

**somewhat
different**



Learning from the Wisdom of Sun Tzu, Fred Reichheld and W. Chan Kim – The Transformation of Hannover Life Re From a Nobody To a Champions' League Player

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Overview of this Presentation

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- | Snapshot Comparison between 1992 and 2011
- | Learning from Sun Tzu : War & Management
- | Learning from Fred Reichheld : The Loyalty Effect
- | Learning from W. Chan Kim : Blue Ocean Strategy
- | Expression of Gratitude

Snapshot of Hannover Re Life & Health

Comparing 2011 with 1992

Life & Health Re	Year 1992	Year 2011
Office Network	Hannover, Jo'burg, Milan, Orlando, Kuala Lumpur	Hannover, London, Stockholm, Paris, Madrid, Bahrain, Orlando, Denver, Charlotte, Mexico City, Kuala Lumpur. Jo'burg, Sydney, Mumbai, Hong Kong, Shanghai, Taipei, Seoul, Tokyo, Bermuda, Rio de Janeiro
Number of Staff	appr. 30 FTE	appr. 800 FTE
Gross Premium	EUR 171 mio.	EUR 5,270 mio.
Assets	n.a.	EUR 22,298 mio.
Operating Income	< 0 (statutory)	EUR 218 mio. (IFRS)
MCEV (after-tax)	n.a.	EUR 3,066 mio.
VNB – Value NewBus	n.a.	EUR 241 mio.

Snapshot of Hannover Re Life & Health

Comparing 2011 with 1992

The Big Question :

What has happened between 1992 and 2011?

A flash back on the humble beginnings

Mandate from the HR Board of Directors in 1991

- ▶ **‘To develop Hannover Re over the next 10 years into a leading, internationally diversified life & health reinsurer based on sound underwriting and marketing principles**

- ▶ **In this capacity, contribute significantly to the improving diversification and the continuing success of the Hannover Re Group of Companies’**

The Starting Point

Hannover Life Re's Strategy Considerations defined in 1991

- ▶ Avoid becoming a 'me too' reassurer by imitating and following the current market leaders – be a 'lion' but not be one of the 'lemmings'!
- ▶ Develop underserviced and/or overlooked market segments and become a market-leader there – much better to be a big fish in a small pond than to be a small fish in a big pond!
- ▶ Avoid acting as a 'schoolmaster' of your clients – don't tell them how they should run their business!
- ▶ Fight by speed and quality of services as well as innovative solutions but not by 'price wars'

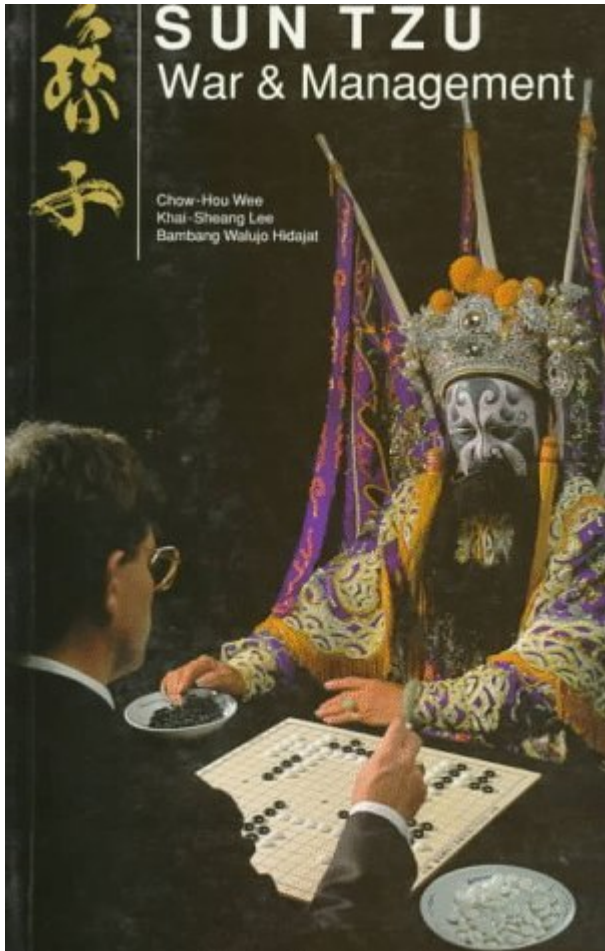
The Starting Point

Hannover Life Re's Strategy Considerations defined in 1991

- ▶ Share your professional expertise and knowledge with your clients but not with your competitors!
- ▶ Use Hannover Re's excellent AAA-rating to build credibility as a life reassurer in key markets
- ▶ Use Hannover Re's excellent liquidity position to build long-term financial alliances with your clients

These seven rules created the strategic DNA for Hannover Life Re over the next 20+ years and allowed to develop a consistent strategic framework all over the world.

My teacher Sun Tzu and his Book 'The Art of War'



- ▶ **Edition: Sun Tzu – War & Management, by Wee Chow Hou, Addison-Wesley Publishing Company, 1991**

Sun Tzu's Global Strategic Advice

- ▶ **'He who has a thorough knowledge of himself and the enemy is bound to win in all battles. He who knows himself but not the enemy has only an even chance of winning. He who knows not himself and the enemy is bound to perish in all battles.'**
- ▶ **'Know your enemy, know yourself, and your victory will not be threatened. Know the terrain, know the weather, and your victory will be complete.'**

Conquering the German Life Reassurance Market in the 90s

- ▶ For reasons of strategic credibility and market acceptance, we decided that we had to become a meaningful life reassurer in our home market (= Germany) over a mid-term period despite heavy competition and our role as ‘new kid on the block’

Reinsurance market patterns

- ▶ Overcrowded, with plenty of supply by multitude of big and medium-sized, well-established life reassurers from Germany and Switzerland, more than 100 life insurers, demand for reinsurance only slightly increasing; however, reinsurance terms and conditions generally attractive

Hannover's Mid-term Action Plan

1. Selected terrain/playing field : Unit-Linked individual life business (2-3% of new business generation at that time), only handful of insurers offering, deliberate 'bad publicity' by market-leading life insurer and reinsurer
 - ▶ **Following Sun Tzu's advice: 'Generally, those who reach and occupy the battle-ground early will have time to rest and wait for the enemy. Those who arrive late will have to rush into action when they are already tired and exhausted.'**
2. Selected resources/manpower : We created a small dedicated team of underwriters, actuaries and IT specialists to concentrate on specifics of unit-linked plans (as compared to the prevailing type of participating Endowment and Whole Life plans)
 - ▶ **Following Sun Tzu's advice: 'The strength of an army does not depend on large forces.'**

Hannover's Mid-term Action Plan

3. Secrecy of battle plan : We never officially announced our entry into the German Unit-linked market but kept our activities to ourselves
- ▶ **Following Sun Tzu's advice: 'If I can uncover the enemy's disposition while concealing mine, then I can concentrate while he must divide. And if my forces are united while his scattered, I can pit my entire strength against a fraction of his at any selected point of attack.'**

The Corporate Results

- ▶ Breakthrough in 1994 : signing of the first significant quota-share treaty including acquisition cost financing with a Munich-based life insurer who had reassured his business on an exclusive basis for more than 60 years with a very well-respected German reinsurer
- ▶ Over the next few years, Hannover signed numerous arrangements on a similar quota-share basis with other German insurers and became a market leader for this type of policy (whose market share in itself grew to 20% and more in the primary market)
- ▶ By the early 2000s, Hannover Re was the 2nd largest German life reinsurer in terms of premium revenues, with excellent profitability and more than 30 life companies as treaty clients.
- ▶ Followed by European expansion of unit-linked reinsurance into neighboring German-speaking markets like Austria, Luxembourg and Liechtenstein with similar success

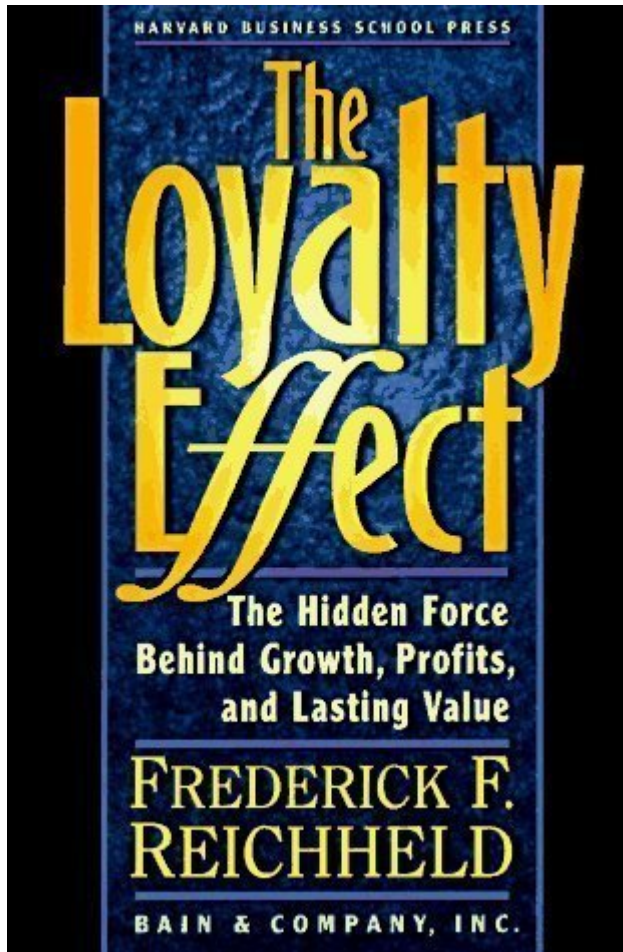
Further Foreign Activities in Great Britain and the USA

Using **Sun Tzu's** continuing guidance, Hannover Life Re developed long-term strategies in the mid-90s for other important markets like

- ▶ Great Britain : pioneering the Enhanced Annuity business which provides an attractive retirement offering for people with medical or life-style conditions and nowadays accounts for some 30% of total annuity business written
- ▶ The USA : pioneering BATs - Block Assumption Transactions - which concentrate on the reinsurance of existing blocks of business for financial, liquidity and solvency reasons like 'Monetizing of Embedded Value'

A UK insurance journalist described Hannover Life Re pointedly as the 'invisible' reinsurer creating the expression of 'Stealth Reassurer'

My teacher Fred Reichheld and his book 'The Loyalty Effect'



- ▶ Edition : The Loyalty Effect - The Hidden Force Behind Growth, Profits and Lasting Value', Harvard Business School Press, 1996

Fred Reichheld's Mantras on Loyalty and Value

- ▶ Long-term, sustainable business success ultimately depends on the loyalty of three corporate stakeholders: Customers, Employees, Owners
- ▶ Creating values for customers is the foundation of every successful business system
- ▶ Profit is not primary but is a consequence of value creation

In his own words: 'Businesses that concentrate on finding and keeping good customers, productive employees and supportive investors continue to generate superior results. Loyalty is by no means dead. It remains one of the great engines of business success.'

Fred Reichheld's insight on Accounting as public enemy 'Number One'

- ▶ 'Today's accounting systems often mask the fact, but inventories of experienced customers, employees, and investors are the company's most valuable assets...
- ▶ Yet these assets are vanishing from corporate balance sheets at an alarming rate, decimating growth and earnings potential as they go.
- ▶ In a typical company, customers are defecting at a rate of 10 to 30 percent per year; employee turnover rates of 15 to 25 percent are common; and average investor churn now exceeds 50% per year. How can any manager be expected to grow a profitable business when 20 to 50 percent of the company's most valuable inventory vanishes without a trace each year? It's a nearly impossible challenge.'

Fred Reichheld on 'The Right Customer'

The core Chapter 3 of the book

Elaborating on **Three Rules of Thumb**

- ▶ Some customers are inherently predictable and loyal, no matter which company there are doing business with.
- ▶ Some customers are more profitable than others. They spend more money, pay their bills more promptly, and require less service.
- ▶ Some customers will find your products and services more valuable than those of your competitors.

Developing Hannover Life Re from 1998 onwards

RM- Relationship Marketing and CRM - Customer Relationship Management

- ▶ ‘Customer loyalty is too important to delegate. It has a crucial effect on every constituency and aspect of a business system...
- ▶ The responsibility for customer retention or defection belongs squarely on the CEO’s desk, where it can get the same attention that is lavished on stock price and cash flow’
- ▶ **So, I decided to become the No. 1 Relationship Manager of Hannover Life Re in 1999, with a perspective to reshape the worldwide organization into a customer-centric network...**

Excerpts from a 2002 Board Presentation on RM

- ▶ The evolution from TM – Traditional Marketing to RM – Relationship Marketing
- ▶ The CRM Toolbox
- ▶ The Hannover Mantra : ‘Our Customer is our employer’

Relationship Marketing

From Transaction-Marketing to Relationship Marketing (according to Prof. Dr. H. P. Wehrli)

Traditional (Transaction Marketing)	Modern (Relationship Marketing)
Major Aim: To make a sale	Major Aim: To create a customer
Conclusion of sale is the end of client relationship	Conclusion of sale is the beginning of client relationship
4 Ps: Product, Price Promotion, Place	CRM
Product-orientated	Service-orientated
Price: fixed	Price: Result of relationship
Profit margin of the product	Customer Lifetime Value (CLV)
Client acquisition	Focus on existing clients

Relationship Marketing

From Transaction-Marketing to Relationship Marketing (according to Prof. Dr. H. P. Wehrli)

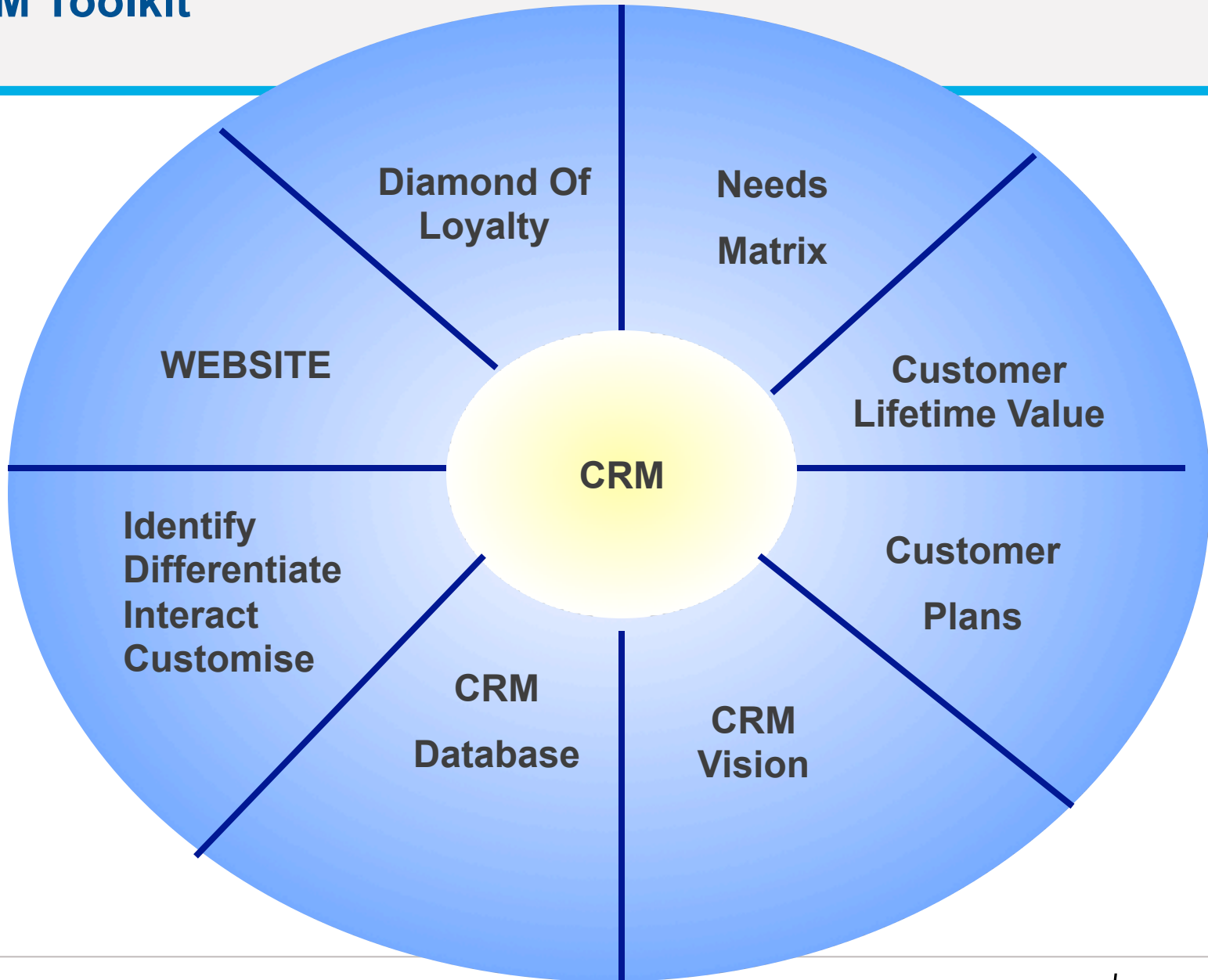
Traditional (Transaction Marketing)	Modern (Relationship Marketing)
Sales promotion: incitement to buy	Customer Loyalty
One-sided communication	Two-sided communication
The Anonymous Client	The Known Client: Name, Address, History of Product & Service
Duties of a Marketing Manager: Application of the 4 Ps	Duties of a Marketing Manager: Increase the CLV of client portfolio

The CRM Concept

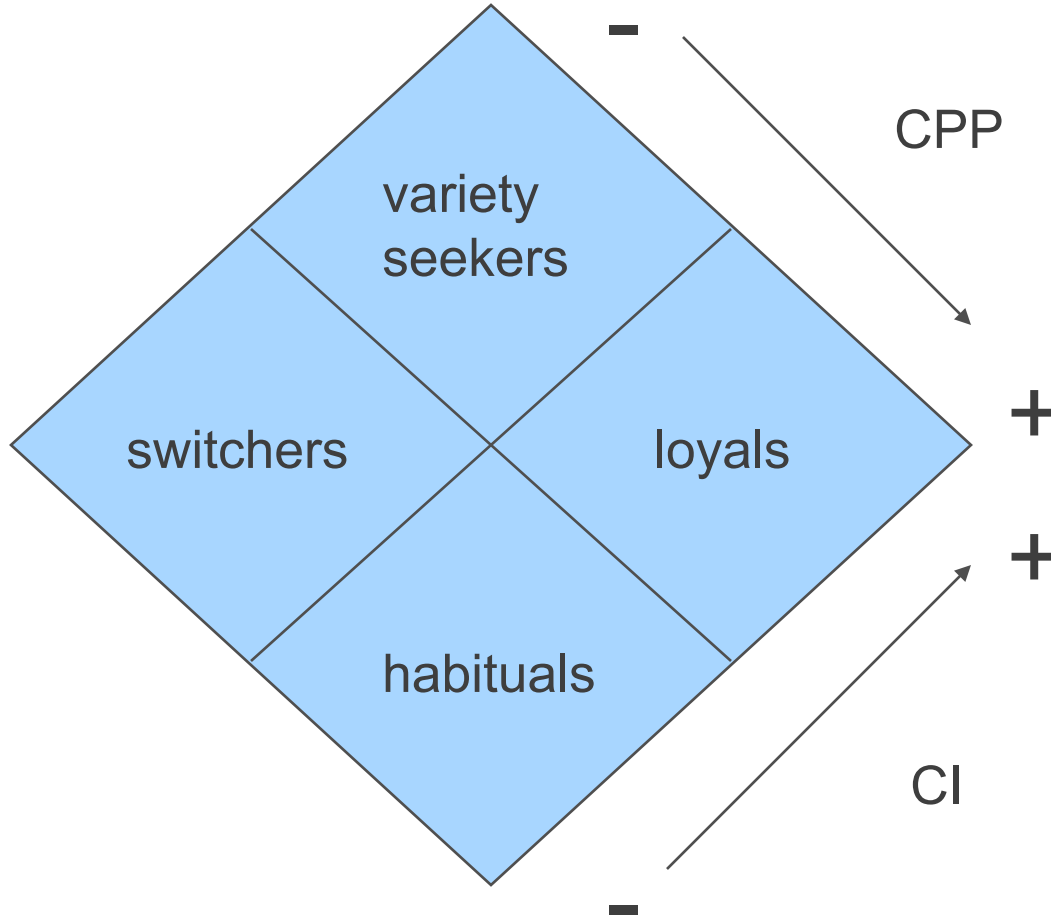
CRM means to treat different customers in a different manner and making decisions based on this treatment.

The approach taken is to identify individual customers, create value with them and share the mutual benefits over a long-term association.

CRM Toolkit



DIAMOND of Loyalty



CI: Customer Involvement/ strength of relationship

CPP: Customer Purchasing Portfolio/ focus of product demand

Needs Matrix

Time Needs	≤ 6 months	≤ 24 months	25 + months
Expressed Needs			
Unexpressed Needs			
Unknown Needs			

CUSTOMER LIFETIME

Value - CLV

- We take into consideration that each customer constitutes a long-term asset (or a liability!).
- CLV captures this concept in € terms on a 'per ceding company' basis at the beginning and at the end of each calendar year.
- Changes in CLV - and the reasons for such change - can be reviewed as a performance evaluation tool for the marketing manager.

CRM_Vision

**"OUR CUSTOMER IS
OUR EMPLOYER"**

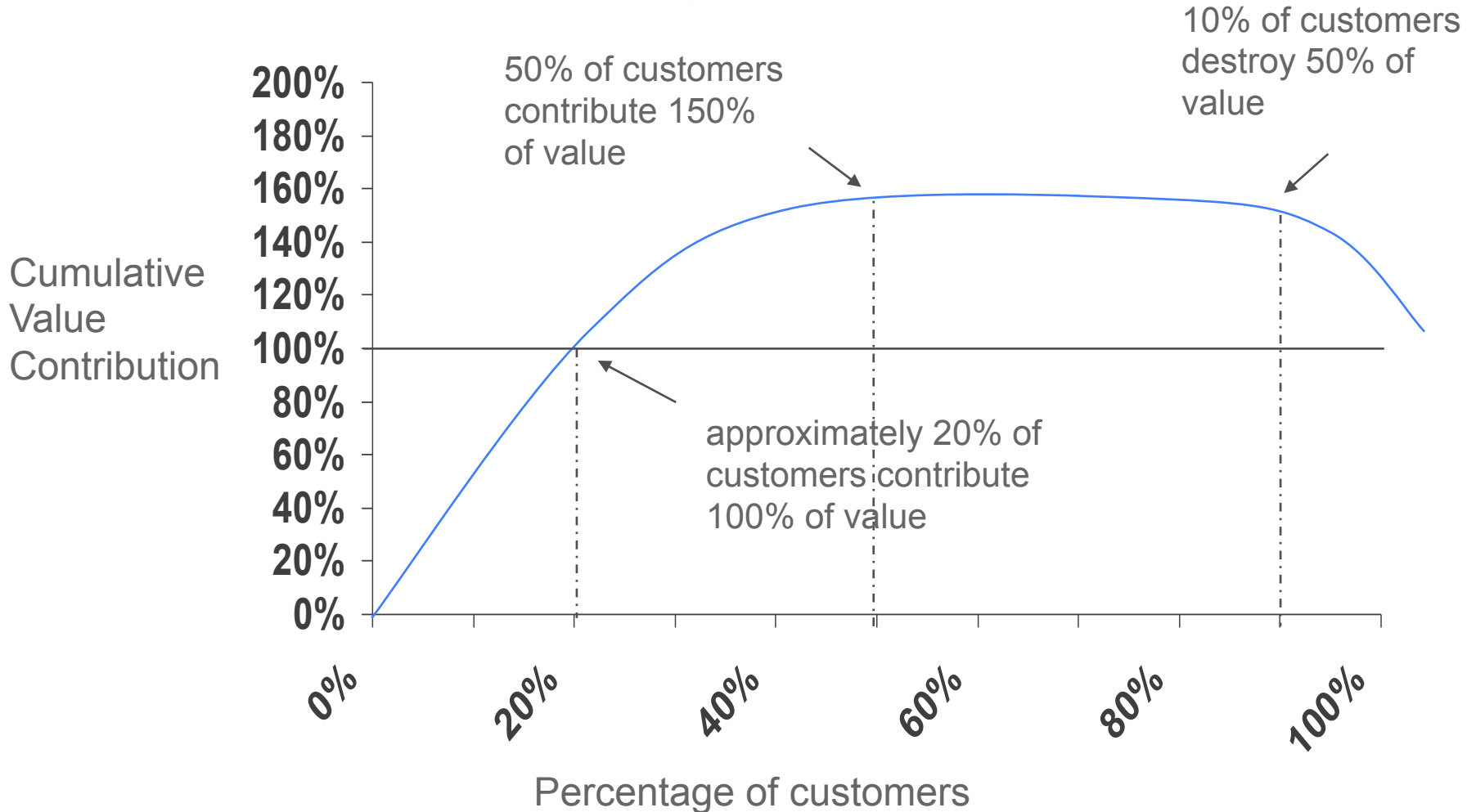


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An important insight:

The Customer Value Curve and its consequences

SOME CUSTOMERS CREATE VALUE, SOME DESTROY VALUE



Impact of Customer Centricity on Asia : Expansion of Hannover Life Re between 2000 and 2008

‘Covering the region, be as close as possible to our customer base and provide them with innovative solutions to their needs’

- ▶ Hong Kong : Converting the Representative Office into a full-fledged life Branch Office
- ▶ Taiwan : Upgrading the Taipei Office
- ▶ Mainland China : Establishing a full-fledged Branch Office in Shanghai
- ▶ Korea : Establishing a full-fledged Branch Office in Seoul
- ▶ Malaysia : Upgrading the Regional Office in Kuala Lumpur
- ▶ India : Establishing a Service Office in Mumbai

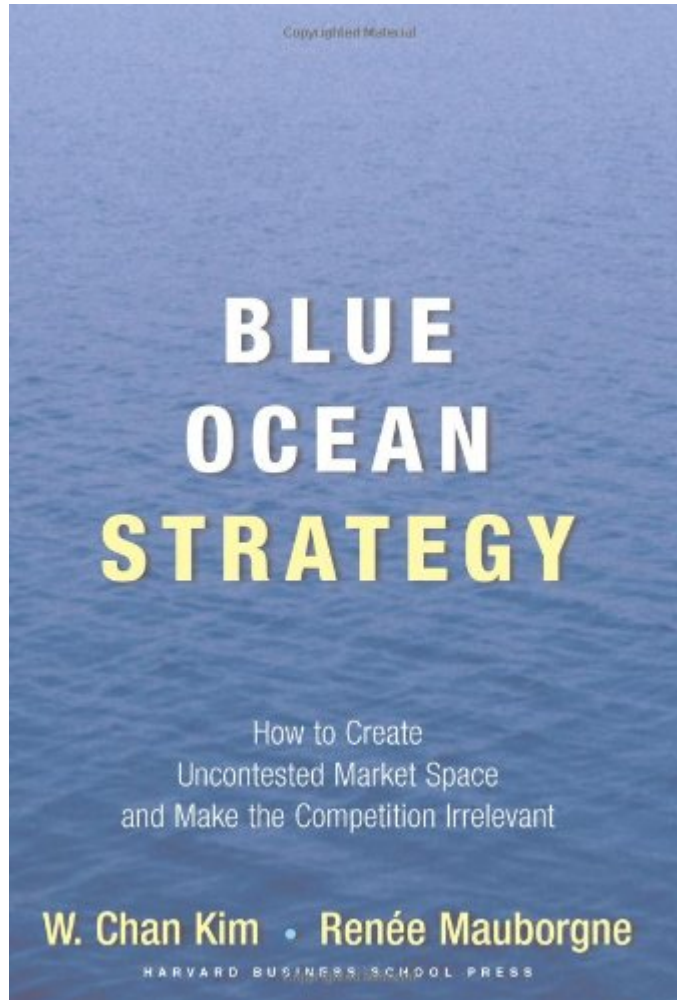
Asian product initiatives

- ▶ Design and Implementation of '2nd generation' CI products (tiered benefits)
- ▶ Design and Implementation of focus-group healthcare products
- ▶ Financing of acquisition expenses in local currencies like RMB
- ▶ New state-of-the-art electronic Life Underwriting Manual

Results of activities (status in 2011)

- ▶ Significant expansion of Asian customer base, excellent customer retention as reflection of loyalty, leading market positions in core markets like Greater China, Malaysia, Singapore and Vietnam
- ▶ Premium revenues and customer base from Asian life & health markets grew significantly from less than EUR 50 mio. in 2001 to EUR 490 mio. in 2011, more than quadrupling its share of Hannover Re's worldwide premium income

My Teacher W. Chan Kim and the book 'Blue Ocean Strategy'



- ▶ Edition : 'Blue Ocean Strategy – How to Create Uncontested Market Space and Make the Competition Relevant', Harvard Business Review Press, 2005

My Teacher W. Chan Kim and the book 'Blue Ocean Strategy'

- ▶ **The key content of the book**
- ▶ 'In today's overcrowded industries, competing head-on results in nothing but a bloody 'red ocean of rivals fighting over a shrinking profit pool... Tomorrow's leading companies will succeed NOT by battling competitors but by creating 'blue oceans' of uncontested market space ripe for growth.
- ▶ Such strategic moves – termed 'value innovation' – create powerful leaps in value both for the firm and its buyers, rendering rivals obsolete and unleashing new demand.

Impact on Hannover Life Re

For Hannover Life Re, this book yielded more of a **confirmation of earlier strategies** and implementations than learning lessons

However the book provides a practical approach to systematically identify 'blue oceans' and contains many interesting case studies of 'blue oceans' like

- ▶ Canada – Cirque de Soleil: circus business
- ▶ USA - Southwest Airlines : commercial airlines
- ▶ USA – NetJets : corporate air travel
- ▶ USA – Curves : health & fitness clubs
- ▶ Japan – QB House : barbershops
- ▶ Australia – Yellow Tail, wine production and exporting

! An Expression of Sincere Gratitude to my Teachers !



- ▶ **Any Comments?**
- ▶ **Questions?**

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