

# Creating value through reinsurance

Group Strategy 2018–2020



# Our Strategy



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Ulrich Wallin,  
Chairman of the  
Executive Board

## Ladies and Gentlemen, dear Colleagues,

The strategy presented here is the product of our strategic review conducted in 2017. We are thereby maintaining our established practice of revisiting our corporate strategy in a three-year cycle.

The last strategic review took place in 2014, guided by the overarching vision of “Long-term success in a competitive business”. The results achieved between 2014 and 2017 demonstrate very clearly that we were able to successfully move our company forward despite the challenging framework conditions on international markets. In the strategy cycle that has just ended Hannover Re generated vigorous growth and delivered record profits.

The size of a company and in particular its financial strength are vital prerequisites for enjoying unrestricted market access to business on a long-term basis. As our company’s recent history shows, we are able to operate successfully even in a highly challenging market environment thanks to our good competitive positioning, robust financial strength rating and comparatively low management expense ratio.

We have no doubt that future prospects for the global reinsurance market are favourable and we intend to further expand our position on a sustainable basis during the upcoming 2018–2020 strategy cycle by creating value through reinsurance for our customers, our shareholders and our employees. With this in mind, we have framed our revised strategy in keeping with our vision of “Creating value through reinsurance”.

The upcoming strategy cycle will be shaped by the progressive digital transformation. The challenges posed by digitalisation and automation are, quite rightly, at the very top of our industry’s agenda, since developments here will bring about lasting changes in workflows and processes going forward. This aspect has therefore become an integral part of our corporate strategy: we support our business activities with efficient IT applications and leverage the opportunities opened up by digitalisation and automation. Furthermore, a stand-alone digitalisation strategy has for the first time been approved by the Executive Board. It explores in depth the opportunities and risks associated with digitalisation – both with an eye to our business processes and with regard to our work as a reinsurer.

As I already mentioned at the outset, we have developed and refined the present strategy with its overarching vision, our business model and the ten strategic principles in conformity with proven best practices.

The strategy is to be implemented in accordance with our holistic management system Performance Excellence 2.0: each organisational unit of the Hannover Re Group defines its own contribution to the Group strategy with the aid of the internal Strategy Guide document and our Strategy Cockpit tool. In this way we ensure that all initiatives and activities within Hannover Re are rigorously linked to the corporate strategy. All members of staff and managers have a part to play here.

I am convinced that we shall be able to successfully realise our strategic goals over the next three years to the benefit of our clients, business partners, investors and employees and in so doing create substantial value for them.

Sincerely,



Ulrich Wallin  
Chairman of the Executive Board

# Our vision: Creating value through reinsurance



The positive outlook for the global reinsurance market is the basis for our medium to long-term success. We continue to sustainably expand our position as one of the leading, most profitable reinsurance groups operating worldwide by creating value for our clients, shareholders and employees. Furthermore, we pay attention to the justified interests of the public and of governmental or other organisations representing the public.

We are passionate about reinsurance and chart our own course. Based on flat hierarchies and delegated authorities we respond quickly, flexibly and independently to requests from our clients with the goal of providing excellent reinsurance solutions. We have a high capability to implement solutions quickly and reliably and we offer our clients innovative products for emerging risks designed to manage capital and net income as well as to support the marketing and sale of insurance.

## **Our business model**

We transact reinsurance business in the business groups of Property & Casualty and Life & Health. We achieve a competitive advantage by transacting our business with comparatively low management expenses and a lower cost of capital. In addition, as one of the largest and most robustly funded reinsurance groups we enjoy preferential access to our business. This enables us to deliver a profit that is above the average for the sector, while at the same time providing our clients with competitive terms on our reinsurance offerings.

In property and casualty as well as in life and health reinsurance we assume risks in all lines of business and, based on our global presence, in all geographical regions provided the business fulfils our margin requirements. The diversification thereby achieved is the key to our lower cost of capital.

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

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

### **Contribution of our Property & Casualty reinsurance business group**

We consider ourselves a reliable, flexible and innovative market player that is transaction-driven and passionate about reinsurance. Cost leadership, effective cycle management and excellent risk management are the key components of our competitive positioning.

### **Contribution of our Life & Health reinsurance business group**

We strive for recognition – evidenced by customer surveys – as one of the top three providers of life and health reinsurance and the number one provider of innovative solutions. We aspire to be viewed as a reinsurer that customers credit with problem-solving expertise. The benefit for our customers derives from the value added created by our solutions and not merely the passing on of our cost advantages.

# 1.

## We pursue ambitious economic growth targets



In the interest of our clients, shareholders, employees and business partners it is of crucial importance to ensure sustainable growth. Paramount here is the increase in the earnings per share and the enterprise value (defined as our economic capital) including dividends.

We are therefore committed to growing our premium volume at a pace that in the long term exceeds that of the reinsurance sector. 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 indicator used to evaluate our business activities.

We offer our shareholders the prospect of a sustained above-average return on their capital. As such, we target an IFRS return on equity of at least 900 basis points above the risk-free interest rate<sup>1</sup>.

As a listed company and in the interests of our shareholders we aim to increase our share price such that it outperforms the weighted Global Reinsurance Index (GloRe) over a three-year rolling period. Furthermore, we also aspire to achieve a sustained level of profitability that consistently enables us to pay a dividend that is attractive to our shareholders.

### **Profit contribution of our Property & Casualty reinsurance business group**

We transact property and casualty reinsurance with the goal of being one of the world's most profitable companies in this sector. We always ensure that the volatility of our business is commensurate with our profit targets.

With this in mind, we expect to deliver a substantial profit contribution equivalent to at least 2% of the capital allocated – measured by the xRoCA. We aim for an operating cash flow well in excess of the pre-tax profit (EBIT), and we achieve that by writing a high share of non-proportional business. Furthermore, our goal is to generate EBIT equivalent to at least 10% of net premium earned with a net combined ratio on a calendar-year basis of 96% or less.

<sup>1</sup> 900 basis points above 5-year rolling average of 10-year German government bond rate (risk-free), after tax





In order to achieve these targets, we pay particularly close attention to the comprehensive understanding and thorough analysis of all risks by our well-trained employees and to adequate technical pricing. What is more, we use our balance sheet, infrastructure and the expertise of our staff to generate additional profits in the area of structured reinsurance (“Advanced Solutions”) through predominantly exclusive transactions as well as low-risk margins through the transfer of clients’ risks to the capital market.

In highly cyclical markets we increase our market share only during hard markets and after market-changing events, while we carefully scale it back during soft markets regardless of any impact on the management expense ratio. We control the latter by keeping fixed management expenses to the necessary minimum and operating efficiently with variable cost structures, e. g. by means of outsourcing and through broker distribution channels. In addition, our organisational set-up – with its short decision-making channels and far-reaching delegation to qualified employees – contributes to our cost efficiency.

#### **Profit contribution of our Life & Health reinsurance business group**

We aim to drive worldwide growth in our life and health reinsurance portfolio in those areas where net income is expected to exceed our cost of capital over rolling three-year periods. We achieve this goal by focusing on growth markets, underserved end consumers in the life and health insurance market, alternative distribution channels, risks that are hard to quantify and companies undergoing a transition phase.

Key success factors are our customer-centric approach, short times to market, efficient organisational set-up and broadly empowered expert staff at all levels. We target a significant profit contribution amounting to at least 2% of the capital allocated – measured by the xRoCA.

In addition, we aim for an average annual value of new business in excess of EUR 220 million, and we also seek to increase the pre-tax profit (EBIT) by 5% per year.

# 2.

## We are a preferred business partner



Our economic success hinges on our status as a preferred business partner for our clients. This is dependent upon our ability to enhance our clients' commercial success through our risk solutions and the services that we provide as a reinsurer. Our value proposition is the decisive factor in this context.

As evidence of our financial strength, we attach great importance to maintaining excellent ratings from the rating agencies most relevant to our industry that facilitate and safeguard our access to all desirable business worldwide. Currently, this means ensuring at least "AA-" from Standard & Poor's (with a "very strong" for Enterprise Risk Management) and "A+" from A.M. Best.

### **Value proposition of our Property & Casualty reinsurance business group**

Our guiding principle is customer satisfaction. We attach special significance to the considerable durability of our customer relationships. We actively manage expectations and we are a reliable partner for our clients.

We have at our disposal a comprehensive range of products which we can tailor to our clients' needs. We also support our customers with new product developments. We constantly monitor the markets in order to identify trends, and our flexible organisation enables us to redirect our underwriting policy at any time towards risks and lines of business that hold particularly promising potential for the future.





We are committed to fair business relationships and are ready to listen to our clients and discuss their concerns with them at any time. Regular strategic meetings with our customers are the instrument of choice for cultivating multi-layered business relationships and pursuing joint strategic initiatives. Our service departments support our marketing activities with their know-how and explain to customers the problem-solving approaches that we successfully adopt in order to establish efficient organisational structures against a changing governance backdrop. We aspire to be the reinsurer to whom customers turn first with their questions and needs. We are proud of our short communication channels with our customers and the quick decisions taken by our entrepreneurially minded and empowered employees, which facilitate the prompt and reliable delivery of our solutions.

#### **Value proposition of our Life & Health reinsurance business group**

For clients in need of risk management solutions, we make appropriate capacities and reinsurance solutions available on competitive terms for all types of underwriting risks. For clients requiring financing solutions, we offer tailored reinsurance structures designed for efficient capital and liquidity management. For clients reaching out for reinsurance services, we help to optimise their sales and underwriting processes and offer access to our worldwide expertise. We are flexible and highly responsive, and our customers value our short times to market. We pursue a customer-centric approach, we listen and are open-minded. We are efficiently positioned with empowered staff whose thoughts and actions are guided by an entrepreneurial mind-set.

# 3.

## We aim for successful employees

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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 as well as with the requirements of increasing digitalisation.

As a global entity, we are able to offer our employees an attractive workplace that fosters motivation, dedication and teamwork. Our attractiveness as an employer is further reinforced by systematic career development programmes, a commitment to clearly expressing our appreciation of employees and an approach that allows them to participate in the sustained success of the business. Our employees are proud to work for a successful company in the reinsurance industry. We take care to ensure that achievements can be actively experienced.

The basis of our common corporate culture is the greatest possible delegation of tasks, responsibilities and authority. In this way we ensure that employees are able to act in a quick and flexible manner. This is supported through management by objectives, and we expect our managers to instil a strong sense of accountability in their staff.

Our managers play a particularly important role. They lead their staff according to our management principles. We support our managers in developing their leadership skills. Where qualifications are equivalent, vacant management posts are filled wherever possible from within the Group, and we therefore consider leadership potential already at the recruitment stage. With a view to achieving a better gender balance we strive for an increasing proportion of women on all levels of management.

A stated aim of our strategy is to enhance the skills, experience and performance capability of our staff around the world on the basis of a common corporate culture.





# 4.

## We strive for an optimal balance between stability and yield of our investments

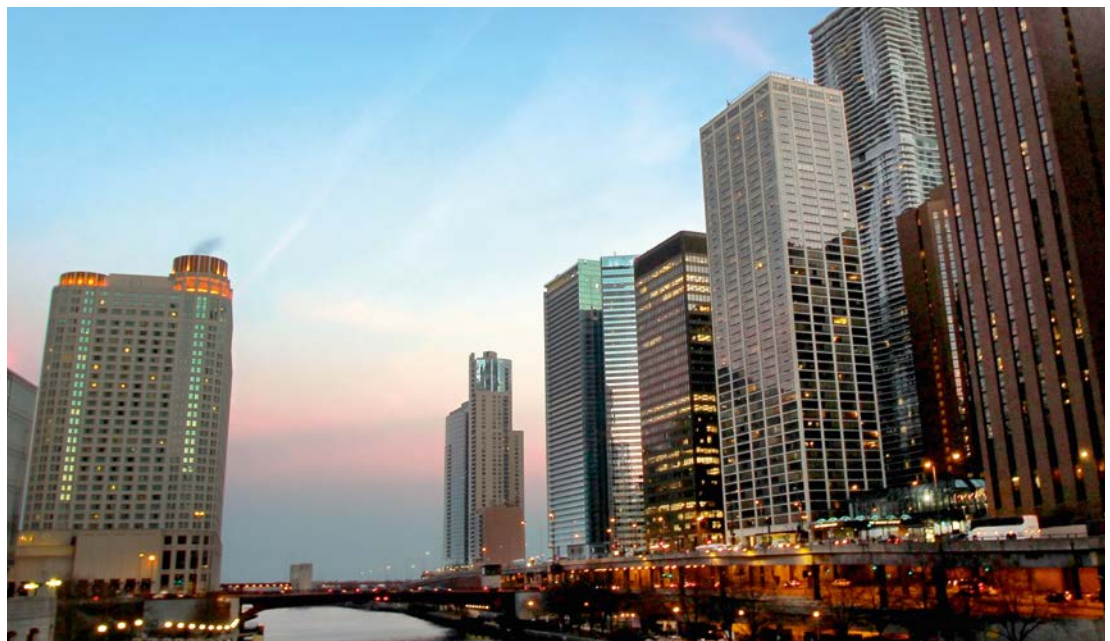
The structure of our investment holdings is guided by the requirements of our technical liabilities and our capitalisation. It particularly reflects the maturities of our liabilities as well as the currency exposure, which we cover on a matching basis to the greatest possible extent. Furthermore, we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

With this in mind, we pursue an investment strategy that emphasises the stability and predictability of the targeted return. To this end, our portfolio is guided by the basic principles of broad diversification across a wide variety of asset

classes and issuers. Our approach is backed by calculations within our internal capital model so as to ensure a well-balanced risk/return ratio.

On this basis we allocate part of our economic capital to the risks associated with our asset holdings that we assume in a divergence from a risk-free investment structure. Regular crosschecking of the composition of our assets against our defined risk budget forms part of our careful approach. Our minimum target is a return on investment equivalent to the risk-free interest rate plus the cost of capital.

Our sustainability focus on product responsibility encompasses not only our insurance solutions but also our investments. Diversification across a wide range of asset classes includes investment in real estate.



# 5.

## We manage risks actively

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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 therefore forms an integral component of our value-based enterprise management and hence of all underlying decision processes. It comprises quantitative and qualitative methods.

The foundation of our quantitative risk management is our internal capital model. We manage our risk exposure in order 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% p. a. At the same time we aim for a solvency ratio of at least 180% with a threshold of 200% according to our internal capital model as approved by the supervisory authority.

On this basis our economic capital is allocated to the individual areas of our business activity, thereby determining our minimum margins.

The details of our risk management approach are set out in the risk strategy which is approved and regularly reviewed by the risk management function and the Executive Board. In this regard special importance is given to the initiative of the Chief Risk Officer. We utilise our risk capacities according to the risk appetite as defined under the Hannover Re Group limit and threshold system.

In addition, our actuarial function supports the effective implementation of the risk management system and especially ensures that sufficient technical provisions are calculated.

We achieve an efficient risk balance through our global presence and the acceptance of reinsurance risks with largely little or no correlation. This includes the evaluation and underwriting of new risk types and categories, such as cyber risks and those associated with the use of drones.



# 6.

## We maintain an adequate level of capitalisation

Our necessary equity resources are determined by the requirements of our internal 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 900 basis points above risk-free is not endangered. For the purpose of optimising our overall cost of capital we use capital substitutes such as hybrid capital and we transfer risks to the capital or retrocession markets.

In times when our shareholders' equity is growing faster than our profits, we are prepared to use special dividends to balance the equity growth with our profit growth.

Our capital model was approved by the financial regulator as early as 2015. It enables us to identify profitable business and optimally allocate capital to business segments, regions and lines.





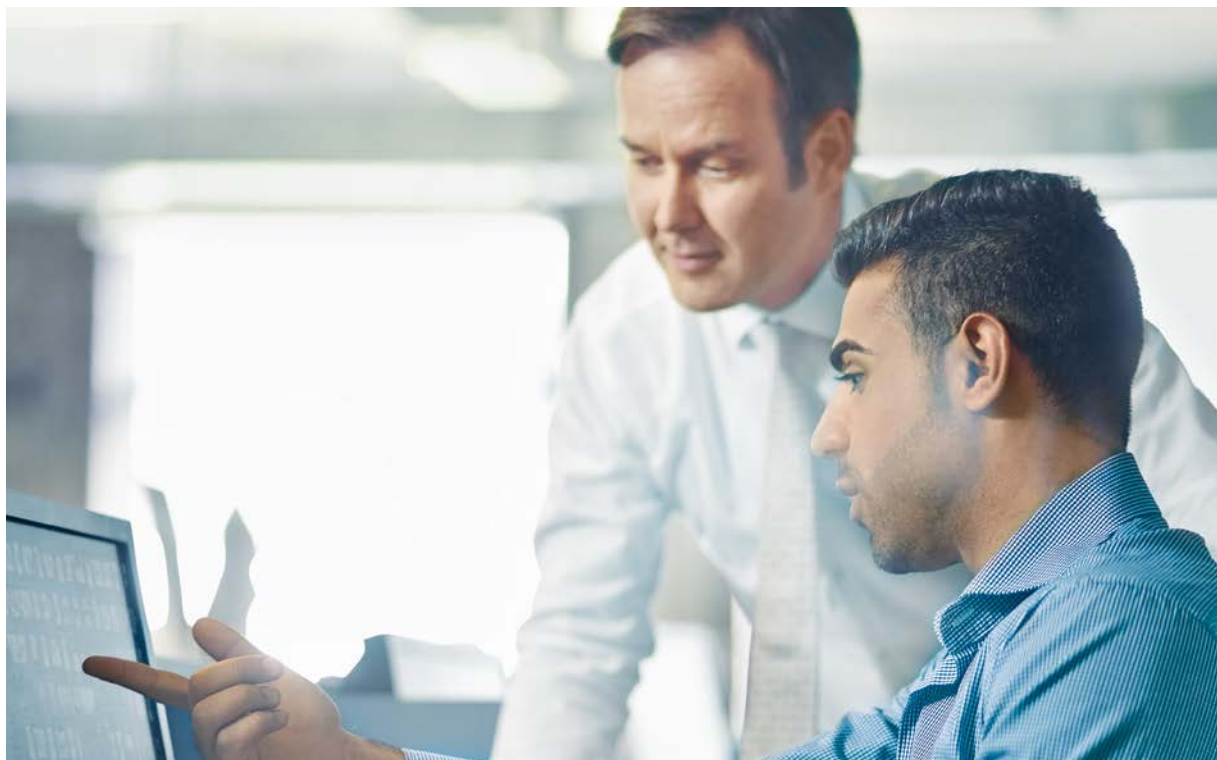
# 7.

## We conduct our business with lower costs than our competitors due to our high efficiency

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We believe that our low cost ratio – relative to our competitors – gives us a sustained competitive advantage. We safeguard 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.

We support our customers along their entire value creation chain with flexible and innovative solutions – from the development of new products to the optimisation and digitalisation of sales activities.





# 8.

## We support our business through efficient information technology and take advantage of digitalisation and automation

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

We rise to the challenges of digitalisation and automation and see them as a means to develop new business opportunities as well as to design internal processes and to shape the interaction with our clients and other partners more efficiently.

To achieve this we aim to fulfil the expectations and requirements of our clients, intermediaries and other partners when it comes to our competence and know-how in the field of digitalisation.

To generate new business we aim to (a) reinsure new start-up companies that operate digital business models, (b) perform selectively digital services for our clients along the entire value chain, and (c) write new risks, such as the reinsurance of cyber insurance, as well as developing an understanding of the changing risk profiles of primary insurance and reinsurance risks through digitalisation.

To increase our efficiency we aim to (a) automate our internal processes “end-to-end”, (b) support and launch initiatives to automate the interaction at the interfaces to our clients, intermediaries and other partners, and (c) develop our ability to utilise all internal and external data legally available to us.

The details are set out in the Digital Strategy approved by the Executive Board.



# 9.

## We are committed to sustainability, integrity and compliance

Sustainability forms an integral element of our actions. We therefore take the environmental, social and ethical aspects of our activities into consideration, both in the pursuit of economic interests as part of day-to-day business and in the context of our strategy. Since we equate sustainability with foresight and future viability, we are also prepared if necessary to relinquish short-term profits to this end.

We support considered and pragmatic principles of corporate governance and we recognise their central role in guiding our activities. Integrity in our dealings with our business partners, employees, shareholders and other stakeholders is at the core of our Corporate Governance principles. We organise our business activities such that they always conform to all legal requirements, our own corporate policies and high ethical

standards. Our compliance function and our internal audit function monitor and as necessary enhance the effectiveness of our corporate governance system.

Accordingly, we fulfil all justifiable public requirements placed on our global operations in connection with our business activities. We support social objectives particularly in the area of qualified 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 Sustainability Strategy approved by the Executive Board.



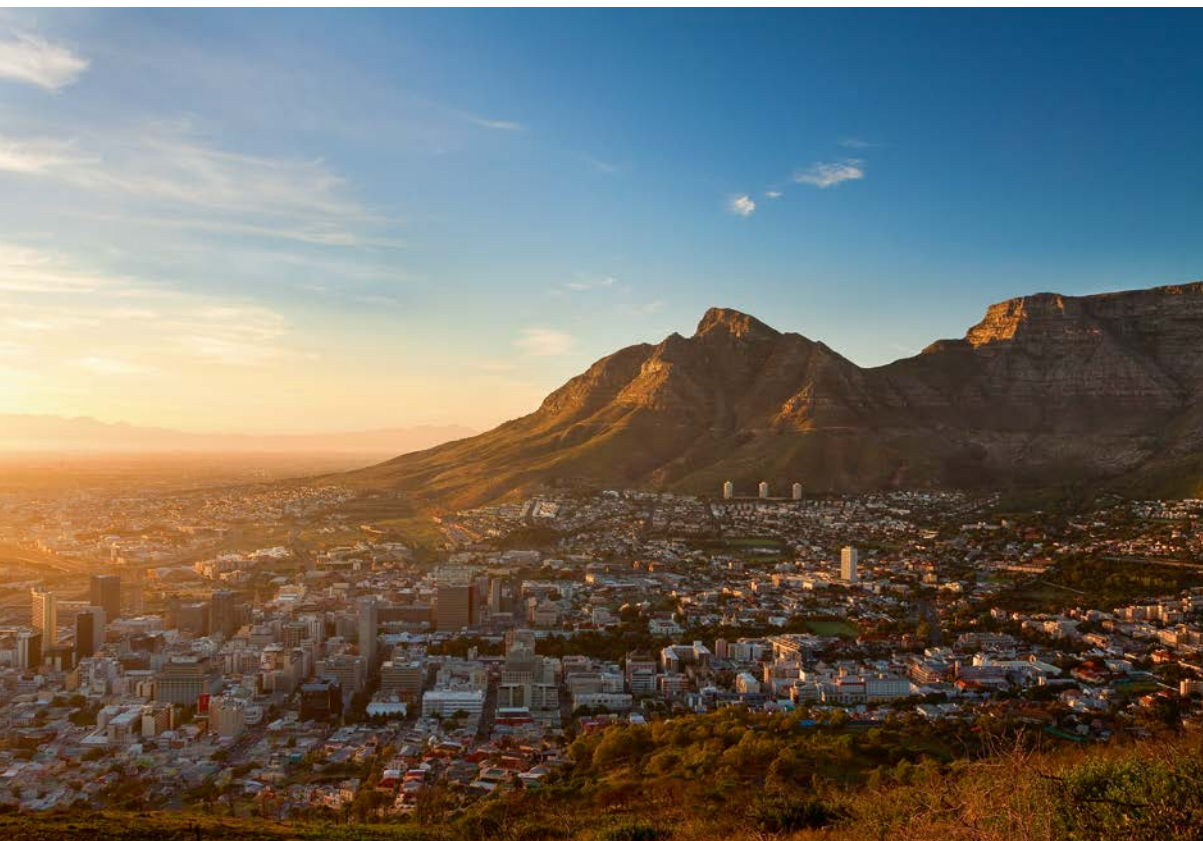
Our environmental conservation efforts concentrate on reducing CO<sub>2</sub> emissions caused by the supply of electricity and heating to our premises as well as by our business travel.

# 10.

## We strive for Performance Excellence and continuous improvement

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In order to ensure the execution of our strategy across all areas of our organisation, we apply our holistic management system of Performance Excellence. 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.



Our holistic management system fosters a continuous power of innovation and a focus on market opportunities as they open up – spanning our locations and departments around the world.

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