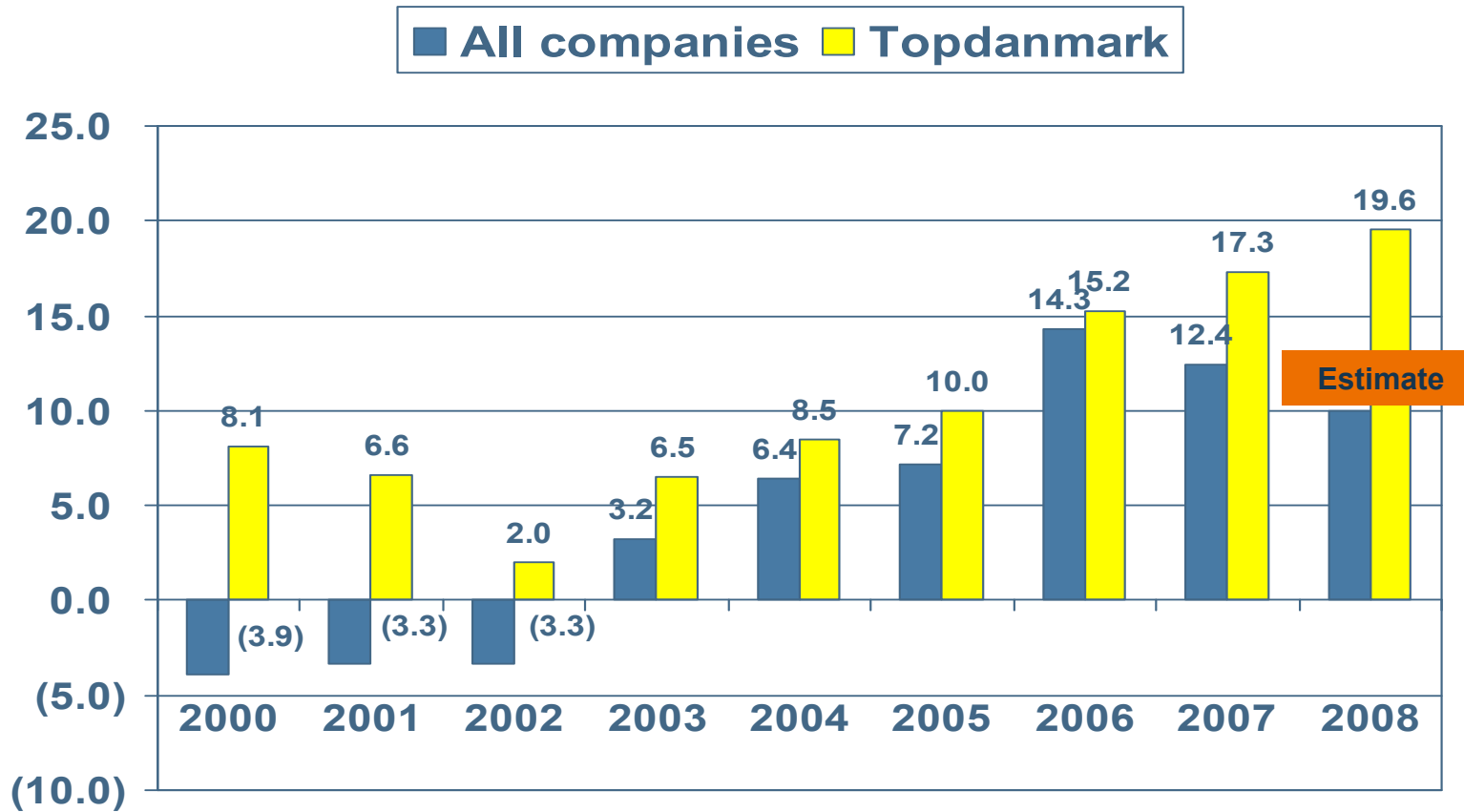


**Goldman Sachs  
European Financials Conference  
3 June 2009**

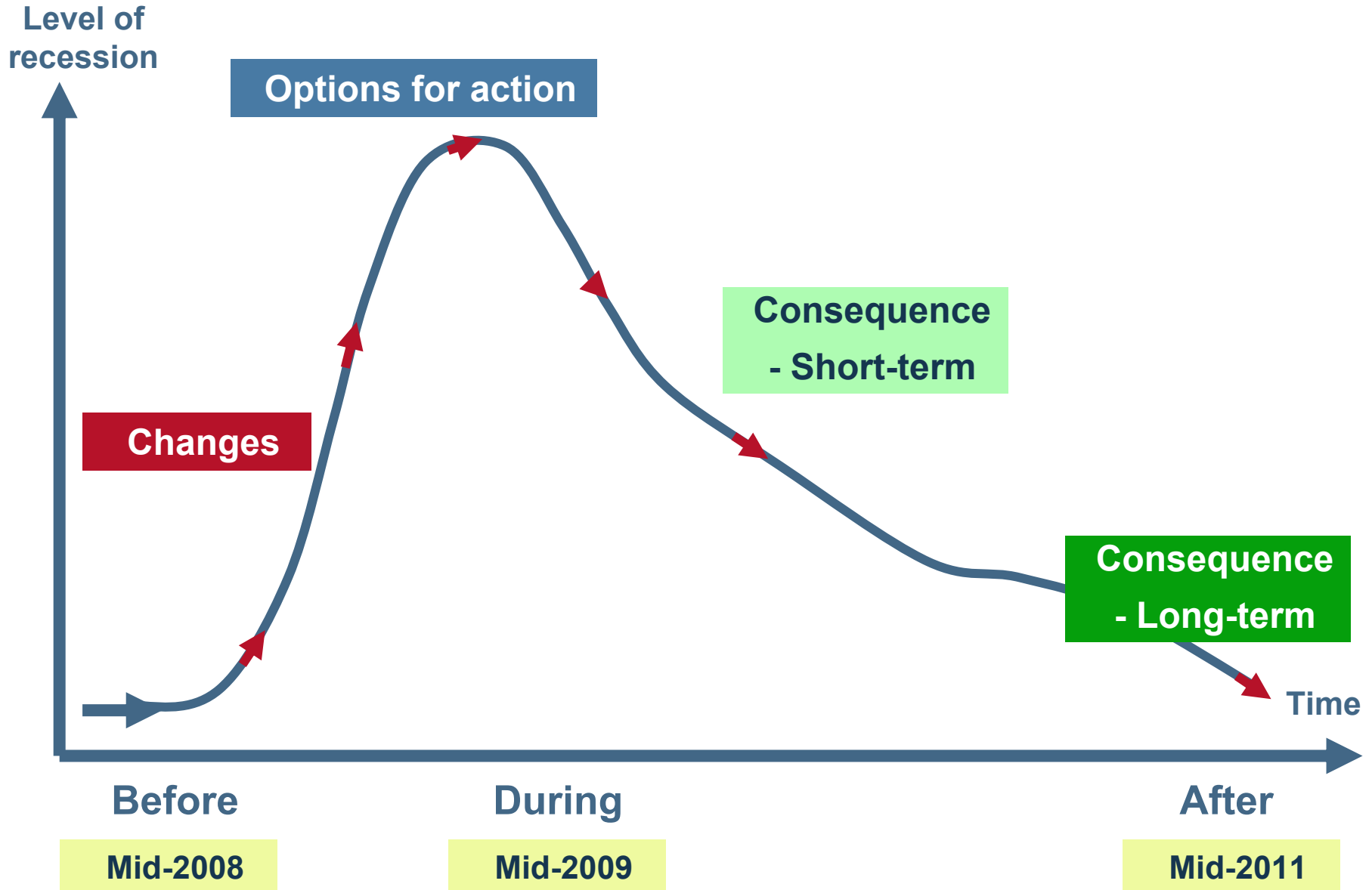
The outlook for returns in Nordic (Danish) P&C  
Opportunities vs. Threats

by Christian Sagild  
CEO, Topdanmark

# Trend in gross profit margin



# Crisis equals change



# Changes

## - Impact on financial ratios - examples

### Examples

Personal market

- Cars
- Fraud
- Travels

Professional market

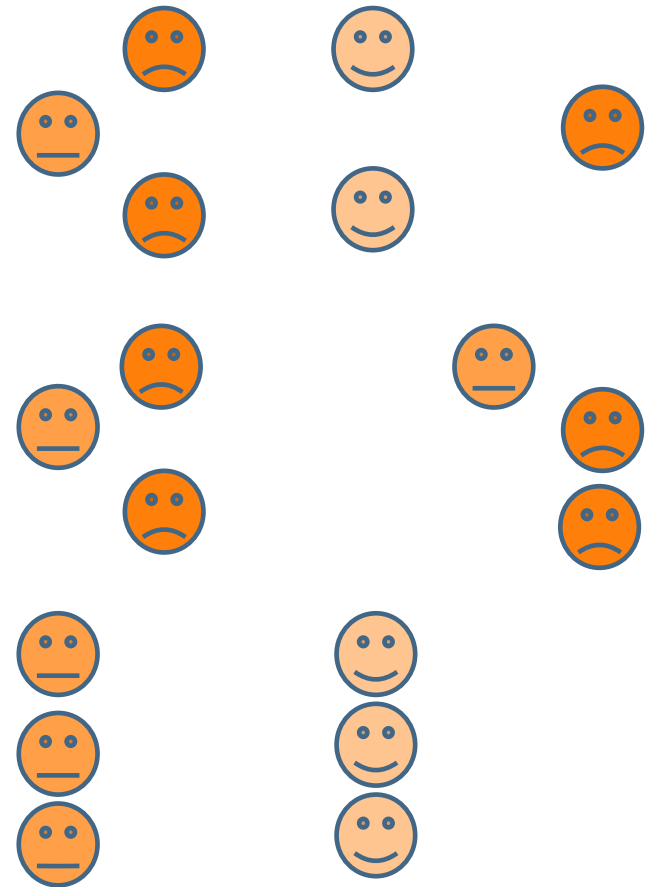
- Liquidations
- Fraud
- Fewer in employment

Repair area

- Tradesmen
- Garages - hourly price
- Materials

### Growth - % p.a.

### Earnings - CR



# Growth changes

- Summary of most significant factors

**Growth - % p.a.**

## Mass market

- Cars, lower car and housing sales

## Professional market

- Liquidations, fewer in employment and fewer valuables to insure



**Estimated adverse effect:**

**2 - 3% on growth in 2009**

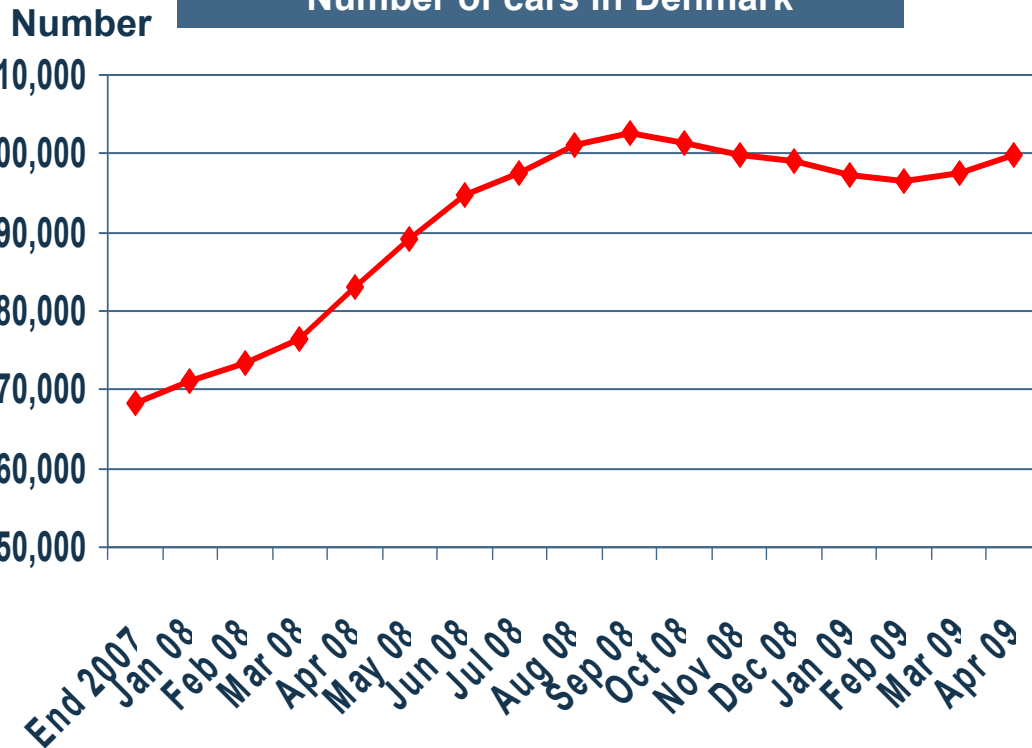
**Few options for action!!!**

**... Instead significant need for focusing on retaining earnings**

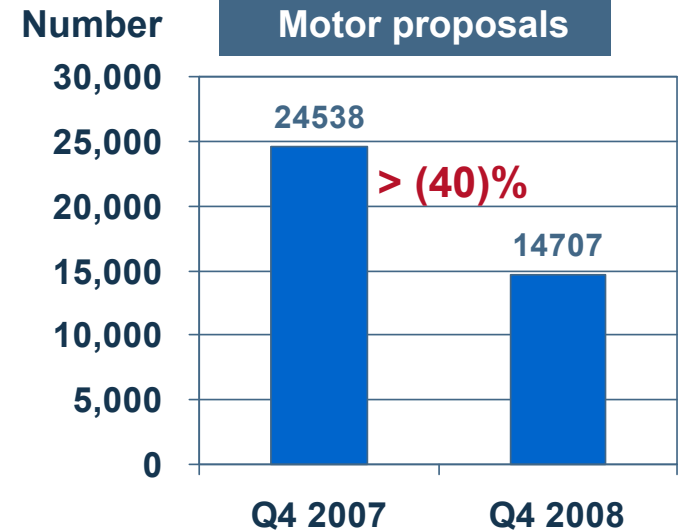
# Growth changes

## - Professional market - examples

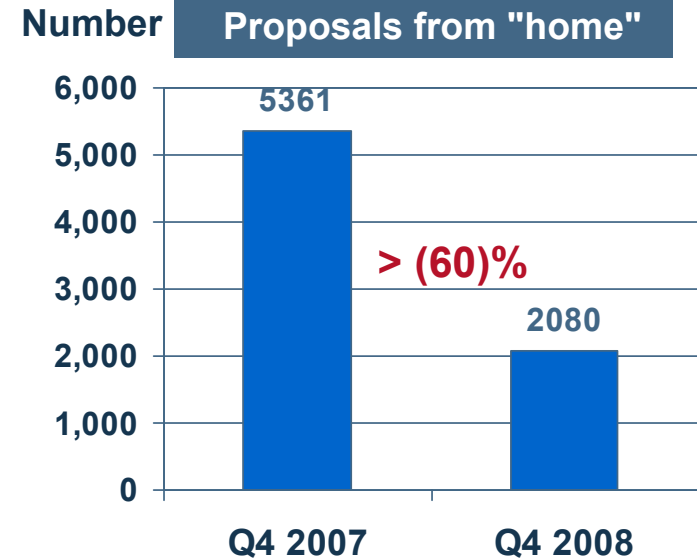
Number of cars in Denmark



Motor proposals

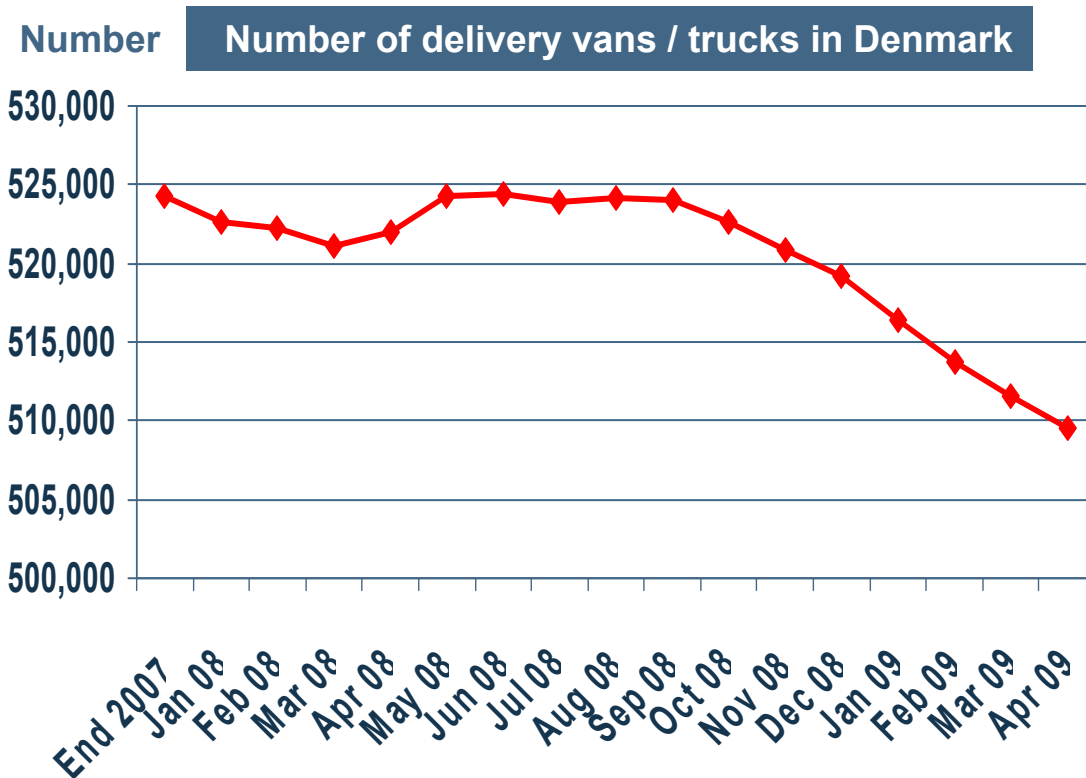


Proposals from "home"

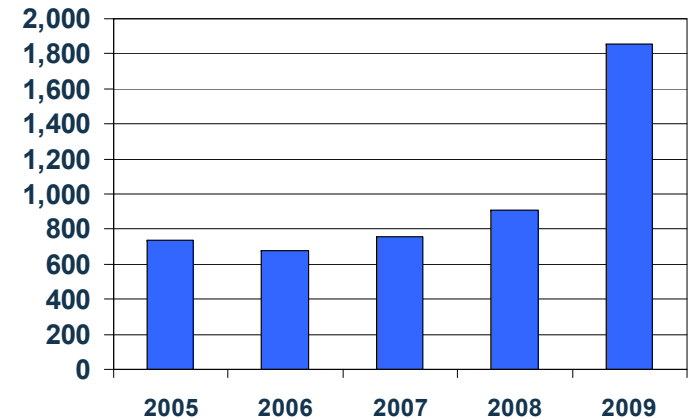


# Growth changes

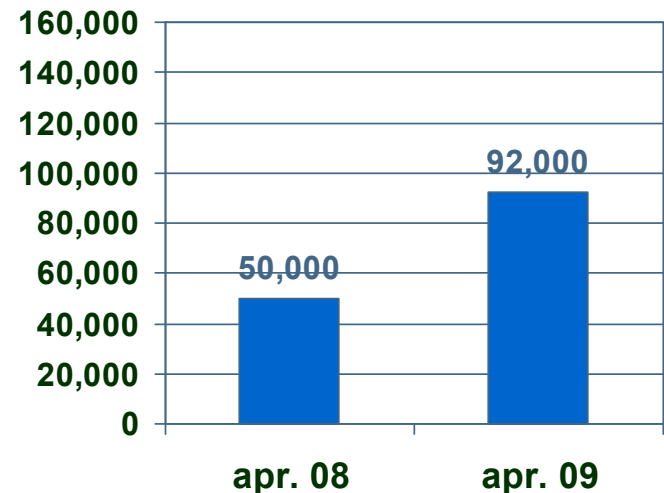
## - Professional market - examples



Number **Liquidations – Jan to Apr**



Number **Unemployed people**



# Earnings changes

## - Summary of most significant factors

### Earnings - CR

#### Interest rates

#### "Fraud"

- Increase in fire claims
- Increase in theft claims

#### Claims inflation

- Decline in motor claims frequency
- Trend in hourly prices and materials



**Need to know the consequence of all three factors in order to assess the effect on earnings**

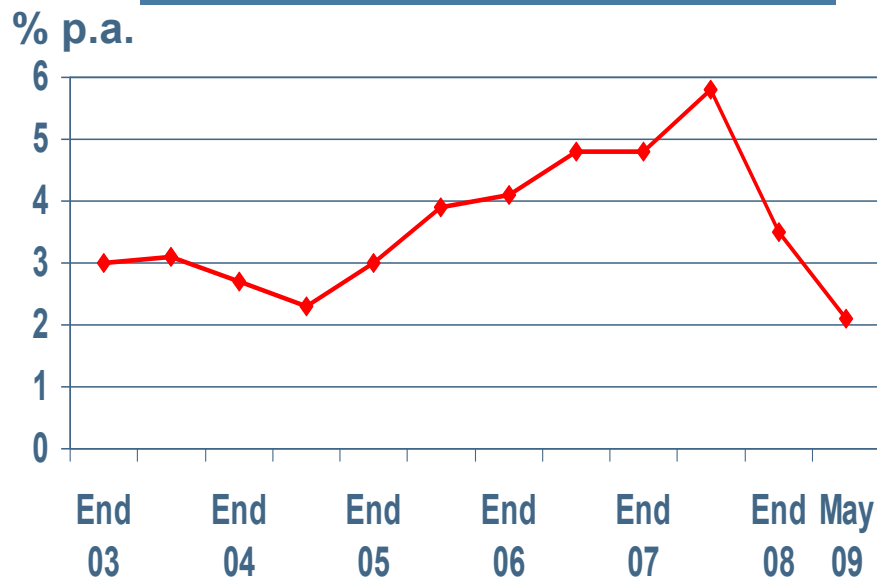


# Earnings changes

## - Interest rates: Changes in short and long-term interest rates

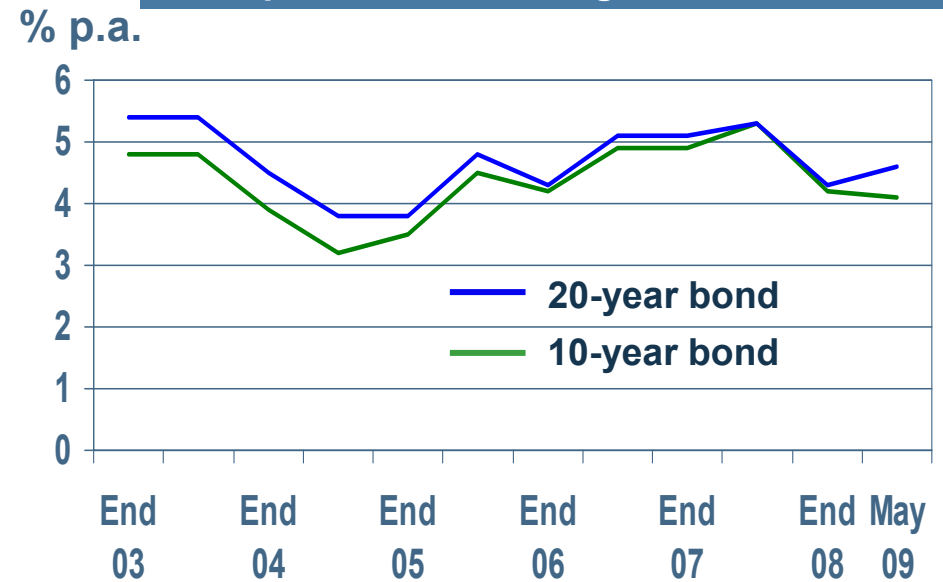
### Short-term interest rates

- impact on technical interest rate



### Long-term interest rates

- impact on discounting of claims reserves



Change in interest rates of  
**plus / minus 1 pp**  
causes a change in

profit margin of **plus / minus 0.6 pp**

Change in interest rates of  
**plus / minus 1 pp**  
causes a change in

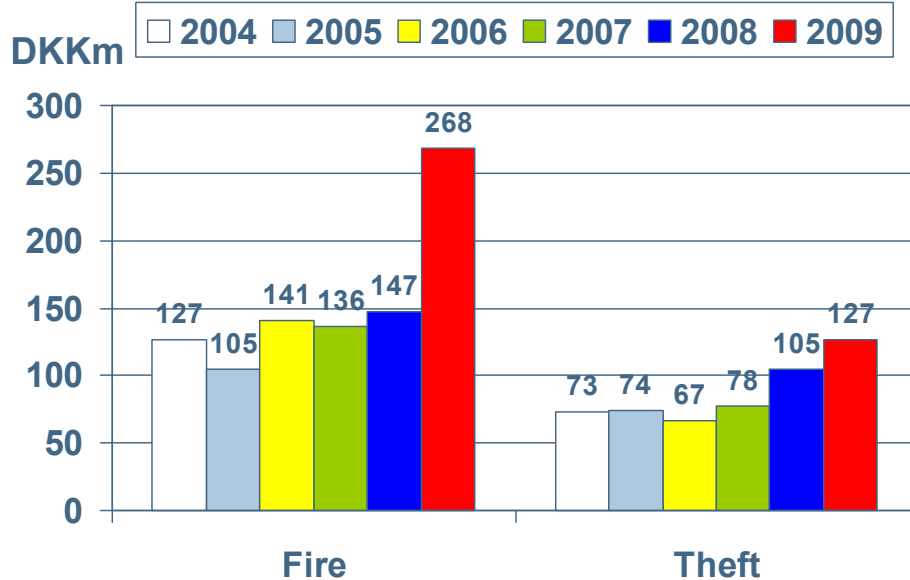
CR of **minus / plus 1.1 pp**

# Earnings changes

- "Fraud": Increase in fire and theft claims

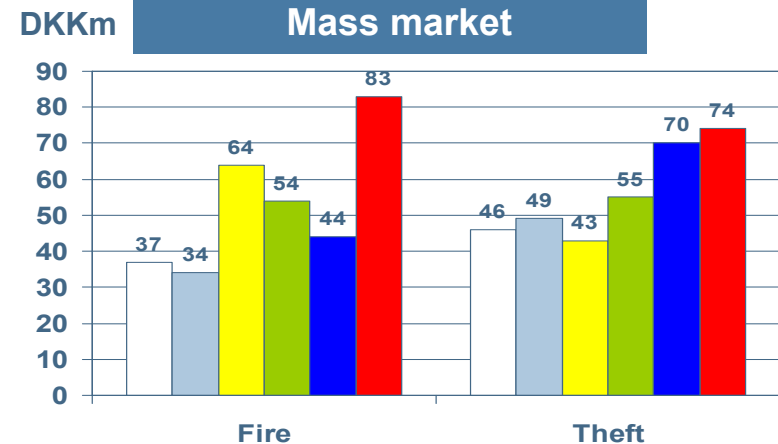
Q1

## Property / Buildings

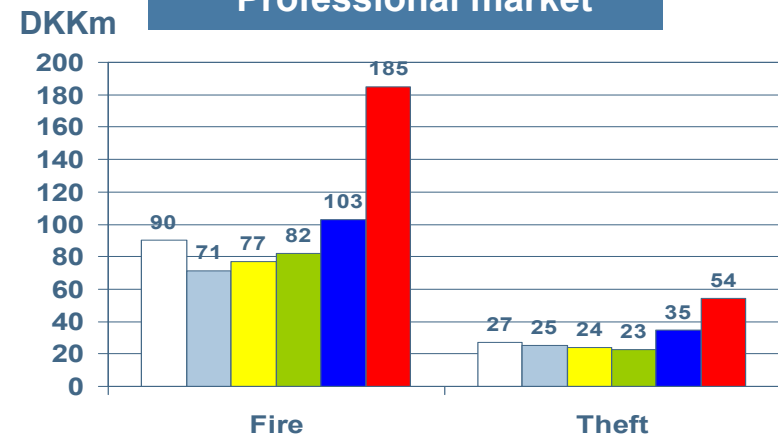


Q1

## Mass market



## Professional market



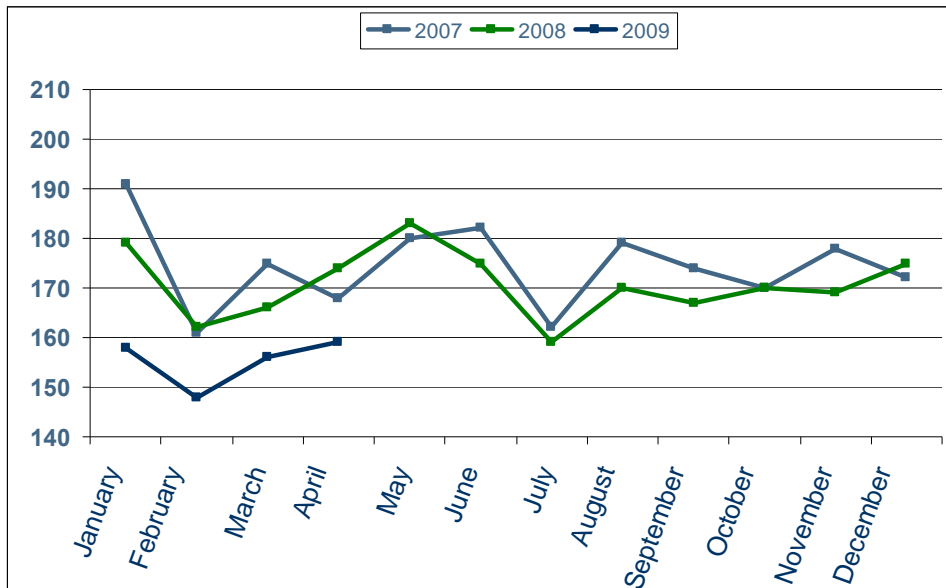
### Effect on CR

- Fire 1 - 2 pp
- Thefts approx 2 pp

# Earnings changes

## - Claims inflation: Motor insurance

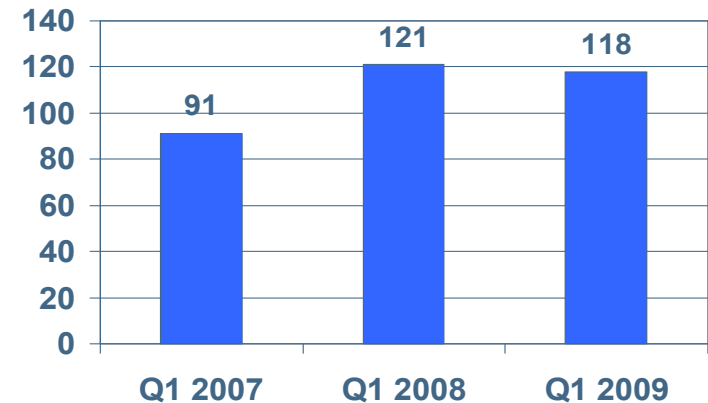
### Claims frequency for passenger cars - Excl. glass claims



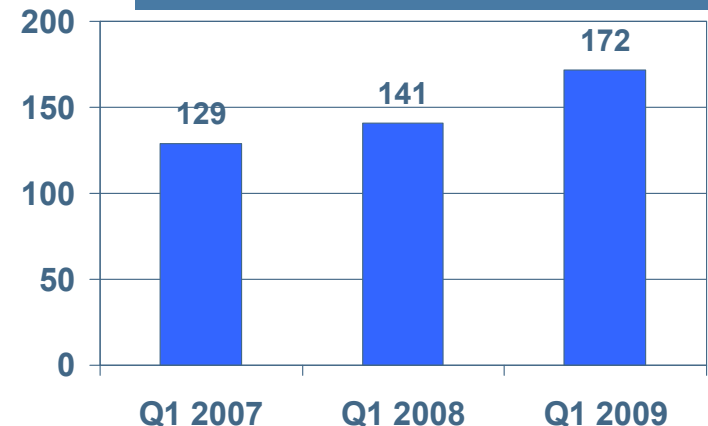
### Effect on CR

- Frequency approx (1) pp
- "Fraud" approx 0 pp

### Number of burned cars



### Number of disappeared cars

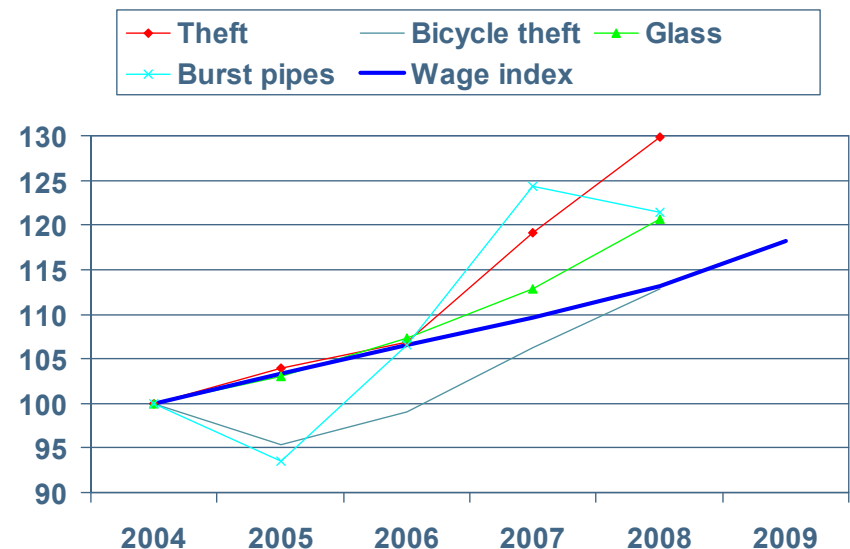
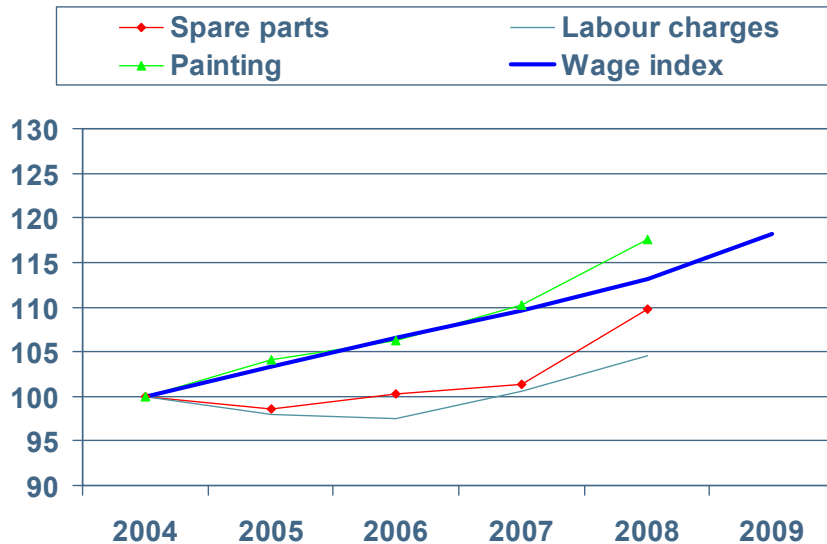


# Earnings changes

## - Claims inflation - average claim: Motor and house / contents

Motor

House / Contents



- Premiums indexed by the wage index
- Shows improved trend in motor and deteriorated trends in house / contents over the period
- Up to the crisis (particularly in 2008) significant increases in average claims
  - Difficult to get tradesmen - more expensive materials
- New collective agreements with effect from 2008 ensure continued high wage index in future years
- Undoubtedly claims inflation will be significantly lower than wage index
  - Easier to get manpower - relatively cheaper materials



**Improvement in CR**  
Average claim minus ½ to minus 1 pp

# Earnings changes

## - Summary of financial consequences

### Factors affecting earnings

#### Interest rates

- Short-term: 1 pp decline
- Long-term: 1 pp decline

#### “Fraud”

- Fire claims
- Theft claims

#### Claims inflation

- Claims inflation in motor
- Average claim in property / buildings



### Estimate - earnings

Minus 0.6 pp profit margin

1.1 pp on CR

1 - 2 pp on CR

2 pp on CR

Minus 1 pp on CR

Minus ½ to minus 1 pp on CR

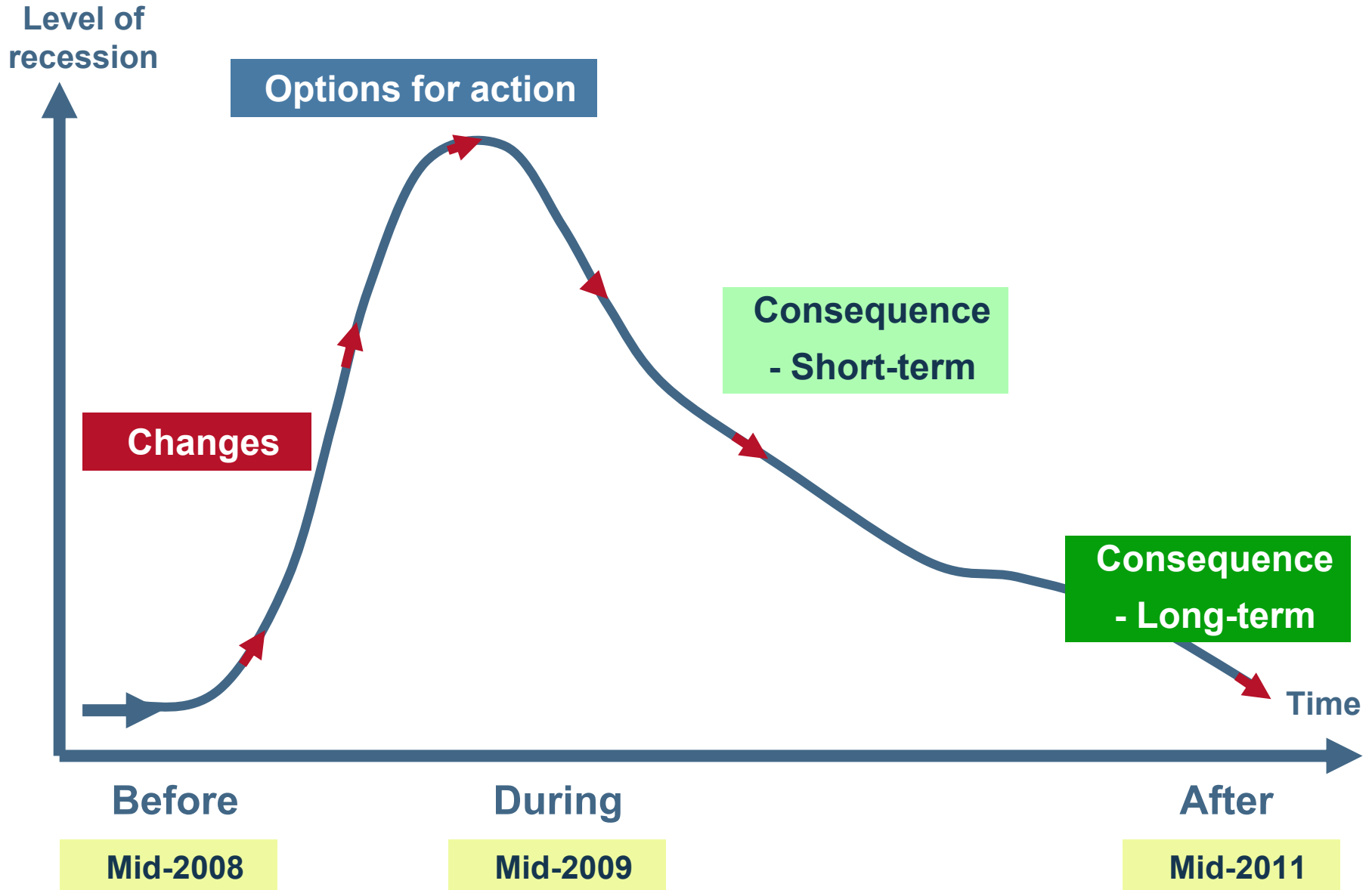
### Important:

Estimates connected  
with uncertainty and  
are regularly changed



Own options for action

# Crisis equals change



# Options for action

## - The three most significant on earnings

**Extraordinary  
focus on  
expenses**

- **Intelligent employment freeze**  
Goal: To reduce number of employees > 5%
- **Lean**
- **General restraint**

**Improved  
utilisation of  
purchasing power**

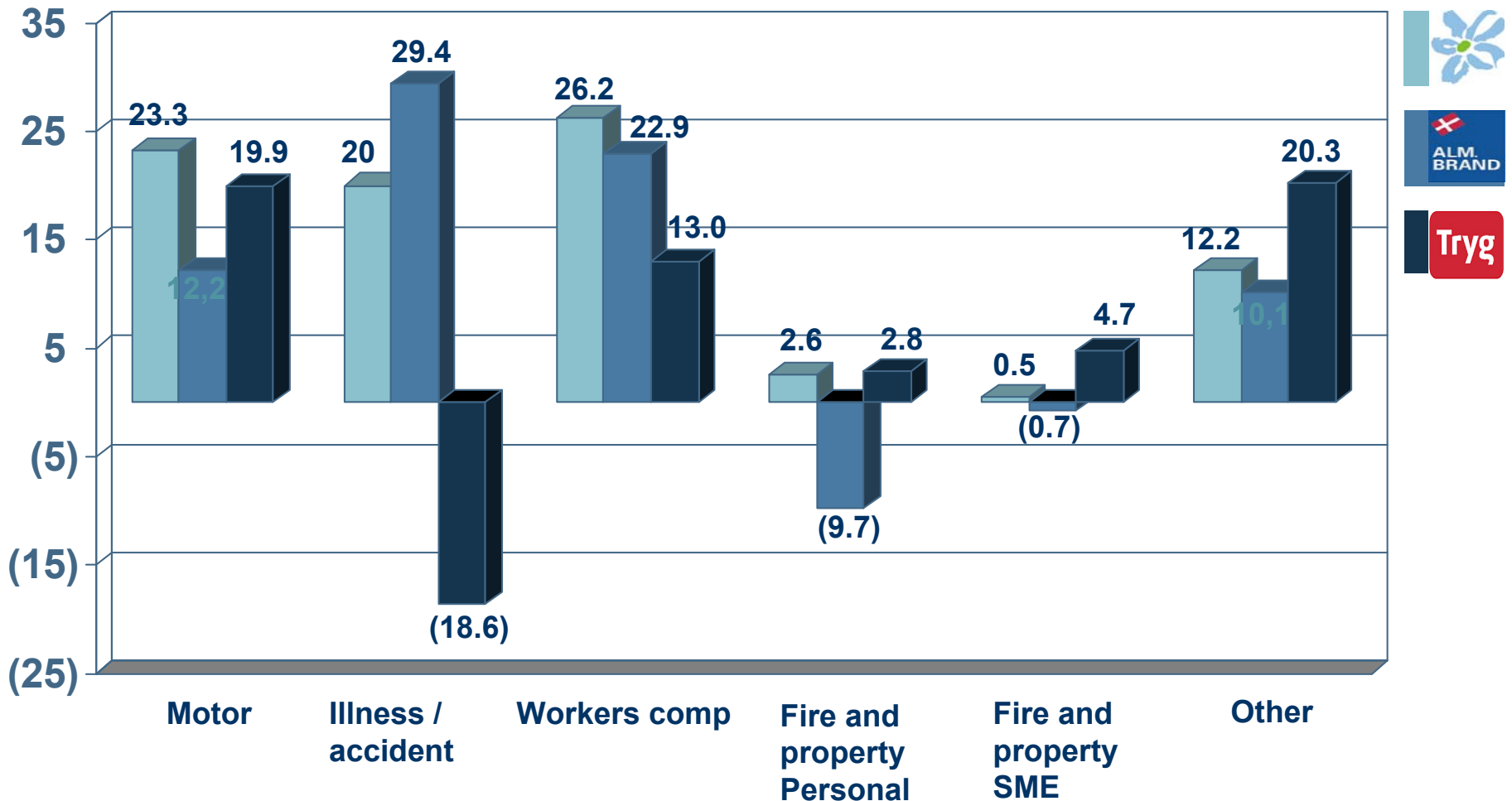
- **Focus on savings on claims paid to customers within motor, building and property insurance**  
Goal: To reduce CR by approx 1 pp

**Price increases**

- **Mass market**
  - **Price increases implemented for new customers in contents and house insurance**
  - **Considering when to increase prices for existing customers**
- **Professional market**
  - **If the trend in theft and fire claims continues, prices will also be increased in building and property insurance**

# Options for action: Price increases

- Breakdown of profit margin in 2008  
excl. gains on / strengthening of claims provisions





# Probable scenario

## - Growth and earnings

Level of recession

**Goal:**  
Same earnings as before crisis

### Options for action:

- Extraordinary focus on expenses
- Price increases / micro rating
- Utilisation of purchasing power

### Changes

- Interest rates
- Fraud
- Claims inflation (plus / minus)
- Fewer valuables to insure

### Consequence – short-term

- Earnings intact approx one year later
- Growth being stimulated by price increases

### Consequence - long-term

- Natural return of growth
- Earnings favourably impacted by mainly
  - Increase in interest rates
  - Less fraud

Time

Before

Mid-2008

During

Mid-2009

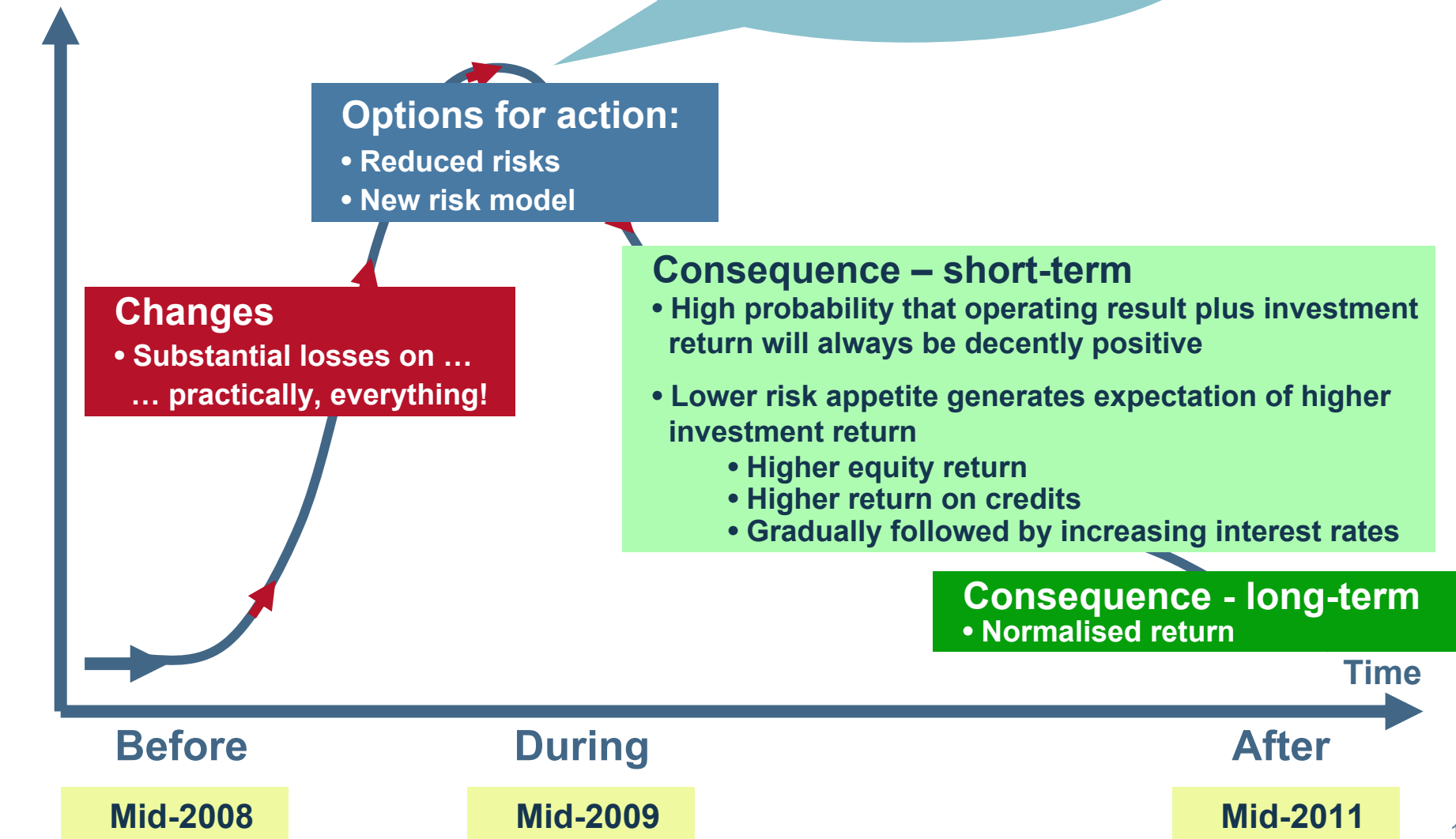
After

Mid-2011

# Probable scenario

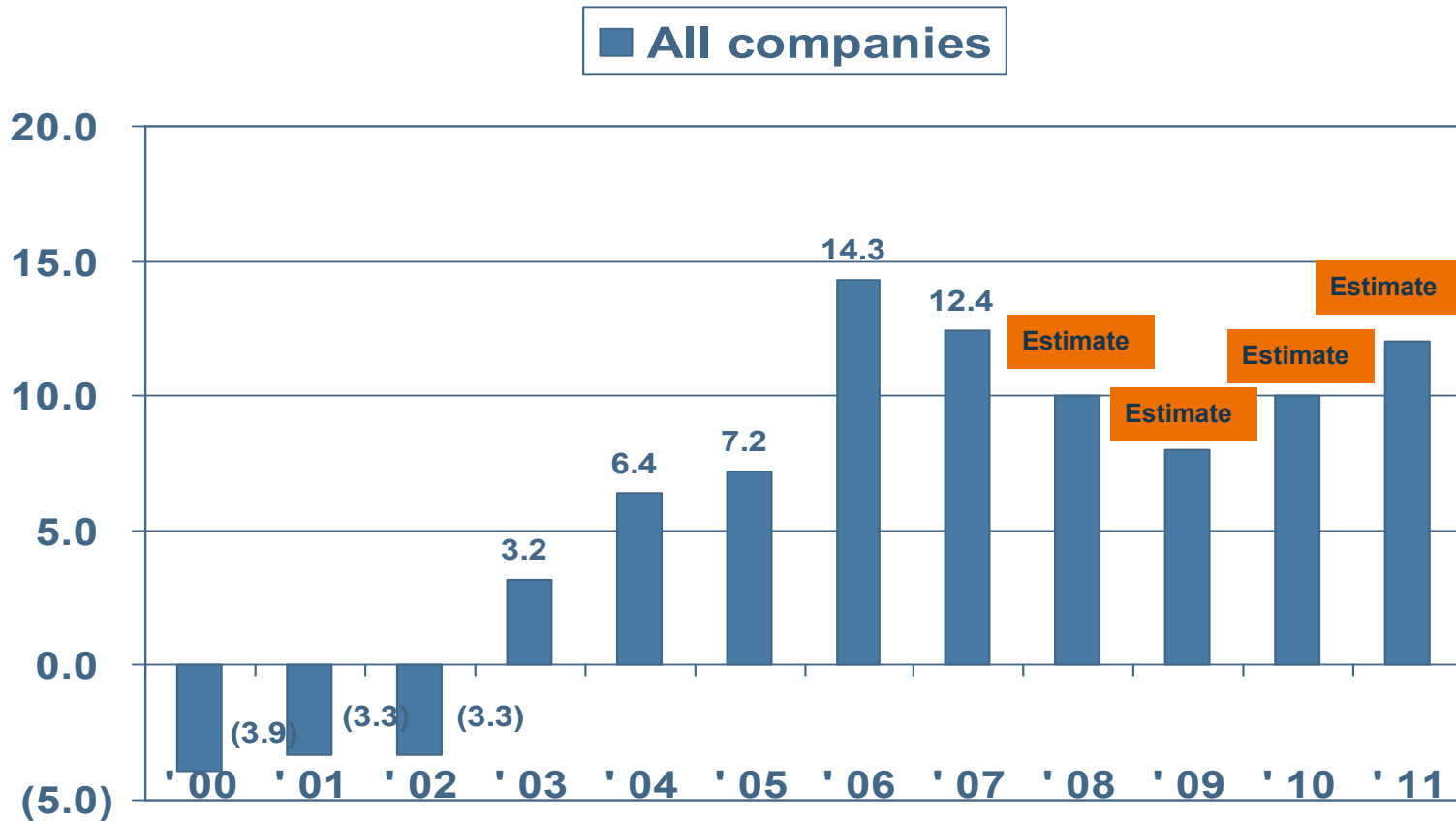
## - Investment return

Level of recession



# Trend in gross profit margin

- probable scenario



# Appendix

**[www.topdanmark.com](http://www.topdanmark.com)**  
- a source of up-to-date information on Topdanmark

# Summary

## – Growth and earnings

- **Recession means fewer valuables to insure**
  - Estimated adverse effect: 2 - 3% on growth in 2009
- **Adverse effect on earnings in 2008 which will undoubtedly increase in 2009**
  - Recession has both favourable and adverse effect
  - Developments require action in order to meet earnings goal
- **The following actions have been implemented and the effect will continue to increase**
  - Extraordinary focus on expenses
  - Improved utilisation of purchasing power
- **Increase in earnings necessary to ensure that earnings goal in 2010 will be in the form of price increases**
  - Mass market: Contents and house insurance
  - Professional market: Buildings and property insurance
- **Subsequently, all other things being equal, earnings and growth will increase in step with the recession coming to an end**

# Summary

## – Investment return

- **Due to recession substantial losses in 2008 but also in Q1 2009**
- **Topdanmark has reduced its risks and implement new risk model**
  - **High probability that future operating results plus investment returns will always be decently positive**
- **In the short term lower risk appetite in market generates expectation of higher investment return**
- **In the long term a normalised return is expected**

# Options for action

- The two most significant on investment return

## Reduced risks

- Investment risk reduced by 50%
- In the event of another 2008, maximum loss will be  $\frac{3}{4}$  of technical result

## New risk model

- Risk indicators introduced
- New and lower limits for equity exposure
- No more purchases of structured products

## - a case of focused strategy

- Solely Danish player - non-life and life insurance
- Risk segmentation / micro rating
- Expense ratio
- Multi distribution / sales power
- Low earnings volatility in insurance business
  - More exposed to personal market
  - Less exposed to industrial market
  - High level of reinsurance cover
- Investment risk reduced by 50%
- In the event of another 2008, maximum loss will be  $\frac{3}{4}$  of technical result
- High cash flow
- Large cash distribution programme
  - Normalised yield of 7 - 8%
- No limitations set in the Articles of Association



# Topdanmark's financial goals

## ➤ Earnings

- ✓ CR in current year: 91 - 92 excl. gains on / strengthening of claims provision but incl. buffer of 1 pp
- ✓ CR in the long term: 92 excl. gains on / strengthening of claims provision but incl. buffer of 1 pp

## ➤ Growth

- ✓ 1% p.a. excl. wage inflation in non-life gross premiums earned incl. illness / accident adjusted for any price adjustments
- ✓ 5 - 10% p.a. in regular premiums in life insurance

## ➤ Expense ratio

- ✓ No specific goal is set  
... but we continue to have a goal of an expense ratio lower than the general market level

**This presentation includes statements relating to the future. Such statements are uncertain and involve both general and specific risks.**

**Many factors may cause a significant deviation from the forecasts set out in the presentation. Such factors could be, for example, cyclical movements, changes in the financial markets, the financial effect of non-anticipated events like acts of terror or exceptional weather conditions, changes in Danish and EU rules, competitive factors in the insurance industry and trend in reinsurance market. Also see “Risk management” on our website [www.topdanmark.com](http://www.topdanmark.com) → [Risk management](#) .**

**The above description of potential risks is not exhaustive. Investors and others, who may base decisions relating to Topdanmark on statements relating to the future, should make their own careful considerations on these and other factors of uncertainty.**

**Topdanmark’s statements relating to the future are solely based on information known at the time of the preparation of the Q1 2009 interim report.**

**This publication is a translation. In case of any divergence, the original Danish text shall prevail.**