

# Trends in insurance and value creation in Topdanmark

Michael Pram Rasmussen  
3 December 2003



Topdanmark



# Insurance companies in the 80's and 90's

## Characteristics:

### High investment income

- Overcapitalised
- High interest rates at beginning of 80's and then declining rates
- Capital gains

### High combined ratio

- Typically generating gains in the 80's due to high interest rates
- Typically generating losses in the 90's due to declining interest rates

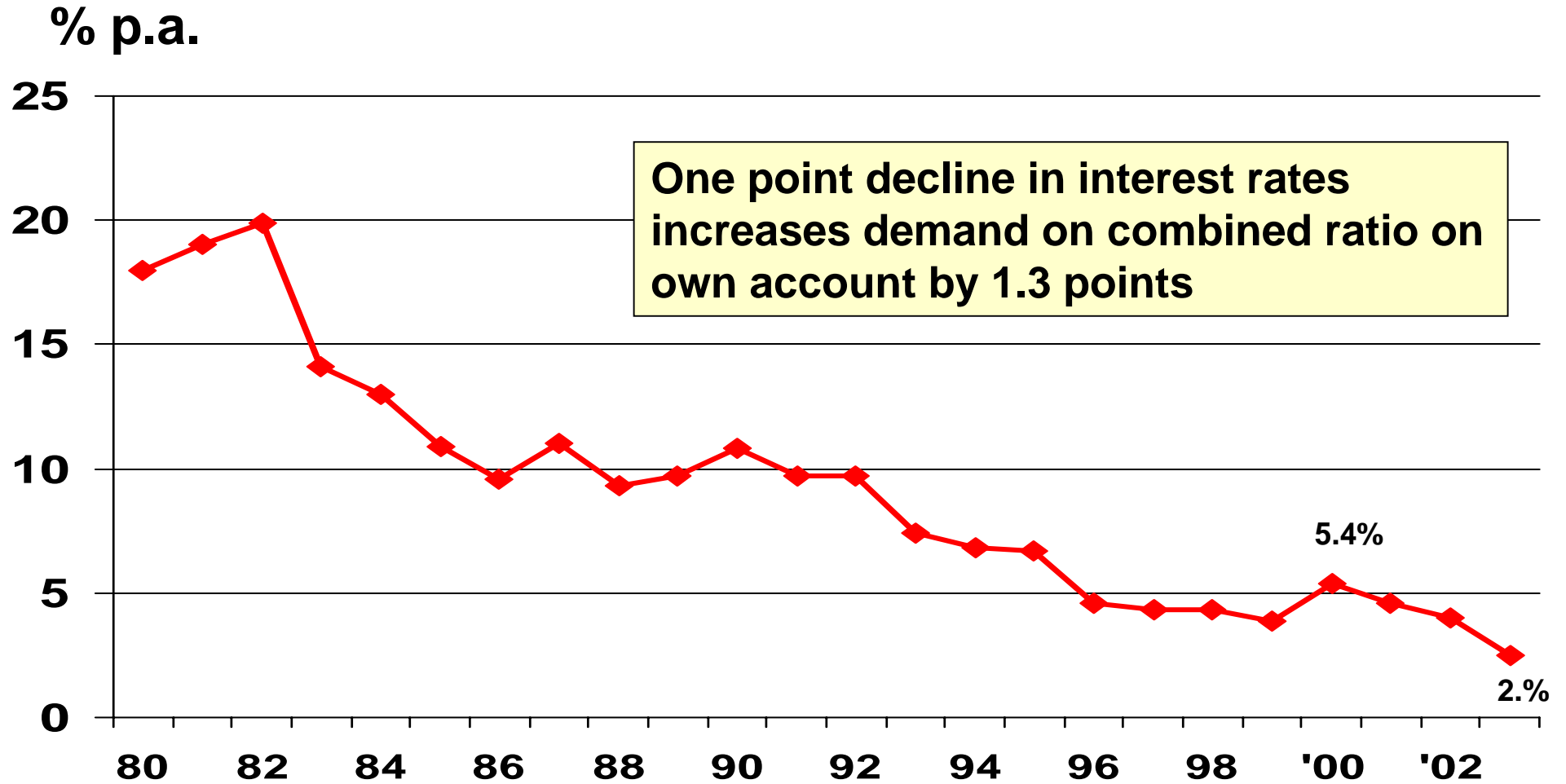
### Basically traditional insurance companies

- Diversification started at the end of 80's
  - For example financial supermarket, abroad etc.



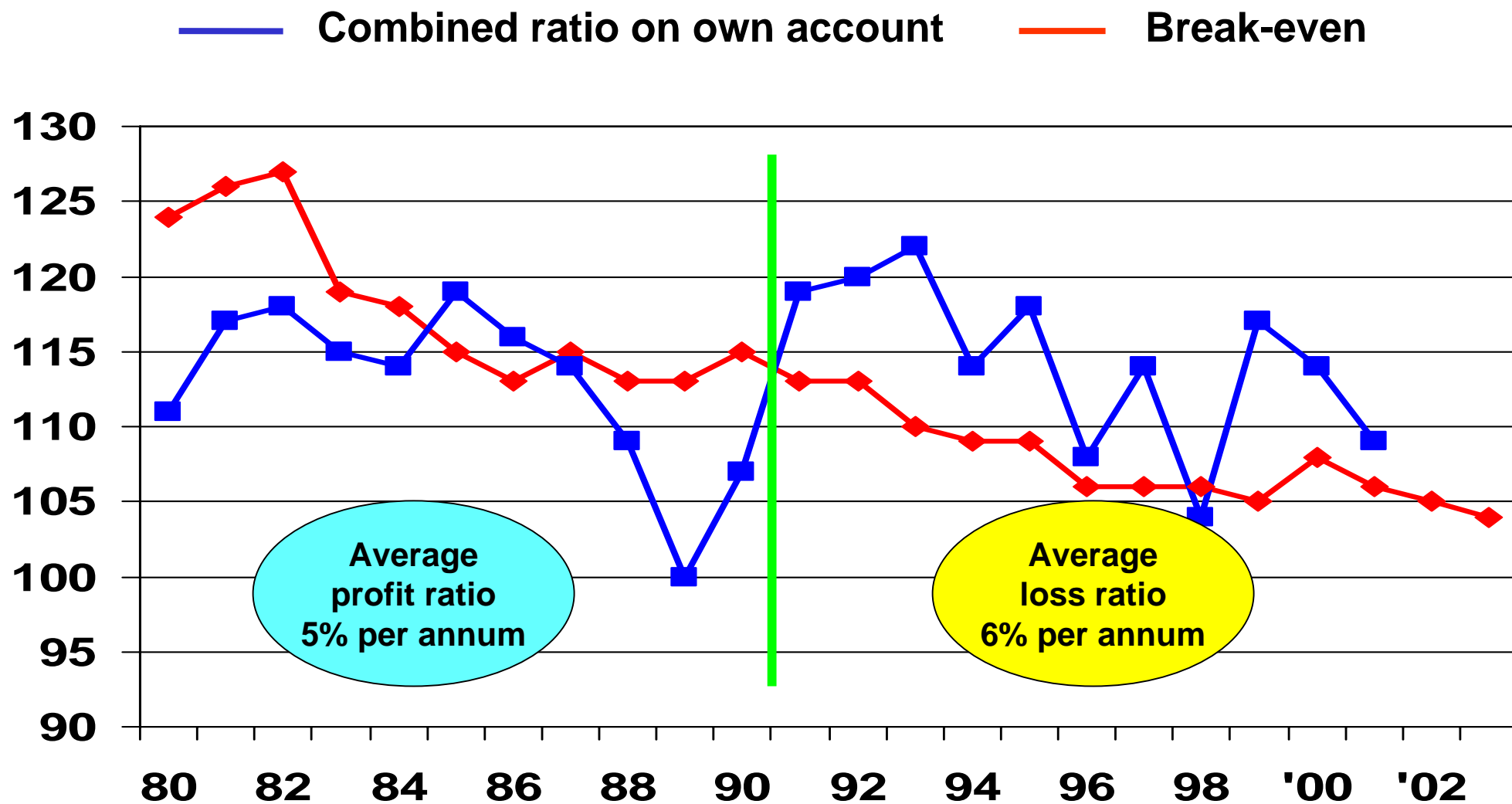
# Trend in short-term interest rates 1980- 2003

— Short-term interest rates per cent per annum



# Trend in combined ratio versus break-even

- all companies



Premiums on own account 2001 = DKK 32bn

Topdanmark



# Non-life insurance companies after 2000

## Characteristics:

### Low investment income / investment losses

- Loss on diversification
- Very low interest rates and high price fluctuations of equities
- Low capital adequacy

### Loss on insurance operations

- Continued relatively high combined ratio
- Further decline in break-even for combined ratio due to low interest rates
- Increasing expenses on reinsurance

### Structural adjustments

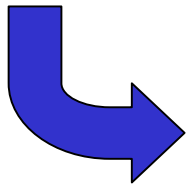
- Fewer players, new ownership structure and establishment of alliances



# International structural adjustments

## Trend characterised by

- **Cross-border mergers**
- **Earnings typically comprising earnings at home and losses abroad**
- **Profit on investments in securities and loss on primary operations**
- **No synergy advantages of cross-border activities**
- **Investors increasing demands on risk premium**



**Re-focus on home market and primary operations**



# Structural adjustments in Denmark

## Fewer players

Provinzial → Alm. Brand

Allianz Nordeuropa → Alka

Trekroner → Codan

Winterthur → Tryg

Zürich → Tryg

Gerling throttling down

Hamburg-Mannh. stops

Plus Forsikring bankrupt

## Large and small players

Tryg

Codan

Fair

Alm.  
Brand

If...



# Way out of vicious circle

- non-life insurance companies

## Industry in general:

Focus on earnings rather than growth

- Premium increases
- Cost reductions
  - staff cuts
  - automation
- Control of risks and claim payments

"We are going for a combined ratio of 95 in 2005"

Tryg: Stine Bosse

"We will have to do just as well as Top"

Codan: Jens Erik Christensen

If necessary further structural adjustments



Topdanmark

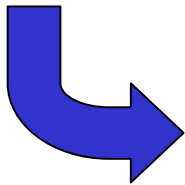




# Criteria of success for the next years

## Industry in general:

- **Distribution efficiency**
- **Low expense ratio**
- **Control of risks and claim payments**
  
- **Cautious investment policy**



**Focus on the insurance business combined with a cautious investment policy**



# The way ahead for Topdanmark

**Maintaining Topdanmark's goals and strategy**

**Focusing on Topdanmark's value creation**



Topdanmark



# Topdanmark's goals and strategy

## Goals:

- To ensure that its shareholders achieve a long-term, competitive, stable return
- To concentrate activities on non-life and life insurance in the Danish market
- To ensure that value creation takes place by accepting primarily insurance risks instead of financial risks

## Strategy:

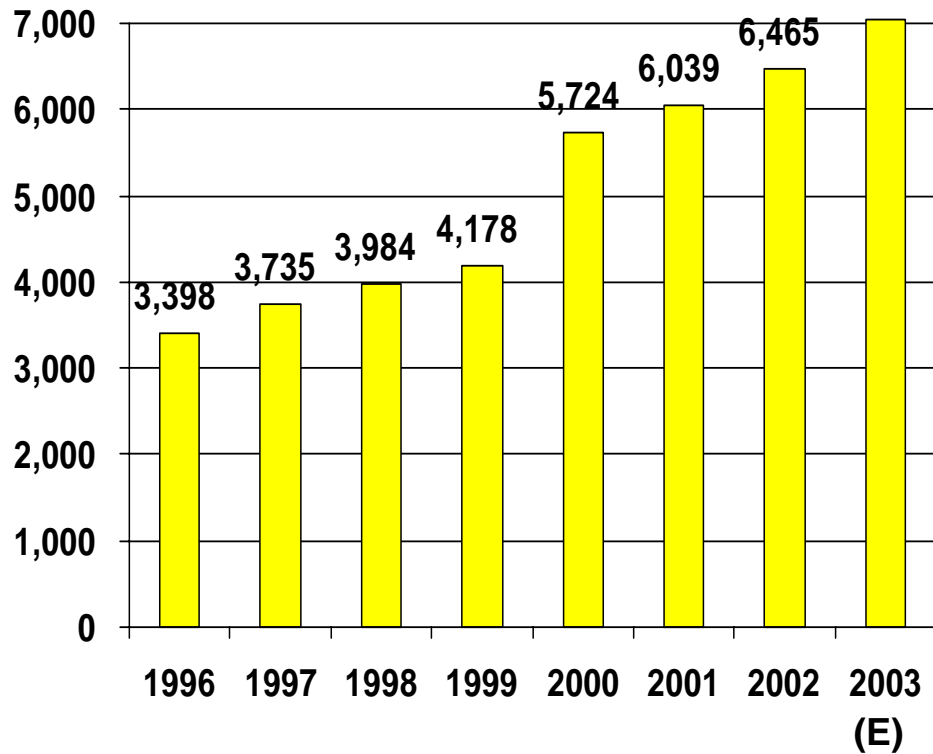
- Dynamism



# Trend in Topdanmark's premiums

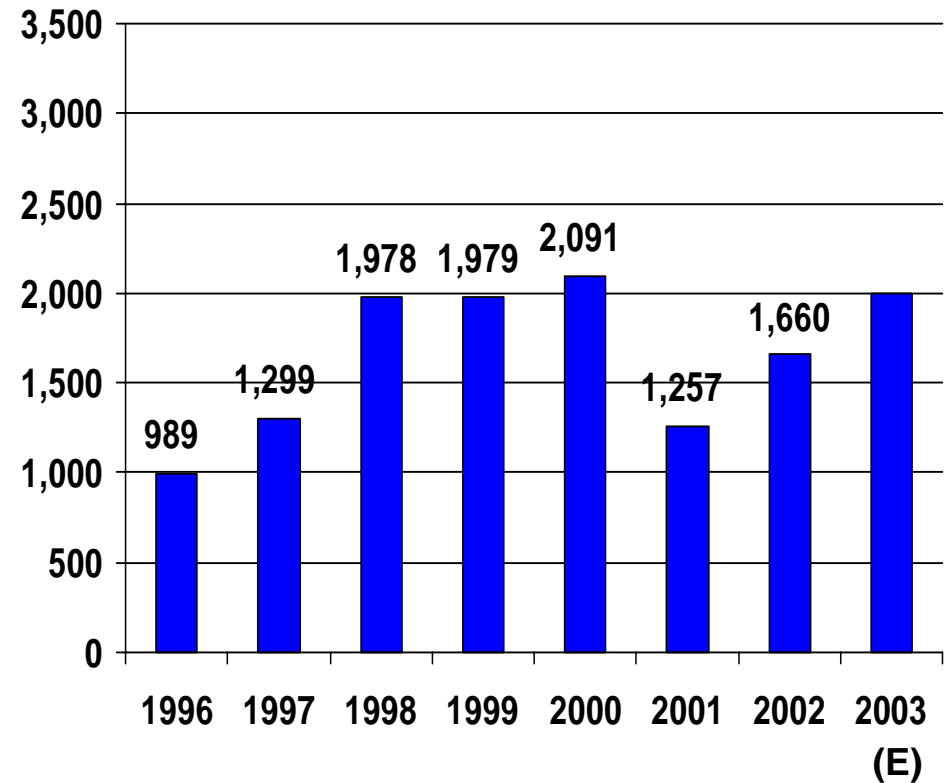
## Premium income - Non-life

DKKm



## Premium income - Life

DKKm

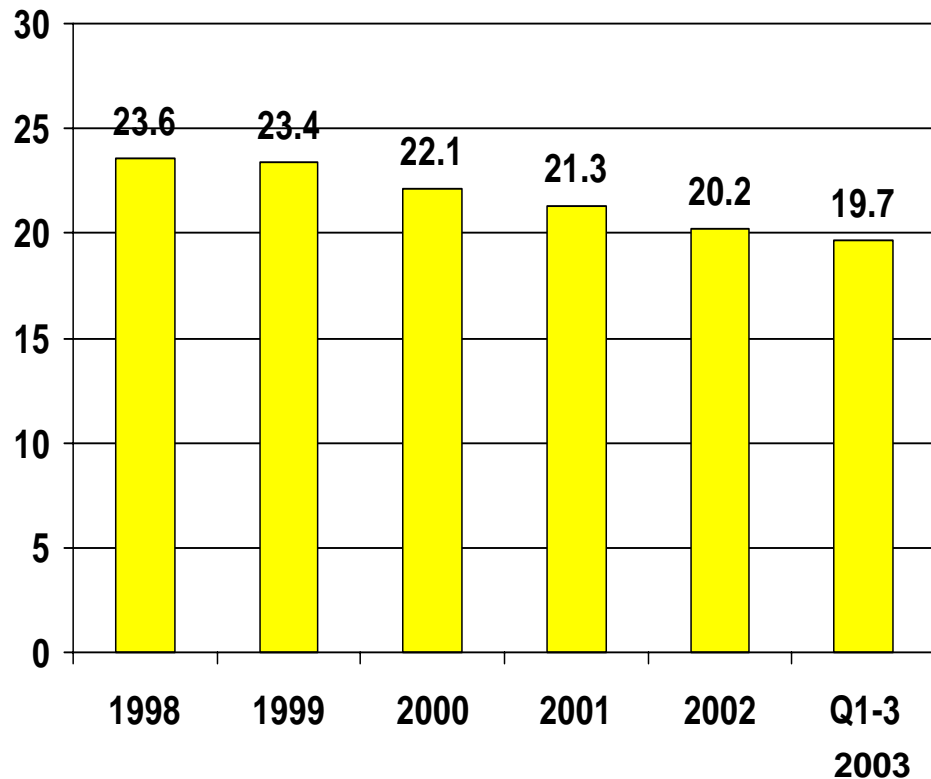


Topdanmark

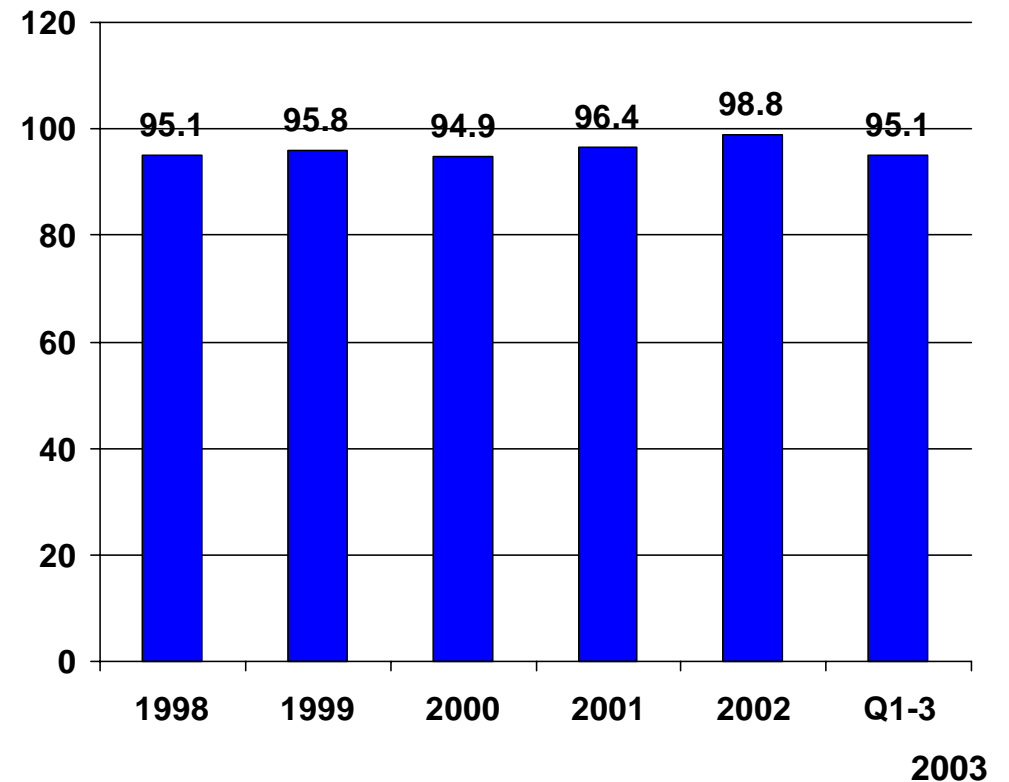


# Trend in Topdanmark's ratios

## Expense ratio

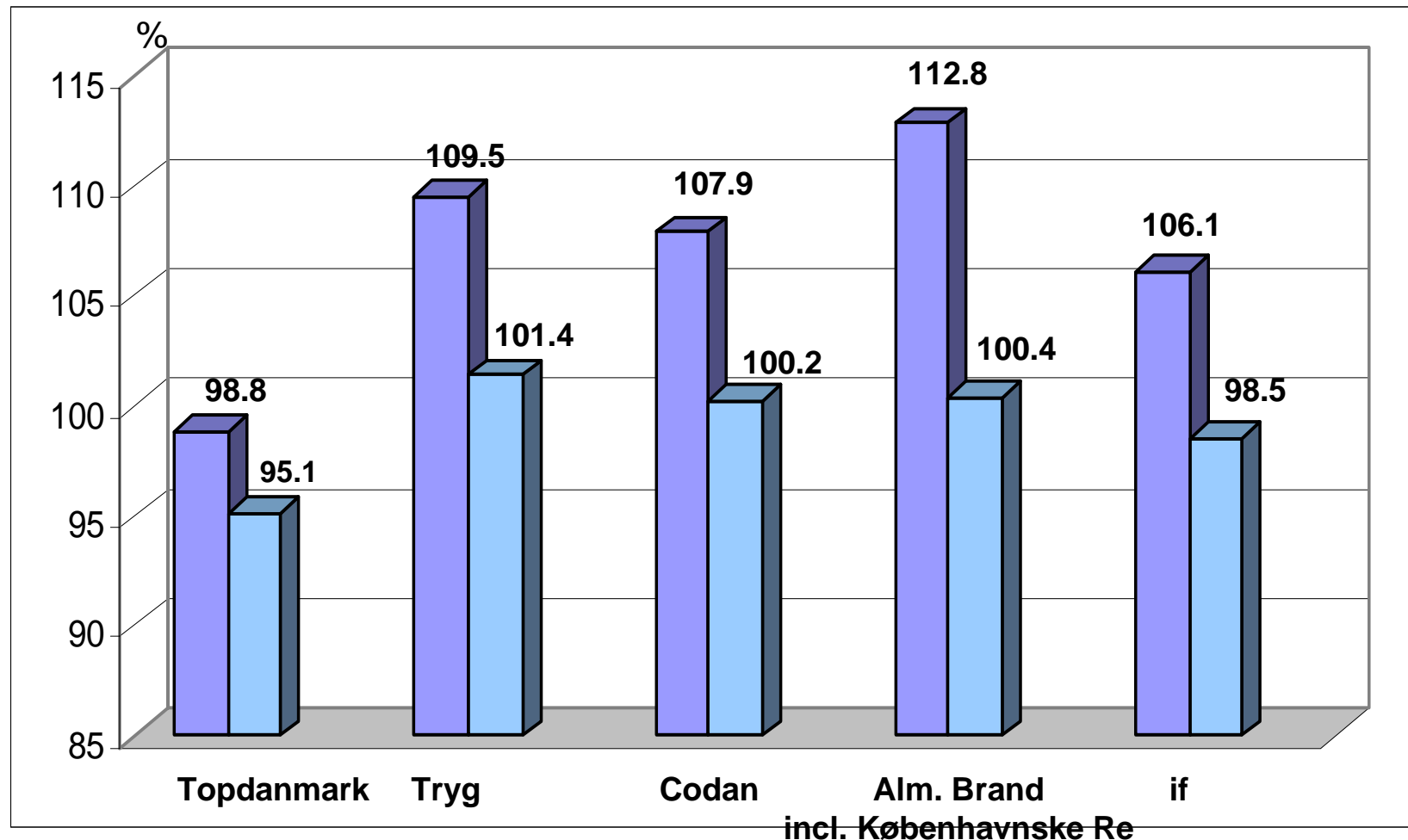


## Combined ratio - excl. storm



# Comparison of combined ratio

## - group level



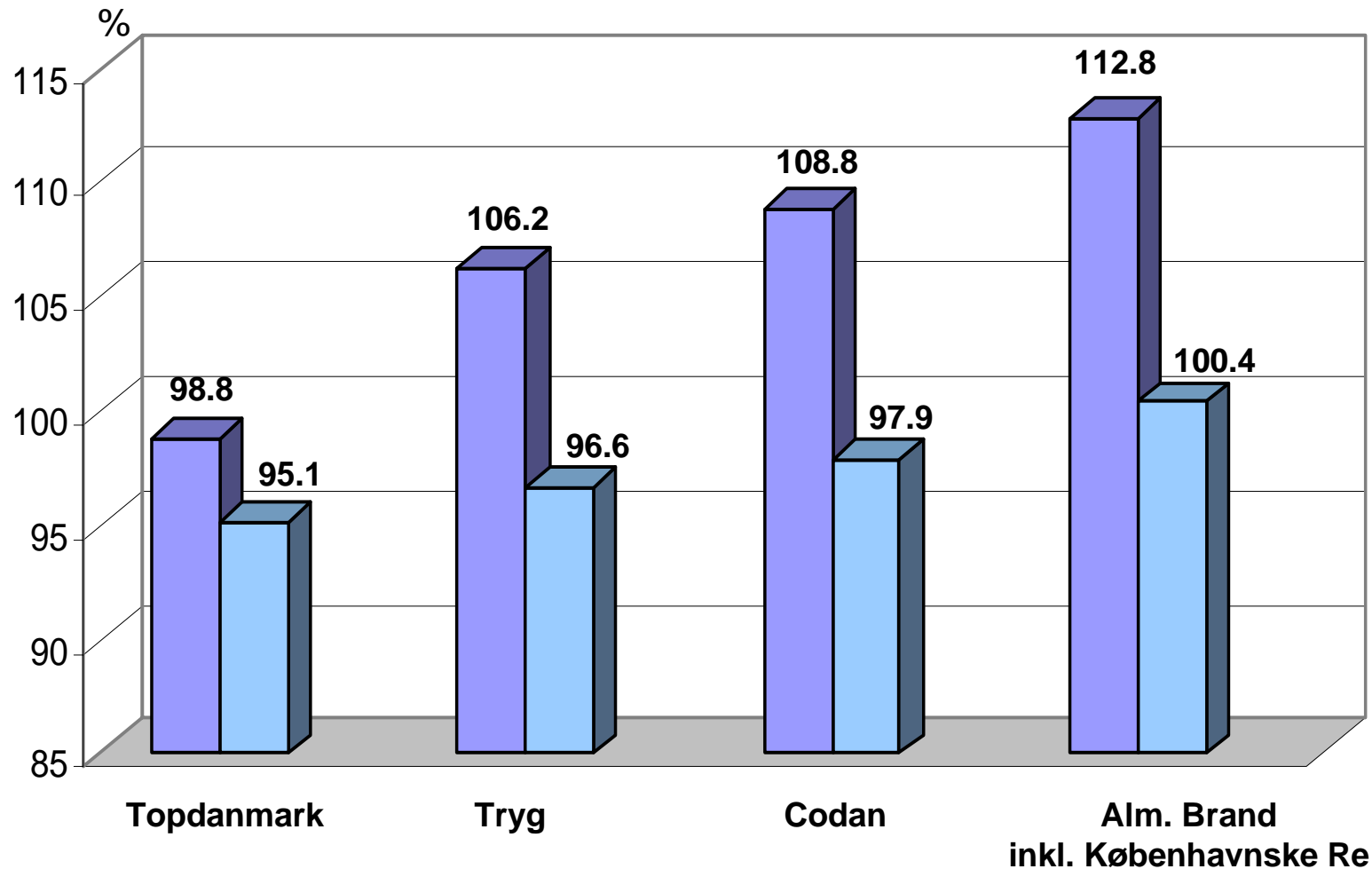
Combined ratio  
2002

Combined ratio  
Q1-3 2003



# Comparison of combined ratio

## - Danish business

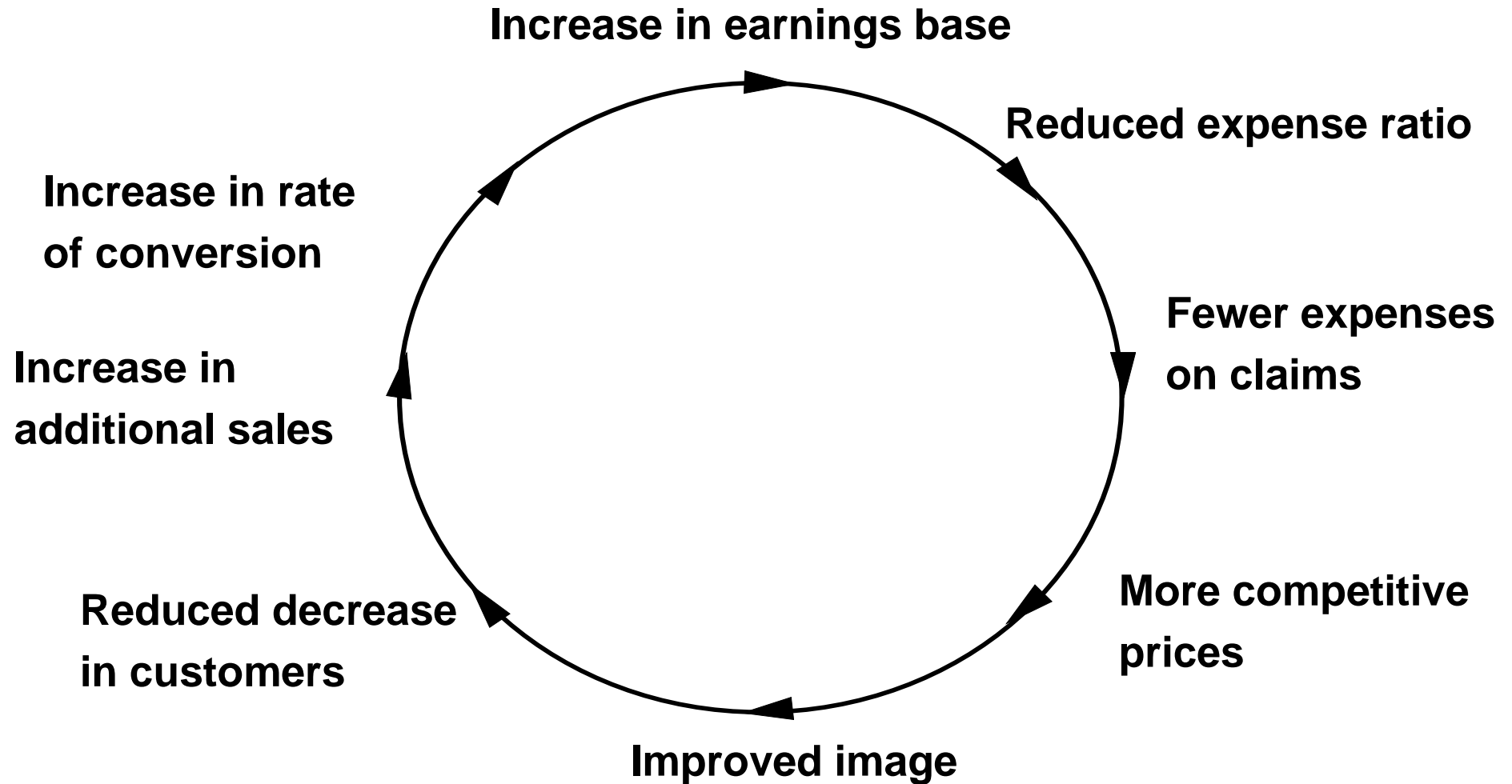


Combined ratio  
2002

Combined ratio  
Q1-3 2003



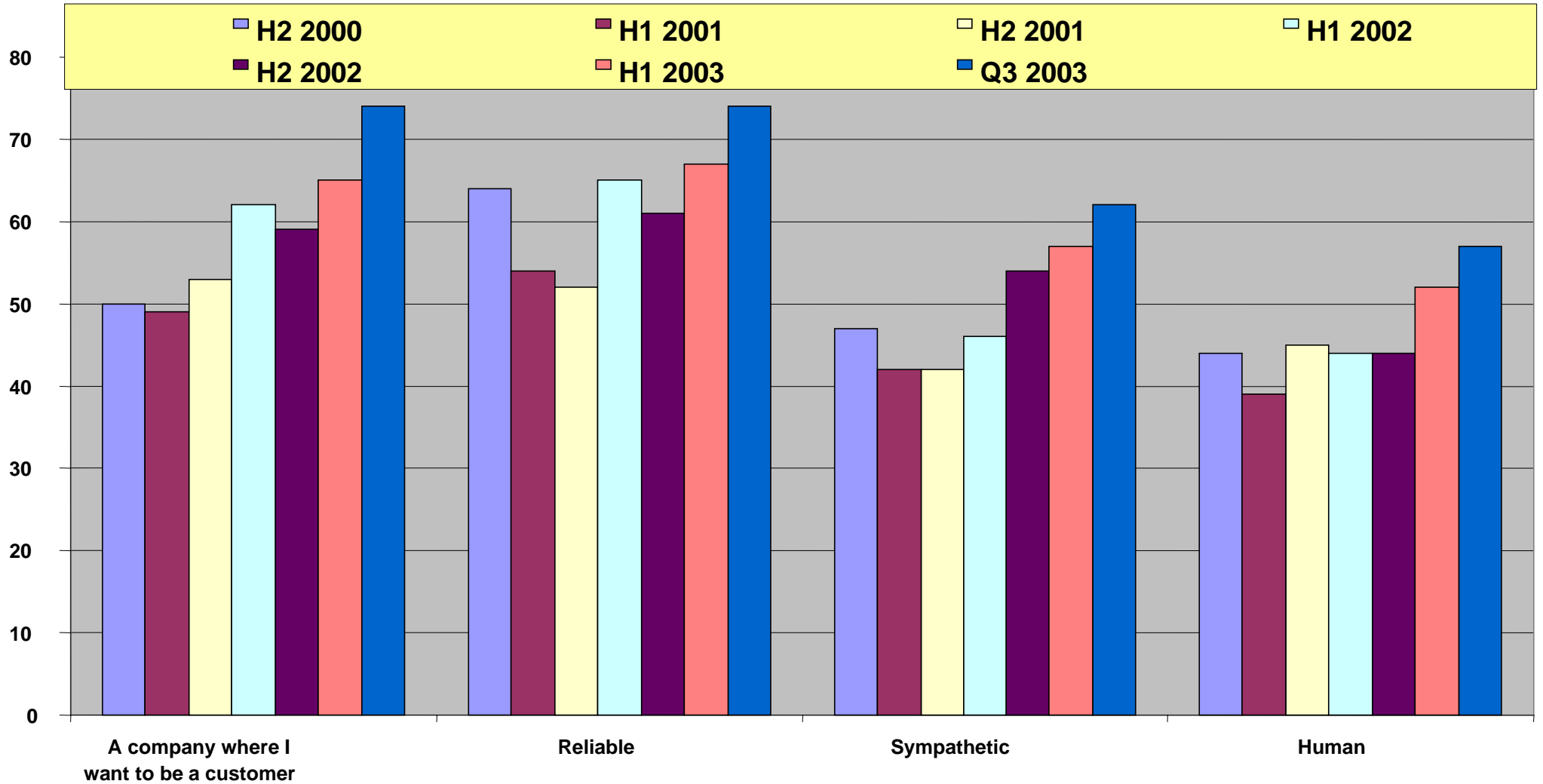
# Virtuous circle





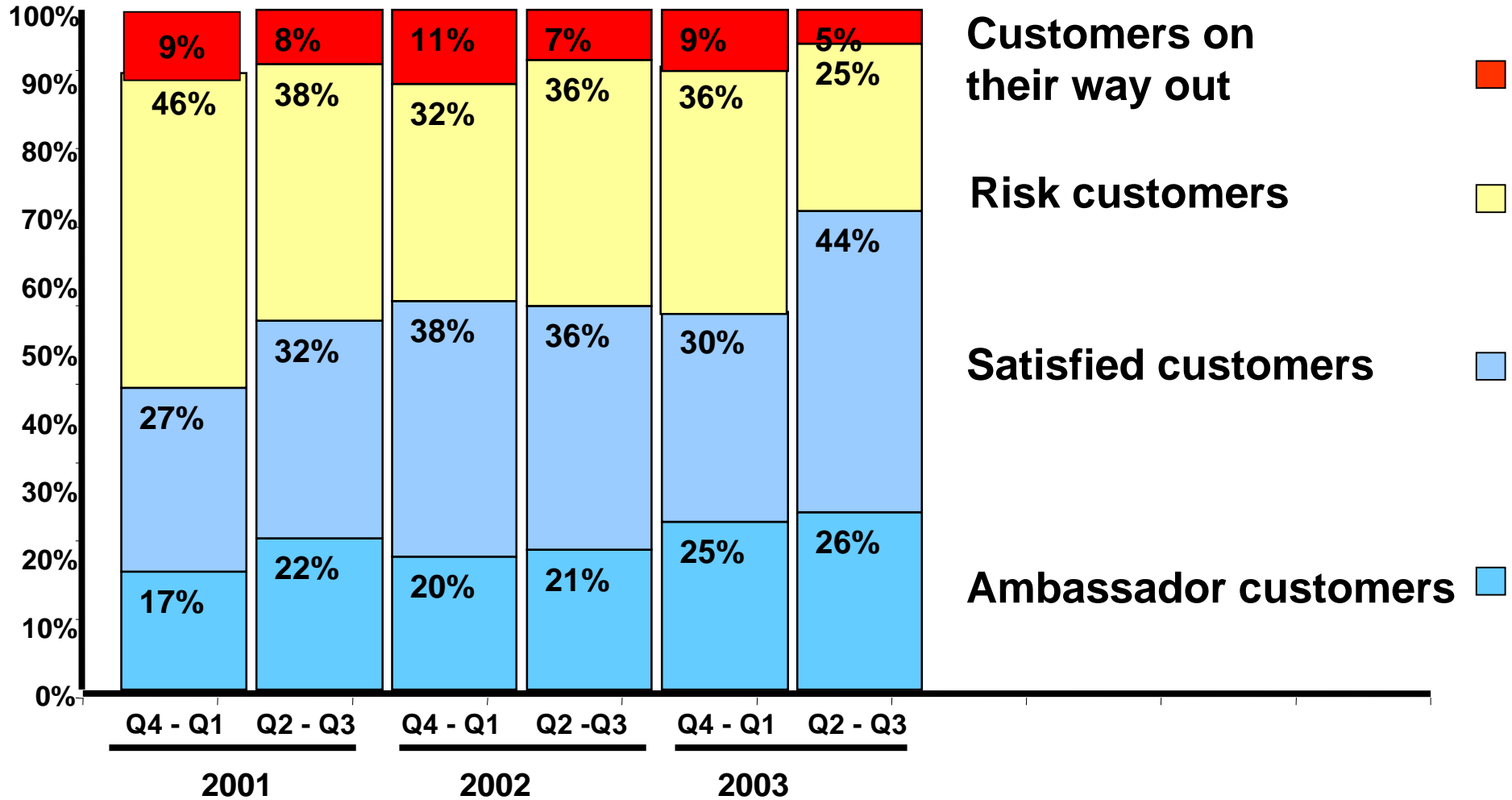
# Topdanmark's image

## - own customers



# Topdanmark's index of customer satisfaction

## - movements since Q4 2000



# Focus areas in relation to criteria of success

## Distribution efficiency

- Improve own distribution efficiency
- Increase focus on customer loyalty
- Maintain / increase our strong competitiveness

## Expense ratio

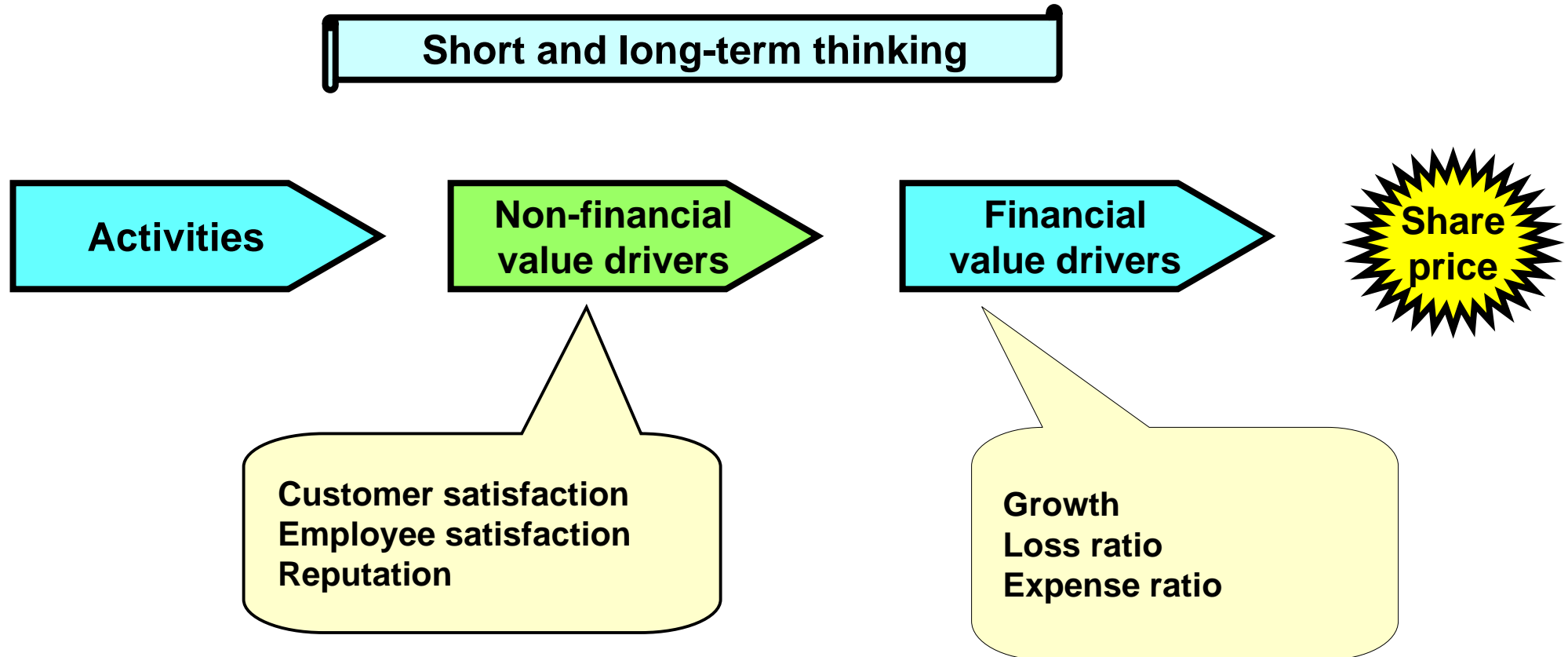
- Continue efficiency improvements
- Increase investments in IT

## Risk and expenses on claims

- Increase focus on "bad risks"
- Implement necessary increases
- Find measures to reduce expenses on claims



# Value chain in Topdanmark



# ”Denmark’s best workplace”

- results from research in November 2003

**91% answered:  
”often true” or ”almost always true”  
to the question:  
”everything considered I think  
it is a good workplace”**

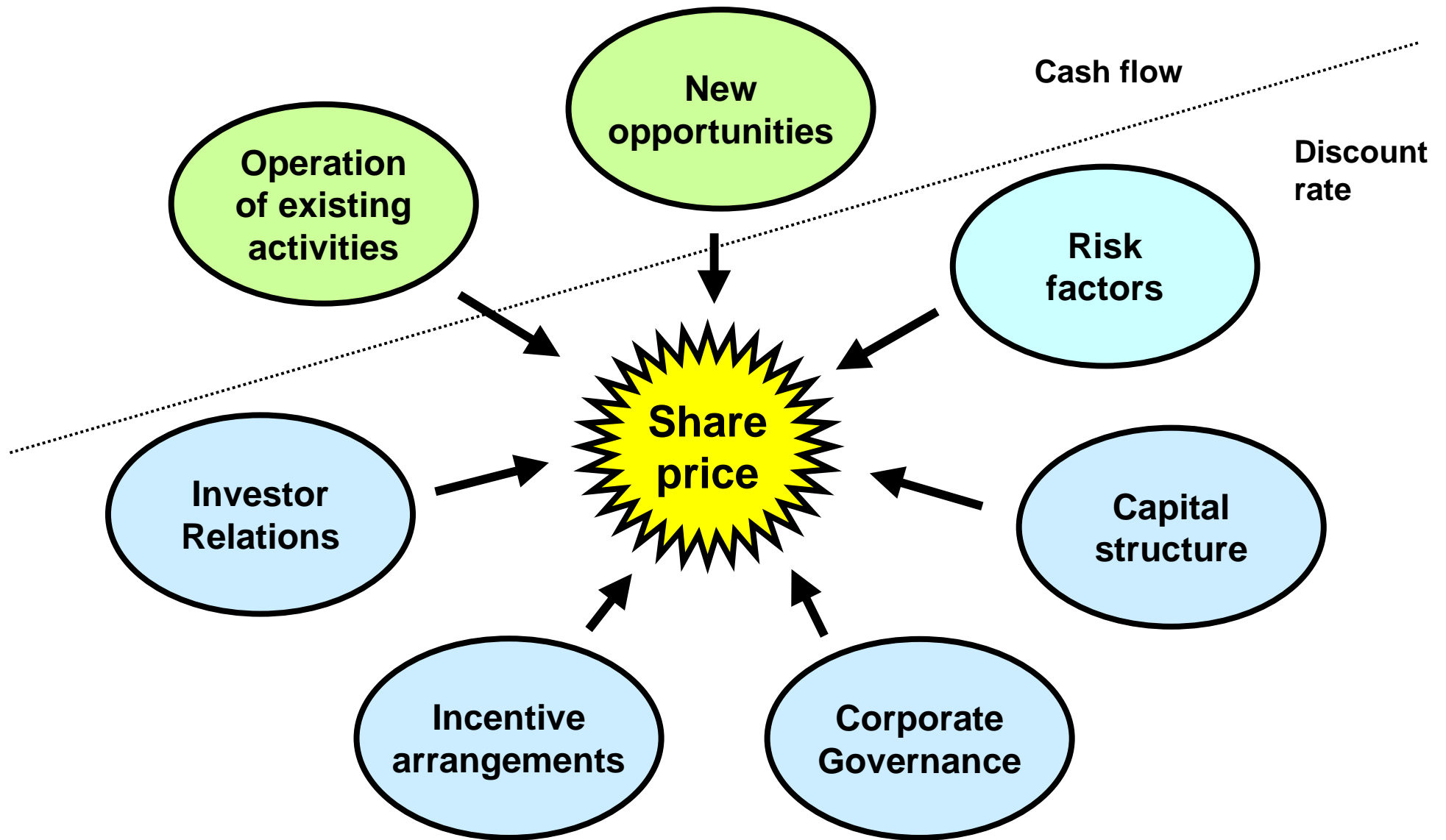
**Topdanmark  
was No. 18  
this year**

**Last year the figures were: 87% No. 20**

**In general the 2003 research shows improved  
employee satisfaction in Topdanmark:  
- 51 answers to the 57 questions of the  
research improved on last year**



# Value creation in Topdanmark



# Return on equity - ROE

## Example

### Operations

Premiums	100.0
Interest	<u>2.5</u>
Total income	102.5
Combined ratio	<u>95.0</u>
Profit from operations	<u>7.5</u>

### ROE

Premiums = 3 x equity

Profit from equity	6%
Profit from operations (3x7.5)	<u>22.5%</u>
ROE	<u>28.5%</u>



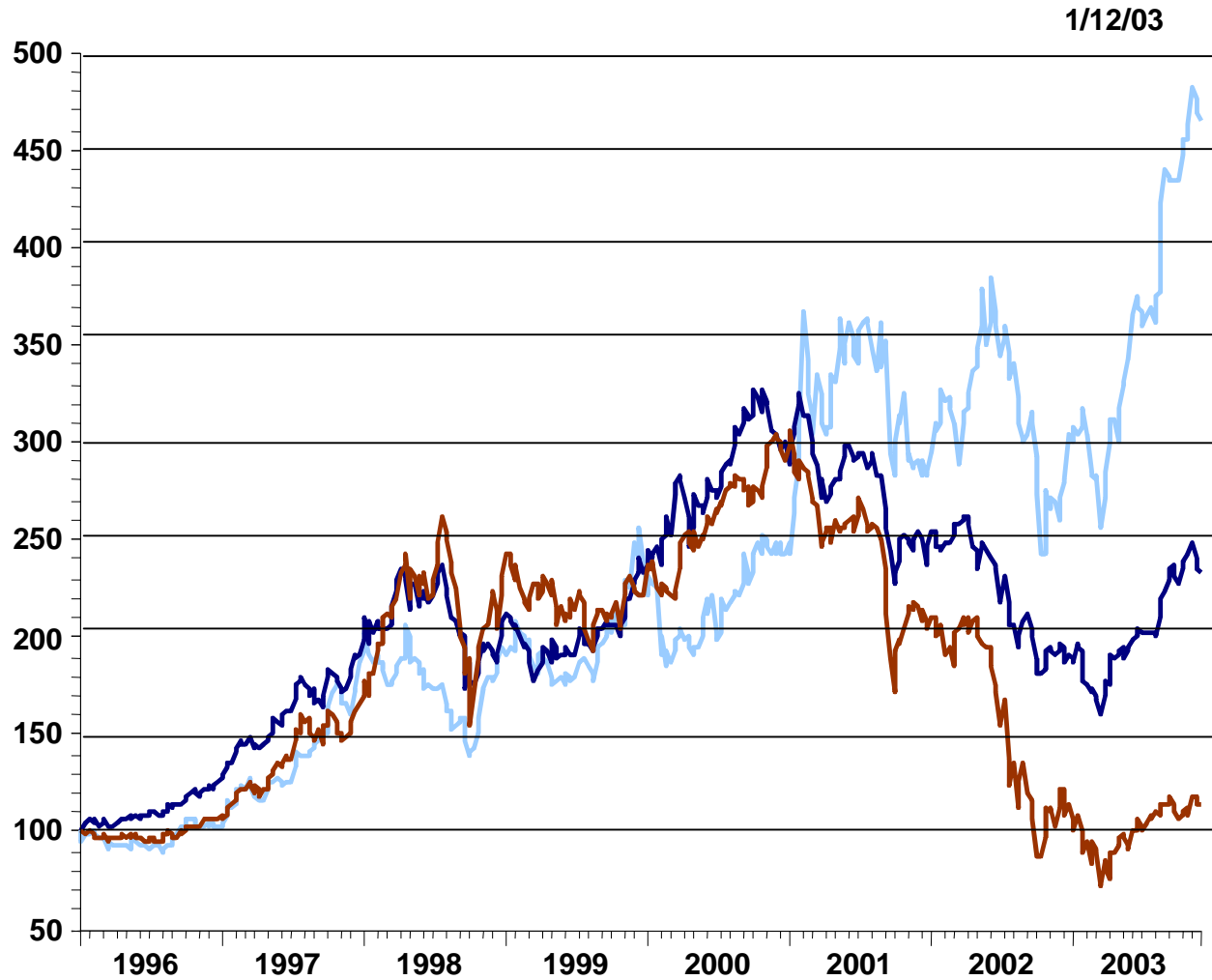
# Profile of Topdanmark's shares

- **Focused strategy**
- **Topdanmark is an insurance share - not an investment trust**
- **Limited investment risks**
  - **principle: shareholders want to select their own investment risks**
- **Calculated insurance risks**
  - **return on insurance and investment risks are weakly correlated - insurance risk attractive**
- **Relatively limited top-line growth in non-life - higher in life**
- **High cash flow**
- **Large share buy-back programme**





# Movements in Topdanmark's share price



**Topdanmark**

**KFX-index**

**European  
insurance index**



# [www.topfacts.dk](http://www.topfacts.dk)

- a source of updated information on Topdanmark



Topdanmark

