

ACCOUNTING ORDER 2016 NON-LIFE INSURANCE

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December 2015

AGENDA

Why new accounting order

Main rule / exception

Balance sheet

Recognition

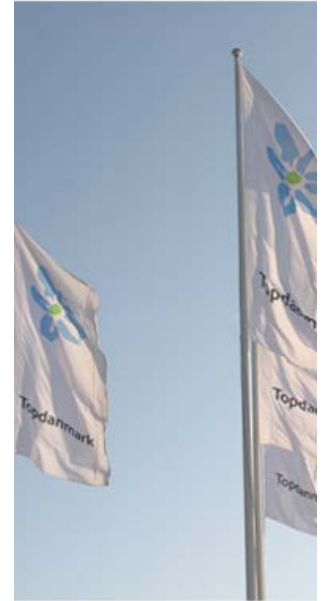
Provisions

Interest rate curves

Examples

Comparison between new and old rules

Future information on new accounting policies



WHY NEW ACCOUNTING ORDER

Amendment to comply with Solvency II rules

A step towards IFRS 4 phase II



MAIN RULE / EXCEPTION

Provision for unearned premiums:

Main rule, Section 69: Solvency II (and towards IFRS)

Exception, Section 69(A): Unchanged provision for unearned premiums

- If the risk period is one year or less, or
- The result is approximately the same as in Section 69

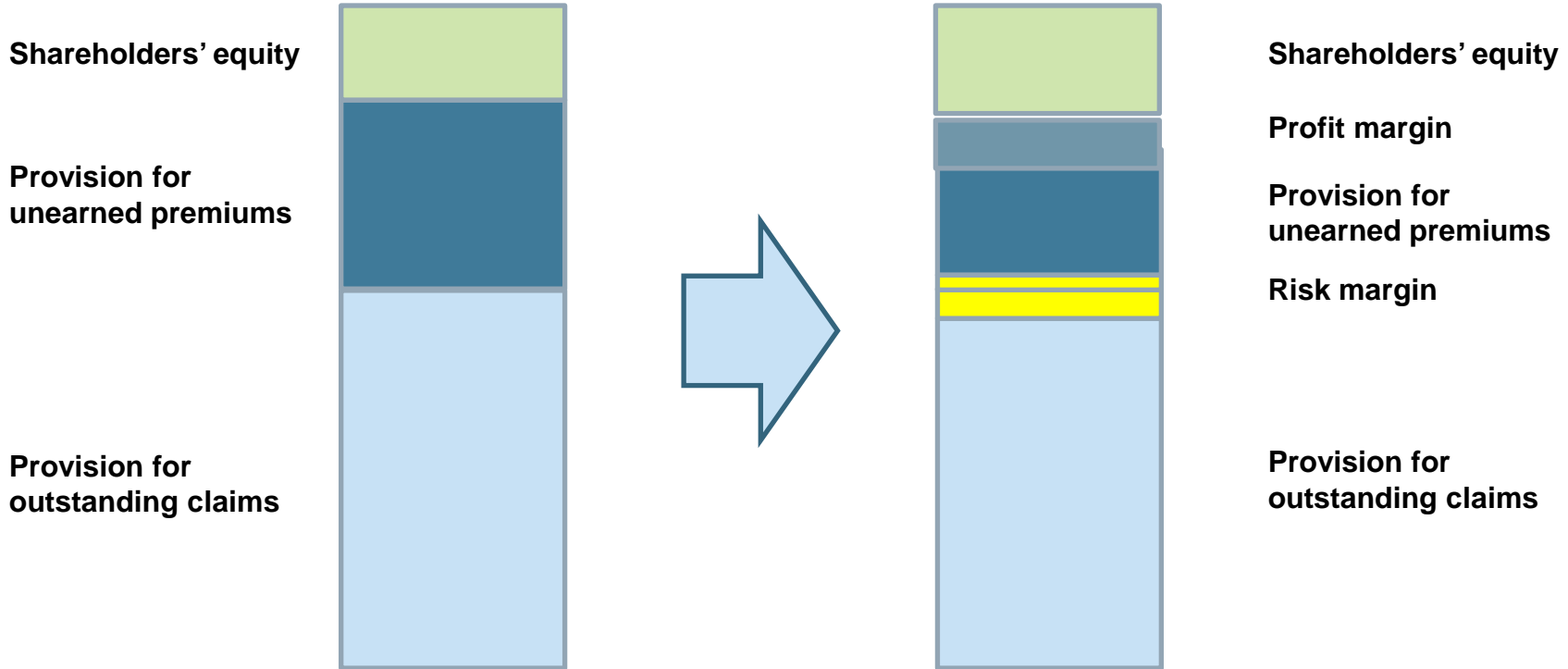
Who follows the exception provision? Most companies

WHY THE MAIN RULE?

- Profit margin included in capital base
- The same provisions in financial statements and Solvency II
- Direction towards IFRS 4 phase II – 2020/21

Who follows the main provision? - Few companies

BALANCE SHEET



BALANCE SHEET



Profit on contracts underwritten in remaining period of cover

Present value of cash flow on contracts underwritten in **remaining period of cover**

The risk premium required by a third party to take over settlement of the obligations

Present value of cash flow on claims **incurred**

- Comprising expected:
 - + Premium payments
 - Claims paid
 - Claims handling expenses
 - Administrative expenses
 - Acquisition costs

- Comprising expected:
 - Claims paid
 - Claims handling expenses

PROVISIONS

CLAIMS INCURRED

RISK MARGIN

Provisions for outstanding claims

- Claims incurred
- Expenses
 - Claims handling

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CLAIMS EXPECTED WITHIN
PERIOD OF COVER

RISK MARGIN

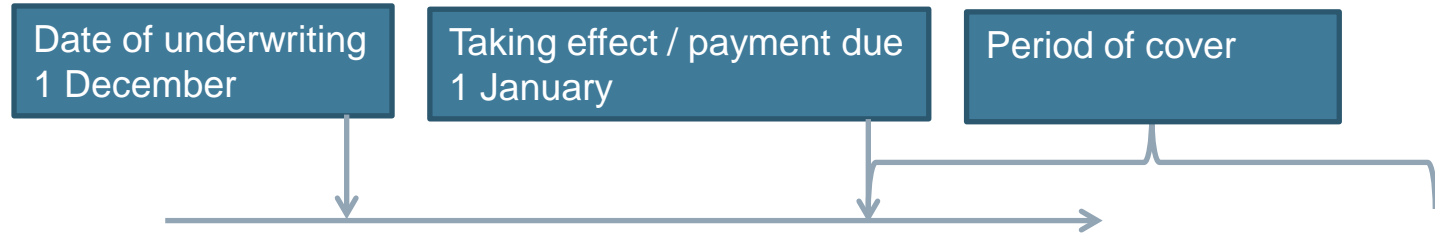
PROFIT MARGIN

Provisions for unearned premiums

- - Premiums not due
- Lapse
- Claims incurred
- Expenses



RECOGNITION



**EXISTING
RULES**

NO RECOGNITION

GROSS PREMIUMS
RECEIVABLES

NEW RULES

PROVISION FOR UNEARNED
PREMIUMS
PROFIT MARGIN
RISK MARGIN

GROSS PREMIUMS
RECEIVABLES

RECOGNITION – DATE OF UNDERWRITING

A policy is recognised from the date when the company is bound by an offer or agreement it has made and not able to change the conditions

Policies:

- Two-month-renewals / new business
- Not yet collected rates on policies, where the due date of payment has been passed (half-yearly / quarterly / monthly)



RECOGNITION AT UNDERWRITING

ASSUMPTIONS

Policy written	1 December 2015
Due date	1 January 2016
Period of cover	Full year 2016

PREMIUM	1,200
CLAIMS	(840)
ADMINISTRATION	(60)
ACQUISITION (OF WHICH PREPAID (80))	(120)
RISK MARGIN	(84)
PROFIT MARGIN	96

PROVISION FOR UNEARNED PREMIUMS AT INCEPTION

PRESENT VALUE OF FUTURE CASH FLOWS:

VALUE OF PREMIUMS NOT DUE	(1,200)
<i>FUTURE PAYOUTS:</i>	
CLAIMS	840
ADMINISTRATION	60
ACQUISITION	40
PROVISION FOR UNEARNED PREMIUMS AT INCEPTION	(260)

AT UNDERWRITING

INCOME STATEMENT 2015

GROSS PREMIUMS	0
CHANGE IN PROVISIONS FOR UNEARNED PREMIUMS	CREDIT 260
CHANGE IN PROFIT MARGIN AND RISK MARGIN	(180)
PREMIUMS EARNED	80
EXPENSES	(80)
PROFIT / (LOSS) 2015	0

BALANCE SHEET 1 DECEMBER 2015

AMOUNTS DUE FROM POLICYHOLDERS	0
TOTAL ASSETS	0
SHAREHOLDERS' EQUITY	0
PROVISION FOR UNEARNED PREMIUMS	DEBIT (260)
PROFIT MARGIN	96
RISK MARGIN	84
INSURANCE PROVISIONS	(80)
AMOUNTS DUE TO CREDIT INSTITUTIONS	80
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	0

RECOGNITION WHEN DUE

AT UNDERWRITING

INCOME STATEMENT 2015

GROSS PREMIUMS		0
CHANGE IN PROVISIONS FOR UNEARNED PREMIUMS	CREDIT	260
CHANGE IN PROFIT MARGIN AND RISK MARGIN		(180)
PREMIUMS EARNED		80
EXPENSES		(80)
PROFIT / (LOSS) 2015		0

BALANCE SHEET 1 DECEMBER 2015

AMOUNTS DUE FROM POLICYHOLDERS		0
TOTAL ASSETS		0
SHAREHOLDERS' EQUITY		0
PROVISION FOR UNEARNED PREMIUMS	DEBIT	(260)
PROFIT MARGIN		96
RISK MARGIN		84
INSURANCE PROVISIONS		(80)
AMOUNTS DUE TO CREDIT INSTITUTIONS		80
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		0

WHEN DUE

INCOME STATEMENT DAY 0 2016

GROSS PREMIUMS	CREDIT	1,200
CHANGE IN PROVISIONS FOR CHANGE IN PROFIT MARGIN AND RISK MARGIN	DEBIT	(1,160)
PREMIUMS EARNED		40
EXPENSES		(40)
PROFIT / (LOSS) DAY 0 2016		0

BALANCE SHEET DAY 0 2016

AMOUNTS DUE FROM POLICYHOLDERS		1,200
TOTAL ASSETS		1,200
SHAREHOLDERS' EQUITY		0
PROVISION FOR UNEARNED PREMIUMS		900
PROFIT MARGIN		96
RISK MARGIN		84
INSURANCE PROVISIONS		1,080
AMOUNTS DUE TO CREDIT INSTITUTIONS		120
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,200

PROVISION FOR UNEARNED PREMIUMS – EXAMPLE

Present value of best estimate of expected payments of policies underwritten for events not yet occurred

Element	Basis
Premiums not due	Policy systems etc.
Lapse (return of premium etc.)	Record / statistics
Claims incurred Claims handling Administration	Quarterly forecast process in the month prior to the balance sheet date
Acquisition costs	Underwriting and portfolio commission from the forecast process not paid

	Premiums due	Premiums not due	
Provision for unearned premiums today	(2,500)		
Renewals and rates		(4,000)	
Payments		(4,000)	(4,000)
Lapse / return of premium	100	200	
Claims incurred	1,600	2,400	
Claims handling	250	400	
Administration	100	200	
Acquisition	0	100	
Payouts	2,050	3,300	5,350
Provision for unearned premiums	2,050	(700)	1,350

The provision is settled in step with the cash flow

Subsequent changes in the estimate of each element compared to future events will be adjusted in the provision

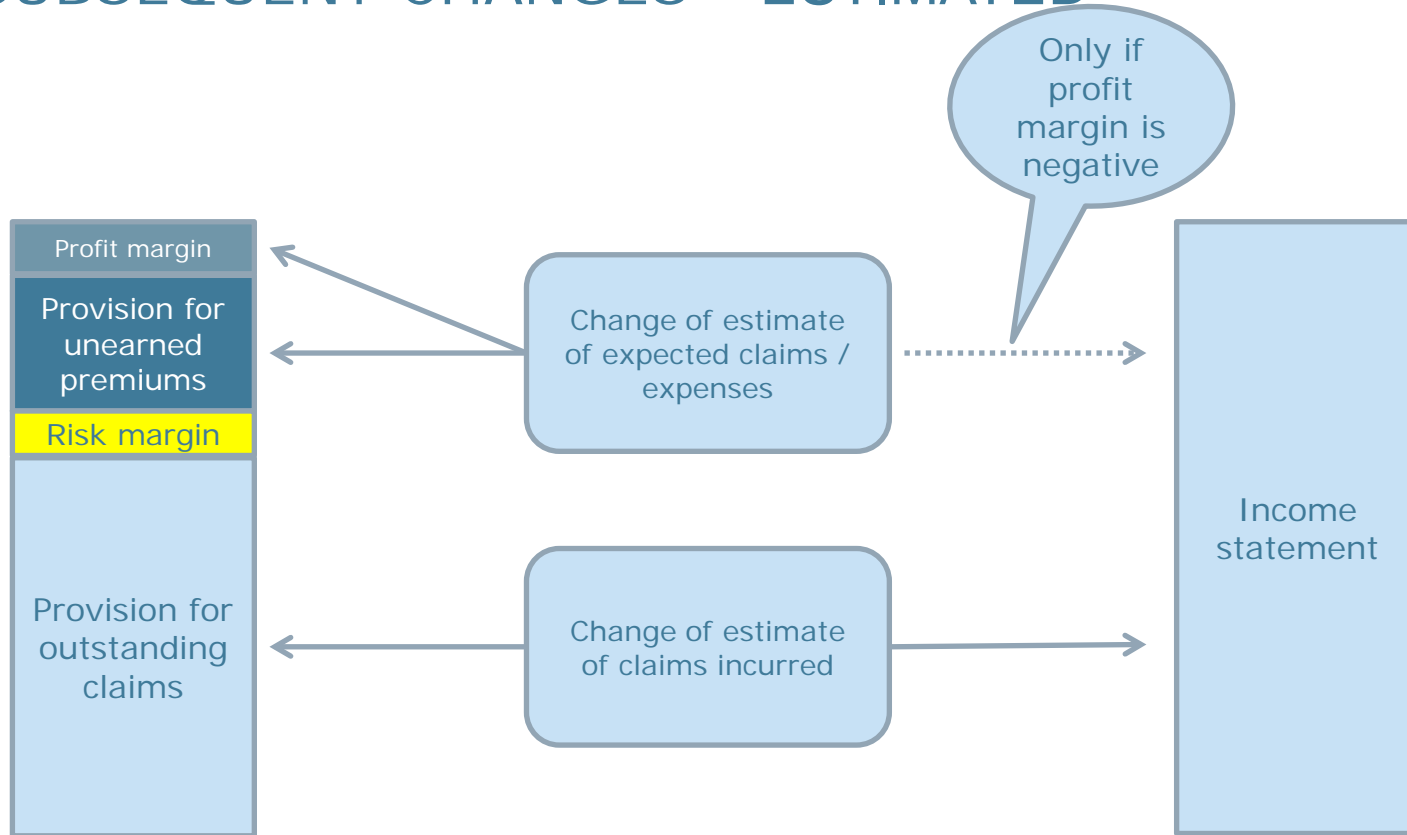
PROFIT MARGIN – EXAMPLE

Present value of profit not yet earned on insurance contracts underwritten

- Calculated at the date of underwriting (quarterly)
- Calculated per line of business
- Negative value of loss-making policies is charged in the income statement
- Discounting
- Settled on a straight-line basis over the period of cover
- Forward-looking adjustment for changed expectations
- Not impacted by deviation realised for run-off periods, which is allocated to the operating result instead

Profit margin for policies written in Q4	Policies written Q4
Premiums	4,300
Payments	4,300
Lapse	225
Claims incurred	2,600
Claims handling	425
Administration	215
Acquisition	425
Payouts	3,890
Cash flow present value	410
Risk margin premiums	(50)
Profit margin for policies written in Q4	360

SUBSEQUENT CHANGES – ESTIMATED



RISK MARGIN

The amount which the company is expected to pay to an acquirer of the company's portfolio of policies in the market, in order that this acquirer will take on the risk that the costs of settling the portfolio deviate from the present value of best estimate of the payment flows which settle the portfolio

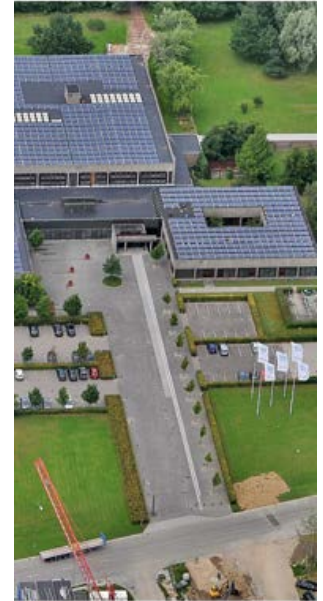
Solvency II stipulates the use of the Cost of Capital method

Free choice of method in the accounting order

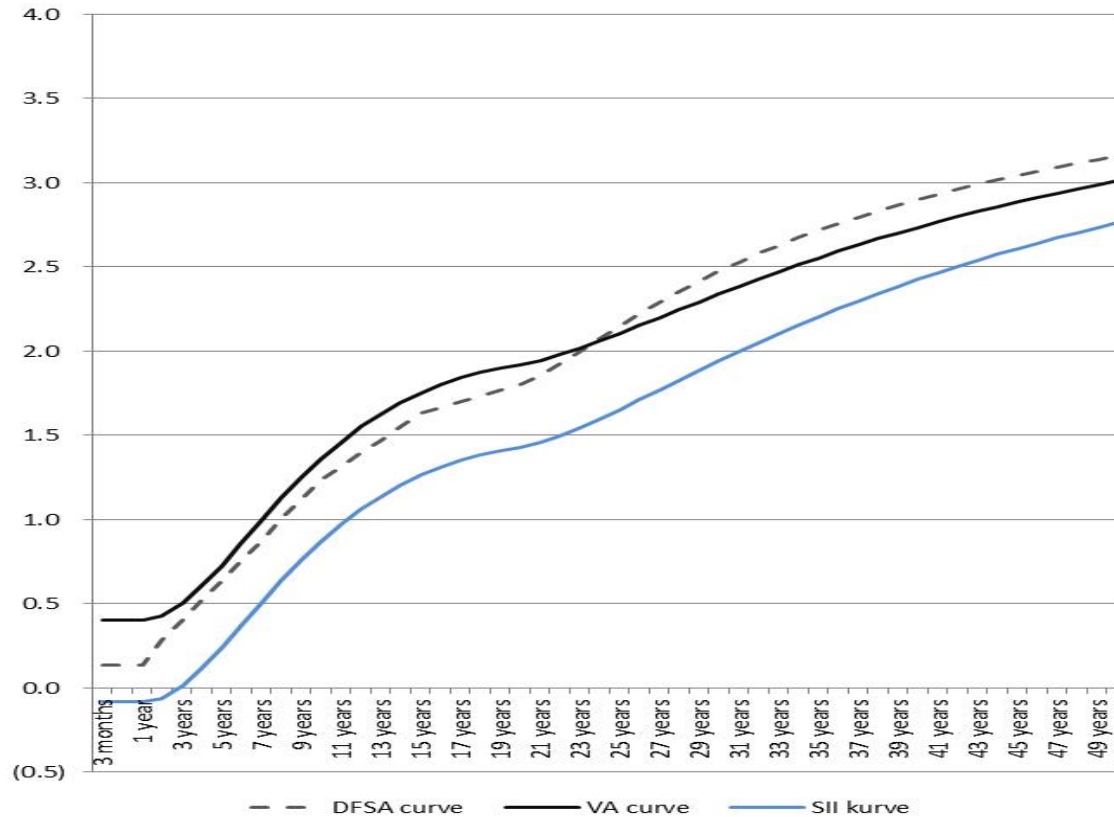
Topdanmark Forsikring uses Cost of Capital in its financial statements

Risk margin for the provision for unearned premiums is calculated using an internal model

The risk margin is settled (included in income) in step with the subsequent settlement of the provision for outstanding claims



INTEREST RATE CURVES 30 SEPTEMBER 2015



BALANCE SHEET – EXAMPLE

ASSUMPTIONS			0112 2015	0101	3103	3006	3009	3112 2016
Policy written	1 December 2015	ASSETS						
Due date	1 January 2016	Investment assets	0	1,080	1,070	1,061	1,051	1,041
Period of cover	Full year 2016							
 		LIABILITIES						
PREMIUM	1,200	Provision for unearned premiums	(260)	900	678	455	228	0
CLAIMS	(840)	Profit margin	96	96	72	48	24	0
ADMINISTRATION	(60)	Risk margin	84	84	84	85	85	86
ACQUISITION (OF WHICH PREPAID (80))	(120)	<i>-of which premiums</i>	84	84	63	42	21	0
RISK MARGIN	(84)	<i>- of which claims incurred</i>	0	0	21	42	64	86
PROFIT MARGIN	96	Provision for outstanding claims	0	0	211	424	640	858
 		Insurance provisions	(80)	1,080	1,046	1,012	978	943
PROVISION FOR UNEARNED PREMIUMS AT INCEPTION		Amounts due to credit institutions	80	0	0	0	0	0
PRESENT VALUE OF FUTURE CASH FLOWS:		Shareholders' equity	0	0	24	48	73	98
VALUE OF PREMIUMS NOT DUE	(1,200)	Total liabilities	0	1,080	1,070	1,061	1,051	1,041
FUTURE PAYOUTS:								
CLAIMS	840							
ADMINISTRATION	60							
ACQUISITION	40							
PROVISION FOR UNEARNED PREMIUMS AT INCEPTION	(260)							

INCOME STATEMENT – EXAMPLE

		2015	Q1	Q2	Q3	Q4	2016	
ASSUMPTIONS								
Policy written	1 December 2015							
Due date	1 January 2016							
Period of cover	Full year 2016							
PREMIUM	1,200							
CLAIMS	(840)							
ADMINISTRATION	(60)							
ACQUISITION (OF WHICH PREPAID (80)	(120)							
RISK MARGIN	(84)							
PROFIT MARGIN	96							
		Gross premiums written	0	1,200	0	0	0	1,200
		Δ Provision for unearned premiums	260	(934)	227	228	230	(249)
		Δ Profit margin and risk margin	(180)	45	45	46	46	182
		<i>Of which Δ Profit margin</i>	(96)	24	24	24	24	97
		<i>Of which Δ Risk margin premium</i>	(84)	21	21	21	21	85
		Premiums earned	80	311	273	274	275	1,134
		Δ Provision for outstanding claims	0	(211)	(212)	(213)	(215)	(851)
		Δ Risk margin	0	(21)	(21)	(21)	(21)	(85)
		Claims incurred	0	(232)	(233)	(235)	(236)	(936)
		Administrative expenses	0	(15)	(15)	(15)	(15)	(60)
		Acquisition costs	(80)	(40)	0	0	0	(40)
		Expenses	(80)	(55)	(15)	(15)	(15)	(100)
		Technical result	0	24	24	24	24	97
		Income on investment assets	0	5	5	5	5	21
		Provisions for technical interest transferred to non-life business and revaluation	0	(5)	(5)	(5)	(5)	(21)
		Profit	0	24	24	25	25	98

COMPARISON NEW AND OLD RULES

INCOME STATEMENT	POLICIES 2016		POLICIES 2015	
	2015	2016	2015	2016
Gross premiums written	0	1,200	0	1,200
Δ Provision for unearned premiums	260	(249)	0	0
Δ Profit margin and risk margin	(180)	182		
<i>Of which Δ Profit margin</i>	<i>(96)</i>	<i>97</i>		
<i>Of which Δ Risk margin premium</i>	<i>(84)</i>	<i>85</i>		
Premiums earned	80	1,134	0	1,200
Technical interest			0	8
Δ Provision for outstanding claims	0	(851)	0	(851)
Δ Risk margin	0	(85)		
Claims incurred	0	(936)	0	(851)
Administrative expenses	0	(60)	0	(60)
Acquisition costs	(80)	(40)	(80)	(40)
Expenses	(80)	(100)	(80)	(100)
Technical result	0	97	(80)	257
Income on investment assets	0	21	0	21
Provisions for technical interest transferred to non-life business			0	(14)
Provisions for technical interest transferred to non-life business and revaluation	0	(21)		
Profit	0	98	(80)	264

- The inclusion of premium in income now follows the expenses paid
- The provision for unearned premiums is discounted and therefore premiums earned is impacted by the interest rate effect
- Amortisation and revaluation of insurance provisions are disclosed in one item
- **The difference in profit / (loss) in the example is due to construction of risk margin**

REINSURERS' SHARE OF THE PROVISION OF UNEARNED PREMIUMS

Including:

- Underwritten contracts due and not yet due
- Expected contracts written to cover gross liabilities

The provision comprises the present value of the expected cash flow and the profit margin

Allocation on expected cash flow and profit margin is disclosed in the notes

Risk margin for reinsurance is not calculated separately, but included in the overall risk margin

FINANCIAL HIGHLIGHTS

Premiums earned

- Gross premiums
- Change in provisions for unearned premiums
- **Change in profit margin and risk margin**
- Bonuses and rebates

Claims incurred

- Claims paid
- Change in provisions for outstanding claims
- **Change in risk margin**

Much of Topdanmark Forsikring's portfolio falls dues / is renewed on 1 January, and the policies have been underwritten before the end of the year. To a certain extent, acquisition costs paid will be earned when the policies fall due

Therefore, the combined ratios will fluctuate over the quarters

Topdanmark expects higher combined ratios in the first three quarters and a lower combined ratio in Q4

A corresponding effect will be seen in the profit

FUTURE INFORMATION ON NEW POLICIES

In the announcement of the 2015 results and in the 2015 annual report, it is expected to disclose the financial highlights for 2015 in accordance with the new accounting policies for the income statement, balance sheet and shareholders' equity

Additionally, it is expected to disclose the combined ratios for 2015 restated to the new policies

The interim report for Q1 2016 will disclose the restated comparatives for Q1 and the full year 2015 in accordance with the relevant rules and previous policies

In connection with the interim report it is expected that the financial highlights for Q1 2016 will be presented in accordance with the accounting policies in 2015