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CEO Interview with Ulrich Wallin, Hannover Re Group

By Ronald Poon-Affat

Ulrich Wallin is the CEO of Hannover Re Group. He was born in 1954 and studied law at the University of Hamburg. After his Second Final Exam in Law, he obtained his assessor grade.

In 1982, Wallin started his career at HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover. In 1984, he joined E+S Rückversicherung AG, Hannover, as a treaty specialist in the Foreign Section, responsible for the establishment of the aviation reinsurance portfolio. From 1987, E+S Rück's Foreign Section was integrated into Hannover Re's group of U.S. departments. Wallin held various responsibilities there, primarily in the areas of aviation and space as well as U.S. liability business. Nine years later, in 1996, Wallin became vice president at Hannover Re Group with responsibility for worldwide aviation and marine business. He was appointed managing director in 2000, with responsibility for Hannover Re's worldwide facultative property and casualty business in addition to worldwide aviation and marine business.

Since 2001, Wallin has been a member of the executive board of Hannover Re Group. He was named chief executive officer in 2009. He is responsible for business opportunity management, compliance, controlling, corporate communications, corporate development, human resources management, internal auditing and risk management.

RN: You have successfully led Hannover Re since 2009. What have been the key drivers in this success story?

UW: Without a doubt, one of the most important parameters was reducing the volatility of our results to a considerably greater extent than had been the case in prior years. What is more, we have been able to generate stronger organic growth than the market and our major competitors, and we have maintained a rigorous focus on the profitability of our business. Another key factor in our success has been our continued ability to operate with the lowest expense ratio among all reinsurers. Needless to say, a modicum of good fortune has also played its part.

RN: Life and health reinsurance has shown strong growth at Hannover Re in recent years. Do you see further growth potential here and, if so, in which areas?

UW: Since 2009 Hannover Re's books of life and health as well as property and casualty reinsurance business have grown at virtually the same pace—on an organic basis. We have pursued quite a number of growth initiatives in life and health reinsurance, including, for example, vitality products and our point-of-sale systems. Strong growth has also been recorded in the financial solutions business. Going forward, then, we see further considerable potential. What matters to us more than boosting the premium volume, though, is growing our profitability—both in terms of the profitability reported under IFRS and when it comes to increasing the economic value of our life and health reinsurance portfolio.

RN: How would you describe the current market environment in life and health, and where do you currently see the greatest challenges for reinsurers in life business?

UW: The environment in life and health reinsurance is highly competitive. That said, the competition is less intense than it is in property and casualty reinsurance, quite simply because there are far fewer players. The life reinsurance market is significantly more concentrated than the P&C market. This is because life and health reinsurance is dominated by the inforce business, whereas in property and casualty reinsurance the tone is set by new and renewal business.

Among the challenges, I would point first to the need for sufficient accuracy in determining future and long-term mortality and morbidity trends as well as for the most reliable possible predictions of so-called policyholder behavior, i.e., lapse and other options available to policyholders. After all, these risks make up a sizable part of the risks that we assume in our role as reinsurer.

What we accept on only a very limited scale is the risk of guarantees for investment income; consequently, the challenge here may be to identify the strategies that we, as a reinsurer, can adopt in order to assist primary insurers with their greatest problems, namely the protracted phase of low interest rates and the interest rate guarantees given to their customers. This is by no means a uniquely German issue; Anglo-Saxon markets with whole-of-life policies, for example, work with an underlying actuarial interest rate that must be generated in order to be able to actually pay out the benefit on maturity.

Ulich Wallin, CEO of Hannover Re Group

RN: What future trends can you identify in life insurance going forward?

UW: Particularly in mature markets, products geared to retirement provision certainly offer growth potential—for the reinsurance industry above all—on account of the aging society. There will surely be growth in longevity products, pension swaps and such, and we are already observing rising demand in this area.

We shall doubtless see increasingly widespread initiatives directed toward greater digitization; we intend to support such moves, which include the online selling of—among other things—term life insurance policies. Particularly in the United States, United Kingdom, Australia and some Asian markets, where life insurance business is already more heavily dominated by risk-oriented products, this will likely emerge as a trend. In countries such as Germany, where savings products have the upper hand, the situation will surely become more challenging.

Over-the-counter sales through banks will remain a crucial pillar of business on the life side, because this distribution channel offers a good touchpoint for customers to buy life insurance policies. Traditional sales through insurance agents, especially when it comes to savings products, will, however, have to become more efficient because low interest rates mean that the business no longer offers a sufficient margin to finance distribution in its current form.

Lifestyle products, which deliver risk protection tailored to the policyholder's specific life situation, will likely continue to gain ground—a trend that absolutely has our backing. Another trend is the shift toward risk-oriented products rather than savings products on account of the low interest rate environment.

RN: Investors often see life and health reinsurance as a "black box." What makes this business so difficult to understand?

UW: Investors tend to see life reinsurance as a black box largely because assessing the value of a life reinsurance portfolio is, after all, a rather complex matter and needs to factor in numerous evaluations of the future mortality and future lapse rates, policyholder behavior, as well as, in some cases, interest rate assumptions. Along with this complexity, it is important to bear in mind that such assumptions are not as stable as they are in, for example, property and casualty reinsurance, which is dominated by new business. This makes things tricky, given that changes in assumptions relating to large treaties or mortality give rise to substantial changes in the value of a life reinsurance portfolio. The same is also true of changes in interest rate assumptions.

Our task is to explain as plausibly and comprehensibly as possible the structure of the expected future cash flows, broken down according to the various risk categories. Furthermore, there are often reservations as far as longevity risks are concerned, owing to the assumption that the trend toward living longer means that this business cannot make a profit. On the other hand, it must be noted that in view of the average age of the insureds, the range of variation is considerably narrower than in traditional mortality business.

RN: Vitality products reward active and health-conscious individuals with more reasonable premiums. Do you think that over the long term the life insurance industry can play a part in improving quality of life and life expectancy?

UW: Vitality products are included among lifestyle products. They sell very well in Anglo-Saxon and Asian markets. There are concerns in some countries—Germany, to name just one—owing to fears that the solidarity of the community of insureds could be eroded and especially individuals at greater risk will no longer be able to obtain affordable life and health insurance. On the other hand, it has to be said that these products incentivize a healthier lifestyle and should therefore ultimately help to reduce overall health care costs. From a social perspective, such products certainly have a positive impact.

RN: Buzzwords digitization/automation—with hr|ReFlex you have brought a new generation of automated UW systems to market. What is special about them?

UW: Our hr|ReFlex system is all about making the sale of life insurance as simple as possible. It is a modular automated underwriting system that provides immediate and risk-adequate decisions directly at the point of sale. Due to its unique flexibility, it enables new products to be integrated very easily. The purpose of such point-of-sale systems is to be able to write as much life protection insurance business as possible. This is done on the basis of detailed questionnaires without any need for a medical examination by a physician. This substantially increases the probability of policy sales for standardized risks and hence also the new business volume. With this system we can directly support our customers' sales and provide commensurate reinsurance covers.

RN: What impact do regulatory measures have on your company and how does solvency II change the industry?

UW: The task companies are facing is to fulfill regulatory requirements in such a way that they are implemented as effectively as possible and to a high quality standard, while at the same time limiting costs. As regulatory requirements grow, meeting this challenge is becoming an increasingly significant competitive factor in the business environment. The European Solvency II directive can certainly be assessed favorably for life business because it takes into account the entire expected future cash flows, and hence, the future risks are also captured significantly better than they are under, for example, IFRS accounting and solvency regimes based thereon or other statutory accounting practices. Similarly, the nature of life reinsurance business—with its very long duration, future, positive and negative cash flows—is better mapped by Solvency II than it is under other solvency systems.

RN: What criteria do you have when it comes to M&A in the life sector? And what is your lesson learned from previous acquisitions?

UW: Mergers and acquisitions tend to be rather difficult in the life reinsurance sector because there are only six or seven sizable life reinsurers. The number of potential targets is therefore very small. Of course, this can be sidestepped by acquiring primary insurers, although this happens much less frequently in life reinsurance than it does on the P&C side. To this extent, I tend to view M&A activities in life and health reinsurance as quite minimal, at least as far as corporate acquisitions are concerned. When it comes to the acquisition of individual portfolios, on the other hand, there will likely be more scope for action.

RN: In your project "Journey Re" you offer young professionals a platform for disruptive ideas that can enable them to develop "the next big thing" for the reinsurance industry. What value added are you hoping for from this extraordinary approach to fostering young talent?

UW: Yes, with Journey Re we launched a competition for young professionals, graduates and students with the aim of creating innovative new business models. In very general terms, I believe it is incumbent upon us to get the younger generation, in particular, interested in our business. I say this not only because insurance as an industry does not enjoy the best of reputations in the eyes of many young people, but also in order to show just what an exciting field reinsurance is. I would add, by the way, that we were more than satisfied with the results of the individual innovation hubs that took part in the Journey Re project. ■

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