

somewhat
different

Our Strategy



hannover re[®]

Our Strategy

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Dear Sir/Madam, dear Colleagues,

For many years now we have conducted reviews of our corporate strategy in a three-year cycle. The strategy presented here is the product of the reworking that became due in 2011. Not only the Executive Board and Supervisory Board but also our managers and staff contributed to these revisions. In this way, we were able to achieve a high degree of awareness and understanding of our new strategy even as it was being drawn up. This is absolutely essential for successful implementation of the strategy.

Given that it has already proven itself in the past, we have left the core of our strategy essentially unchanged. We have, however, sharpened the profile of the strategy – particularly by clearly bringing out our business model. The general section, which contains our ten strategic principles, safeguards the realisation of our vision: namely, the cementing and expansion of our position as a leading, globally operating reinsurance group of above-average profitability. The business group strategies detail more concretely the specific contributions to be made towards accomplishment of the overarching objectives.

The systematic approach evident here is crucial to implementation of our strategy in day-to-day actions. For implementation will be brought about by each organisational unit defining its contribution to goal accomplishment and aligning its activities and measures accordingly. In this context, it will be important not to lose sight of cooperation across divisions because the strategic objectives



Ulrich Wallin Chairman of the Executive Board

will normally only be attainable through collaborative efforts between various organisational units. In order to make the strategy operational, it is also necessary to specify performance criteria and key indicators that are determinative for accomplishment of the relevant goals. Only if we are able, in the context of our holistic management system of Performance Excellence 2.0, to align all our activities in such a way that they promote attainment of our strategic objectives will we be in a position to successfully implement our strategy.

Over the coming years, through the implementation of our revised strategy, I have no doubt that we shall continue to move forward with the Hannover Re Group's successful development to the benefit of our clients, business partners, investors and employees.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Ulrich Wallin', written in a cursive style.

Ulrich Wallin
Chairman of the Executive Board

Our mission
“Growing Hannover
Re profitably”

We seek to strengthen and further expand our position as a leading, globally operating reinsurance group, delivering profitability that is above the average of the sector.

We are passionate about reinsurance and chart our own course. We are quick, flexible and independent; striving for excellence in our actions.

We aspire to be the best option for our business partners when it comes to choosing a reinsurance provider.

No.

01

| Our business model |





Our business model

We transact reinsurance in our business groups of non-life and life/health reinsurance. Through our global presence and our activities in all lines of reinsurance we achieve **optimal risk diversification** while maintaining a balanced opportunity/risk profile. Most significantly, diversification into both the non-life and life/health reinsurance sectors enables us to effectively deploy our capital and is thus crucial to our ability to generate an **exceptionally high return on equity**.

As a reinsurance specialist, we transact **primary insurance business as a complement** to our reinsurance activities in selected niche markets. In this context, we work together with partners from the primary sector, just as we do in our reinsurance business.

Our subsidiary **E+S Rückversicherung AG**, as the “dedicated reinsurer for the German market”, offers a range of products and services focused on the peculiarities of the German market – especially for those mutual insurers with whom we have established a particularly trusting cooperation that is underscored through their participation in E+S Rück.

Self-image of non-life reinsurance

► In non-life reinsurance, we consider ourselves to be an undogmatic, flexible and innovative market player that is amongst the best in any given market.

Thanks to our worldwide presence and infrastructure, our organisational approach is optimally geared to customer and market requirements; working together with our client, it enables us to act on specific business opportunities. With our three pillar approach – target markets, specialty lines and global reinsurance –, we are in a position to successfully meet individual client and market needs.

We also transact primary insurance business that complements our non-life reinsurance; in this regard we always work together with partners from the primary market.

Central management combined with local talent is the key to our success. We write business on a local basis where it makes business sense. Risk management functions are, however, always exercised centrally. These include, for example, capital allocation, resources, retrocessions and the use of capital market instruments. These centrally exercised risk management functions serve the goals of maintaining consistent underwriting decisions, facilitating the maximum allocation of capacity and efficiently deploying resources, underwriting know-how and capital.

We have at our disposal sophisticated analytical capabilities and a broad range of consulting expertise geared towards topical issues – including, for example, Solvency II.

Self-image of life/health reinsurance

► Hannover Life Re has established itself as one of the major professional, globally operating reinsurers that combines sophisticated solution models with a long-term, partnership-based approach.

At the core of our activities is a customer orientation that stresses the cultivation of mutually beneficial profit and growth opportunities.

We strive to work together with our clients in order to shape the transition in the insurance industry necessitated by the implementation of Solvency II and other risk management and compliance requirements as well as to navigate the increasing shift towards annuity covers. We also help our clients to access the capital market and structure the transfer of risk for this purpose.





No.

02

We have ambitious profit
and growth targets

We have ambitious profit and growth targets

Profit and value creation are the cornerstones of our sustainable development as an organisation. This is in the best interests of our clients, shareholders, employees and business partners. This means generating **profitable growth**. Our goal is to increase the IFRS pre- and post-tax profit as well as the value of the company – including dividends – by double-digit margins every year.

We therefore commit to growing our premium volume, in the long term, at a pace that exceeds that of the reinsurance sector. Temporary market share losses are not contrary to this objective. We intend to achieve this primarily through **organic growth**. Acquisitions are considered only if their integration into the Hannover Re Group adds value to Hannover Re and expedites the accomplishment of our strategic objectives.

Our Economic Capital Model is the foundation of our management strategy and, based on this model, we aim to achieve a profit in excess of the cost of capital. This profit, which we refer to as **Intrinsic Value Creation (IVC)**, is the key ratio used to manage our business activities.

We offer our shareholders the prospect of a sustained above-average return on their capital. As such, we seek to generate an IFRS **return on equity** of at least 750 basis points above the risk-free interest rate*.

Our ability to succeed in sustainably increasing the investment made by our shareholders is also reflected in the movement of our share price. We strive to outperform the weighted RBS Global Reinsurance Index over a three-year rolling period. Furthermore, we also aspire to achieve a sustained profitability that consistently enables us to pay a **dividend that is attractive** to our shareholders.

*Five-year average on ten-year euro bonds issued by the Federal Republic of Germany

Profit contribution of non-life reinsurance

► We transact non-life reinsurance with two goals: to be amongst the world's most profitable companies in this industry; and to steer the volatility of our business in line with our profit targets.

In so doing, we strive for a substantial profit contribution which – measured by the IVC margin – is at least 2% of net premiums earned. In addition, we have set a goal of generating a pre-tax profit (EBIT) of at least 10% of net premium earned with a combined ratio of less than 100%.

Thereby we pay particular attention to the careful understanding and assessment of risks, technically appropriate pricing and conditions.

In cyclical markets we increase our market share only during hard markets, while we scale them back during soft markets irrespective of the expense ratio. The optimal combination of our sales channels being direct business and broker business allows us a strategic cost edge at all points of the cycle. We prefer variable cost structures.

Cost leadership, cycle management and risk management are the key characteristics of our strategic management of the non-life reinsurance business group.

Profit contribution of life/health reinsurance

► We seek to secure and further develop our market position and post double-digit increases every year through both regular, annual organic growth and acquisitions. This also applies to the value of new business (VNB as per MCEV). Apart from that, our goal is to generate a pre-tax profit (EBIT) of at least 6% of net premium earned.

No.
03

| We manage risks actively |



We manage risks actively

In order to accomplish our business objectives, we enter into a broad range of risks which – while offering opportunities for profit – can also have adverse implications for the company.

Risk management – in both quantitative and qualitative terms – is therefore of vital importance. The foundation of our risk management strategy is our [Economic Capital Model](#). Based on this model we manage our risk exposure to achieve a positive IFRS net income with a probability of 90%. We also ensure that the probability of a complete loss of our economic as well as IFRS shareholders' equity does not exceed 0.03%.

On this basis, our shareholders' equity is allocated to the individual areas of our business activity with the aim of maximising the [risk-adjusted profits](#).

The details of our risk management approach are set out in the [Risk Strategy](#) which is approved and regularly reviewed by the Executive Board. In this regard special importance is given to the initiative of the Chief Risk Officer.

Risk management of non-life reinsurance

► We utilise our risk capacities according to the specifications of the Hannover Re Group risk management system and make limited use of retrocessions to reduce volatility and protect our capital.

Risk-taking is methodically steered through our underwriting guidelines. We trust in the entrepreneurial skills of our underwriters and allow them the greatest possible autonomy.

We place the highest demands on the processing of product-related data. Excellent data quality, security and integrity are key features of our service processes.

As inadequate reserves constitute our greatest risk, we take care to ensure that our reserving level is conservative.

Risk management of life/health reinsurance

► In order to be able to reliably meet future obligations from our long-term customer relationships and – as part of the Hannover Re Group – with a view to diversifying globally and across risk drivers, we strive for a balanced mix of risks. Our risk management is concentrated on the material risks group-wide, and we consider all risks according to their significance.

We trust in the entrepreneurial skills of our underwriters and allow them the greatest possible autonomy. In the context of our decentralised organisation we manage risks where they arise using a consistent group-wide approach. This gives us an overall perspective on the risks in life and health reinsurance. In addition, our global underwriting guidelines equip underwriters with a sound framework within which to work.

No.
04

We are a preferred
business partner





We are a preferred business partner

Our commercial success hinges on our status as a preferred business partner to our clients. This is dependent upon our ability to enhance our clients' commercial success through the services that we provide as a reinsurer. We respond **flexibly and quickly to the needs of our clients**, to whom we offer all standard reinsurance products as well as specially tailored solutions that add value to both contracting parties.

The value of our customer relationships lies in the mutual benefit that can be realised from the partnership and bears no relation to the size of the account. If we are to be perceived as the best option, we cannot be satisfied merely with being quick, flexible and independent. We also need to offer **risk-appropriate prices, adequate capacities and a reliable promise to fulfil our contractual obligations**. As evidence of our financial capability, we seek to maintain a rating from the rating agencies most relevant to our industry that facilitates and ensures access to all desirable business worldwide. Currently, this means ensuring AA- from Standard & Poor's (with an "excellent" for Enterprise Risk Management) and A+ from A.M. Best.

Systematic observation of the market and our competitors coupled with a focus on innovation are prerequisites for sustainable growth and future security. In order to be able to respond to the needs of our clients in good time going forward, we systematically seek and explore **new business opportunities**. Therefore we cooperate across business groups in order to generate the greatest possible customer benefit.

We are responding in a consistent and structured manner to the special needs of our clients arising out of Solvency II and other solvency initiatives.

Clients and products of non-life reinsurance

- ▶ We offer our clients a diverse range of products according to their needs.

Particular attention is devoted to clients with a medium- to long-term requirement for reinsurance. The special trust-based relationship that we build with such clients makes us an essential partner to them. As such, our consulting expertise and services are made available, first and foremost, to these clients. Further to this, we also offer our consulting services in instances where this can promote and secure potential business opportunities.

We combine the highest level of technical expertise with superb customer relationship management in order to secure profitable business. In specialised areas, our knowledge and skills are concentrated in established centres of competence and are continuously expanded. Customer relationship management is effectively organised across departments. Account executives complement our customer relationship management and ensure that the overall client relationship receives due consideration.

To build lasting business relationships, we may occasionally acquire equity or otherwise invest in selected business partners.

Clients and products of life/health-reinsurance

- ▶ Our „five pillar“ business model concentrates on segments in which we have special technical expertise: financial solutions (new business financing and block assumption transactions), new markets (e. g. seniors, takaful), bancassurance, intensive cooperation with multinational insurance groups and traditional life reinsurance in selected markets.

We aspire to the role of market leader in the area of financing arrangements for life, annuity and accident portfolios. In the growing senior citizens‘ market we seek to play a major part in shaping developments.

Our business relationships are of a long-term nature and are intended to bring long-term benefit to both parties. Along with the traditional services performed by a professional reinsurer, we also aim to be an adviser and partner for investors with an interest in insurance risks. In the future, factors such as longevity, pandemics and new risks (e. g. the need for long-term care) will require capital of a magnitude that reinsurers are unable to provide. With this in mind, we are able to tap into new financial resources to meet the needs of the insurance industry that we cannot cover with traditional reinsurance, while simultaneously our own risk assessment know-how is at the disposal of the insurance and capital markets.

Aided by state-of-the-art Customer Relationship Management (CRM), we foster client relationships as long-term partnerships in which our value-creating customers enjoy preferential access to our resources.

Our target clients are defined by a long-term philosophy of partnership. Size and product range are of subordinate importance. Clients range from newly established players to large multinational insurance groups, depending upon the particular requirements of the market.

Markets of non-life reinsurance

► We strive for consistent positioning in those segments that deliver results above the average return on equity on a sustained basis.

In our target markets, with Germany being our domestic market and the United States being the largest insurance market in the world, we utilise a centralised underwriting approach that is supported by the activities of travelling underwriters.

Activities in monoline business such as marine, aviation and space as well as credit and surety are grouped together in the specialty lines. These risks are written predominantly on a central basis. The London Market is also included in our specialty lines. In addition, we offer structured reinsurance products (Advanced Solutions) and the transfer of (re-) insurance risks to the capital market (insurance-linked securities) as a service to our customers.

Hannover Re uses its worldwide network to cater to the diversity of the global reinsurance market – ranging from developed insurance markets to those in emerging countries. Activities in this segment are therefore particularly notable for their decentralised approach. Facultative reinsurance worldwide and the reinsurance of natural catastrophe risks are also included within this segment.

Our goal is to secure and further develop the already attained market positions, while at the same time keeping to our margin requirements. We seize special opportunities that present themselves following market-changing events.

In particularly profitable markets we strive for an above-average market share. It is becoming increasingly important to assume the lead position in reinsurance programmes, also with focus on securing and expanding sustainable, profitable business relationships.

Markets of life/health-reinsurance

► The major developed European markets, particularly the United Kingdom, Germany, France, Scandinavia and Italy, continue to be of central importance to Hannover Life Re. We also devote special attention to the markets of Eastern Europe.

Outside Europe we seek to maintain our leading position in South Africa, Latin America and Australia. In the United States – in addition to our existing goal of market leadership among specialty reinsurers – we have now acquired a significant position in conventional mortality business following the acquisition and integration of a large traditional portfolio. We intend to further improve this position, albeit without neglecting our existing concentrations in the areas of financial solutions and the senior citizens' market.

In Asian growth markets such as China and India we intend to substantially expand our local presence over the coming years. In the Islamic insurance market (family takaful), which has particularly deep roots in parts of the Middle East, we aspire to the role of market-leading reinsurer.

Sales channels of non-life reinsurance

► With a view to securing and advancing our business we cooperate predominantly with reinsurance brokers, especially in the non-proportional sector. We attach great value to direct contacts with our ceding companies, even in the case of business relationships via brokers. In primary business we work together with insurance brokers and underwriting agencies. By embracing all sales channels we ensure that we are able to optimally review and act on business opportunities.

We are locally represented through an international network of subsidiaries, branches, service companies and representative offices, which we extend whenever this enables us to better serve our clients and hence enjoy improved access to business.

Sales channels of life/health reinsurance

► Our strategic objective necessitates a decentralised sales structure on all continents, although the individual business centres around the world work together as a network. Sales activities are carried out without the use of intermediaries.

Investments primarily serve to extend our infrastructure in the growth markets of Asia and Latin America as well as to strengthen our market position in selected European countries. Continuous investment in developing our specialist expertise sustainably secures our power of innovation and profitability.



No.

05

| We aim for successful employees |

We aim for successful employees

The success of our company depends directly on the successful work of our employees. We therefore pay particularly close attention to the **qualifications, experience and commitment** of our staff and foster these attributes through our excellent personnel development and leadership practices. As such, our strategic human resources planning enables us to harmonise the size and skills of our workforce with the current and future requirements of our global market presence.

Through the **greatest possible delegation** of tasks, responsibilities and authority, we ensure that employees are able to act in a quick and flexible manner. This is supported by management by objectives, and we expect our managers to instil a strong sense of accountability in their staff.

Being a global entity we are able to offer our employees an **attractive workplace** that fosters motivation and dedication. Our attractiveness as an employer is further supported by planned career development programmes, a commitment to expressing our appreciation of employees and an approach that allows them to participate in the sustained success of the business.

Our managers play a particularly important role. They manage their staff according to our management principles. We support our managers in developing their **leadership skills**. Where qualifications are equivalent, vacant management posts are occupied from within the Group, wherever possible.

No.

06

We maintain an adequate
level of capitalisation



We maintain an adequate level of capitalisation

Our required equity resources are determined by the requirements of our economic capital model, solvency regulations, the expectations of the rating agencies in relation to our target rating and the expectations of our clients and shareholders. In addition, we maintain a **sufficient equity buffer** to enable us to act on available business opportunities at all times.

Our IFRS shareholders' equity is managed in such a way that our **targeted return of 750 basis points** above risk-free is not endangered. For the sake of optimisation we use capital substitutes such as hybrid capital and we transfer risks to the capital or retrocession markets. This also helps us to reduce dependencies on specific capital providers.



No.

07

We strive for a stable investment income

We strive for a stable investment income

The structure of our investment holdings is guided by the requirements of our technical liabilities and our capitalisation. It particularly reflects the maturities of our liabilities as well as the currency exposure, which we cover on a matching basis to the greatest possible extent. Furthermore, we take into account the liquidity requirements of our business.

With this in mind, we pursue an investment policy that emphasises [the stability and predictability of the return that is to be generated](#). As such, our portfolio is guided by the basic principles of broad diversification across a wide variety of asset classes and issuers. Our focused approach is backed by regular calculations intended to ensure a well-balanced risk/return ratio.

On the basis of our Economic Capital Model we allocate part of our shareholders' equity to the risk associated with our asset holdings which we assume in excess of a risk-free investment structure. Regular crosschecking of the composition of our assets against our defined risk budget forms part of our careful approach. As a return on our investments we strive for the [risk-free interest rate plus the cost of capital](#).



No.

08

| We ensure a lean organisation |

b

We ensure a lean organisation

We believe that our **lower administrative expense ratio** – relative to our competitors – gives us a sustained competitive advantage. We ensure this through an effective and efficient organisation – geared to our business processes – that preserves both the necessary expertise and high-quality, goal-oriented service for our clients.

Information management has evolved into a crucial competitive factor. Our **information and communication systems** assure optimal support for our business processes. We support the acquisition of new technology, provided that the cost/benefit considerations are favourable.

Excellent process management enables us to effectively and efficiently shape all enterprise processes with the goal of maintaining a lean structure and organisation.



No.

09

We are committed
to sustained compliance

We are committed to sustained compliance

We organise all our activities such that they conform to all legal requirements. Furthermore, we seek to satisfy all [justifiable public requirements](#) placed on our global operations in connection with our business activities. We support social objectives particularly in the area of skilled training, not only within but also outside the company. We also encourage [sustainability in the transaction of our business](#), with a special focus on the avoidance of adverse impacts on the environment. Our objectives in this regard are set out in detail in the Corporate Social Responsibility strategy approved by the Executive Board.

We support considered and pragmatic [principles of corporate governance](#) and we recognise their central role in guiding our activities. At the core of our Corporate Governance principles is integrity in our dealings with our business partners, employees, shareholders and other stakeholders. In the context of our strategy and in our day-to-day business we adhere to high ethical standards.



No.

10

| We strive for Performance
Excellence |

We strive for Performance Excellence

To ensure the execution of our strategy across all areas of our organisation, we apply our holistic management system of Performance Excellence 2.0. In this way, we ensure that the actions of all our corporate units are geared to the **accomplishment of our strategic objectives** and that our goal-oriented performance is **continuously enhanced**.

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