

December 2009

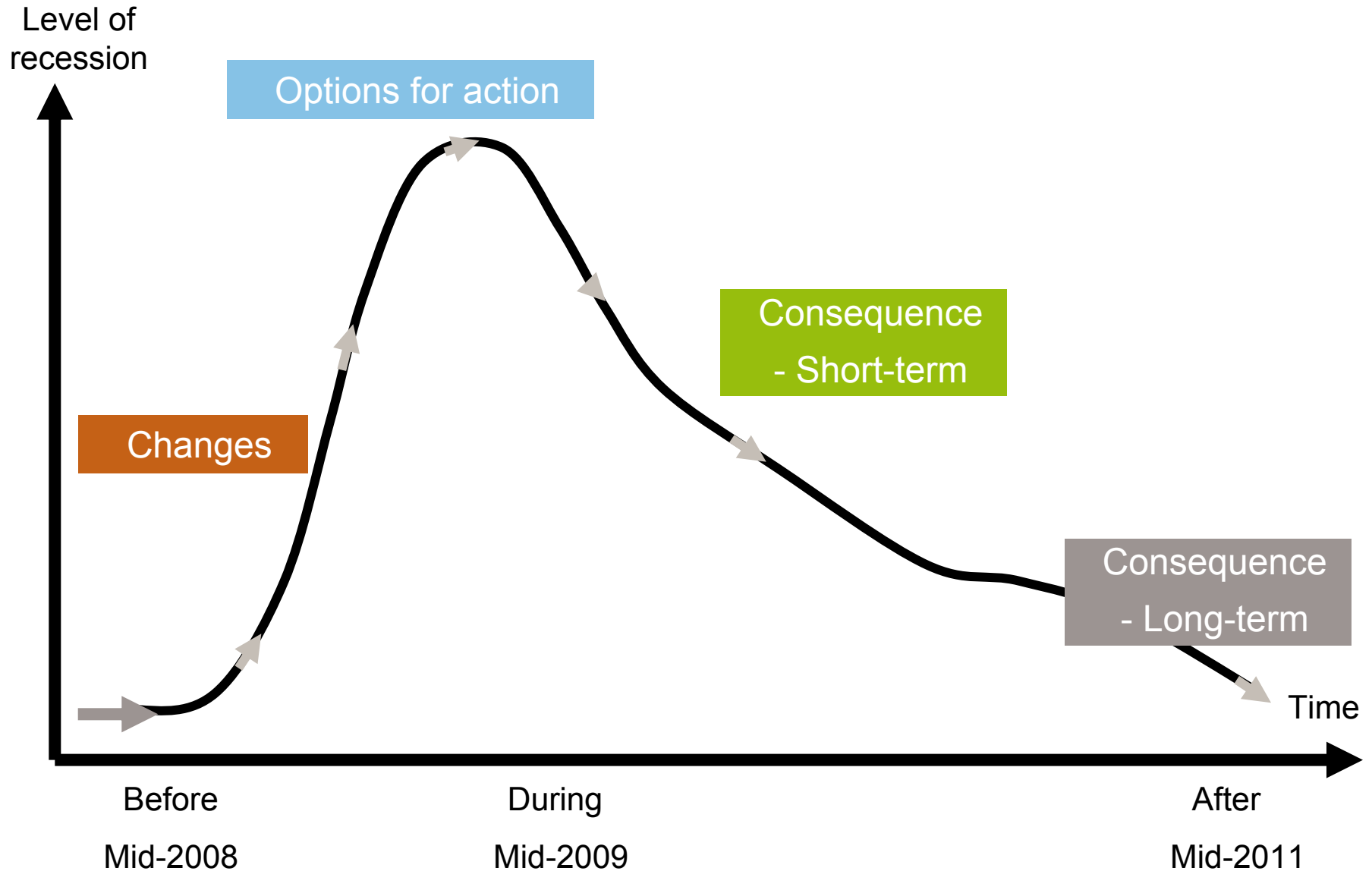
# Cheuvreux Financials Conference

2 December 2009

Shaping the business model for the future

by Christian Sagild, CEO of Topdanmark

# Crisis equals change



# Challenges during recession

Growth

Investment return

Combined ratio

# Growth changes

- Summary of most significant factors

Growth - % p.a.

**Mass market**

- Cars, lower car and housing sales

**SME market**

- Liquidations, fewer in employment and fewer goods to insure



Estimated adverse effect: 1-2% on growth in 2009 and 2010

**Few options for action!!!**

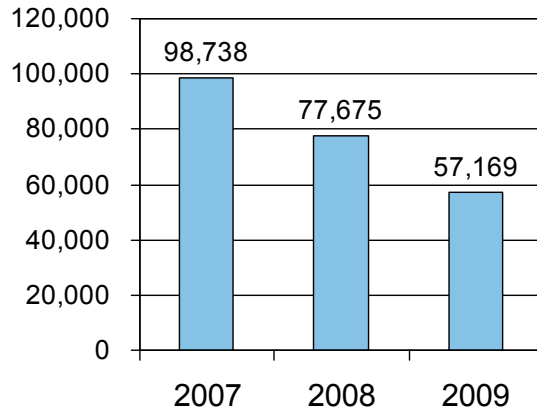
... Instead significant need for focusing on retaining earnings

# Growth changes

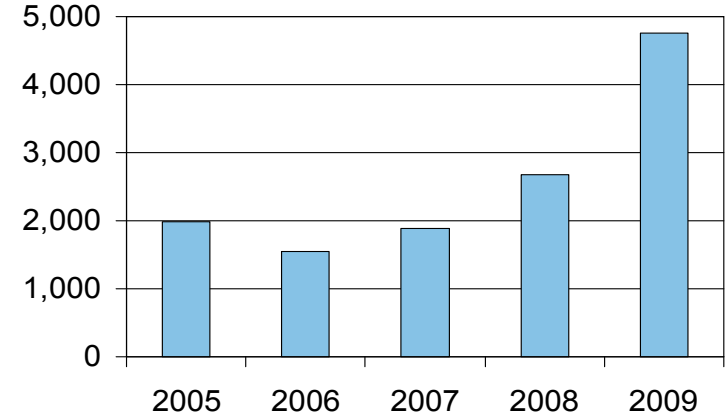
- Summary of most significant factors

## Financial crisis puts pressure on companies' turnover

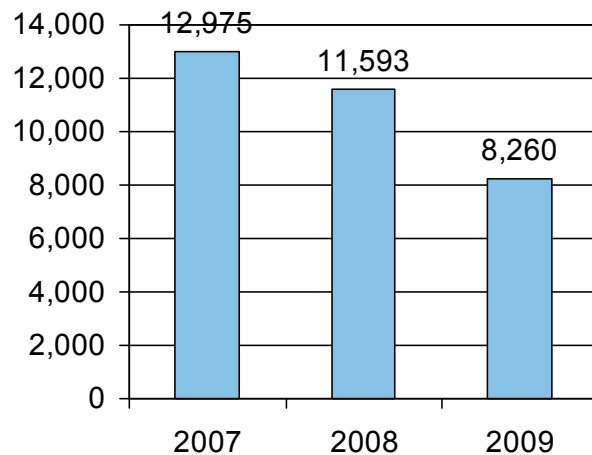
Motor policy requests - Jan to Oct



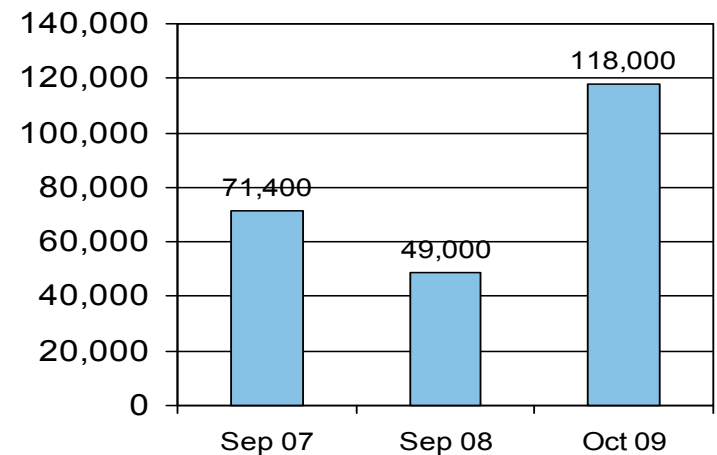
Liquidations - Jan to Oct



Change of ownership proposals - Jan to Oct



Unemployment

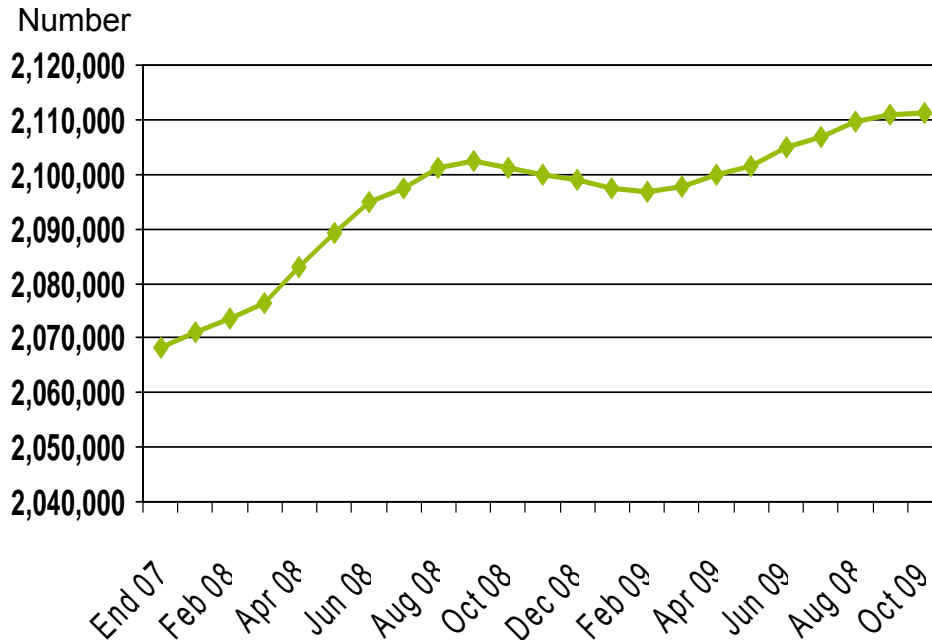


# Growth changes

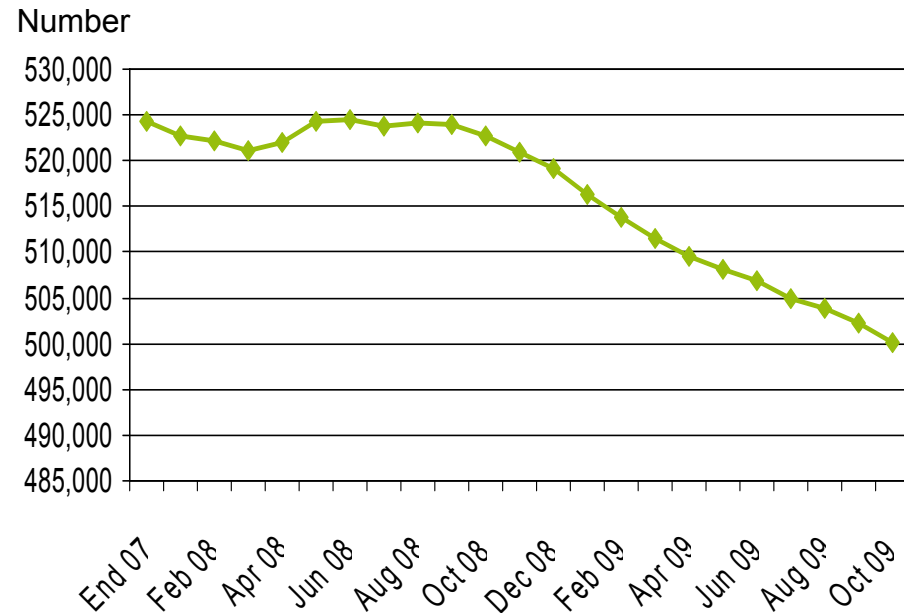
- Summary of most significant factors

Financial crisis puts pressure on companies' turnover

Number of private cars in Denmark



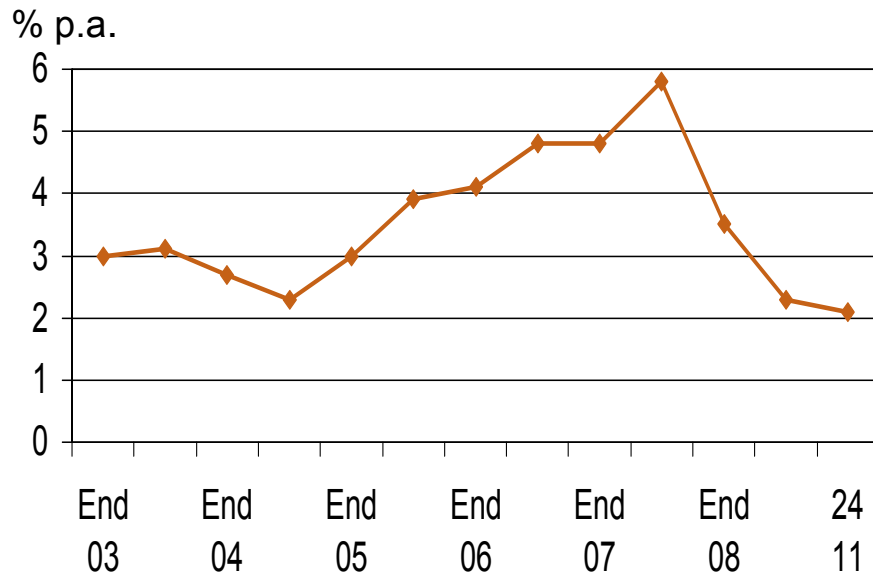
Number of vans / trucks in Denmark



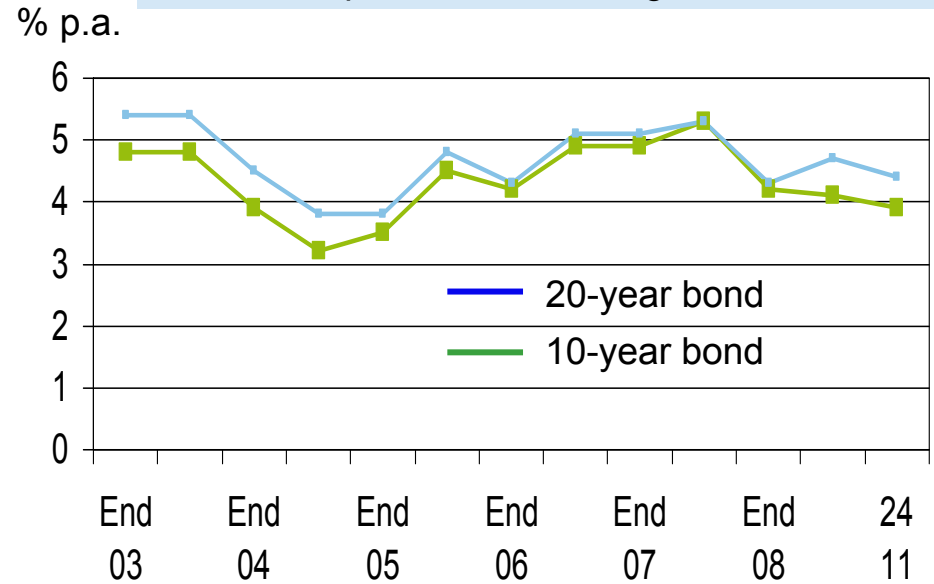
# Earnings changes

- 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 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

- Summary of most significant factors

## Earnings - CR

### Interest rates

### Negative claims inflation

- Increase in fire claims
- Increase in theft claims

### Positive claims inflation

- Trend in claims frequency for motor insurance



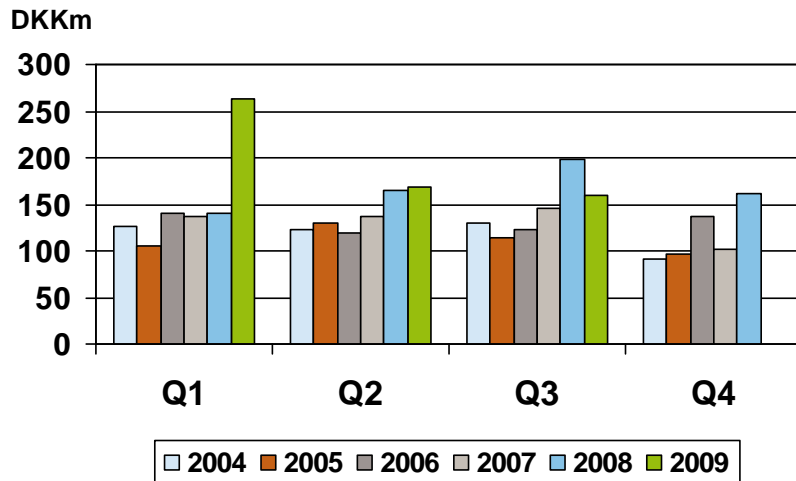
Need to know the consequence of all three factors in order to assess the effect on earnings



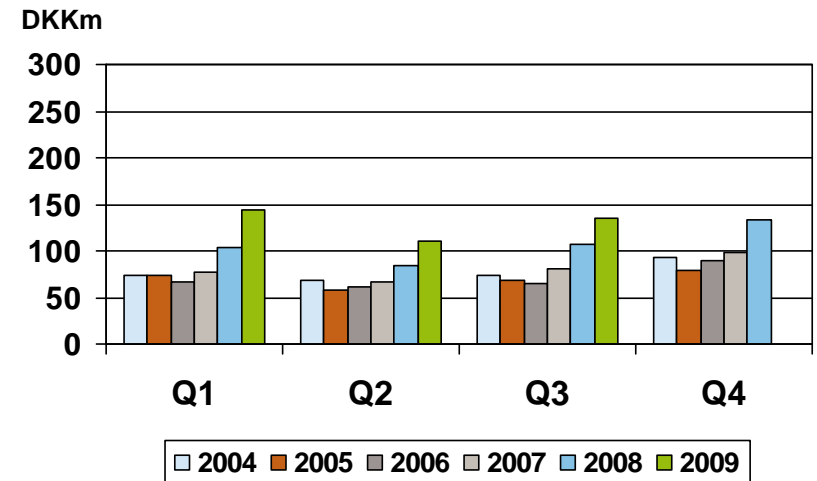
# Topdanmark

- Examples of trend in claims incurred

## Fire claims



## Theft claims



Effect on CR

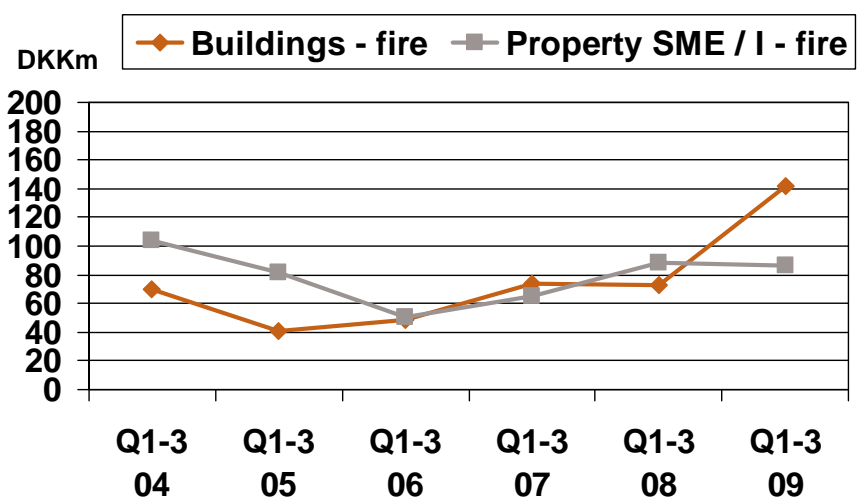
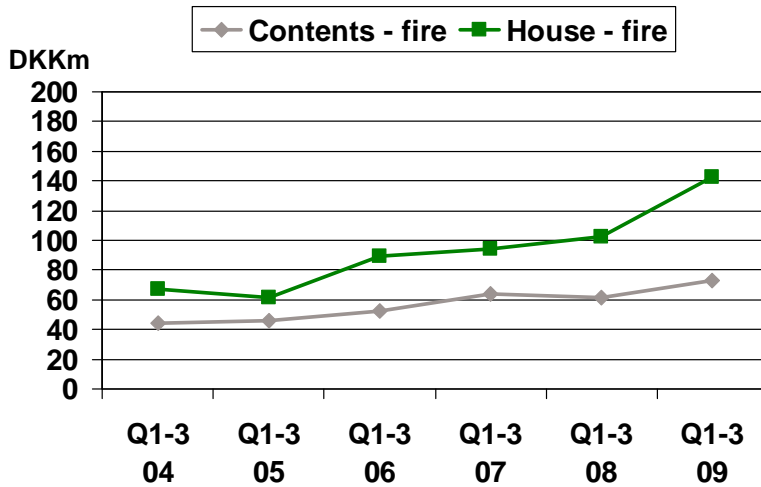
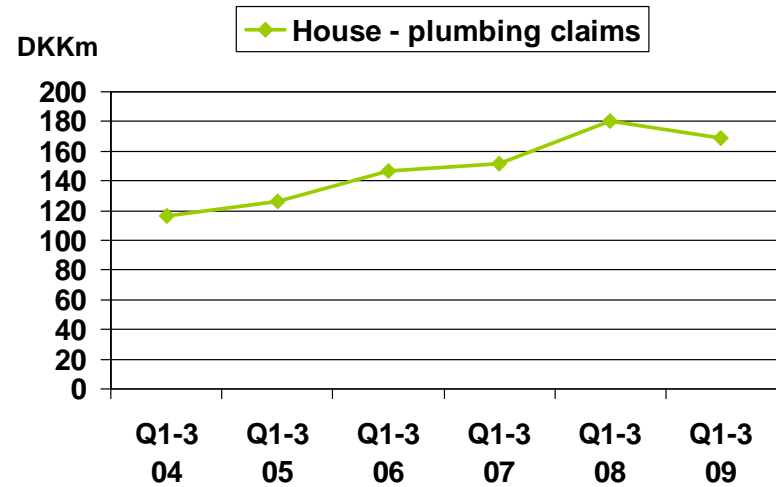
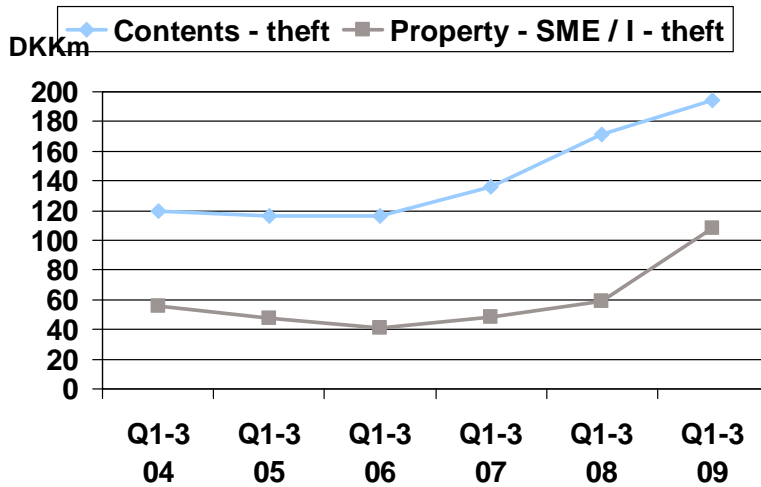
1 - 2 pp

Effect on CR

2 pp

# Topdanmark

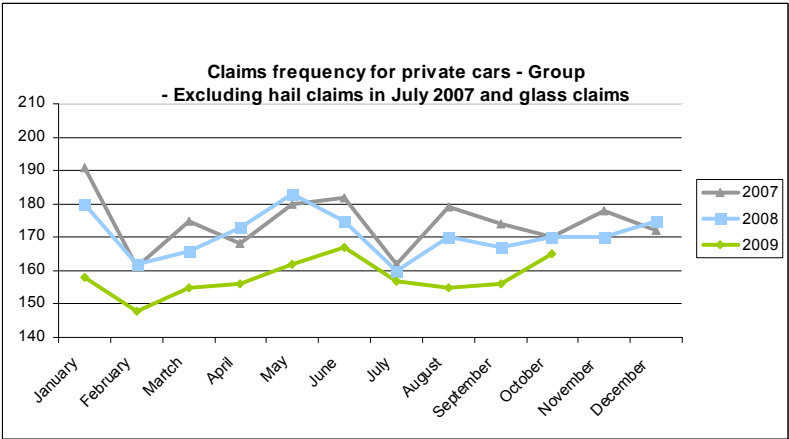
- Examples of trend in claims incurred



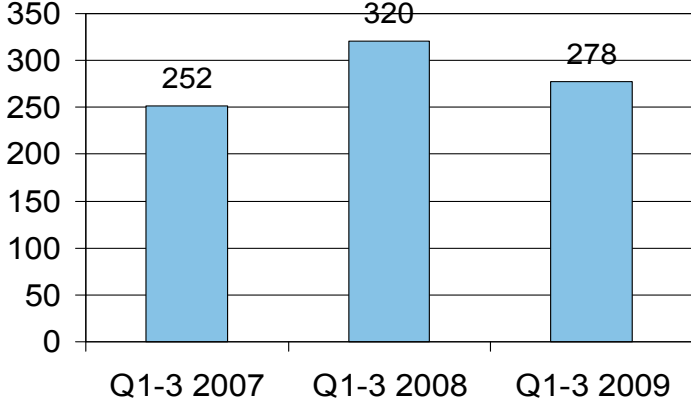
# Earnings changes

- Positive claims inflation - frequency: Examples in motor insurance

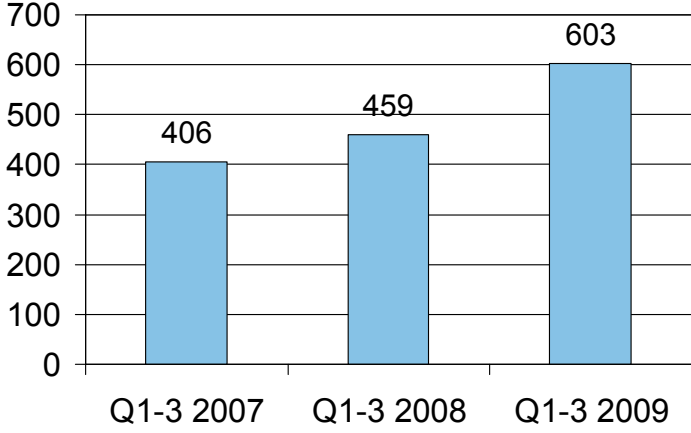
## Claims frequency private cars – excl. glass claims



## Number of burned cars



## Number of disappeared cars



**Effect on CR**

- Frequency around minus ½ pp
- "Fraud" around 0.1 pp

# Earnings changes

- Summary of financial consequences

## Factors affecting earnings

### Interest rates

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

### Negative claims inflation

- Fire claims
- Theft claims

### Positive claims inflation

- Claims frequency for motor insurance



Own options for action

## Estimate - earnings

Minus 0.6 pp profit margin  
1.1 pp on CR

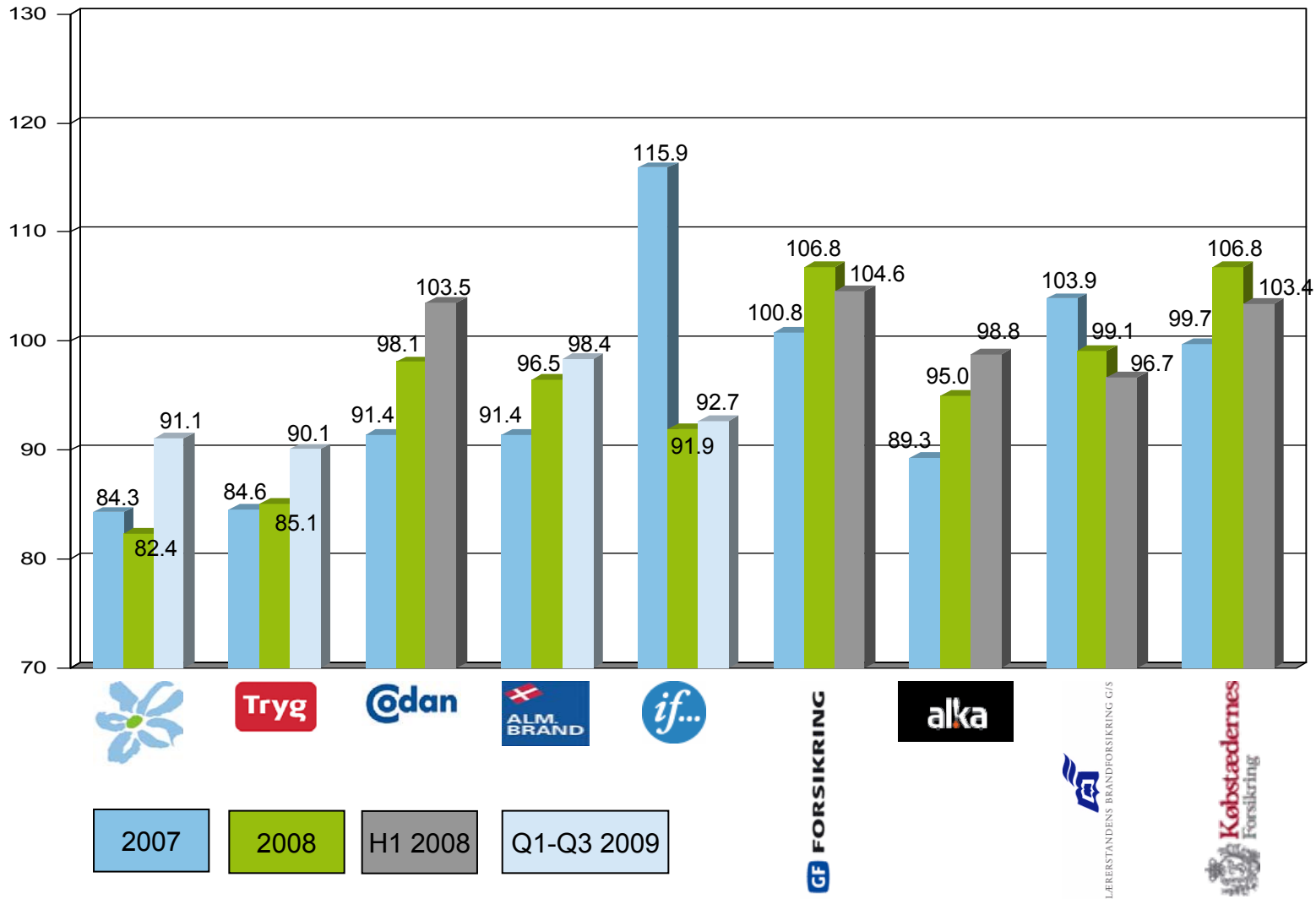
1-2 pp on CR  
2 pp på CR

Minus ½ pp on CR

**Important: Estimates connected with uncertainty and are regularly changed**

# Comparison of combined ratio

(Danish insurance)



# Own options for action

- The three most significant on earnings

## Extraordinary focus on expenses

Intelligent employment freeze

Goal: To reduce number of employees > 130

- General restraint

## Efficient control of claims incurred

Focus on savings on claims paid to customers within motor, building and property insurance

- External suppliers and own staff

Goal: To reduce CR by approx 1 pp

## Price increases

Mass market

- House and contents

SME market

- Fire and theft within building and property insurance



# Measures taken to improve profitability

## Price increases

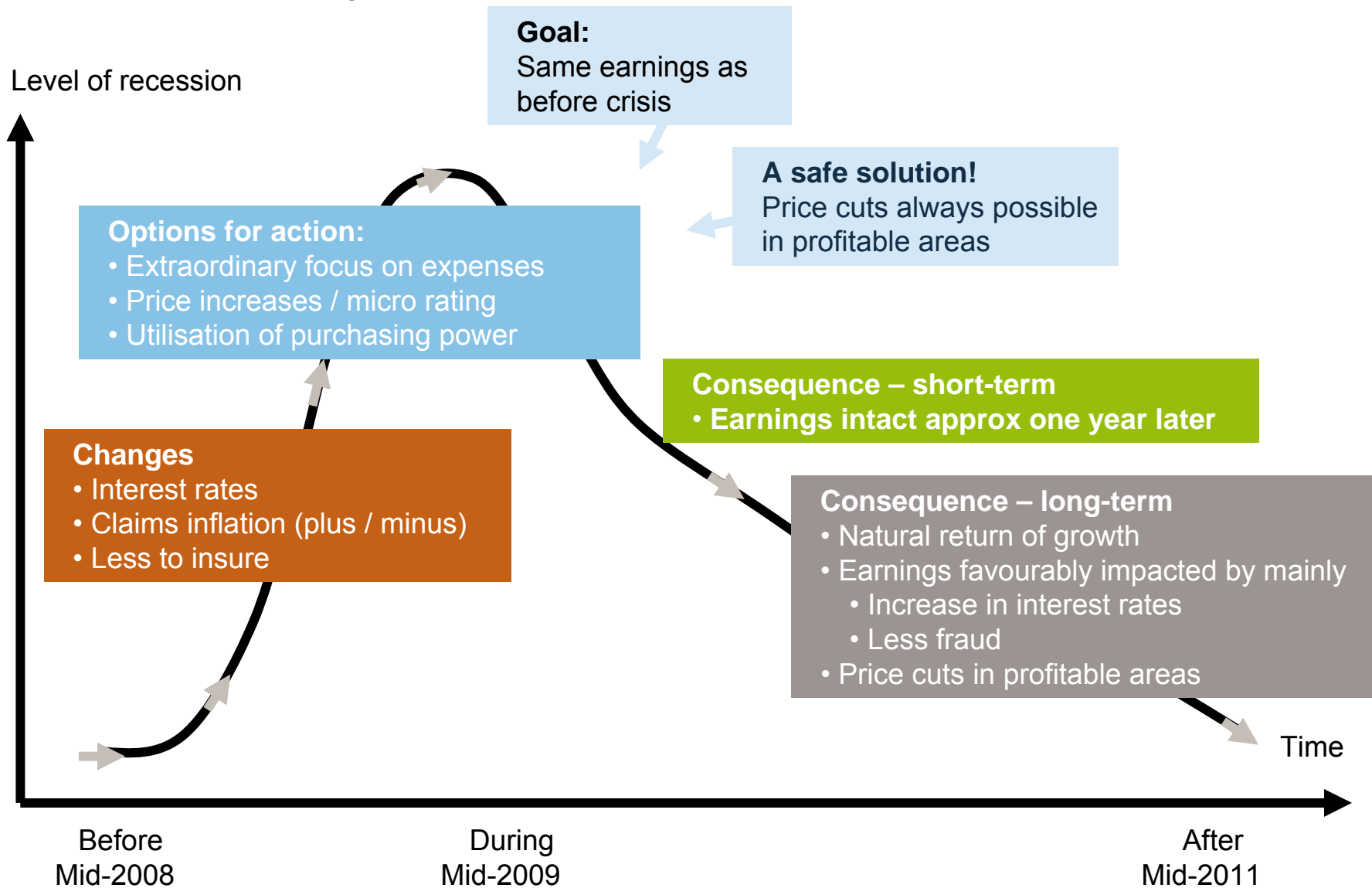
- Personal
  - House and contents policies
  - Average increase of 12%
- SME
  - Buildings and property policies
  - Average increase of 9%

Effect on premiums earned at least DKK 300m, with just over half of this being seen in 2010

Improved utilisation of purchasing power and intelligent employment freeze

# Probable scenario

## - Growth and earnings



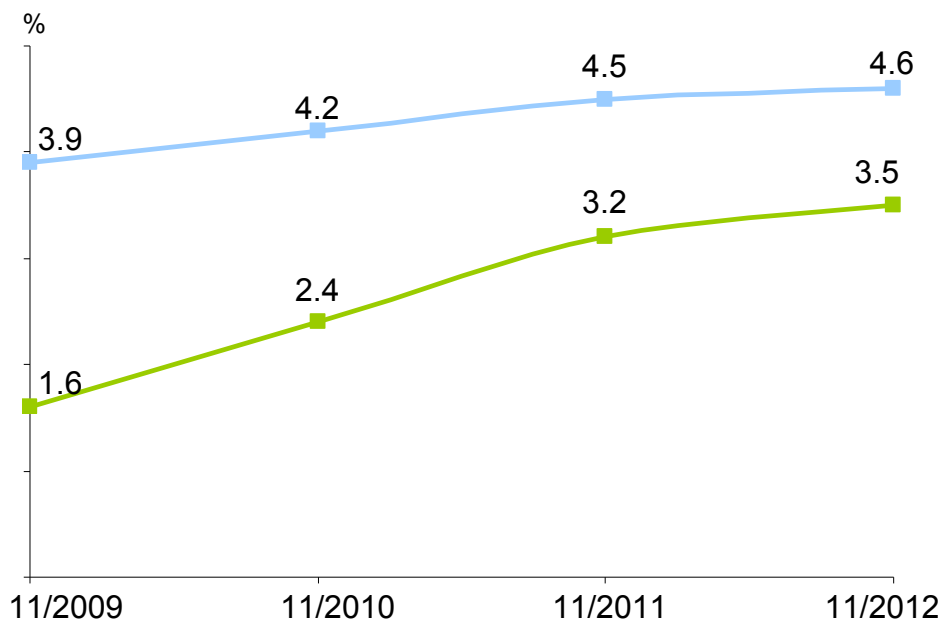


# Effect of increase in interest rates

## Effect of increase in interest rates

- Claims provisions are matched by corresponding assets
  - No effect on results of a change in interest rates
  - A 1 pp increase in the interest rate curve reduces the CR by about 1.1 pp
- The premiums reserve is invested in short-term interest-bearing assets
  - A 1 pp increase in short-term interest rates, increases the pre-tax result by about DKK 40m

## Three-month and 10-year forward interest rates in DKK

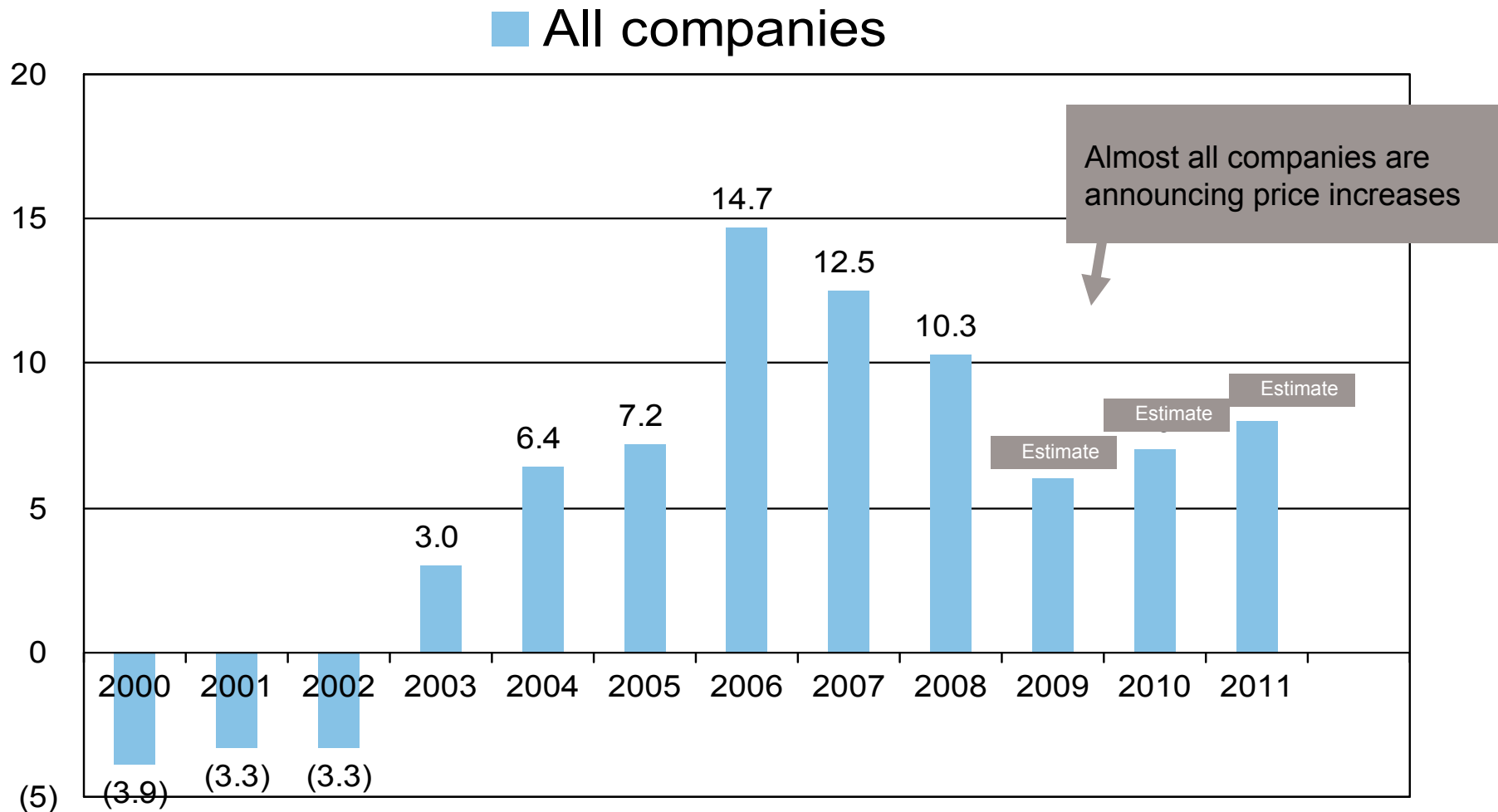


3-month forward interest rate

10-year forward interest rate

# Trend in gross profit margin

- probable scenario



# Operational goal for non-life insurance

- **Profit margin of 10%**
  - Corresponding to CR of 92 excl. any gains on or strengthening of claims provisions, using current level of interest rates,
- Growth in gross premiums: 1 pp higher than wage inflation adjusted for any price changes
- Goal for CR in 2010
  - In line with the effect of the measures taken to improve profitability the profit margin is expected to increase to 10% (CR of 91 - 92) in 2010

# Profit forecast model

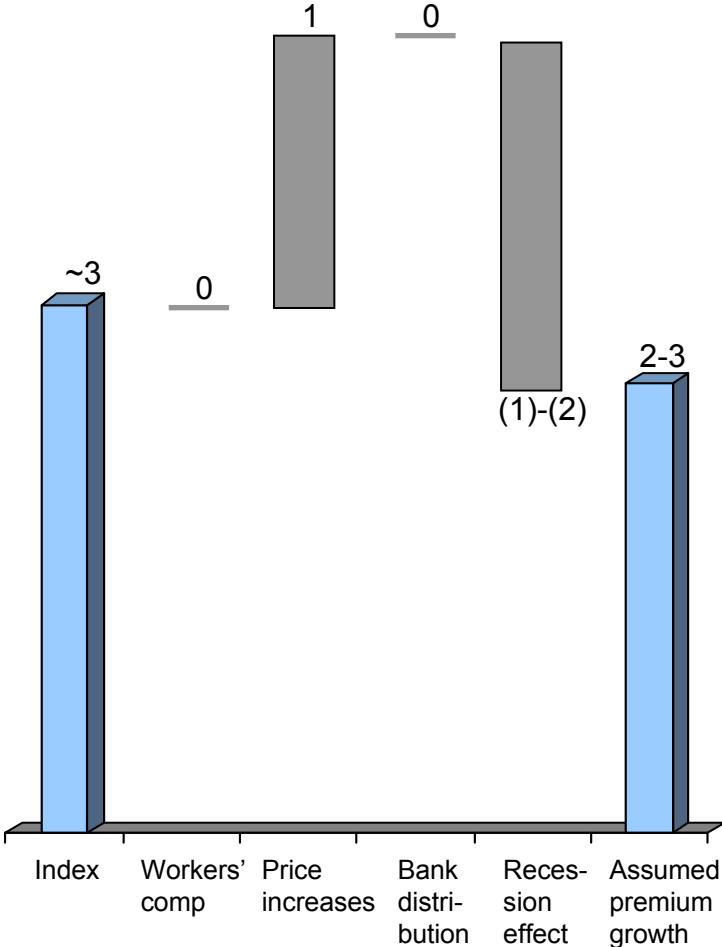
- increased by DKK 100m for 2009

(DKKm)	2008	Forecast for 2009 14 Aug 2009		Forecast for 2009 13 Nov 2009	
Non-life insurance					
- Technical result	1,796	790	- 830	710	- 750
- Investment return after transfer to technical result etc.	(1,705)	420	- 460	620	- 660
Non-life insurance	91	1,210	- 1,290	1,330	- 1,410
Life insurance	(57)	260	- 280	270	- 290
Parent company etc.	(58)	(50)	- (30)	(50)	- (30)
Pre-tax profit / (loss)	(24)	1,420	- 1,540	1,550	- 1,670
Taxation	(165)	(320)	- (340)	(350)	- (370)
Profit / (loss) for the year	(189)	1,100	- 1,200	1,200	- 1,300

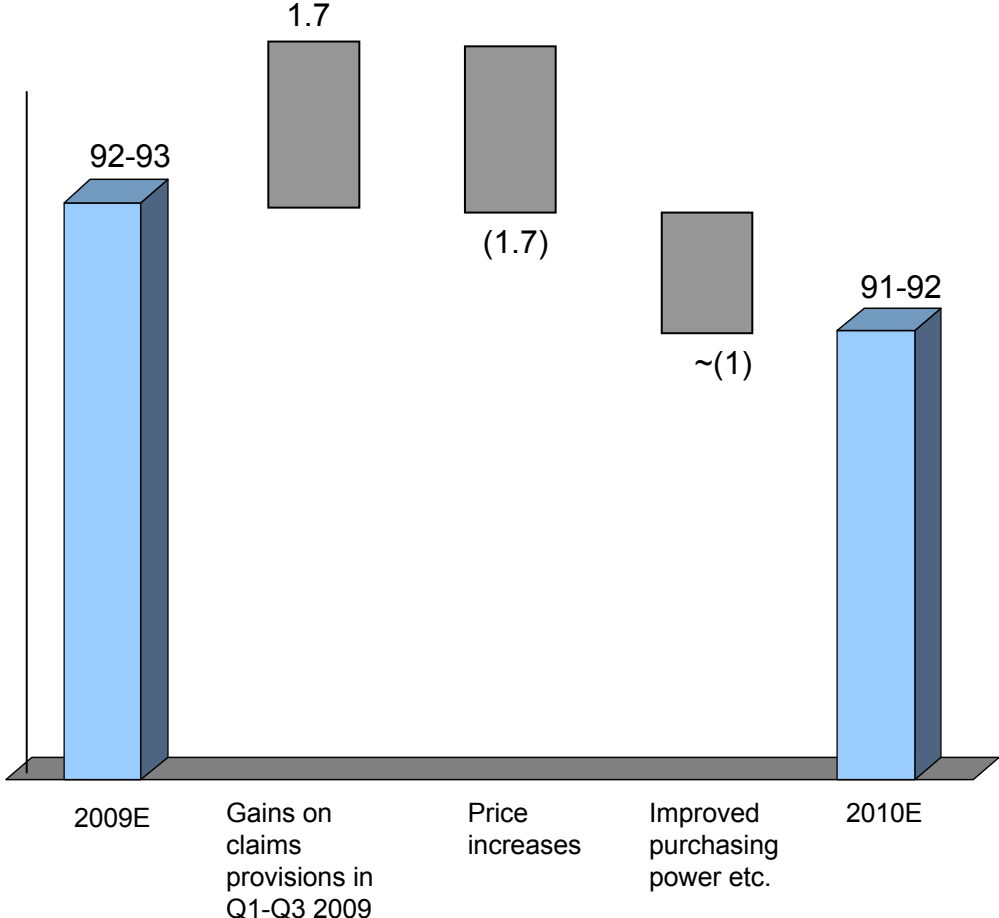
Representing a post-tax ROE of 32.4%

# Assumptions for 2010 forecast

Premium growth as a percentage.



CR excl. any gains on claims provisions



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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](#) .

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