



somewhat
different

Credit/surety - how does it work?

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Managing Director Credit, Surety and Political Risk worldwide

OVERVIEW

- Introduction
- Our products
- Market position
- Our policy
- Portfolio diversification
- Market situation
- Cycle management/outlook

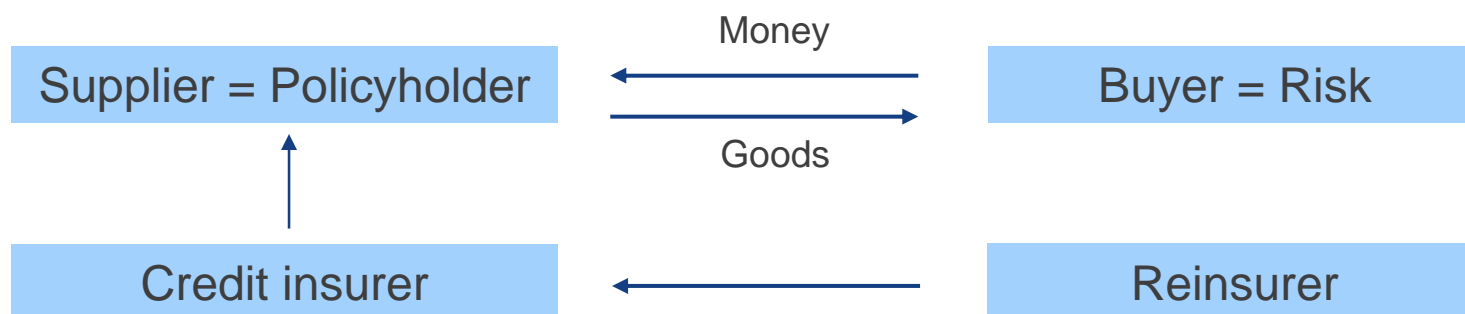
Credit, Surety and Political Risk Division

25 YEARS OF EXPERIENCE

- Specialised division since 1990, active in this segment for 25 years
- Successful growth over the last good cycles following a strict cycle management
- Gross written premium EUR 478 m. (U/Y 2009)
= ~5% of Hannover Re Group premium
- EUR 3 bn. net premium earned over 25 years
with excellent combined ratio of below 90%
- Biggest single loss for Hannover Re was Enron in 2001 with
approx. EUR 15 m., all other losses below EUR 10 m.
- Most recent crisis in our industry could be avoided by us due to our restrictive
underwriting approach, e.g.:
 - Financial guarantees in general → excluded in our guidelines
 - CDS, ABS in specific → excluded in our guidelines
 - Surety claims in Italy → mostly avoided
 - Problems in credit insurance in Spain → only little involvement

CREDIT

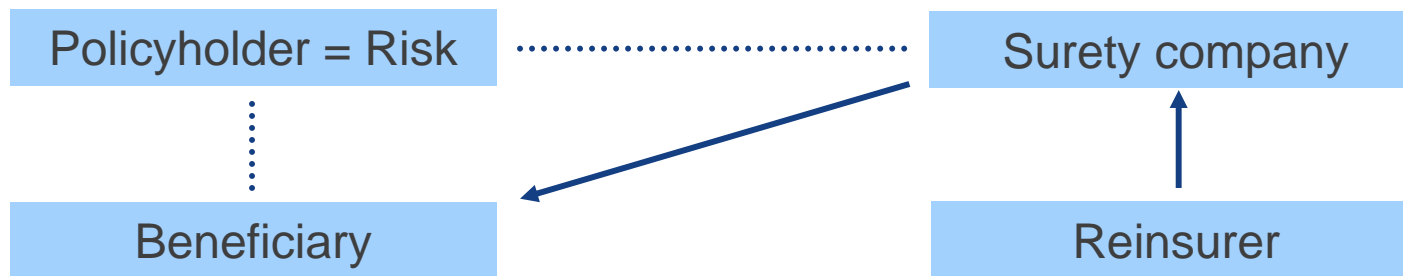
- Coverage against non-payment of trade receivables due to buyer's default



- Trigger: insolvency/non-payment
- Policyholder: Supplier of goods or services
- Risk: Buyer of goods or services
- Policyholder retains and therefore shares risk with the insurer
- Only corporate risks covered
- Trade sectors: well spread, main sectors retail, wholesale
- Short-term business (on average 12 months)

SURETY

- Guaranteeing the fulfilment of contractual obligations



- Trigger: insolvency/non-performance/non-payment
- Risk and policyholder identical
- Corporate risks only
- Duration of underlying business on average 3 - 4 years
- Trade sectors: well spread, main sectors construction, engineering
- Similar products offered by banks, market split insurers vs. banks differing country by country

POLITICAL RISK

- Coverage against financial losses in connection with cross-border trade and investment transactions due to governmental interference
- Contract frustration (mostly trade related)
 - Non-payment of public buyer
 - Non-transfer/inconvertibility of currency
- CEND (mostly investment related)
 - Confiscation, expropriation
 - Nationalisation, deprivation
- **No** coverage against losses caused by changes in the overall economic environment (**specifically defined loss triggers only**)
- Country risks only
- Duration of underlying business on average 3 - 5 years

OVERVIEW

- | | |
|---|--|
| <p>→ Leading market position</p> <ul style="list-style-type: none"> • Core reinsurer • (Co-)leading reinsurer for | <p>No. 2 worldwide</p> <p>No. 1 - 5 on most R/I panels</p> <p>50% of our business and
2 of 3 biggest credit insurers worldwide</p> |
| <p>→ Market share</p> <ul style="list-style-type: none"> • In emerging markets • Pro-rata • XL | <p>10% - 12%</p> <p>10% - 20%</p> <p>8% - 10%</p> <p>10% - 15%</p> |
| <p>→ GWP (U/Y 2009)</p> | <p>EUR 478 m.</p> |
| <p>→ Partner of</p> | <p>>200 insurers in more than 50 countries</p> |
| <p>→ Distribution channel</p> | <p>60% direct, 40% via brokers</p> |

KEY ELEMENTS

- Core business within Hannover Re Group due to
 - important diversification in HR Group, no correlation with other Non-Life segments
 - high profitability over the cycle
 - attractive growth and profit potential
- Conservative underwriting policy
 - Traditional products only
 - **No** financial guarantees, **no** CDOs/CDSs, **no** U.S. monoliners, etc.
 - Centralised underwriting, **no** underwriting authorities in subsidiaries or branch offices
 - High diversification within the credit, surety and political risk book
 - Concentration on balanced portfolios, avoiding peak risk on a single-risk basis
 - Focus on more stable trade sectors over the cycle avoiding most volatile industries e.g. shipbuilding
 - Active cycle management

KEY ELEMENTS (CONT'D)

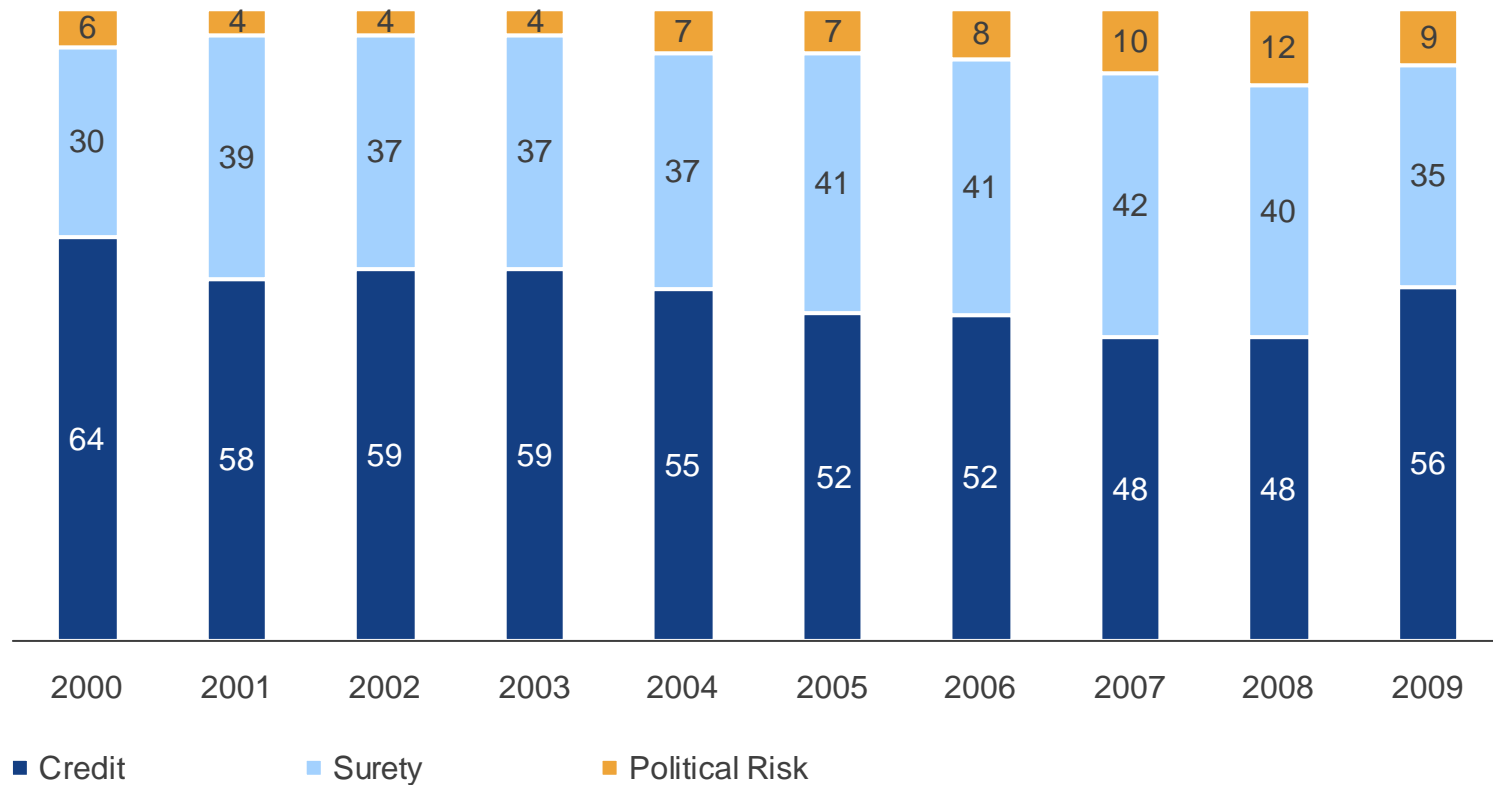
- Positioning of Hannover Re
 - as "premier provider" in the traditional segment
 - securing higher shares in more profitable business/programme elements due to leading market position
 - as cost leader (1/3 of cost/staff compared with peers, 3 times higher productivity per capita)
- All elements together result in lower combined ratios compared with peers

SOUND DIVERSIFICATION

- Products (credit, surety and political risk)
- Treaty type (pro-rata/XL)
- Distribution channel (direct/brokers)
- Regions
- Size of clients/risks

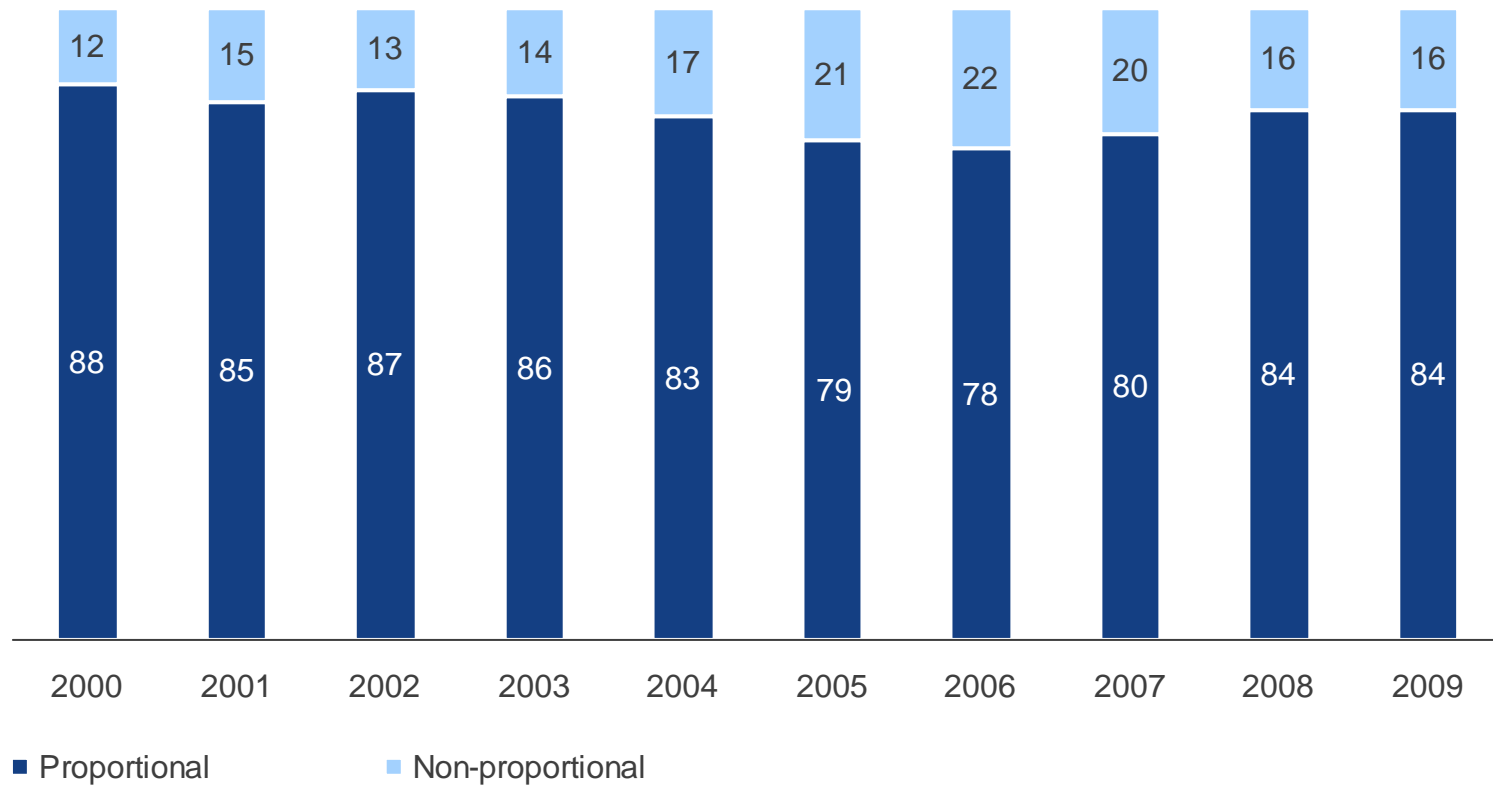
PRODUCTS: BALANCED PORTFOLIO MIX

in % of gross written premium



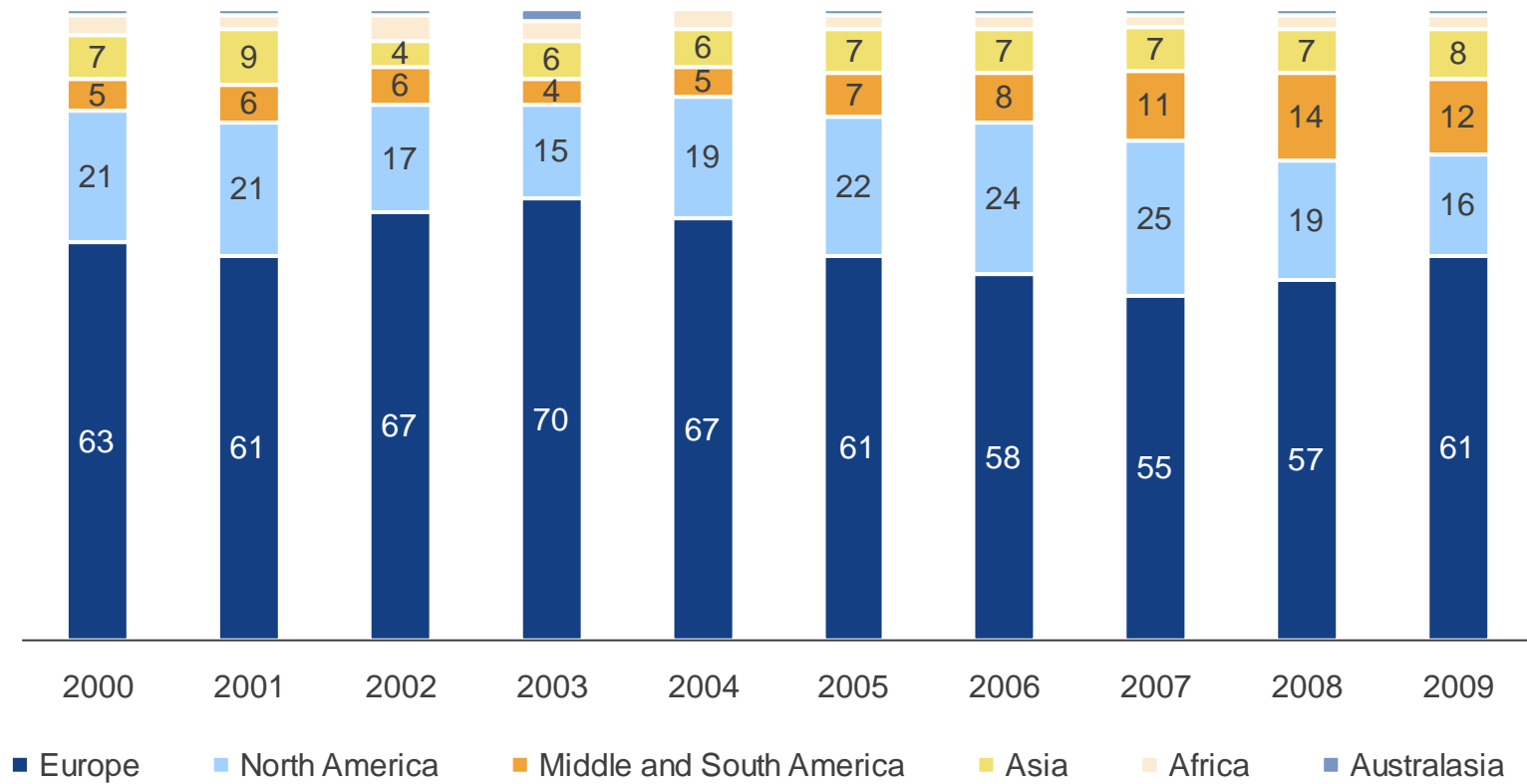
PRO-RATA VS. XL: STABLE DEVELOPMENT

in % of gross written premium



MAIN REGIONS

in % of gross written premium



EMERGING MARKETS

- Strongly growing portfolio share, 17.5% in 2009 compared to <10% in 2000
- Excellent performance over all years with a technical result of 25%
- Nearly 50% of all clients in our book stem from the Emerging markets
- More than 90% of the emerging market premium generated in Surety securing good balance to (mostly European-based) credit insurance business
- Market share of 10% - 15% with growing tendency
- Excellent profitability today and in the past, and important investment into the future

OVERVIEW

- Recessionary environment in most developed countries
- Many emerging markets face slow-down as well, depending on cash reserves, current account balance, dependency on commodity prices
- Most trade sectors affected, especially automobile, engineering, transport; construction affected in countries with burst real-estate bubble such as USA, UK, Ireland and Spain
- Tightened credit climate
- Increased number of insolvencies worldwide
- Increased claims frequency in credit
- Stable or only slightly increased loss ratios in surety and political risk (44% of our book)
- For the time being, no bigger losses

PRIMARY MARKET

- Proactive credit/limit management being the central value proposition of credit insurers
- Strict risk/portfolio management according to individual credit scoring
- Cancellable limits in credit insurance allowing quick reaction to deteriorated environment
- Drastic improvement of terms and conditions
 - Price increases in credit/political risk 10% - 50%, in individual countries and trade sectors even higher; higher claims participation at policyholder level
 - Price increases in surety 10% - 30%
- Radical underwriting measures to improve portfolio quality
 - Critical risks/trade sectors systematically cut back
 - Overall exposure reduction
 - Turnover reductions at policyholder's and principal's level helps on top
- Comprehensive measures since 2007 (USA), since mid-2008 in all important markets

OUR POLICY AT REINSURANCE LEVEL

- Proactive risk and cycle management per portfolio element
- Constant monitoring of
 - risk environment
 - profitability
 - exposure
 - Rate on Line (RoL) in XL
 - terms and conditions

OUR POLICY AT REINSURANCE LEVEL (CONT'D)

→ Key measures

- Fast adjustment of terms and conditions based on expected default probabilities as early warning indicator (clear progress compared to last crisis)
- Strict tightening of underwriting

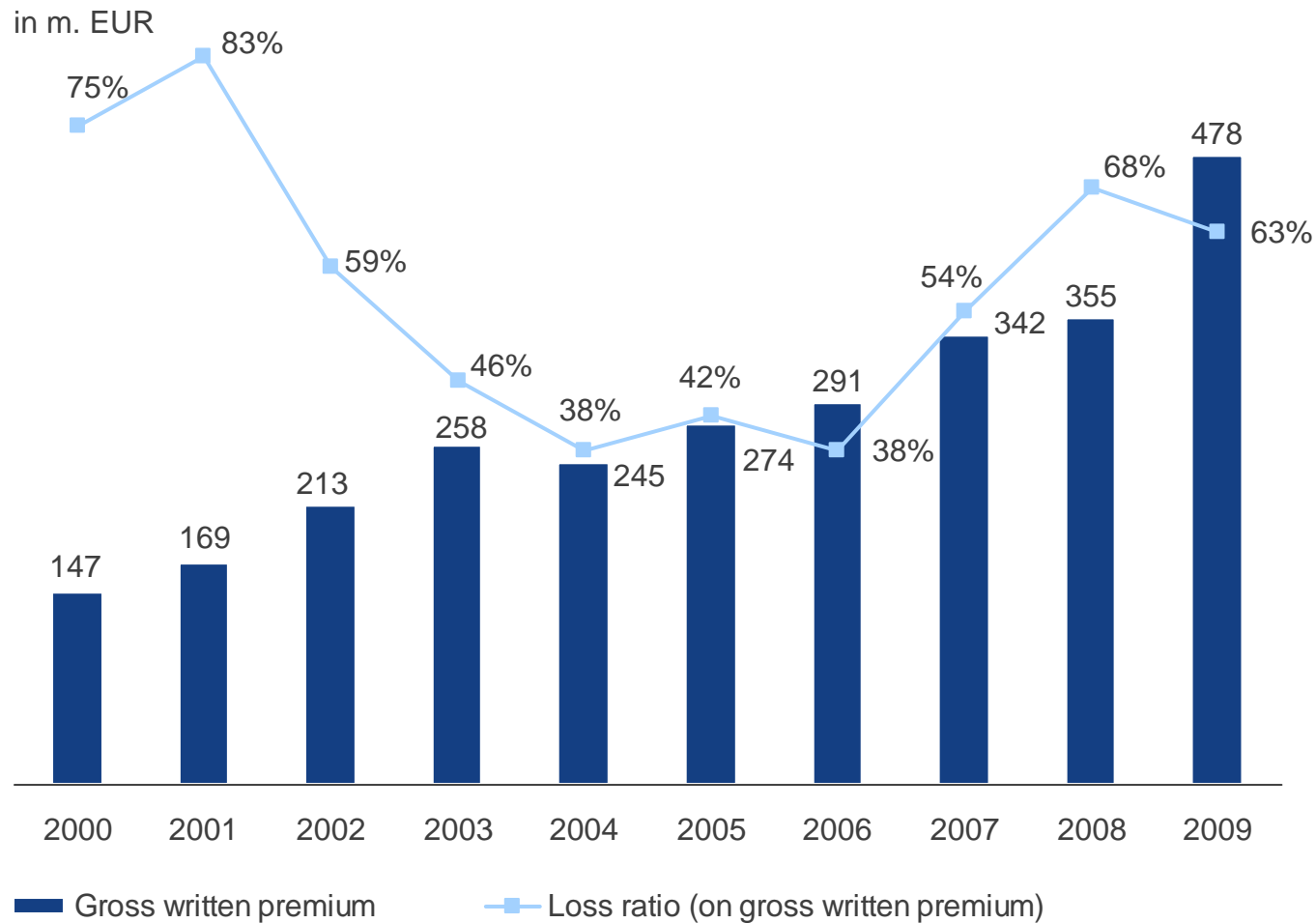
→ Leading to

- risk-adjusted premium base
- improved reinsurance structures
- reduction of limits where needed
- increase of activity where appropriate
- a well-controlled portfolio

RENEWAL RESULTS 2009

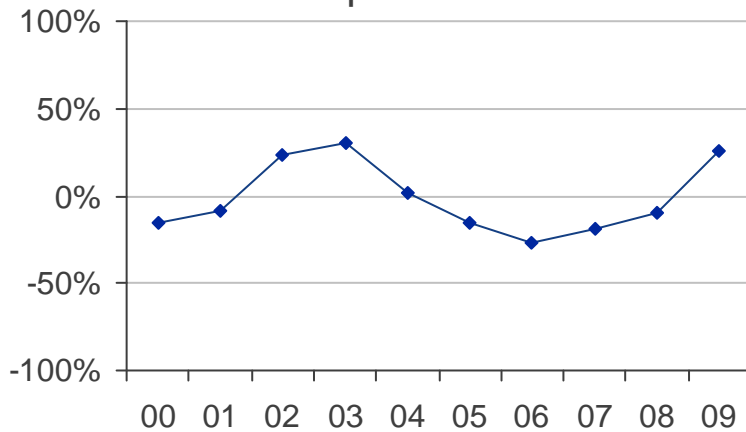
- Drastic improvement of terms and conditions
 - Ceding commission down by 2% - 15% points (average 10% points)
 - XL prices up by 50% - 100%
 - Increased attachment points
 - Higher loss participation at cedent level
 - Loss caps
 - Leading to a better risk/return relation in our book compared to cedents
- Very restrictive underwriting
 - Cutting down/elimination of risks with lower quality
 - Reduction of top exposures by nearly 10% despite 35% GWP growth
 - Overall exposure reduction by reduced turnovers
 - Increased shares only in very selective cases with key clients

PORTFOLIO GROWTH IN HARDENING MARKETS

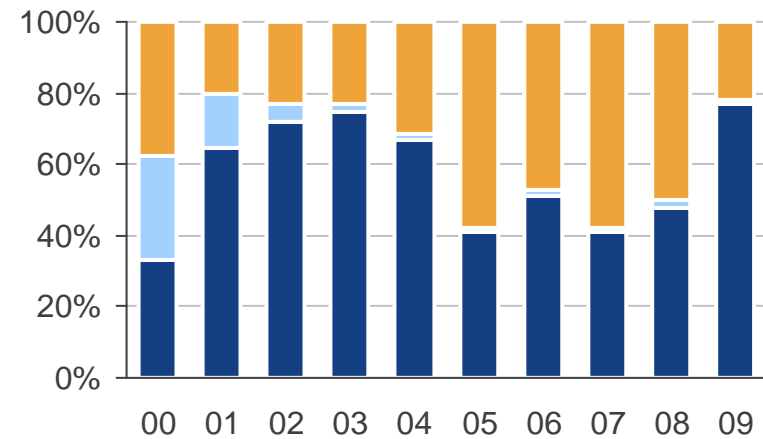
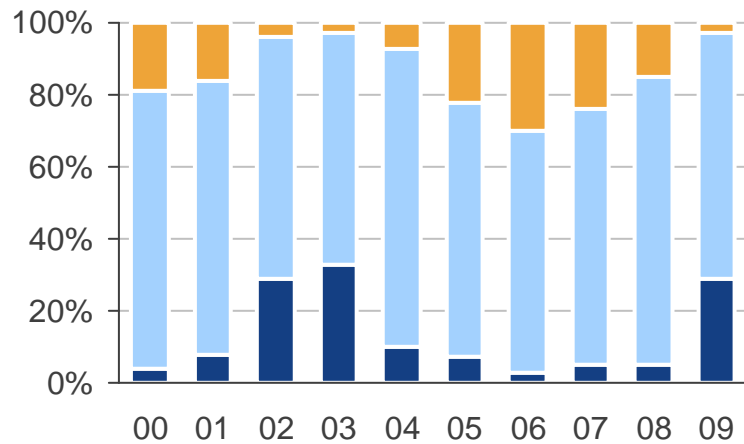
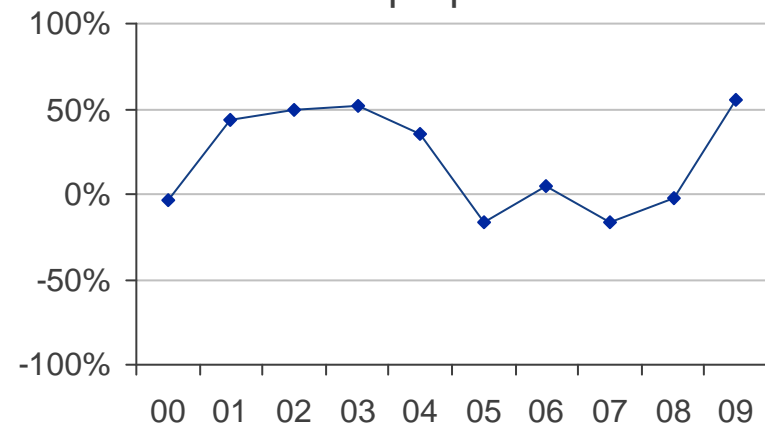


CYCLE BAROMETER

Proportional



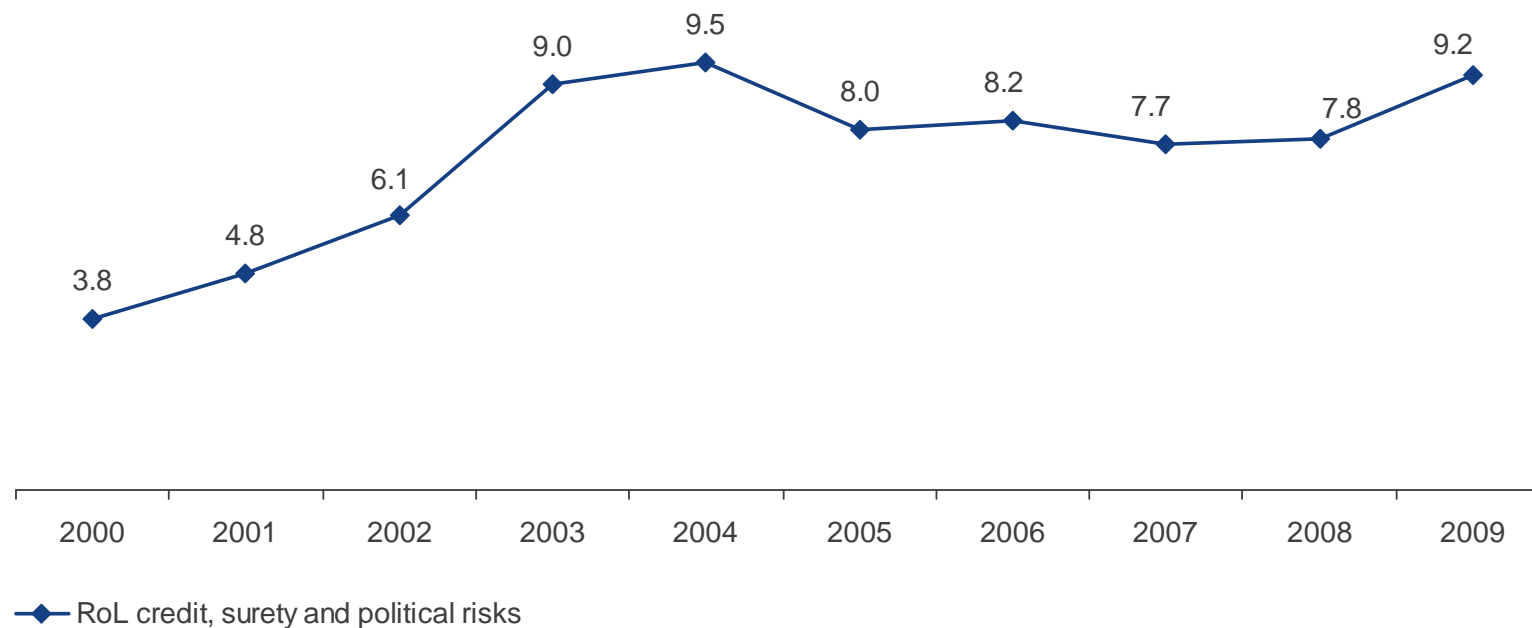
Non-proportional



■ Improvement ■ Unchanged ■ Deterioration

ROL DEVELOPMENT CONFIRMING POSITIVE TREND

in %



OUTLOOK

- Economic environment should improve slowly, no quick recovery expected
- Frequency and severity risk still at increased level but partly compensated by drastic price increases and very restrictive underwriting
- Demand for primary and reinsurance capacity will remain high and increase further (no alternative to reinsurance)
- Capacity expected to stay very scarce, prices should further increase or at least remain at high level
- Governmental support for weaker debtors in some European countries will enhance portfolio consolidation process of primary credit insurers
- Portfolio diversification should further improve by organic growth of surety
- Results should improve in 2010/2011, running with much higher prices and conservative reserving levels into better times with increasing turnovers and reducing loss ratios

CONCLUSION

→ Challenging times, but

- strict profitability focus
- proactive cycle management (pricing and underwriting)
- tight exposure management
- market-wide capacity constraints. . .

→ . . .will enable us

- to get the terms and conditions we want
- to achieve a better risk/return relation compared to the cedents
- to secure profitable underwriting in this class over the cycle