

**INTERVIEW****Hanover skirts slump with careful underwriting**

\*Expects 2008 core earnings to grow at single-digit pace

\*Sees 2009 core earnings to grow at 2008 levels or more

\*Looking to buy small companies to acquire talent

By Supantha Mukherjee  
BANGALORE, Sept 16 (Reuters) - At a time when the insurance industry faces various headwinds, Hanover Insurance Group <THG.N> expects core earnings to grow at a single-digit pace in 2008 as it focuses on disciplined underwriting, and keeping existing customers and selling them more products.

"I predict that in the next few years our operating earnings growth will continue to be as significant as any of the top 30 (U.S.) property and casualty companies," CEO Frederick Eppinger told Reuters in an interview.

Eppinger expects 2009 to be the toughest year for the insurance industry as it is weighed down by pricing pressures. But he anticipates core earnings at Hanover to grow at 2008 levels or more next year.

The insurance industry is being dragged through a rough patch as rates for many types of coverage are declining while investment returns are in a slump.

But Eppinger said a recovery may be in the offing. "The last three years we (the insurance industry) have gone down, down, down and so I think we have started to flatten out a little bit," he said.

Many companies struggle as they stretch their product mix every year, leading to lower prices and loss of growth, Eppinger said. And to cover the loss of premium, "they open their underwriting to do things they don't know," he said.

This consequently leads to re-pricing and re-underwriting in a weak market.

But Hanover takes a much more disciplined approach to its underwriting, and consequently has a "great" balance sheet, CEO Eppinger said.

Hanover's shares have risen 3 percent since January, compared with a 17 percent fall in the Dow Jones U.S. Property & Casualty Insurance index <.DJUSIP> and a 19 percent fall in the S&P 1500 Property & Casualty Insurance Sub-Industry index <.15GSPINPC>.

The company's primary business operations include insurance products and services in three property and casualty operating segments -- personal lines,

commercial lines, and other property and casualty.

**A GAME OF INCHES**

The company is looking to improve margins by keeping existing customers and selling them more products with better service amid relatively flat prices, Eppinger said.

"In our business, it's a game of inches. So it's not some big thing but probably 20 little things that help you win," Eppinger said.

Hanover, which solicits its customers through external agents, is focusing on building relationships with independent agents and meeting their demand for a portfolio of capabilities and products that will allow them to be distinctive.

The number of agents in the United States is shrinking but the share that independent agents command in the overall market is growing, Eppinger said.

Hanover, which hired more than half of its 4,200 employees during the past three years despite an industry-wide slowdown, also sees an opportunity to acquire talent through purchase of smaller companies.

"I do tend to like the smaller ones better because I can get my hands around them, I can understand the economics better and I have really good people here who can expand them and leverage them."

In the next three years, many smaller companies will face failure and consolidation as they cannot continue to invest in the technology and other capabilities required to compete with more sophisticated players, Eppinger said.