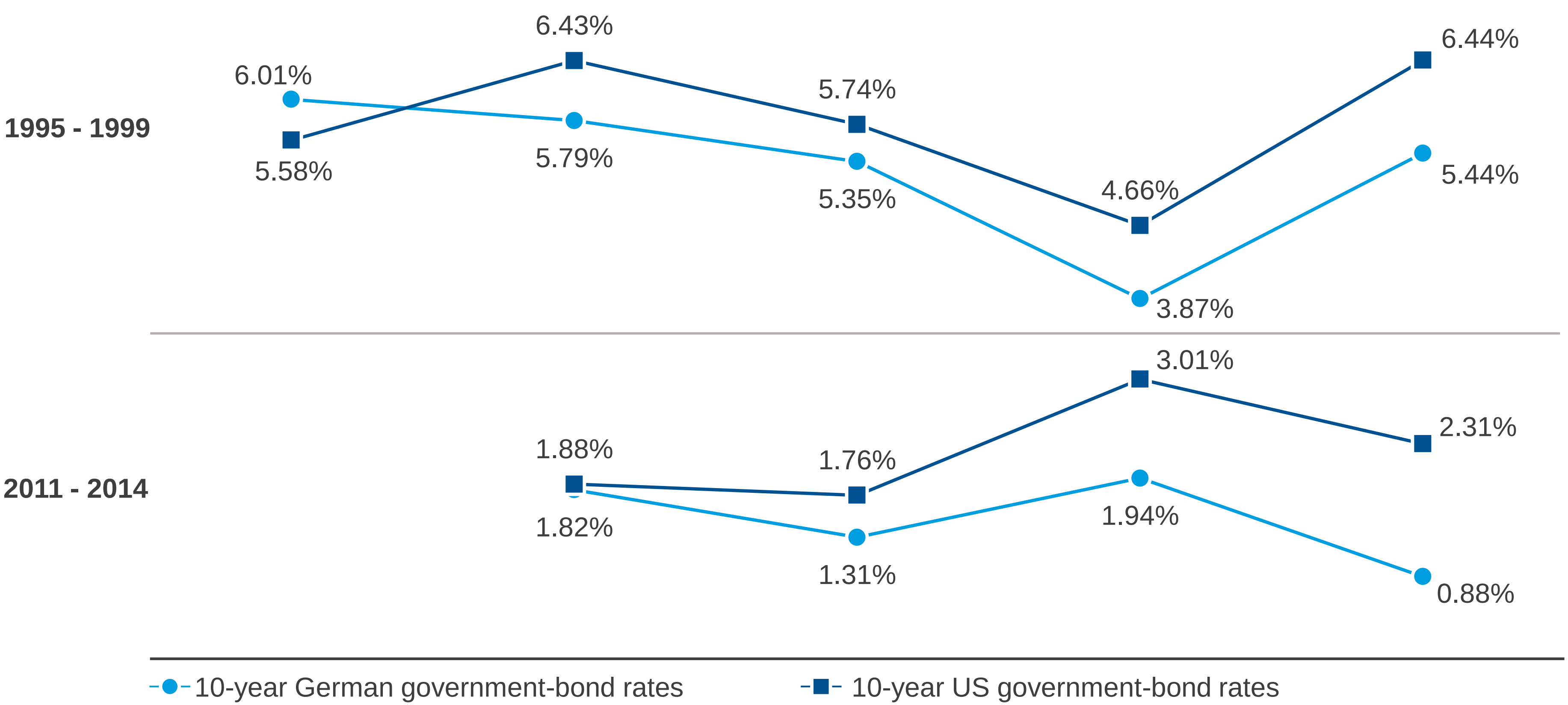
What differentiates the cycles: yield environment

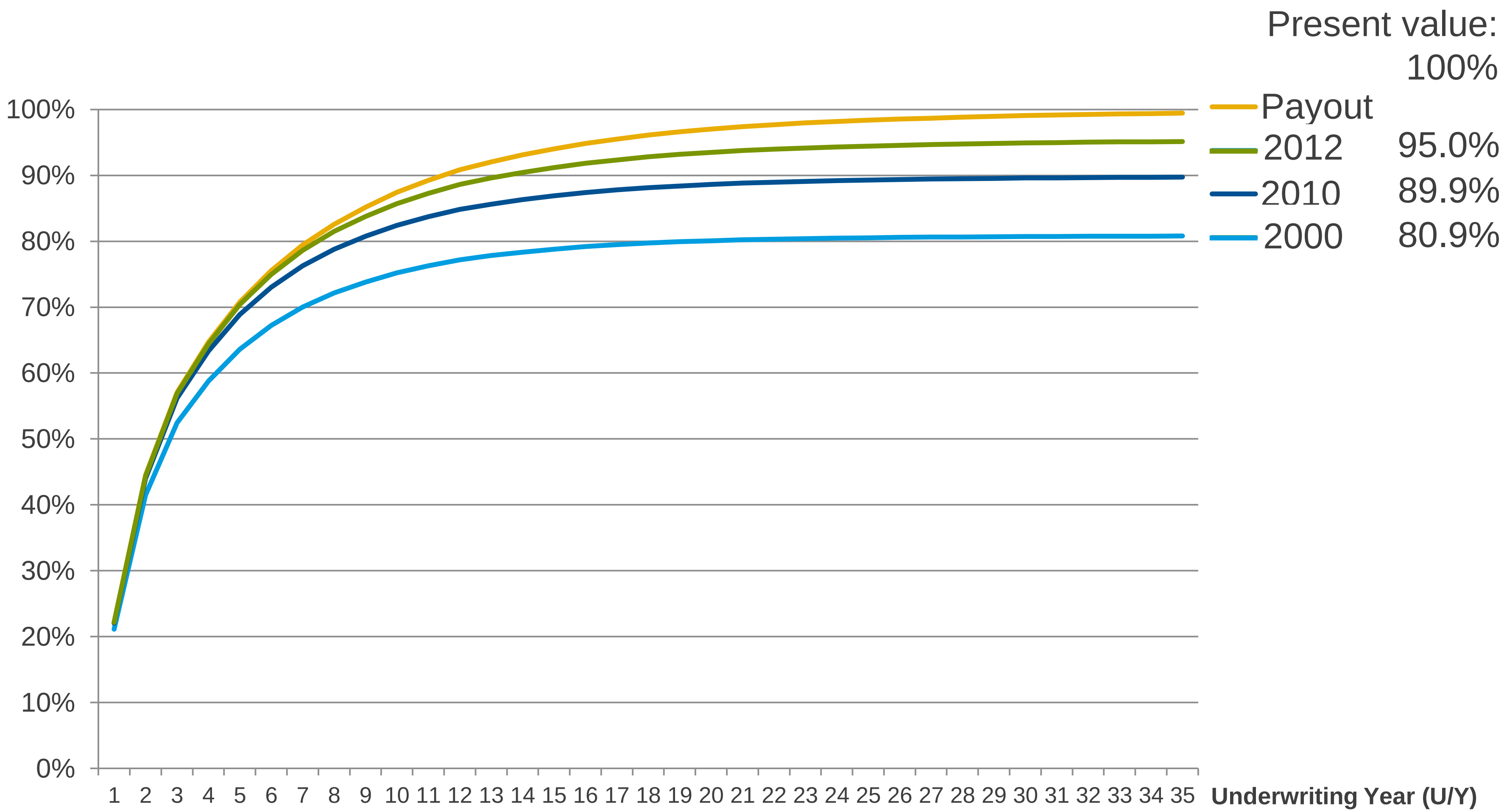
10-year government-bond rates (risk free)



2014 as at October 2014

Low interest environment and its impact on P&C reinsurance

Discounting effect on total P&C portfolio



What differentiates the cycles: reserve redundancies

Hannover Re has more reserve buffers now than at the end of the previous cycle

End of 1990s up to 2001

- Worsening U/Y results for soft market years with high loss ratios

U/Y	IFRS NPE	Booked data: Ultimate loss ratio	Booked data: Paid losses	Booked data: Case reserves	Booked data: IBNR balance
1997	1,906	76.9%	72.0%	3.6%	1.3%
1998	1,950	91.2%	85.9%	3.8%	1.4%
1999	2,173	104.3%	98.0%	4.4%	2.0%
2000	2,413	116.5%	102.4%	11.2%	2.9%
2001	3,179	97.6%	89.6%	5.6%	2.4%

- No substantial reserve buffers left
  - According to internal as well as external reserve studies at the end of the soft market no substantial reserve buffers could be seen in the data

Hannover Re data

2011 ongoing

- Positive development of hard market U/Y loss ratios with attractive low C/R

U/Y	IFRS NPE	Booked data: Ultimate loss ratio	Booked data: Paid losses	Booked data: Case reserves	Booked data: IBNR balance
2006	3,386	59.5%	41.5%	6.9%	11.0%
2007	3,317	77.2%	53.2%	9.8%	14.1%
2008	3,445	80.9%	51.2%	11.8%	17.9%
2009	3,633	72.7%	41.8%	10.4%	20.5%

- Increasing reserve redundancies (in m. EUR)

FY	Redundancy	Increased redundancies	Effect on loss ratio	P&C NPE
2009	867	276	5.3%	5,230
2010	956	89	1.6%	5,394
2011	1,117	162	2.7%	5,961
2012	1,307	190	2.8%	6,854
2013	1,517	210	3.1%	6,866
Total		**927**		**30,305**
Average		**185**	**3.1%**	**6,061**

There are of course more aspects taken into account...

...when comparing the cycles

End of 1990s

- Overabundance of capital
- Double-digit annual price decline
- Industry consolidation
- High interest rates and a booming stock market
- Low underwriting discipline
- Multiple-year contracts
- Strong competition
- UniCover: workers' comp. carve-out and London Market Spiral
- No or too small net retentions of programme (MGA) writers
- Liberal arrangements for fronting
- Limited underwriting controls on MGAs
- Soft market was driven mostly by reinsurers

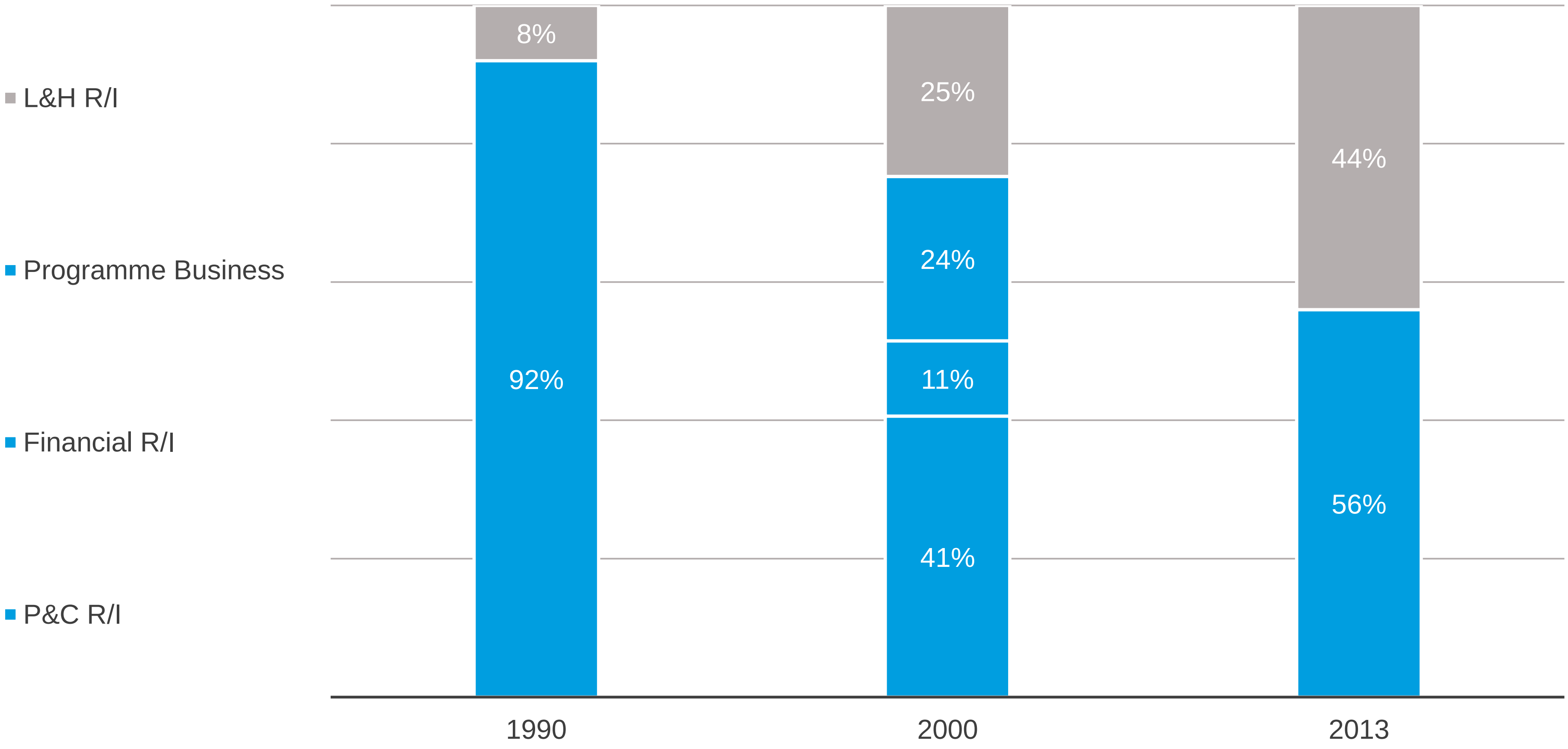
2013 ongoing

- Excess capital
- Worsening of terms
- Overcapacity
- Low interest rates
- Alternative reinsurance
- Reserve redundancies
- Higher retentions from stronger capital base of insurers and reinsurers
- Aggressive competition
- Strong regulatory oversight
- Development of sophisticated models
- ILS investors do not focus on long-term relationships
- Strongly innovative product development

Our perspective: diversification in the past and today

The improvement of the business mix has been an ongoing measure

Gross written premium split by business groups



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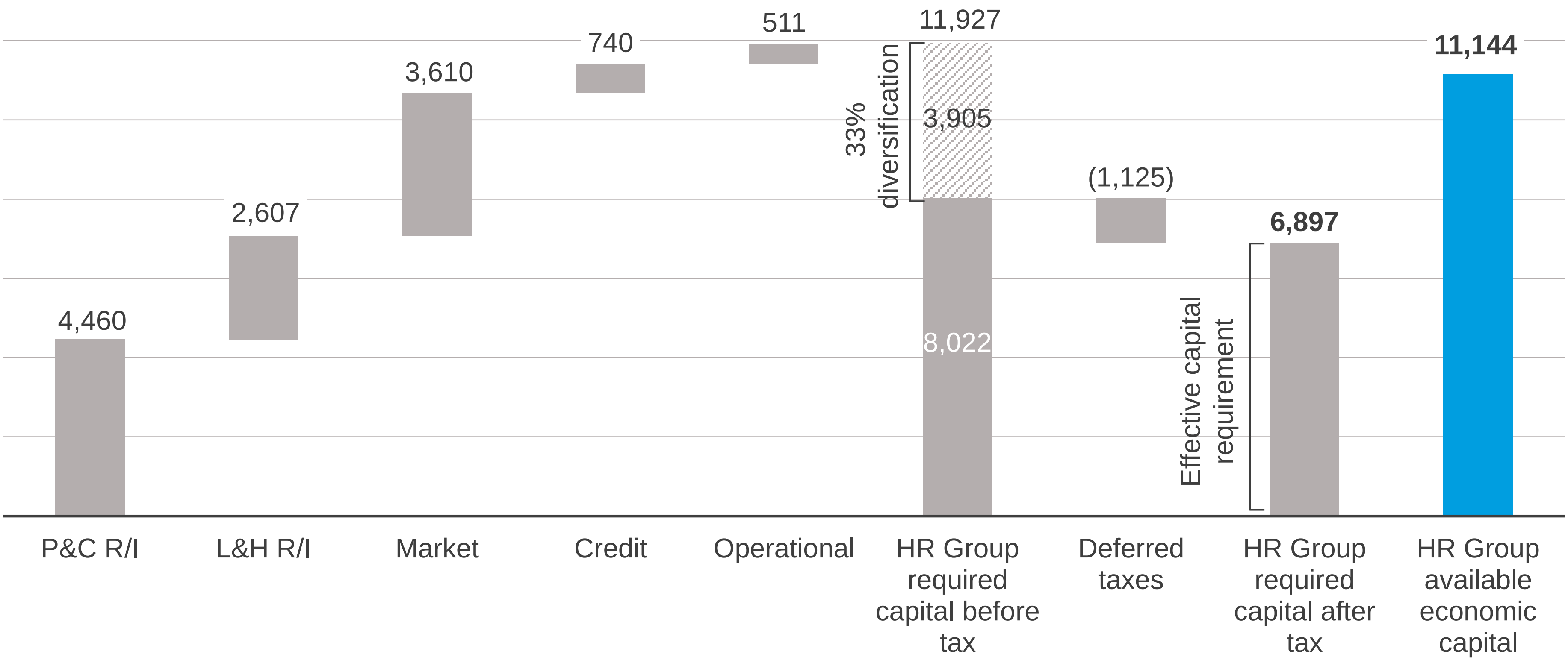
Diversification reduces capital requirements by 33%
Capitalisation ratio of 162%

Risk capital for the 99.97% VaR (according to economic capital model) in m. EUR



As at December 2013
In the past year the presentation of risks has been changed. In view of a more transparent presentation of diversification and tax effects the required capital for the different risk categories is now shown before consideration of tax effects and as the change relative to the expected target (instead of initial value).

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A challenging plus competitive environment

Challenges

- Reinsurer capital at record level
- Abundant capacity
- Strong competition
- Higher retentions in insurance industry
- Alternative capital

- Low (re-)investment yield

Pressure on reinsurance rates

Pressure on investment returns

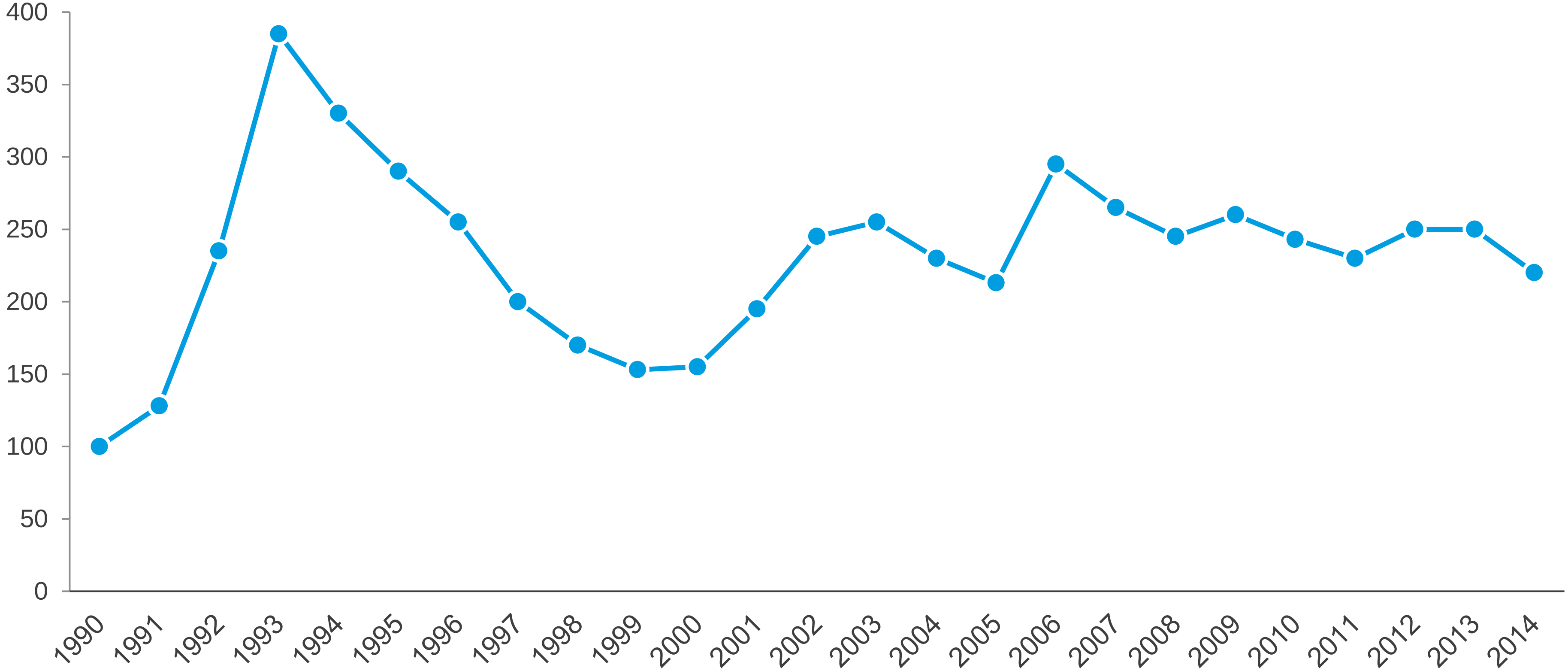
Our measures

Excerpts from our P&C strategy

1. No growth targets in NatCat business
2. Realise growth opportunities in selected markets outside NatCat
3. Secure value-adding customers
4. Stick to defined strategic drivers in a competitive market environment

1. Our strategy towards NatCat business

Global property catastrophe RoL index 1990 - 2014



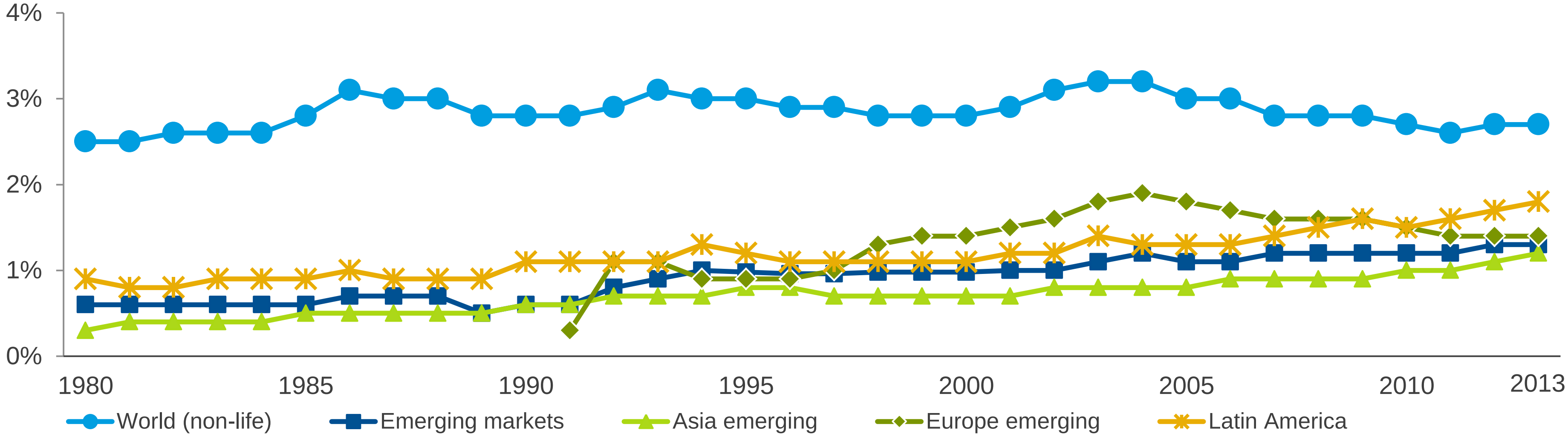
Source: Guy Carpenter

2015: Our amount of capital allocated for NatCat remains unchanged

2. Samples for future growth opportunities (outside NatCat biz)

- Increased insurance density in emerging markets

Insurance penetration - premiums as % of GDP* 1980 - 2013



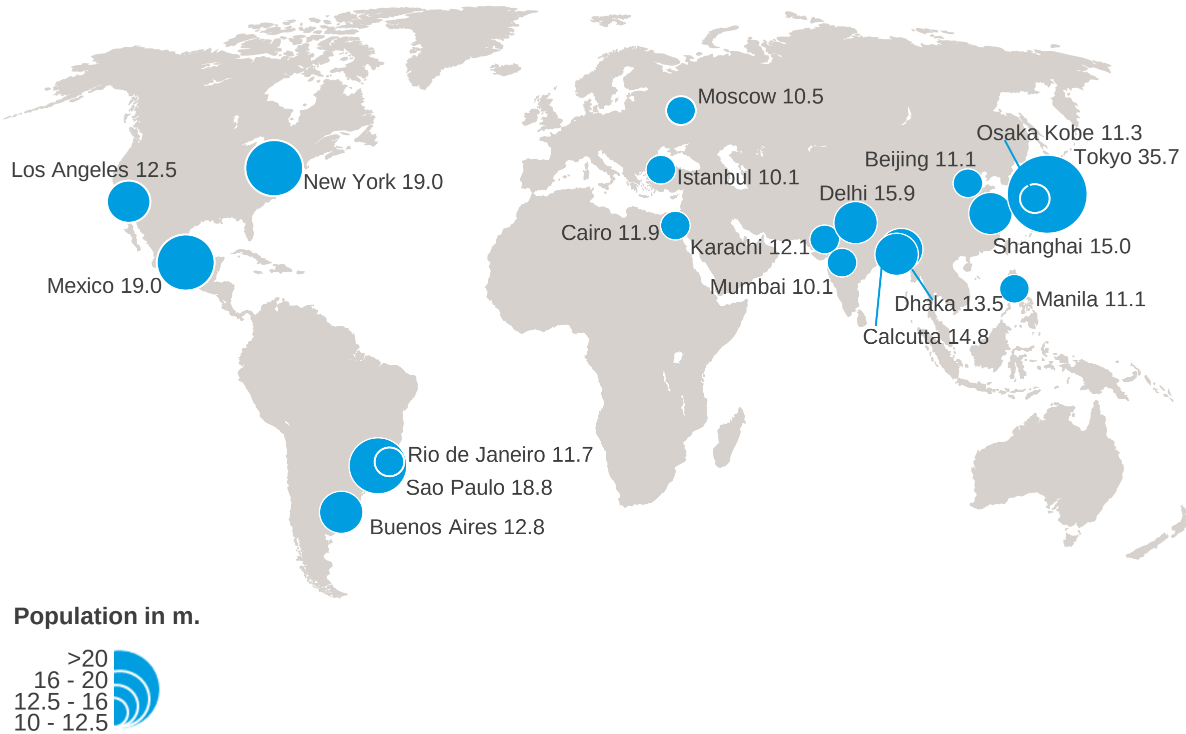
- Increase in concentration of values (e.g. megacities)
- Global trends lead to above-average growth in special lines
  - Agriculture
  - Microinsurance

* Source: Swiss Re, sigma explorer 2014

2. Trend of development: megacities

Number of megacities in Emerging Markets (EM) will increase substantially

Overview of megacities in 2012 >10 m. residents



- Megacities/densely populated areas will influence 60% of the world's GDP growth
  - GDP growth rates:
    Industrial countries 2.3% p.a.
    Emerging countries 4.7% p.a.
- Continuous retail expansion in emerging markets
- Demand for insurance and subsequently reinsurance will increase

Our measure: be well positioned in EM and participate in organic growth

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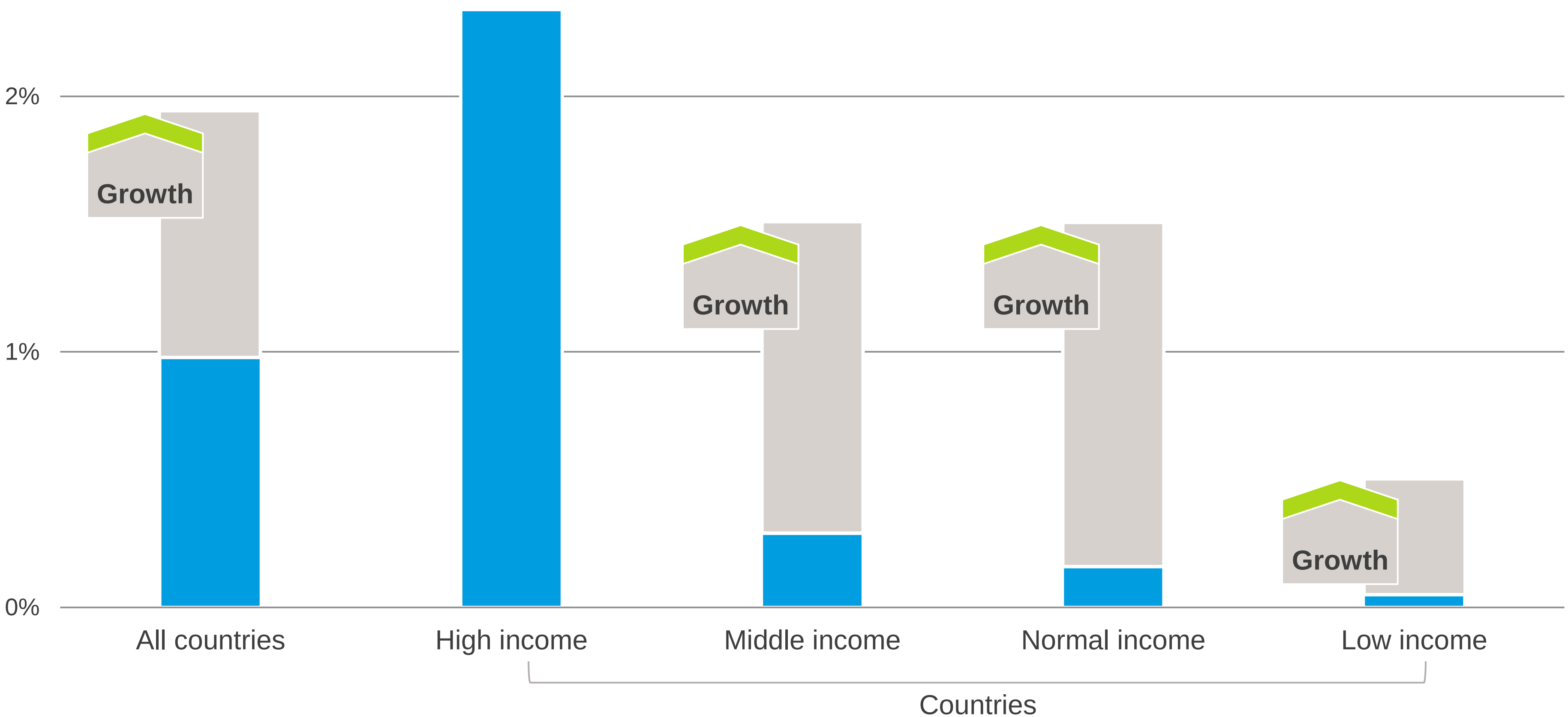
2. High growth potential of insurance premium in. . .

. . .emerging markets from USD 3.9 bn. (2009) up to USD 15 - 20 bn. (2025)

Agriculture insurance premium vs GDP

in %



Source: Worldbank, 2009
Sigma, 2012

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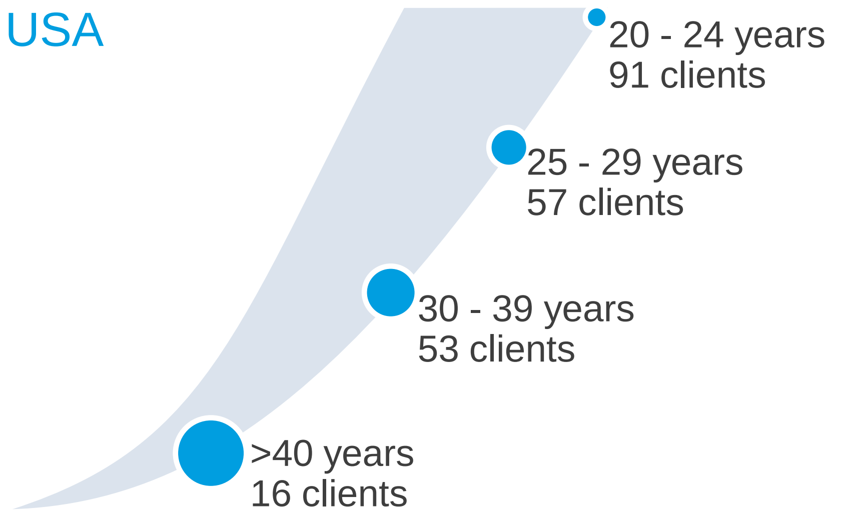
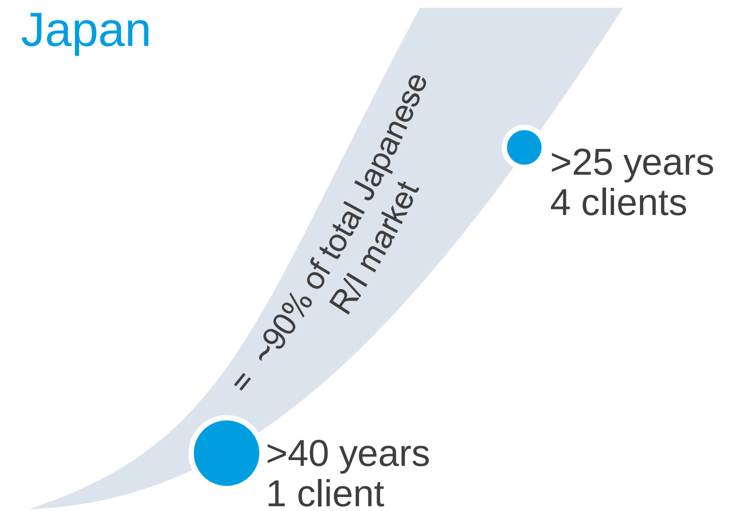
3. Secure value-adding customers

Signed shares in USA

U/Y

Customer relationships





4. Our strategic drivers in a competitive market

Slightly different to a hard market

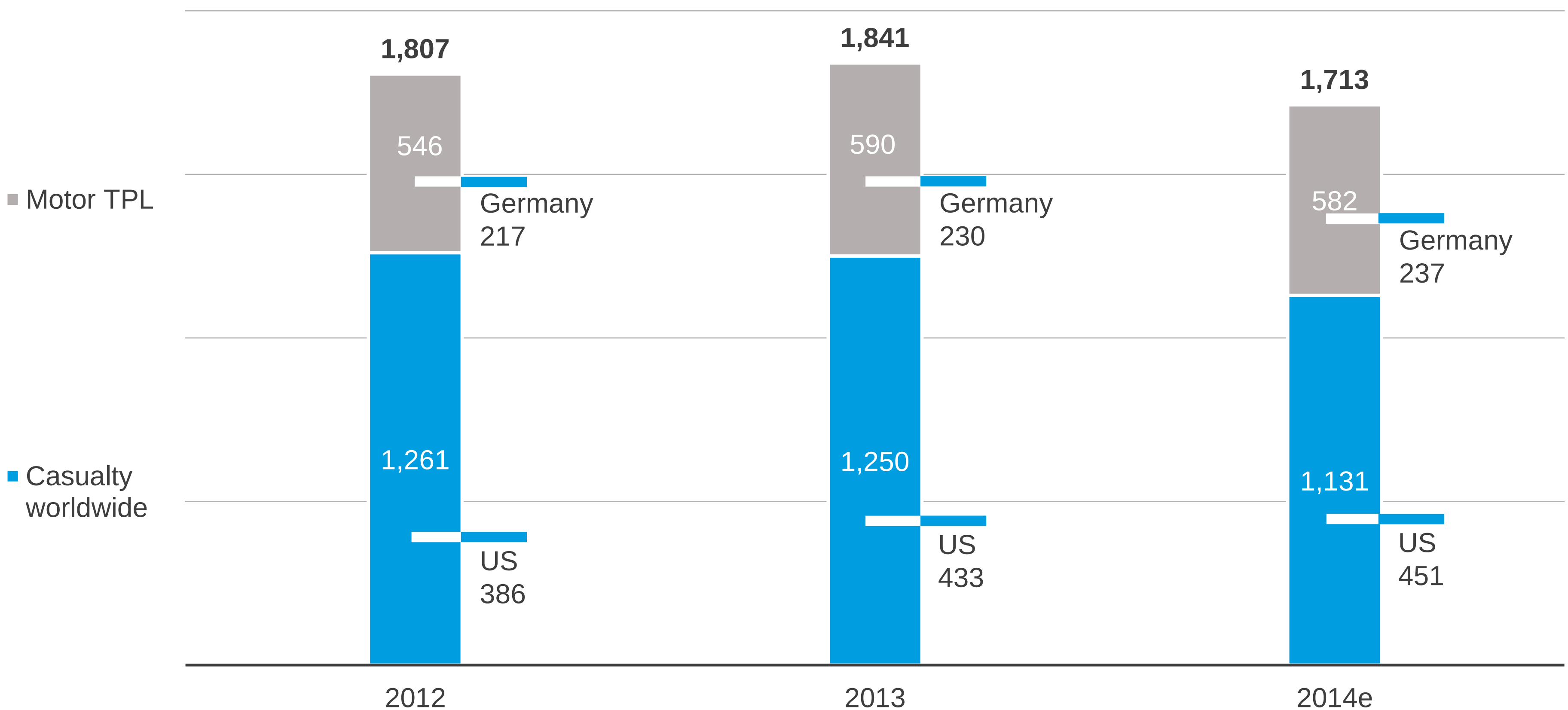
- Improving combined ratio, e.g. discontinuation of marginal business
- Selective underwriting with strict adherence to margin requirements
- Maintaining the cost leadership in the industry,
  e.g. careful approach towards building up of fixed costs structures
- Use all distribution channels available, e.g. direct as well as intermediaries
- Make use of cross-selling, e.g. by particular clients day
- Buy cheaper retrocession, e.g. pay less premium for extended coverage in 2014
- Continuous research for growth potentials and new business opportunities,
  e.g. governmental business initiative
- Participate in ILS business through an established unit
- Persistency in client relationships, e.g. by continuous support for long-term clients
- Cycle management, e.g. lower top-line growth targets

Our casualty business

Premium slightly down in total with increases in selected areas

Development of Hannover Re's casualty business portfolio

Casualty premium U/Y in m. EUR



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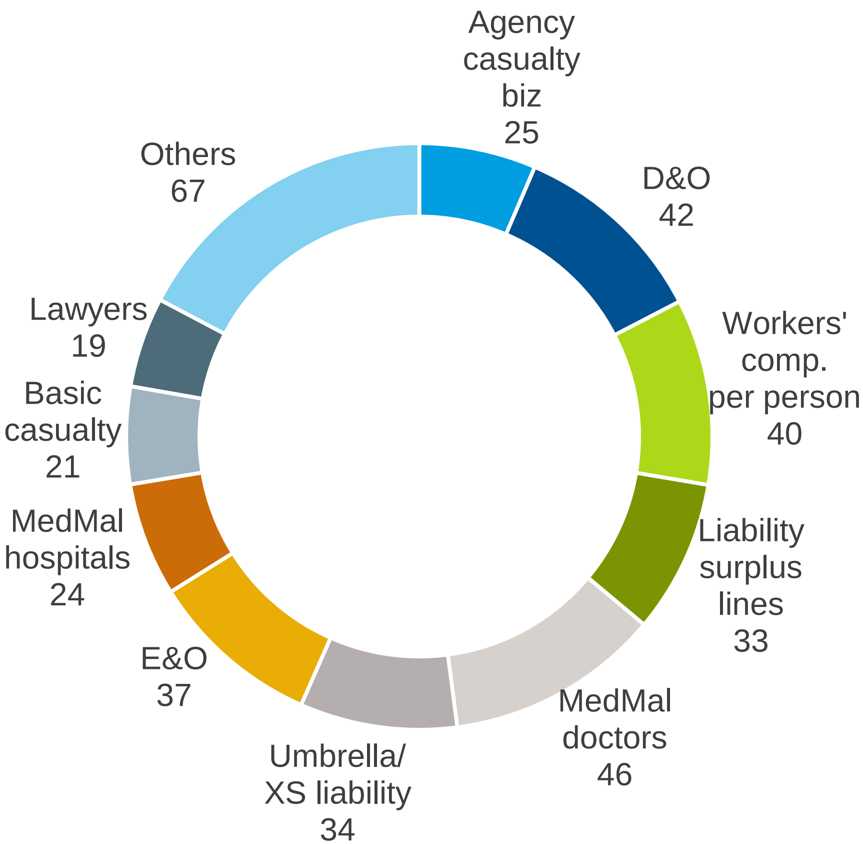
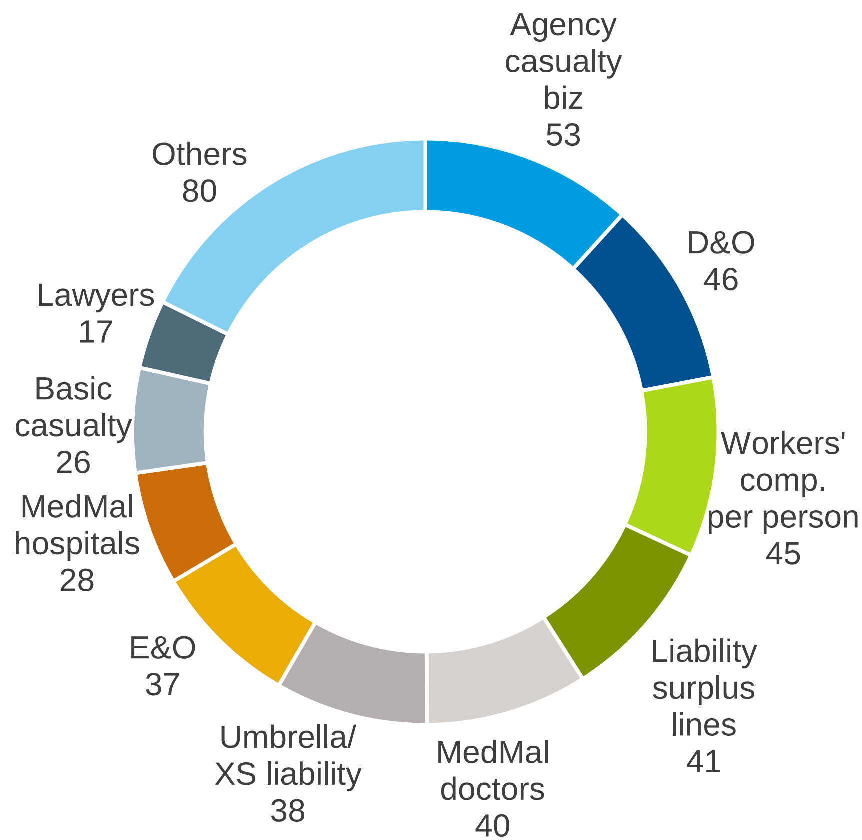
US casualty, more than simply one line of business

2012 casualty lines of business EUR 386 m.



2014e casualty lines of business EUR 451 m.



Targeted increases in US casualty biz require a good strategy
Our strategy

- Strict adherence to our minimum margin requirements
- Focus on core long-term client relationships
- Identify our preferred clients
- Be especially cautious with and be willing to reduce business segments
- Develop niche business opportunities
- Offer additional services and support for selected clients or business niches
- Increase the showing of biz through specific and targeted marketing initiatives
- Maintain our very conservative casualty reserving levels
- Increased emphasis on books of biz where a meaningful quantitative analysis of the opportunity is possible
- Continue to use adequate analysis parameters (inflation, investment)

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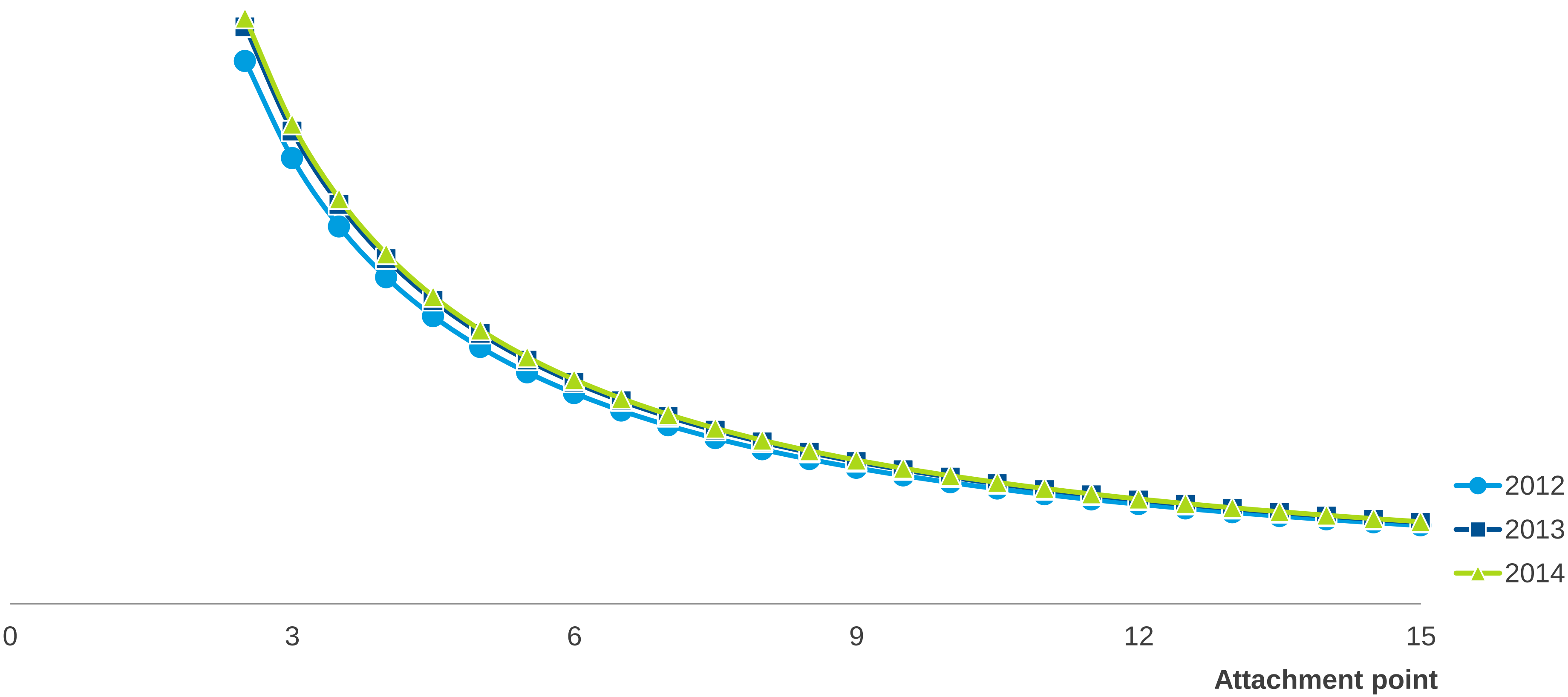
Stable and yet high market rates

German motor TPL

Motor third-party liability market rates in m. EUR



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Drivers of this cycle are different. . .

. . .the measures to be taken the same

- Lower investment return must lead to U/W discipline (no cash flow underwriting)
- More modelled losses guide traditional as well as alternative markets
- Credit counterparty risk assessment changes the landscape of share allocations
- Emergence of the importance of agro, micro and health insurance fuelling growth
- A world full of RBC-based regulatory environment creates a higher level of transparency
- Cost of capital considerations gain importance over just risk capacities
- CEO/CFO/CRO closer than ever to discuss the benefit of reinsurance

More overall relationship and package discussions favouring larger reinsurers

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The new Property & Casualty organisational set-up
What guided us?

- No changes in divisions
- Centralise markets under Solvency II regime
- Facultative business and Inter Hannover in one hand
- Centralise London market knowledge and competency
- Advanced Solution business is global business
- For the time being there is a strong nexus between agro reinsurance and Latin America business

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New P&C organisational set-up

Our P&C reinsurance business divisions


Michael Pickel


Sven Althoff


Juergen Graeber

	New	Old
Target markets	North America*	North America*
	Continental Europe*	Germany*
Specialty lines	Marine (incl. energy)	Marine (incl. energy)
	Aviation	Aviation
	Credit, surety & political risks	Credit, surety & political risks
	Facultative R/I	Structured R/I & ILS
	UK, London market & direct	UK, London market & direct
Global R/I	Worldwide treaty*	Worldwide treaty*
	Cat XL	Global cat XL
	Structured R/I & ILS	Global Facultative

* All lines of business except those stated separately

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