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# Strategic update on ERGO

Düsseldorf, 1 June 2016

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**ERGO**

Munich RE 

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All measures and figures stated in this presentation are based on current planning, and may be subject to approval by various bodies and authorities.

# ERGO has a solid starting point ...

## Drivers of industry changes

### Insurance market in transition

- Digitalisation affecting products, processes and business models
- Changing customer behaviour, e.g. much shorter response times expected, decreasing loyalty also with respect to choice of distribution channels

### Difficult macroeconomic environment

- It has become much more difficult to achieve sustainably good investment returns, due to
- persistently low interest rates,
  - increasing volatility.

## ERGO

**Strong position in Germany**  
Significant market share in all fields of business

**International footprint**  
Present in over 30 countries – Top 10 positions in Poland, the Baltics, Greece, Austria, Belgium, and India

**Part of Munich Re**  
Access to international know-how within a strongly capitalised and innovation-oriented Group

# ... but is not making full use of its potential

## New CEO's summary

### Financials

- Disappointing development of top and bottom line – lagging behind expectations
- Cost structures above market average

### Infrastructure/Digitalisation

- More reliable IT platforms necessary to run the business efficiently and accomplish digital transformation
- Opportunities of digitalisation not yet fully realised

### Products

- Modular product concepts not consistently integrated
- New strategies needed for pension products – Stronger focus on financial products and realisation of synergies with internal asset manager MEAG
- Organisational separation of traditional life back book and new business necessary

 **Munich Re is supporting ERGO to achieve sustainable growth**

## Ambition

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- Strengthen role of leading international primary insurer with strong domestic market
  - Comprehensive offering of products, advice and services across all distribution channels
  - Determined promotion of digital transformation of business model
- Convince all stakeholders
  - Create “promoters“ out of customers
  - Modern and attractive partner for employees and sales partners
  - Sustainable contribution to Munich Re's result >€500m

Achieving a sustainable annual net profit of ~€500m from 2021 at the latest

Investments impacting net profit by ~€1bn until 2020

Annual cost savings from 2020 ~€540m (gross) / ~€280m (net)

 **ERGO's profitability will cover its cost of capital from 2020**

# ERGO

## Strategy Programme

2

# ERGO Strategy Programme – Overview



- Fit ...**
- 1 Sales – Elimination of redundant structures
  - 2 Administration – Efficiency improvement
  - 3 International – Strengthen setup
  - 4 Life Germany – Separation of traditional back book and new business

- Digital ...**
- 5 Foundational IT – Reliable service
  - 6 Digital IT – Flexible and quick implementation
  - 7 Processes – Strengthen resilience and automation

- Successful!**
- 8 Fundamental optimisation of product portfolio
  - 9 Integrated offerings for hybrid customers
  - 10 Solutions for pure online customers
  - 11 Strengthening of international commercial/industrial business
  - 12 International B2B2C partnerships
  - 13 International growth

Investments by programme element until 2020

€379m

€432m

€197m

# 1 Sales – Improving effectiveness

## Starting point

- Broad base of sales channels and regional presence ...
- ... but still room for improvement regarding cost position, productivity and regional presence
- Sales organisations remain below their potential

## Objectives

- Establish one competitive, efficient and strong agency sales force through further consolidation and optimisation of structures and efficient support
- Retain regional presence and customer proximity
- Focus broker and cooperative sales on their specific requirements



## 2 Administration – Establishment of lean, efficient processes and structures

### Starting point

- ERGO's cost position too high compared with peer group
- Detailed bottom-up benchmarking identified improvement potential for cost structures

### Objectives

- Further improve process quality, client orientation and speed
- Achieve competitive cost structures

## 3 International organisation – Efficient organisation and improved governance

### Starting point

- ERGO has a good market position in selected countries in Europe and Asia (e.g. Poland, Greece and India), and in legal protection insurance worldwide
- However, competitive cost disadvantages and deterioration of claims ratios have been observed in some countries

### Objectives

- Achieve competitive cost situation in all countries
- Establish efficient governance at Group level and strengthen management with regional hub structures

## 4 German Life – Organisational changes following exit from traditional life business

### Starting point

- Decision to basically stop writing new traditional life business already taken – mainly due to persistently low interest rates

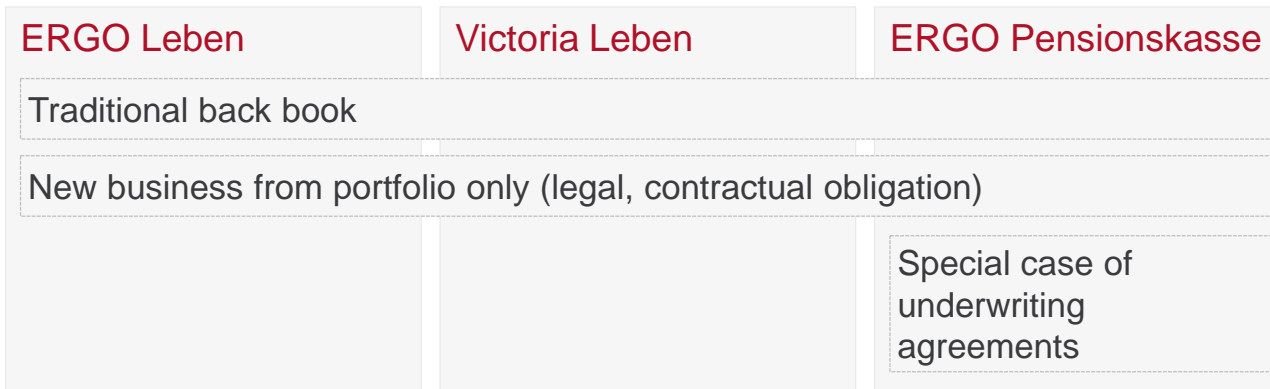
### Objectives

Separation of traditional back book and new business

- New business: Concentration on capital-market-related and biometric products through our risk carrier ERGO VORSORGE
- Traditional life business: Establishment of an effective, separate organisational entity with optimised processes (from 2018)
- Stronger focus of respective employees and management on back book and new business

## 4 German Life – Planned new approach strengthens focus on specifics of new business and back book

### Life insurance legal entities – back book



### Separation of traditional life back book

- Approx. €3.7bn in premium volume and more than five million policies
- Focus on administration
- Realisation of significant management advantages, such as
  - Reduced resource conflicts
  - Optimised prioritisation
  - Faster decision-making
  - Improved transparency

### New business

#### ERGO VORSORGE

New business promoting capital-light products

- Risk carrier for new business
- Concentration on capital-market-related and biometric products
- More efficient set-up and bundling of competencies in capital-market-related products

## 5 Foundational IT – Establishment of a modern, secure IT landscape and stronger link between business and IT

### Starting point

- Following four previous mergers, the existing IT landscape is complex and has various redundancies
- Maintenance and development of this IT landscape is costly and not possible in the medium to long term without significant restructuring and modernisation measures
- ERGO's digitalisation goals, including the speed at which they are to be implemented, cannot be fully accomplished – required skills, capacities and technical infrastructure are not sufficiently available

### Objectives

- Establishment of a modern, secure IT landscape, characterised by high stability and implementation speed
- Introduction of a new collaboration model to tightly interlink business and IT to fulfil new requirements much more quickly
- Sustainably improved, simplified, and flexible ability to maintain the IT landscape

## 6 Digital IT – Development of digital capabilities and technologies

### Starting point

- Customers and partners expect to access digital services via the internet, mobile applications and other channels

### Objectives

- Establishment of a new, separate digital IT unit with the requisite skills and technologies
- Quick implementation of digital, innovative plans in a completely new, agile collaboration model for business and IT (new requirements are to be fulfilled in weeks rather than months)
- Improvement of customer and stakeholder orientation with new digital IT solutions (improved customer experience and new customer proximity)
- Shorter response times to new customer and stakeholder needs
- Establishment of a centralised data analytics unit, with data management competence and the required IT infrastructure

# 7 Processes – Strengthening of resilience and automation

## Starting point

- Future digitalisation of business models must be based on stable processes
- High degree of automation needed for competitive cost structures, but also short processing times and high process stability
- Flexibility will be needed for the integration of numerous new devices (including mobile deployment)

## Objectives

- Further strengthening of fast, low-cost, customer-friendly processes
- Higher automation rates in applications, policies, and claims/benefits, e.g. with a greater share of fully automated business transactions
- Higher portion of self-service, with processes redesigned from the perspective of customers or sales partners
- Expansion of digital infrastructure for data transmission and communication, e.g. development of new solutions for mobile devices, full introduction of Skype for Business

# 8 Fundamental optimisation of product portfolio

## Starting point

- Product offering must meet increasingly differentiated customer needs – continued coverage of all market segments
- Products must also be consistently optimised for process efficiency and automation potential

## Objectives

- Property-casualty: Strengthening of product portfolio, including commercial/industrial business
- Health: Stabilisation of comprehensive cover and further expansion of supplementary insurance
- Life: Strengthening of investment fund and unit-linked business, including stronger cooperation with MEAG



## 8 Fundamental optimisation of product portfolio resulting in growth opportunities

### Property-casualty

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- **Private customers:** Development of modular products with consistent look and feel; attractively priced basic cover and special-offer packages
- **Commercial customers:** Simplification of advisory/offer process; broker product line for the developing online market in commercial liability and contents insurance
- **Other:** Strengthening of car fleet, cooperation and group accident business; new cyber product line

### Life

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- Concentration on products linked to capital markets and without guaranteed interest rate
- Strengthening of biometric products through prioritisation in product development
- Closer cooperation between ERGO and MEAG

### Health

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- **Comprehensive insurance:** Optimisation of product range and improvement of customer satisfaction
- **Supplementary insurance:** Modernisation, broadening of product range, simplification and digitalisation of customer acquisition processes
- Expansion of digital services

### Financial products

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- New Financial Product division
- Long-term strengthening of investment fund business – both direct investments and retirement products – to meet customer demand for private retirement solutions
- Closer cooperation between ERGO and MEAG

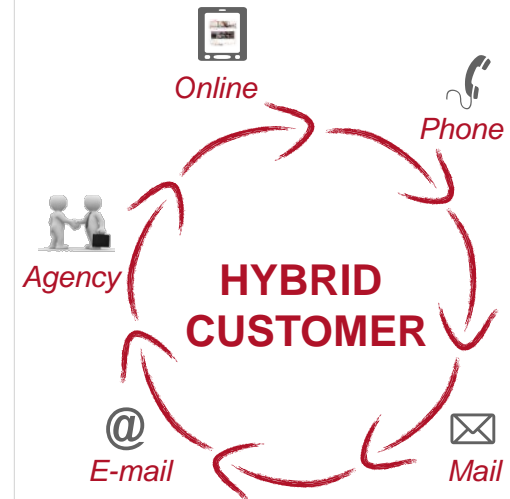
## 9 Integral approach for hybrid customers – Creating a specific sales and product offer

### Starting point

- Customers increasingly switch between channels – e.g. obtain information online, but seek advice and take out policies locally
- Customers make more specific decisions according to their requirements, i.e. simple vs. more complex solutions requiring personal advice
- ERGO currently does not have an adequate cross-channel offering for these customers

### Objectives

- Realise market potential of the hybrid customer with a fully integrated sales approach
- Create a cross-channel branding and customer experience, e.g. by expanding the websites and customer portals
- Systematically gear product strategies towards customer needs – simple, customer-oriented products and services
- Strengthen ERGO brand



*New customer  
experience across  
all channels*

# 10 Solutions for pure online customers

## Starting point

- There is a growing market for price-sensitive online customers for whom ERGO does presently not have a suitable offer
- Established and new competitors are trying to occupy this market

## Objectives

- Benefit from the market potential for pure digital customers with a dedicated offer
- Create a pure digital player, positioned as a separate offering from ERGO – with its own company name, brand, and location
- Start with new motor product and an additional product in Germany as of 2017
- Ensure lean, competitive cost structures and fast processes, i.e. digitalisation rate of up to 99%, online self-services, no telephony, etc.
- Differentiate through innovation, e.g. claims reported via app, booking of additional benefits

# 11 Expanding international commercial/industrial business

## Starting point

- In commercial/industrial business, international coverage, rating, underwriting capacity and know-how are especially important
- For international companies with a good rating, this field of business offers good opportunities
- ERGO's strengths in these areas are not being fully exploited yet

## Objectives

- Expansion of international commercial/industrial business by using existing underwriting capacity and rating of ERGO Versicherung AG
- Strong cooperation between ERGO International and ERGO Deutschland to leverage existing expertise
- Expansion of the International Market Underwriting function, and strengthening of the Group function for property-casualty business

# 12 Strategic partner for international cooperation – ERGO Mobility Solutions

## Starting point

- Partnership with international companies is becoming more significant, e.g. automotive financial services
- ERGO can build on good B2B2C expertise
- International partnership models with growth potential and as innovation driver for ERGO

## Objectives

- Establish a new unit, ERGO Mobility Solutions, under the umbrella of ERGO Digital Ventures
- Position ERGO as a strategic, international partner
- Long-term development of new insurance concepts for the growing "sharing economy" sector
- Vehicle industry as an attractive market

# 13 International expansion – Revisited in H2 2016

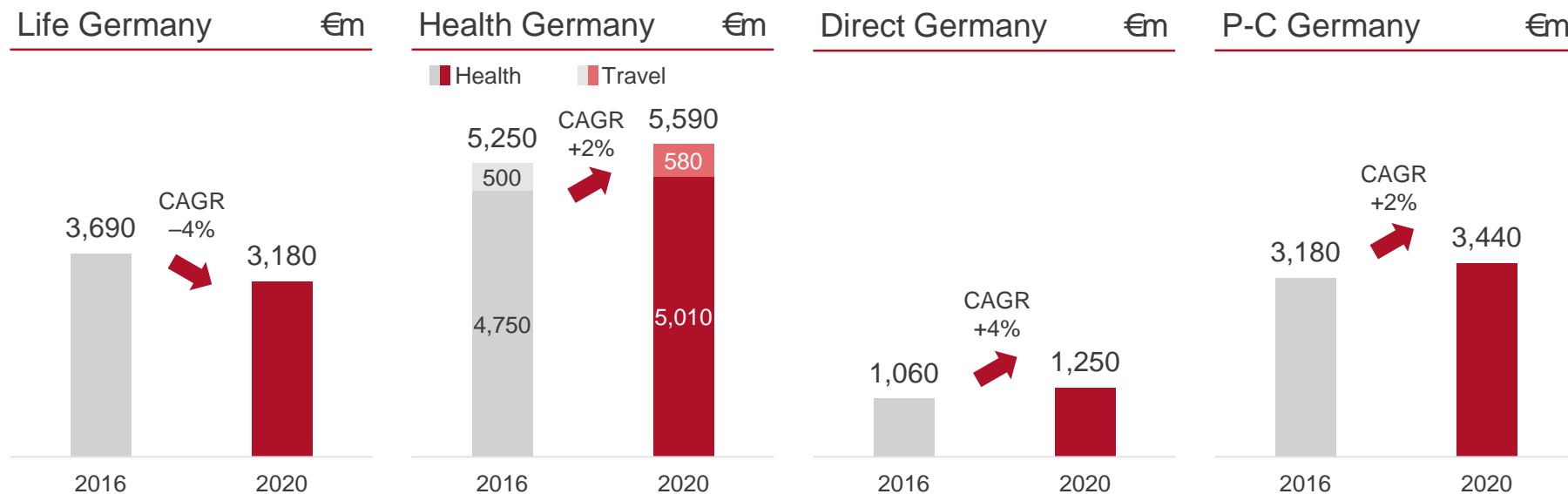
- International business represents a key area for ERGO to generate profitable growth outside the domestic market
- We aim to build on existing and very strong international presences (e.g. Poland, India, and D.A.S.) and use these as a basis for further growth
- We also want to selectively enter promising new markets in Asia going forward into the future and expand our position in existing markets
- Being part of Munich Re allows us to leverage opportunistic growth openings in new regions



Financial impact

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# Solid premium growth<sup>1</sup> throughout 2020, apart from life business



Expansion of capital-market-related products not compensating for declining traditional business

Health: Growth in supplementary products, esp. in the hybrid-customer segment, comprehensive insurance stable  
 Travel: Growth driven by omni-channel approach

Growth in hybrid customer segment from investments in new self-service platform, CRM system, website data analytics

Hybrid customer and omni-channel approach are the main growth drivers – ERGO to achieve above-market growth from 2019

## Digital transformation and omni-channel approach provide solid business growth

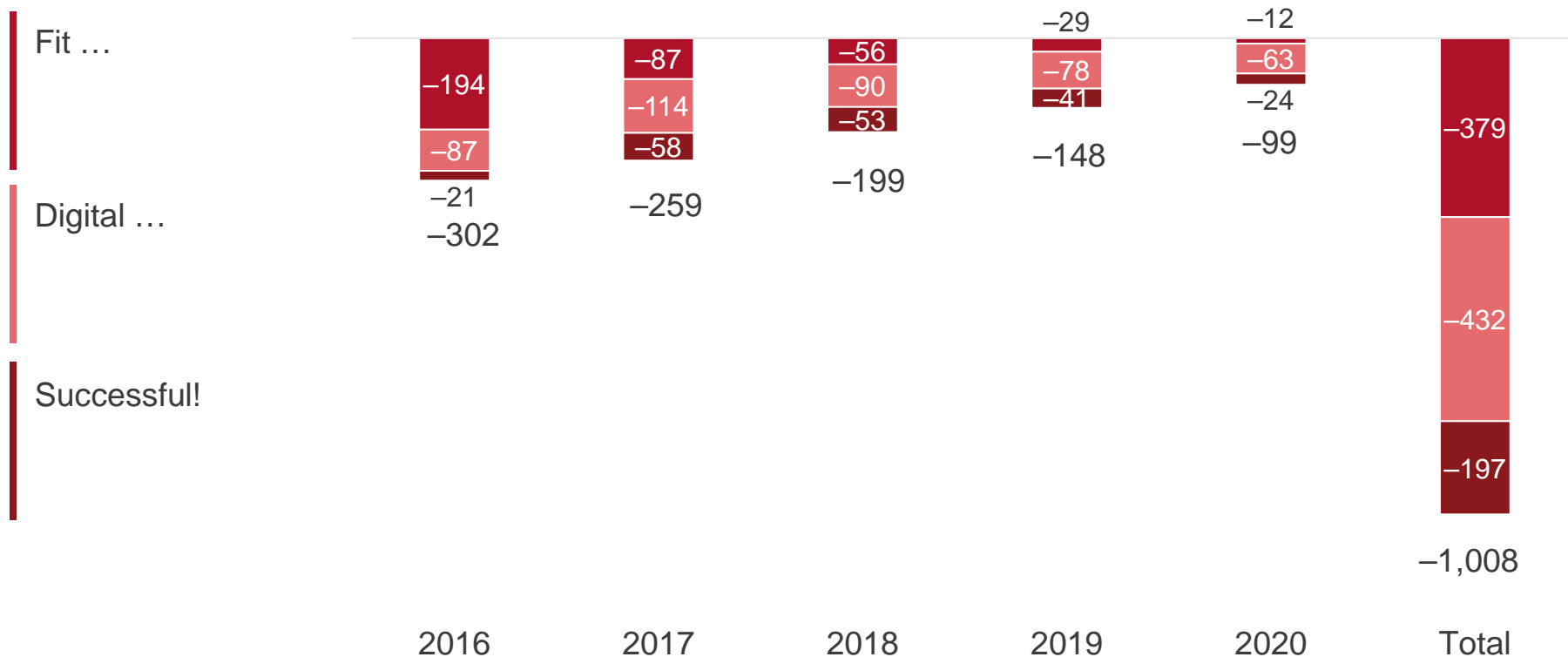
<sup>1</sup> Gross premium written.



# Investments – Net profit effect of ~€1bn by 2020

Net profit impact of investments<sup>1</sup>

€m

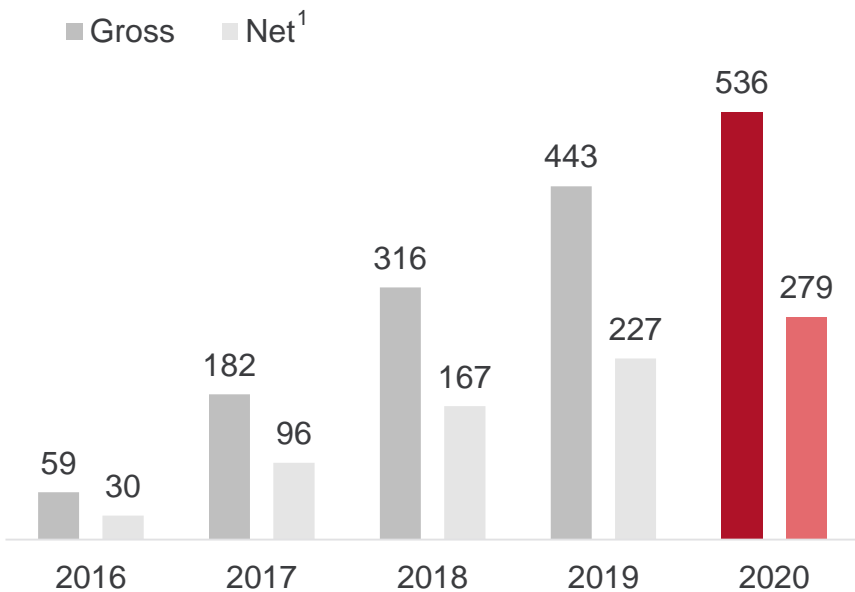


**Investments strengthen ERGO's sustainable competitiveness**

<sup>1</sup> After policyholder participation and taxes. Expected net restructuring expenses of ~€200m in 2016 included.

# Total cost savings of ~€540m from 2020

Annual cost savings €m



Cost savings in 2020 by theme €m



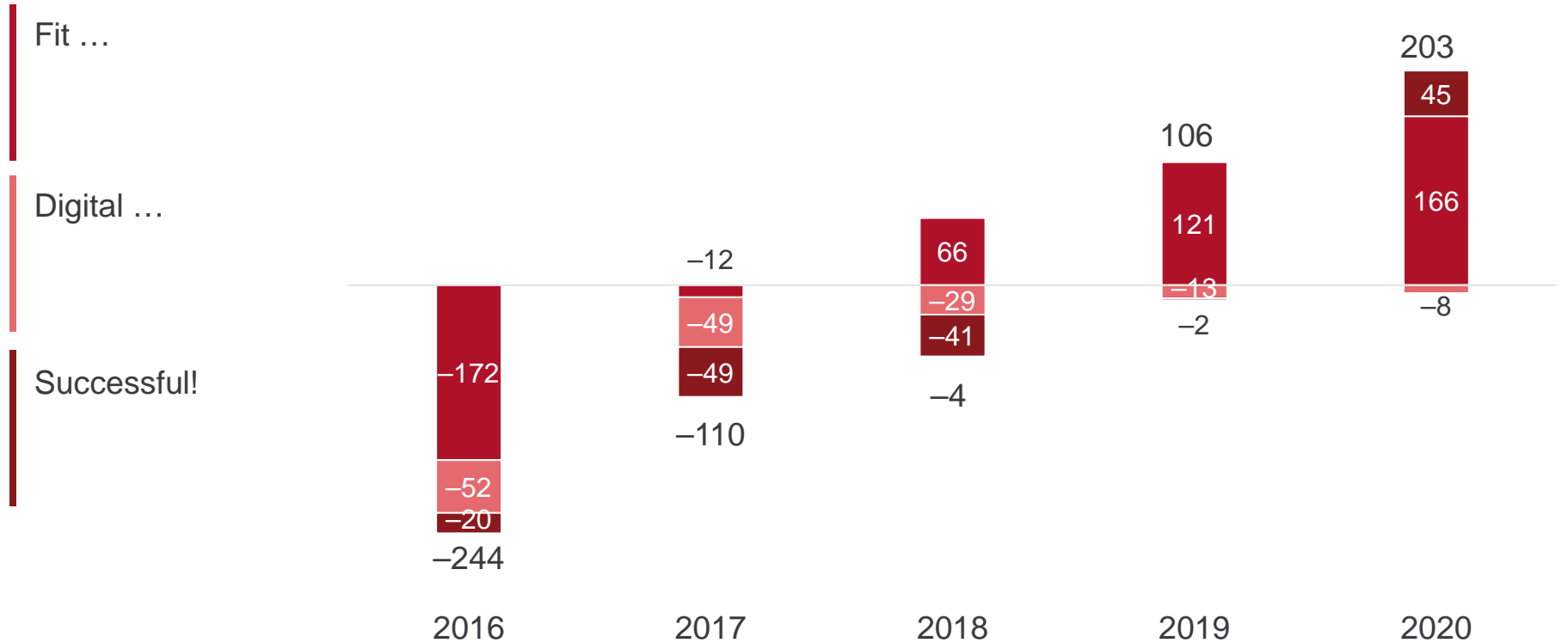
Reduction of ~1,800 FTE by 2020

<sup>1</sup> After policyholder participation and taxes.

# Strategy programme – Positive impact on net profit of ~€200m in 2020

Net profit impact of strategy programme<sup>1</sup>

€m

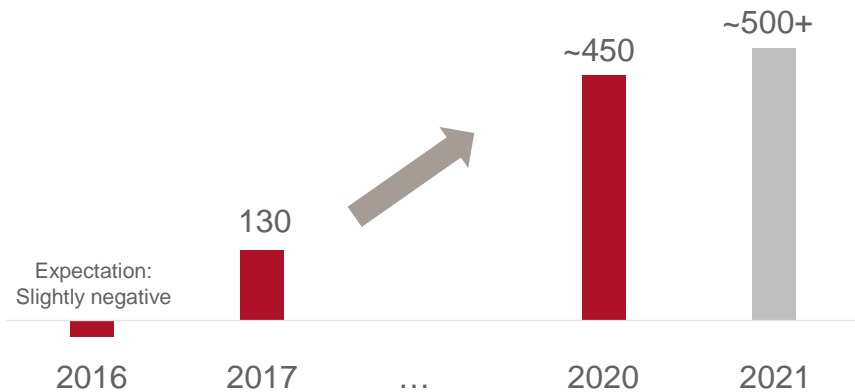


## Investments strengthen ERGO's sustainable competitiveness

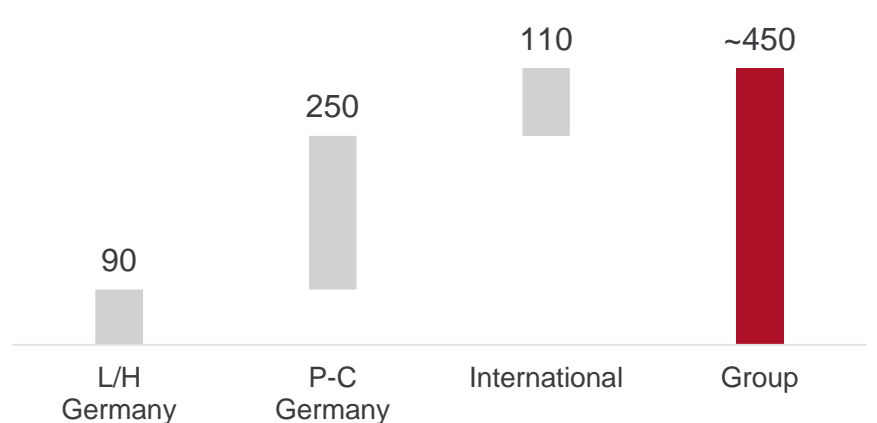
<sup>1</sup> After policyholder participation and taxes, including impact of investments, savings, premium growth and other cost effects on net income.

# Outlook: Net profit of ~€450m in 2020, from 2021 onwards at least €500m

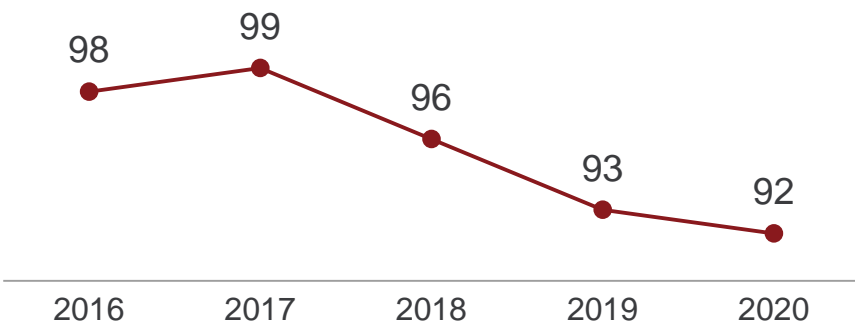
ERGO Group – Net profit €m



Net profit in 2020 by segments €m



P-C Germany – Combined ratio %



- 2016/2017: Increase driven by investments
- From 2018: Continuous decrease due to reduction of expense ratio
- Operating cost ratio (German GAAP) improves from 33.0% in 2015 to 29.8% in 2020<sup>1</sup>

<sup>1</sup> Excluding effects from investments.

# ERGO Strategy Programme – Key takeaways

- Munich Re fully supports ERGO's Strategy Programme, as it is convinced of ERGO's long-term earnings potential and sustainable contribution to value generation for Munich Re (Group)
- Significant investments in ERGO's infrastructure, product development and employees, will facilitate significant efficiency gains, long-term cost savings, and business growth
- New CEO and recently hired top executives bring new ideas, best-in-class expertise and readiness to implement determined future orientation – good blend with experienced core team at ERGO
- ERGO's profitability will cover its cost of capital from 2020 and create incremental added value thereafter – ambitious (but not unrealistic) business plan with upside potential from future technology leadership
- Investments based on the Strategy Programme will largely be self-funded by ERGO – from today's perspective downstreaming of capital as part of the Strategy Programme probably not necessary
- During the duration of the Strategy Programme, dividend payments from ERGO to Munich Re are not to be expected
- Munich Re will retain financial flexibility to continue capital repatriation to shareholders
- ERGO provides Munich Re with multiple options; synergy potential between ERGO and reinsurance not yet fully leveraged – many business activities underway

## 2016

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- 9 August Half-year financial report as at 30 June 2016
- 9 November Quarterly statement as at 30 September 2016<sup>1</sup>

## 2017

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- 7 February Preliminary key figures 2016 and renewals
- 15 March Balance sheet press conference for 2016 financial statements  
Analysts' conference in Munich with videocast
- 26 April Annual General Meeting 2017, ICM – International Congress Centre Munich
- 9 May Quarterly statement as at 31 March 2017<sup>1</sup>
- 9 August Half-year financial report as at 30 June 2017
- 9 November Quarterly statement as at 30 September 2017<sup>1</sup>

<sup>1</sup> Munich Re is adjusting its financial reporting format following an amendment to the regulations of the Frankfurt stock exchange. The half-year financial reports and annual reports will remain unchanged. However, instead of issuing quarterly reports for the first and third quarters, we will release reports in the new form of quarterly statements from 2016 onwards. We will continue to present and explain the figures for each quarter in telephone conferences for analysts and journalists, and in press releases.

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