

# Strategy

Over the course of 2012, we continued to work towards our bold ambition of being the most trusted insurer, which in our view involves being robust, transparent and delivering on our promises. Our focus is on ensuring customers are confident that we will be there for them when they need us, and that we are accessible to everyone by making our insurance available through a wide range of brands and distribution channels. We see it as our duty to act in a responsible and forward-looking manner, which includes developing sustainable insurance, responsible investment practices, and always putting customers' interests first.

Our long-term strategy involves continuing to concentrate on the non-life and health insurance markets, where we have truly leading positions, while developing selectively in pension and life insurance and gradually building our international presence based on proven capabilities. We will achieve this by continuing to build on the strengths we draw from our customer-focused product portfolio, our distribution capabilities, our prudent risk profile and of course our employees. Although the ongoing challenging economic and social circumstances means we need to up the pace of change, and adapt to shifting market circumstances as and when required, operationally we are still very much on track. We are clear about the direction in which we are headed and we are making steady progress. Our financial results are solid, our market position is clear and we have a very strong capital position. While our bold ambition acts as a strategic compass and helps guide us towards our longer-term goals, we also need to react to changing circumstances in the short term. The non-life, health and life insurance markets are coming under pressure on number of fronts, such as shifting customer demands (including cross media interaction), changing government regulation and economic insecurity. To thrive in this environment that is constantly in motion, it is necessary to be both agile and focused. And it is essential we do this while ensuring that customers remain our main priority. The time of thinking in certainties is over: our customers and Achmea need to be able to deal with uncertainty. In the short term, our goals are to concentrate on providing customers with advice on how to deal with uncertainty, developing innovative products and distribution methods, while reducing complexity and costs.

## IMPACT OF EXTERNAL DEVELOPMENTS

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The macro economic picture across Europe remains uncertain, as sluggish economic growth in the eurozone, rising unemployment, declining business investment and low consumer confidence all take their toll. Government involvement in the insurance sector is increasing, and the introduction of new regulations across the sector adds to organisations' workload. The picture in our principal market, the Netherlands, is one of change. A succession of political, social and technological developments are reshaping the way insurers and their customers do business, making it increasingly difficult to predict with any accuracy what will happen in the medium- to long term. The Dutch market is mature, saturated and highly competitive across most segments, with average growth no higher than inflation. New players offering non-life products online and the introduction of Premium Pension Institutions (PPIs) are putting pressure on many established insurers, many of whom were buffeted by the financial crisis. These new market entrants, plus customers who are increasingly focused on price, are rapidly changing the business model and earning capacity of insurers. Some of the material developments we see impacting the market are outlined below.

### Economic uncertainty

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The financial crisis that started in 2008 continues. What started initially as a liquidity crisis quickly became a debt crisis, and then developed into a serious economic downturn. Economic growth in the eurozone has slowed considerably, while unemployment is high.

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Business investment and consumer confidence remain low. Governments are increasing taxes and cutting spending which, in the short term, will weaken rather than strengthen the economy, even if long-term effects may be positive. Like all players in the financial sector, Achmea has been affected. Lower interest rates will impact our investment returns, while the Dutch housing and mortgage market has seen a dramatic fall in sales, knocking the demand for life products. The housing market will be further impacted, following the introduction on 1 January 2013 of new regulations that require those taking out a mortgage – particularly starters – to pay off their debt over a 30 year period if they want to qualify for interest deduction benefits.

## Healthcare costs

Reducing the pace at which healthcare costs rise is high on many political agendas. In the Netherlands, the government is looking both at ways to lower the cost of healthcare and to shift the costs to the consumer and the private sector. This has resulted in a growing trend among insurees, who are becoming increasingly sensitive to price developments in health care, to cut the cost of their healthcare policy, primarily by reducing supplementary insurance cover. At the same time, more policyholders are opting for a voluntary increase in the 'own risk' amount. This creates a more challenging market for insurers, who need to balance costs with the provision of high quality healthcare and the ability to adapt to a fluid market environment. An upturn in life expectancy, as well as a greater focus on better quality care by consumers, is placing an additional strain on care providers and insurers. Another issue currently facing the market is the uncertainty surrounding the future of the AWBZ (Algemene Wet Bijzondere Ziektekosten, or General Act on Exceptional Medical Expenses), which currently makes up over a quarter of total healthcare costs in the Netherlands. The AWBZ covers long-term exceptional expenses that are not covered by the basic health insurance, such as care for the elderly and care for the mentally and physically handicapped. The new government has announced a reform of the AWBZ and, although final plans have not yet been presented, the changes will have profound implications for insurers.

## Regulatory changes

There are a number of regulatory issues that have either impacted, or could impact, the insurance sector. One key issue is the increased focus on customer protection, which occurred following the mis-selling of pensions and unit-linked policies in the Netherlands by banks and insurers in the past. Aimed at ensuring the quality and transparency of insurers' products and services, the commission set up to review insurers (Stichting Toetsing Verzekeraars) awards companies that meet certain standards a customer oriented insurance quality mark (Keurmerk Klantgericht Verzekeren). This industry self-regulation helps customers identify those insurers that offer trustworthy, easy-to-understand products and good customer service. Currently, ten brands of Achmea have been awarded the customer oriented insurance quality mark.

During the course of 2012, the government decided to raise the retirement age in the Netherlands. It will increase, in incremental steps, to 67 by 2023. The government also decided to cap fiscal facilitation of pension savings for incomes over €100,000 and to cap the annual pension build-up percentage at 1.75%. These measures will impact those funds and insurers that offer pension insurance. On 1 January 2013, insurance companies and banks were banned from paying commission to brokers who sold their mortgage, life insurance or funeral insurance policies. Brokers and intermediaries are now required to charge consumers directly for their advice, while products sold through direct channels need to have a clear separation between the cost of the product and advisory charges. This split is designed to introduce greater transparency, which is a customer demand, and a more competitive market environment. Whilst Achmea applauds this move to greater transparency, it also recognises that it causes an increase in administrative costs. On 1 January 2013, the Dutch government also increased the insurance tax from 9.7% to 21%. This increase will make most non-life insurance more expensive for consumers, and may cause some of them to reduce their insurance cover.

The introduction of the Solvency II capital requirements – which are designed to ensure that insurers in the European Union hold enough capital to lower their insolvency risk – is expected to have a significant impact on the industry, although in 2012 it was announced that

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## SWOT ANALYSIS ACHMEA

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• High customer satisfaction</li> <li>• Cooperative identity</li> <li>• Large market share in the Netherlands</li> <li>• Good product diversification</li> <li>• Strong position in distribution channels, especially in markets where expected growth is highest</li> <li>• Very strong capitalisation</li> <li>• Realising economies of scale</li> <li>• Conservative investment portfolio</li> <li>• Achmea's brands are more trusted than market average</li> <li>• Dedicated, highly educated employees</li> <li>• One of the most attractive employers in the Netherlands</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Limited geographic diversification</li> <li>• Legacy and number of IT systems</li> <li>• Cost structure</li> <li>• Position in traditional life</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Growth of internet as distribution channel</li> <li>• Privatisation of certain markets</li> <li>• Regulator clamps down on irresponsible pricing</li> <li>• Limited trust in insurance sector</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Low interest rates</li> <li>• Increased life expectancy</li> <li>• Limited trust in insurance sector</li> <li>• Highly competitive Dutch market; pressure on margins</li> <li>• Volatility of financial markets</li> <li>• Competition from non-insurers</li> <li>• Political decisions on health/pensions</li> </ul>

implementation, initially scheduled for 1 November 2012, would be postponed to 1 January 2014 and a further delay is expected. This is not welcome news for Achmea, for a number of reasons. In addition to the time and resources we have already invested in Solvency II, our position under this new regime will be even stronger, further reinforcing our competitive position. Furthermore, many of the smaller players could struggle to meet the increased regulatory burden or raise sufficient capital, which may lead to increased M&A activity in the industry. This could provide opportunities for larger players such as Achmea.

### Customer interaction

The way customers interact with insurers and other companies is changing rapidly. The use of aggregators to compare product information and pricing is becoming more prevalent, and at Achmea the sale of insurance products through our direct, banking and broker channels in a cross-media fashion – where customers interact with us through a variety of different media in one channel – is increasing. The market is becoming more competitive, with both internet-only start-ups and aggregators on the

one hand and established insurers on the other looking to install themselves as trusted online players, by providing better customer service and reducing costs through operational efficiencies. More and more customers are now choosing how and when to purchase products or contact their insurers, and the 24/7 marketplace is developing. Insurers are responding to customers' requirements for clearer, more readable correspondence and product information. Across Achmea, for example, we now ensure that letters to customers are clear, jargon-free and not unnecessarily long.

### ACHMEA'S STRATEGY

#### Where are we today?

Over the last few decades, Achmea has grown substantially, and today we are market leader in the Netherlands. We have top-3 positions in almost all segments of the Dutch insurance sector, and operate many of the best-known brands in the market. Our capital position is very strong and, despite the economic

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headwinds, our financial results at the end of 2012 were better than we had hoped for. Our cooperative roots make us who we are today, with empathy, innovation and the ability to deliver on our promises key company values. Our employees are focused on serving our customers to the best of their ability, and our continued, relatively high scoring in customer satisfaction surveys is an indication of how we are viewed. We are realistic about the opportunities and challenges ahead. On the one hand we are optimistic about the strength of our position, and we are confident that we will make this a successful decade for both the organisation and our stakeholders. On the other hand, we are realistic about the many challenges that lie ahead, and how long the road is. To achieve our ambition of being the most trusted insurer, it is necessary to increase the pace of change and continually adapt to shifting market circumstances. Changing customer demands, new government initiatives and volatile economic conditions create an environment that requires an agile organisation that develops innovative and sustainable solutions.

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## Where are we going?

The insurance market is changing, and we are changing with it. One of our primary ambitions is to be recognised as the most trusted insurer that thinks from the customer's perspective. We will achieve this by acting in a responsible and forward-looking manner, maintaining our focus on developing sustainable insurance and responsible investment practices. Our long-term strategy involves continuing to concentrate on the non-life and health insurance markets through the direct and banking channel, while developing selectively in pension and life insurance and gradually building our international presence based on proven capabilities. Our goal is to expand our market share in non-life, in part by driving growth within the (large) corporates market and by developing innovative distribution capabilities. For health we will focus on quality of service and business over growth, and for income protection we will focus on profitability over growth. For health this means that in some instances we will target market share growth in specific regions to give us greater negotiating power when purchasing health care services. In pensions, we will continue to work with our customers to shift from defined

benefit to defined contribution solutions. In individual life, we will separate and manage our closed book and focus on simple term-life products. Internationally, we will continue our focus on Non-life and Health, mainly through the direct and bancassurance channel. As an organisation with a cooperative heritage, community involvement is part of our identity. We will engage with the public on relevant themes, and continue to give direction to public debates, such as those surrounding the health care system or aging. Our bold ambition is to be the most trusted insurer, and this involves playing a leading role in society and contributing to cooperative solidarity in the 21st century. This focus is at the core of our identity, and shapes our business philosophy that the customers' interests are always put first, and we serve them according to their needs and wishes. Financially, we aim to retain our very strong capital position, with a solvency ratio above 190% compared to Solvency I requirements. At the same time, we will focus on maintaining the A+ rating for our core insurance entities from Standard & Poor's.

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## How will we get there?

### OUR PORTFOLIO

In the challenging period that the financial services sector currently finds itself in, adaptability and flexibility are crucial. As we go forward, we will concentrate on four key areas: product composition; distribution channels; the position of Achmea in the value chain; and our geographical focus (nationally and in non-life and health internationally). Our aim is that our product composition will be made up of state-of-the-art solutions across our business lines, which we will adapt to changing customer needs and market circumstances. Customers are increasingly demanding higher levels of accountability and transparency from the products and services that we deliver, which means that our deliverables need to be innovative and reflect social and environmental changes. Technology will play an increasingly important role in the way we adjust our product propositions and develop our distribution channels, with the collection, analysis and interpretation of customer data taking on a key role. This will help us increase customer satisfaction levels and develop cross-selling opportunities, by creating tailor-made combinations of products based on customers'