

Attachment to Hannover Re's NewsLetter of 20 June 2003

On the occasion of this year's Goldman Sachs European Financials Conference in Rome on 18 June, Mr. Zeller spoke about global market trends in the reinsurance industry, including an outlook on pricing trends for 2004.

Mr. Zeller first emphasized that there will be no uniform situation, but that the world reinsurance market has to be broken down at least by

- geographic regions (U.S., Europe, rest of the world);
- general property/casualty business versus specialty lines (aviation, marine, credit and bond);
- property catastrophe business

With regard to these aspects Mr. Zeller elaborated on the following:

(1) Pricing trends in the US reinsurance market

- In property/catastrophe we are currently experiencing one of the highest rate levels in history. Fuelled primarily by new capacity we anticipate that this very high rate level will decrease by 5% to 10%, however, it will continue to be very attractive for reinsurers.
- In property per-risk, post 9/11 we are enjoying by far the highest rate level this segment has ever seen (most treaties contain payback loadings from 9/11 losses). The future rate development is expected at least to be stable or might even see additional rate increases in the short term by another 10%.
- In property pro-rata we expect stable terms at the reinsurance level.
- Casualty
 - Directors' and officers' liability: Rates are expected to increase by another 10% to 15%.
 - Umbrella: Rate increases by another 15%.
 - Clash covers: Rate increases might be levelling off.
 - Medical malpractice: Market will continue to see solid, double-digit rate increases.
 - Workers' compensation catastrophe covers: After rate increases by several hundred percent during the last two years rates might come off by up to 20%. However, this will continue to present a very attractive rate level.
 - Casualty working covers: We expect to see stable rates to small increases.

Conclusion: 2004 should produce an improved combined ratio for the whole market with casualty being the most attractive segment.

(2) Pricing trends in European reinsurance markets

- At the personal lines primary level we expect most lines to stay stable.
- In commercial/industrial lines rates are expected to reach their peak.
- Reinsurers are expected to see more rate increases.

Conclusion: Combined ratios to further improve.

(3) Pricing trends in emerging reinsurance markets

- Property/casualty primary insurance rates are still moving up.
- Not least as a result of increased competition from Bermuda start-ups, most reinsurance programmes are oversubscribed (i.e. plenty of capacity).

Conclusion: Combined ratios are expected to stay stable.

(4) Pricing trends in specialty lines reinsurance

- Aviation:
 - Post 9/11 rates in the airline business skyrocketed (Hannover Re's gross written premium in underwriting year 2001 increased by 382%). From this extremely high level rates have come down on average by some 10% during the 2002 renewal and continue to further come down this year. Most programs, however, are still on a (very) attractive basis.
 - In the London excess-of-loss reinsurance market a similar but not quite as strong development took place post 9/11. These rates are still holding stable.
- Marine:
 - Most excess of loss markets show signs of softening – again from a very high level so that the rate environment is still attractive.
- Credit and bond:
 - Very difficult line of business (reinsured for the most part still on a pro-rata basis).
 - Our latest capital allocation model suggests to exit some pro-rata business.
 - Excess of loss rates are very attractive.

Conclusion: Combined ratios in the specialty lines reinsurance business are likely to deteriorate by 5% to 10% in 2004.

(5) Pricing trends in property catastrophe reinsurance

- We are enjoying one of the highest rate levels in the history of this segment.
- Markets for which rating models exist (all industrialized countries) will stay more stable.
- In emerging markets the business is likely to stay soft.
- The RMS 4.3 release suggests a doubled earthquake PML for California. This will lead to increased demand which will meet an unchanged capacity supply (i.e. rate increases).

Conclusion: Prices on a worldwide basis are expected to come off by some 5% (possibly more – 15% not impossible).

As a result combined ratios are expected to increase by 5%.

The **overall conclusion** from these considerations is that **the hard market is by far not over**. On balance, we have reached the peak in some segments with most markets continuing to be (very) attractive. A portfolio with an unchanged business mix might generate a 2004 combined ratio of 1 to 2 points less good than the excellent 2003. Opportunistic and flexible reinsurers like Hannover Re will write more profitable (US) casualty business while decreasing its exposure in softening lines and segments, which should uphold the favorable 2003 combined ratio.