

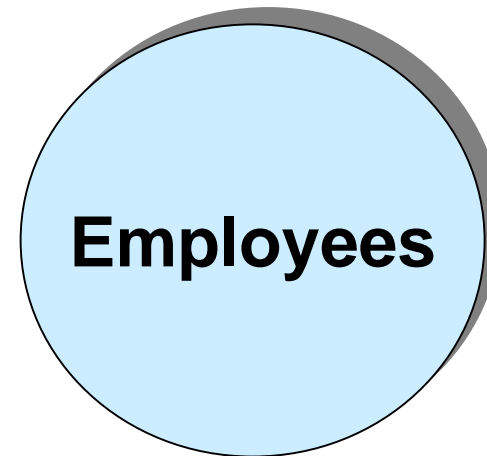
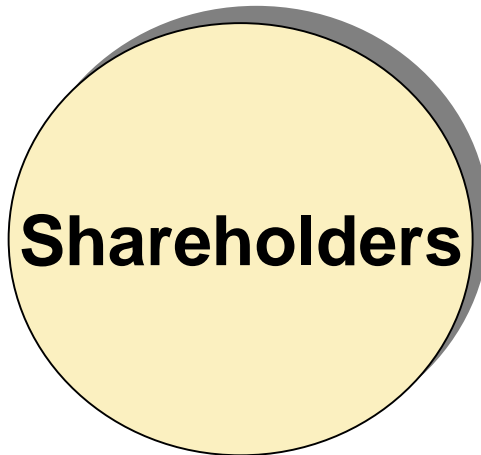
How to stay one step ahead of competition

Michael Pram Rasmussen, CEO, Topdanmark

Enskilda Securities Insurance Sector Seminar
Copenhagen 19 September 2002



Competitive - towards whom?



Topdanmark

Main objectives:

- To ensure that its shareholders achieve a long-term, competitive, stable return
- To concentrate on organic growth in the Danish life and non-life insurance market, but open to acquisitions and alliances, should the opportunity arise
- To ensure that value is created by accepting primarily insurance risks and to a lesser extent financial risks

Strategy:

- To be dynamic



Share profile

- **Topdanmark is an insurance share - not an investment trust**
- **Limited investment risks**
 - Principle: shareholders want to choose themselves their investment risks
 - Temporary exemption: 2% stake in Danske Bank
- **Calculated insurance risks**
 - Return on insurance and investment risks not correlated - insurance risk attractive
- **Relatively limited top-line growth in non-life - higher in life**
- **High cash flow**
- **Large share buy-back programme**



Theoretical market value and value creation

Theoretical market value

Topdanmark's value creation is based on:

- the net present value of the expected cash flow from existing activities

plus:

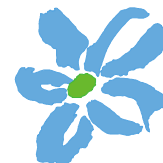
- the net present value of new business opportunities

Value creation

The net present value depends on:

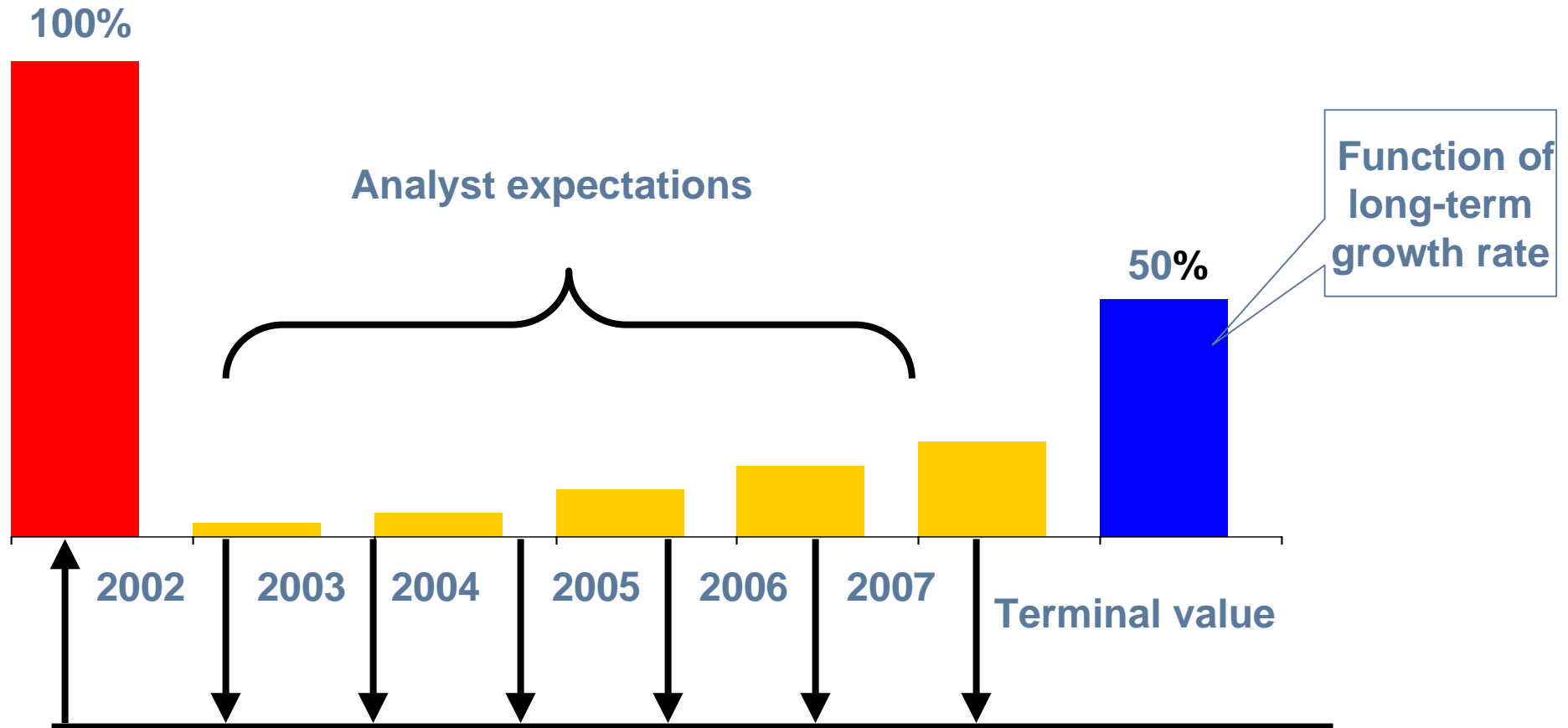
- cash flow
- discount rate

Topdanmark aims to create value by continuously optimising the conditions affecting both of these factors



Estimated distribution of Topdanmark's market value

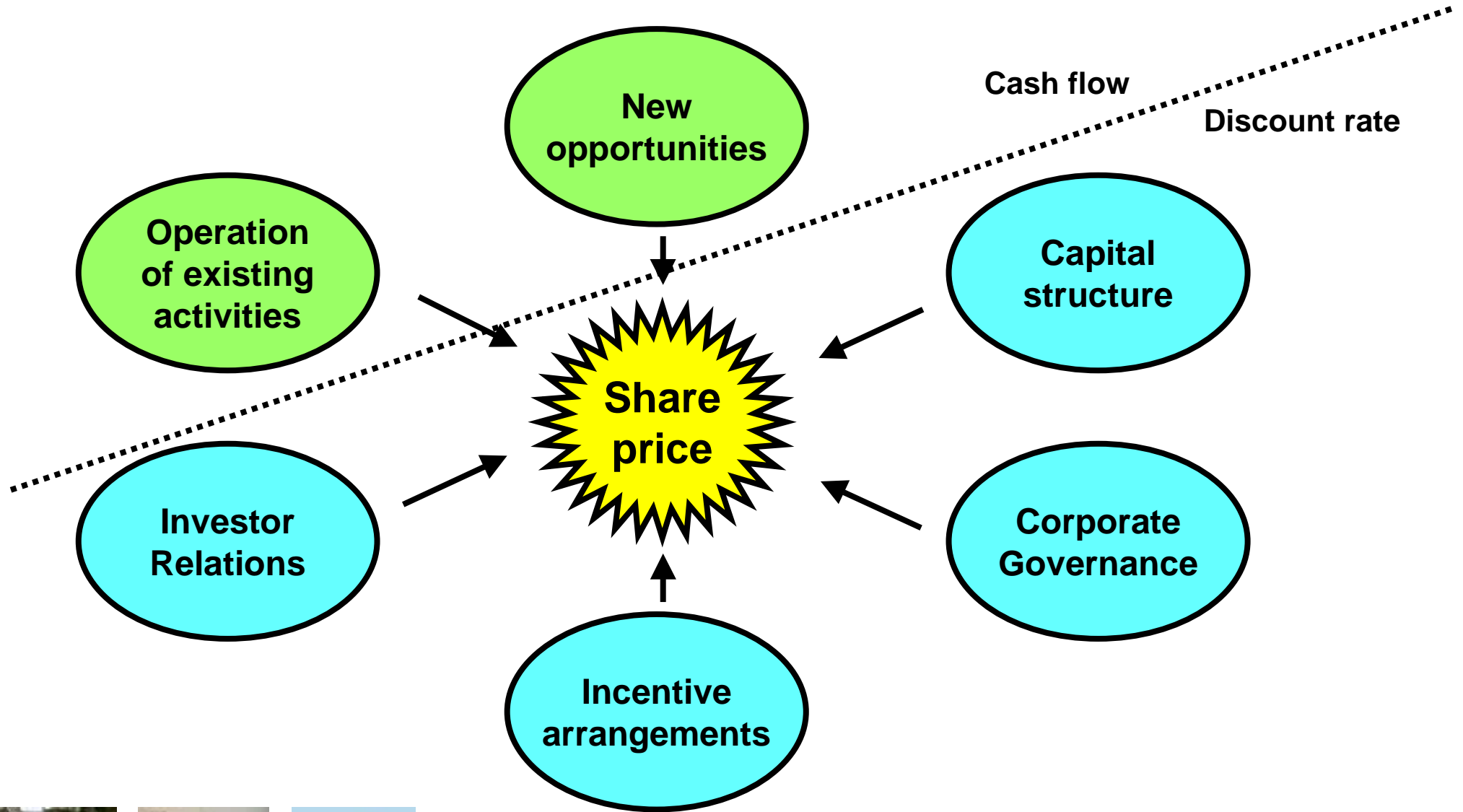
Market value = Net present value of cash flow for the next 5 years + Net present value of cash flow after 5 years (terminal value)



Cash flow discounted by return requirements (risk free interest rate + risk premium)



Value creation in Topdanmark

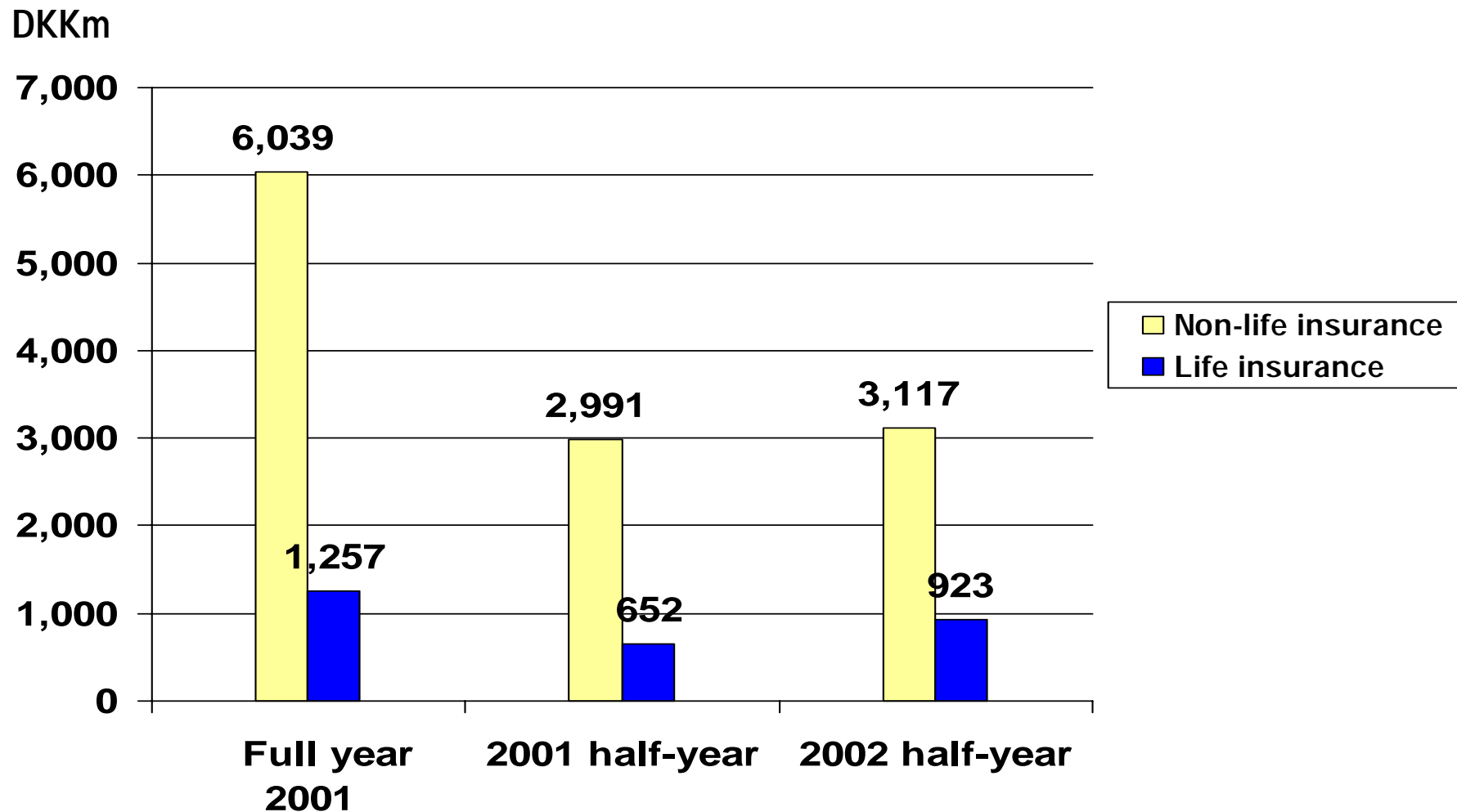


The Danish insurance market - trends

- Needs and requirements for technical profit
- Greater fluctuations in results due to:
 - larger retention due to hard-pressed reinsurance market
 - new accounting rules
- Concentration trend continues
- Apparently harder for new and small players to do well
- Customers are price conscious and getting less loyal



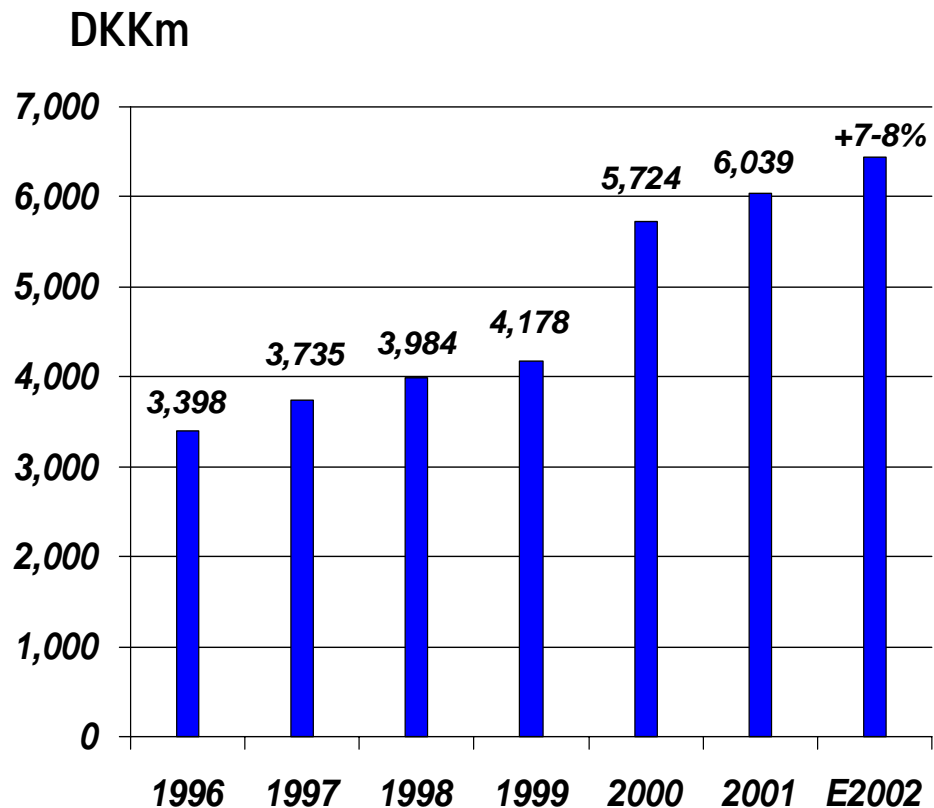
Topdanmark - Premium income



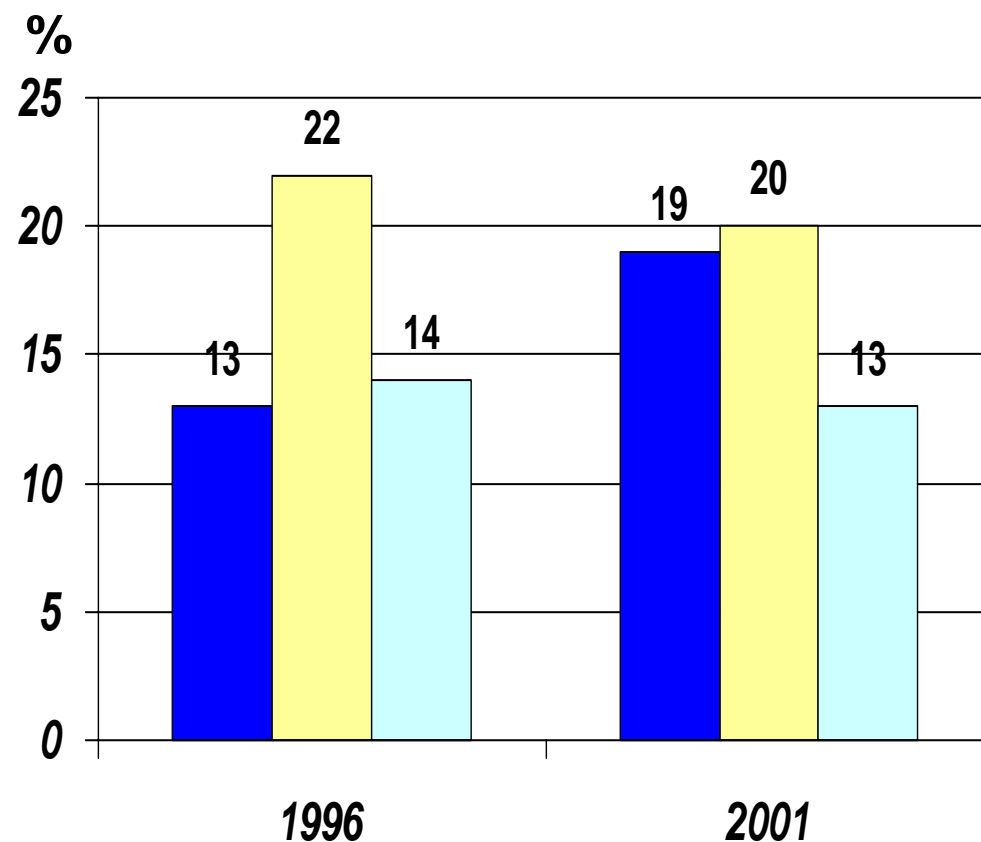
Enskilda Securities 19-09-02

Non-life insurance

Topdanmark - premium income



Market share

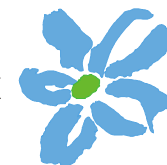


■ Top ■ Tryg ■ Codan

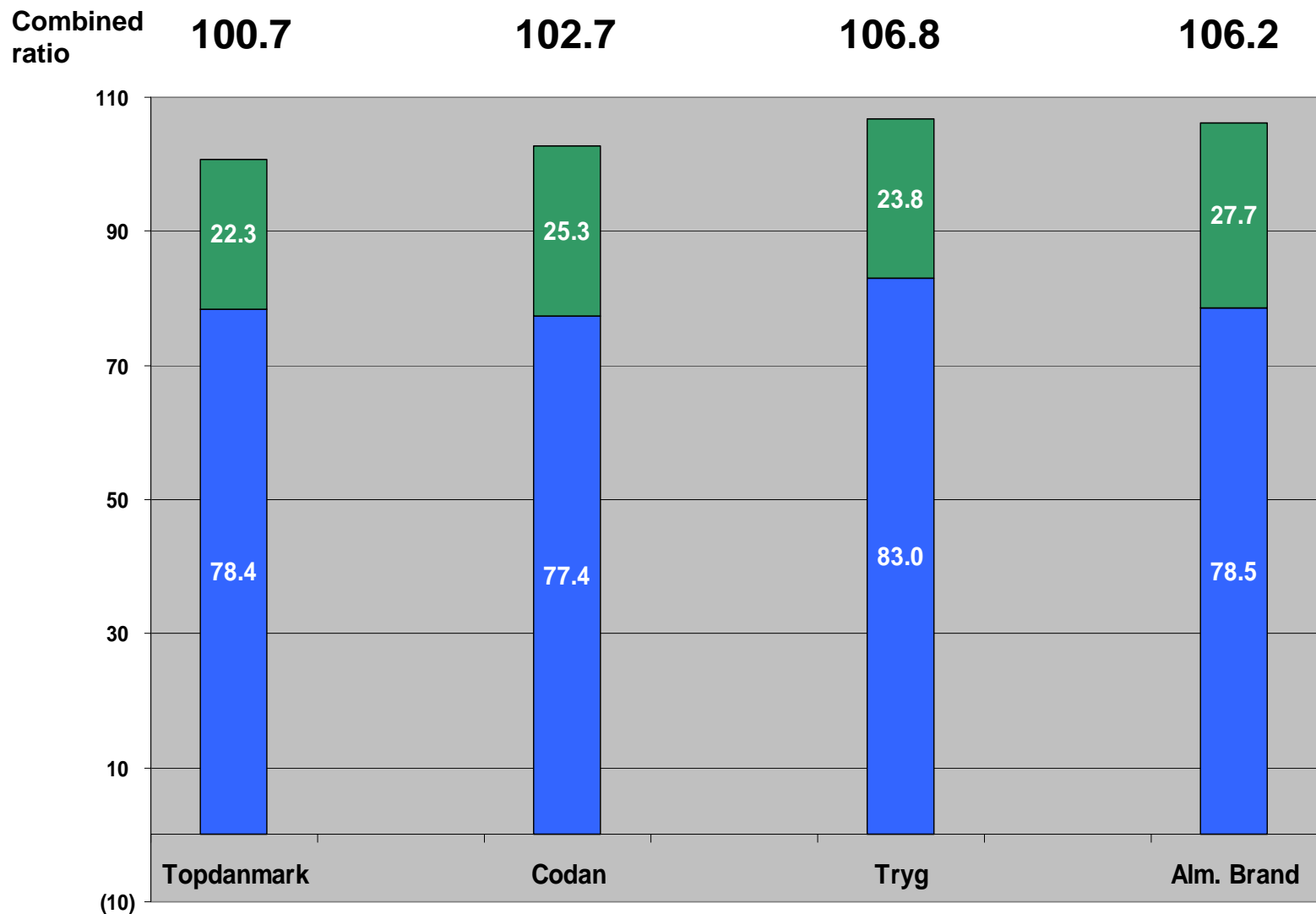


Enskilda Securities 19-09-02

Topdanmark



Non-life insurance



Comparison of combined ratio (on own account) - 2002 half-year

Expense ratio

Loss ratio



Topdanmark - goal and criteria of success

Goal:

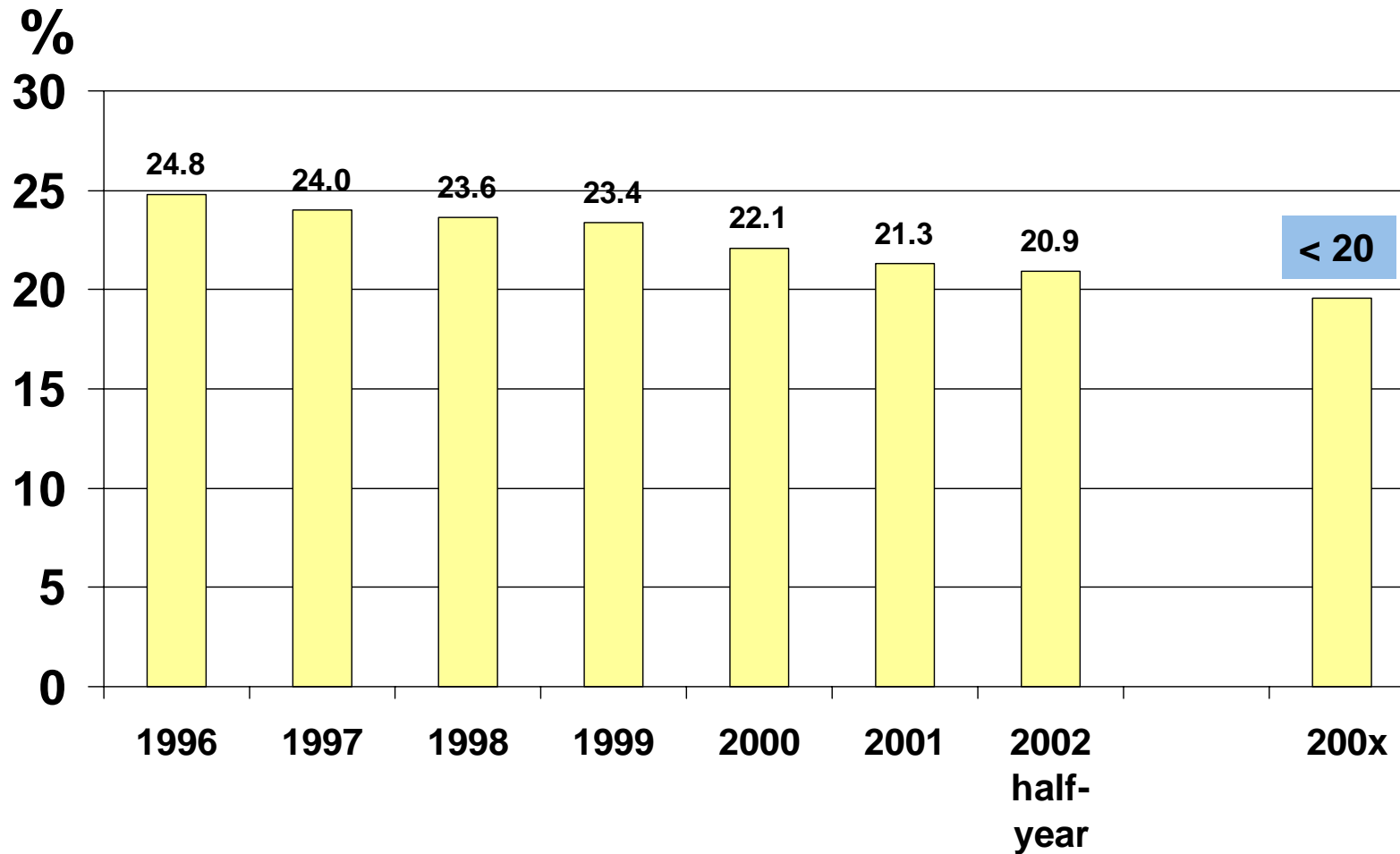
- Combined ratio of 96%

Criteria of success:

- Declining expense ratio
- Distribution efficiency
- Control of insurance risks and financial risks



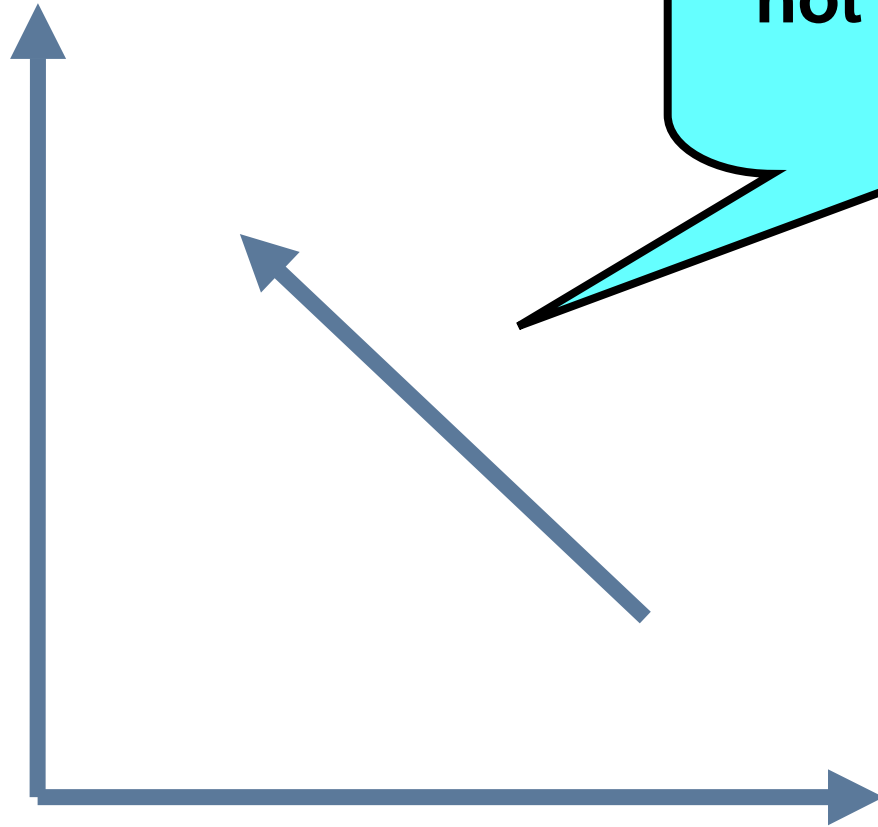
Topdanmark - trend in expense ratio



Enskilda Securities 19-09-02

Quality versus costs

Quality



Quality does not cost extra

Examples:

- data capture at source
- eBusiness - self-transacting
- Call centre
- ScalePoint

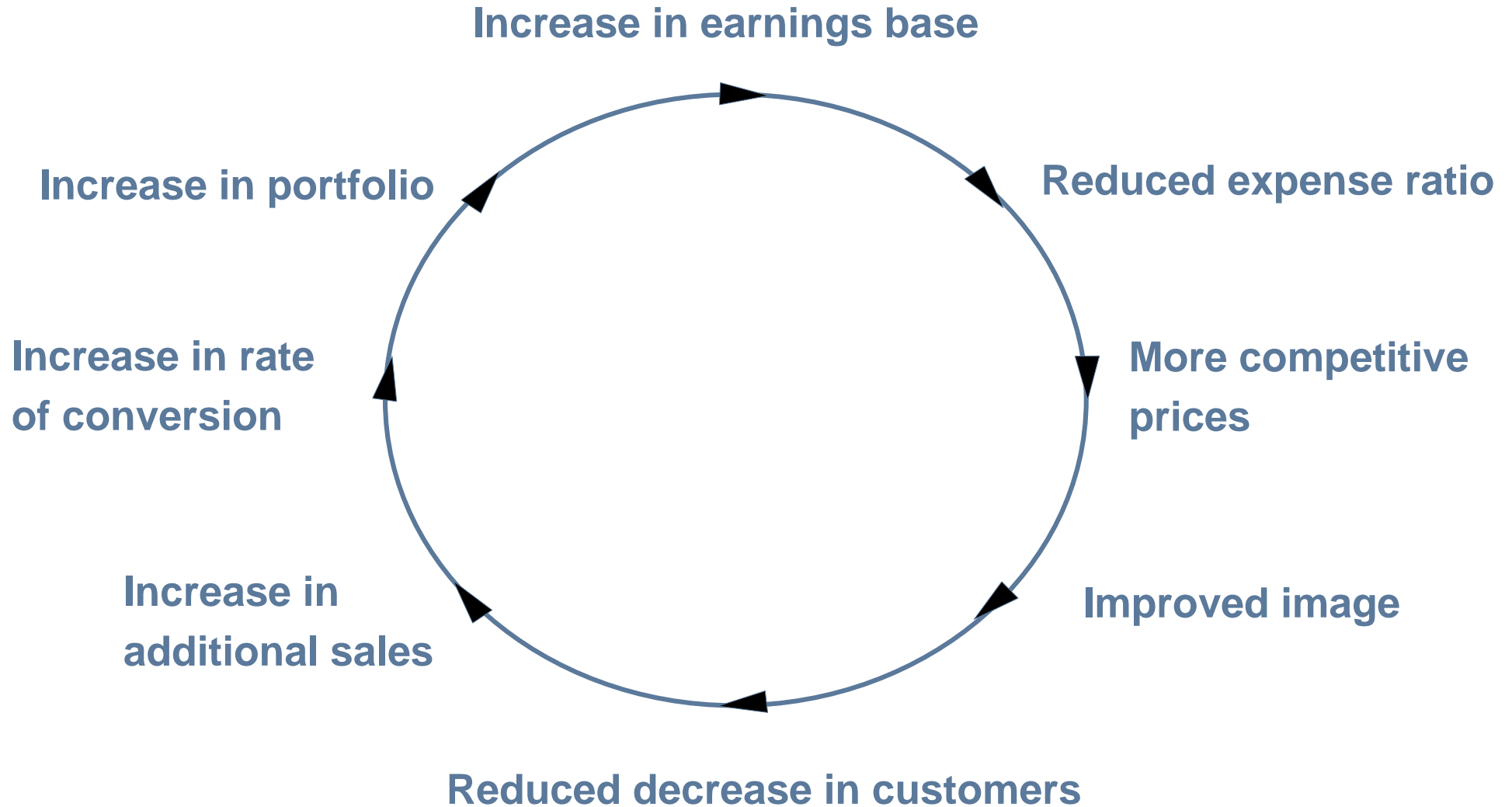
Costs

Enskilda Securities 19-09-02

Topdanmark



The “good” circle



Enskilda Securities 19-09-02

Topdanmark



Impacts on sales efficiency



Premium per sale	Hit rate	Visits per week	No. of weeks	No. of sales repres.	Annual sale EURm
500 EUR	30%	5	40	100	3 EURm
500 EUR	30%	5	40	200	6 EURm
500 EUR	30%	10	40	100	6 EURm
500 EUR	60%	10	40	100	12 EURm
750 EUR	60%	10	40	100	18 EURm



Topdanmark - declining expense ratio

Other examples:

- Promoting cross-selling to life insurance business
- Using efficient marketing systems
- Restraining IT-expenses and being conscious about those projects to be encouraged
- Reducing claims handling costs - for instance by efficient use of resources and technology

Examples:

- use of photo assessment
- electronic booking of claims assessors

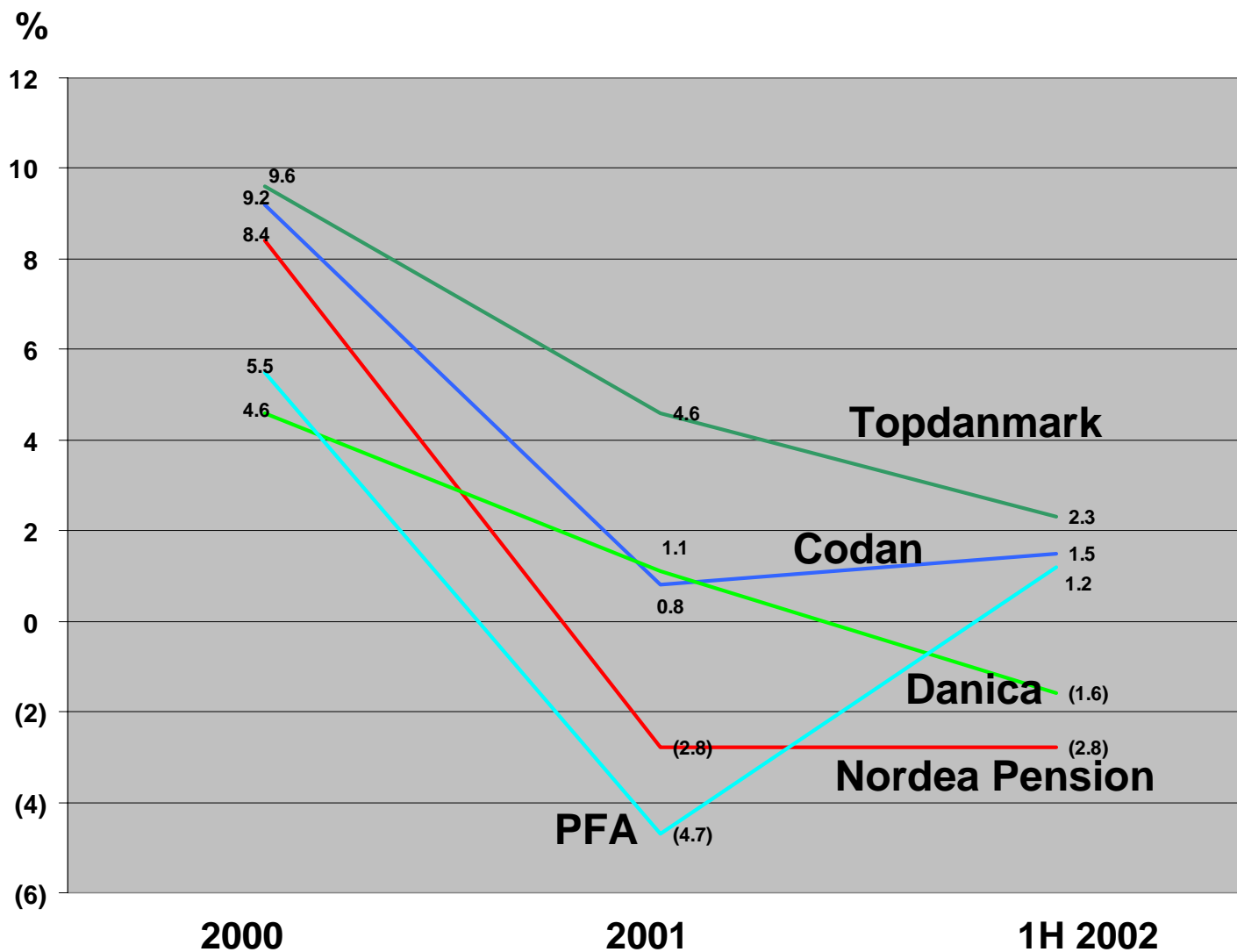


Topdanmark's challenges in life insurance

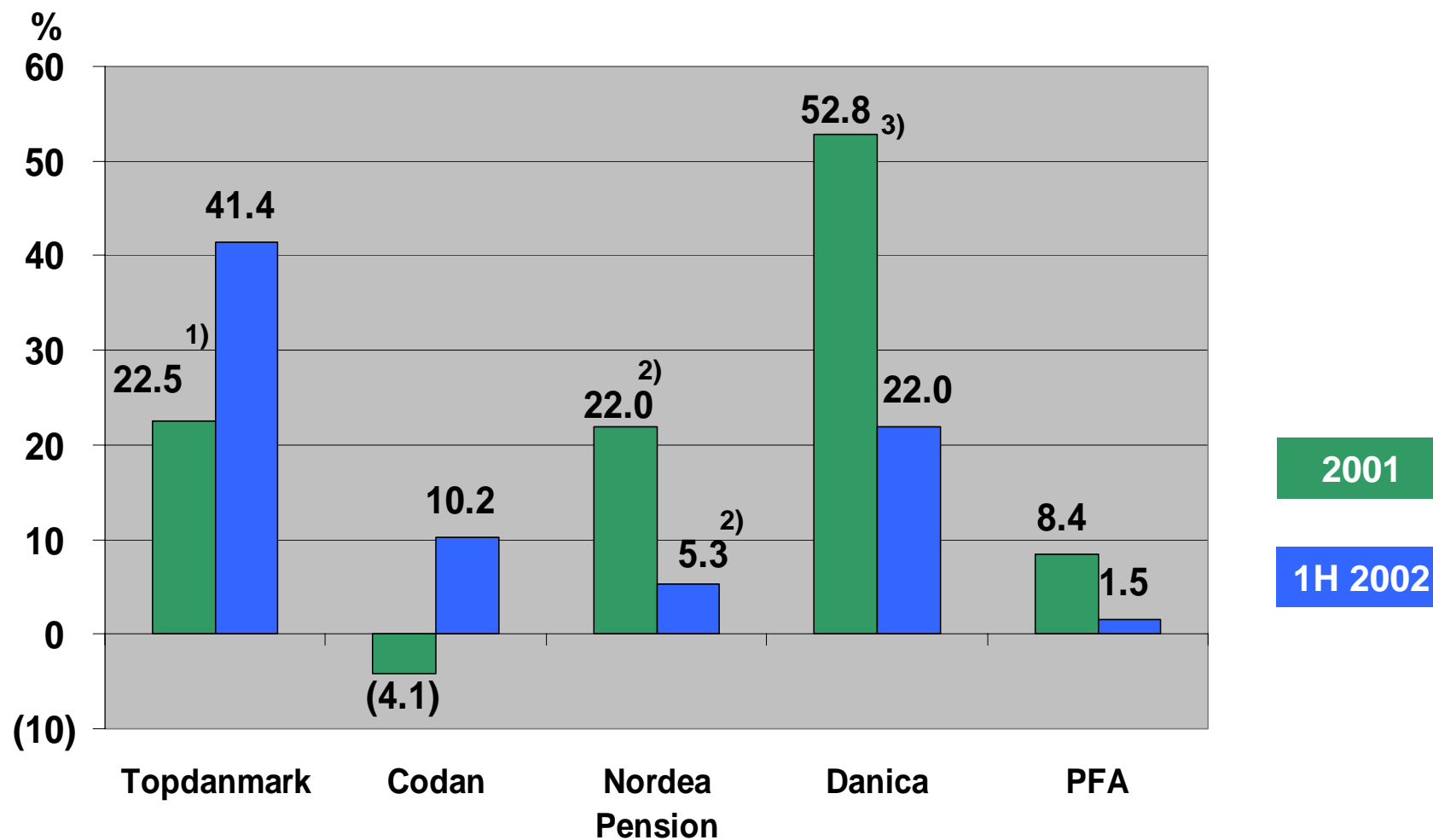
- **New model for definition of profit in life as from 1 January 2002**
 - Increase in value creation in life dependent on premium growth and investment return
- **Achieving premium growth higher than market for traditional pension products**
- **Achieving premium growth for unit-linked schemes**
- **Achieving investment return higher than market**
- **Achieving growth for related products**
 - **Critical illness and Health insurance**
- **The return on life insurance exceeds the return on the Topdanmark share required by investors**
- **Goodwill in life insurance estimated at > DKK 20 per share**



Investment return in life insurance



Trend in premiums



1) Excl. BG Pension

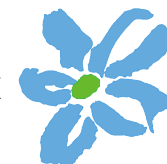
2) Excl. take-over of NESA's og IFV's pension fund

3) Incl. BG Pension



Enskilda Securities 19-09-02

Topdanmark



New opportunities - examples from recent years

Acquisitions / Mergers

- Danske Forsikring / Danica Forsikring
- Industriens Arbejdsskade

New services

- eBusiness
- ScalePoint

New distribution channels

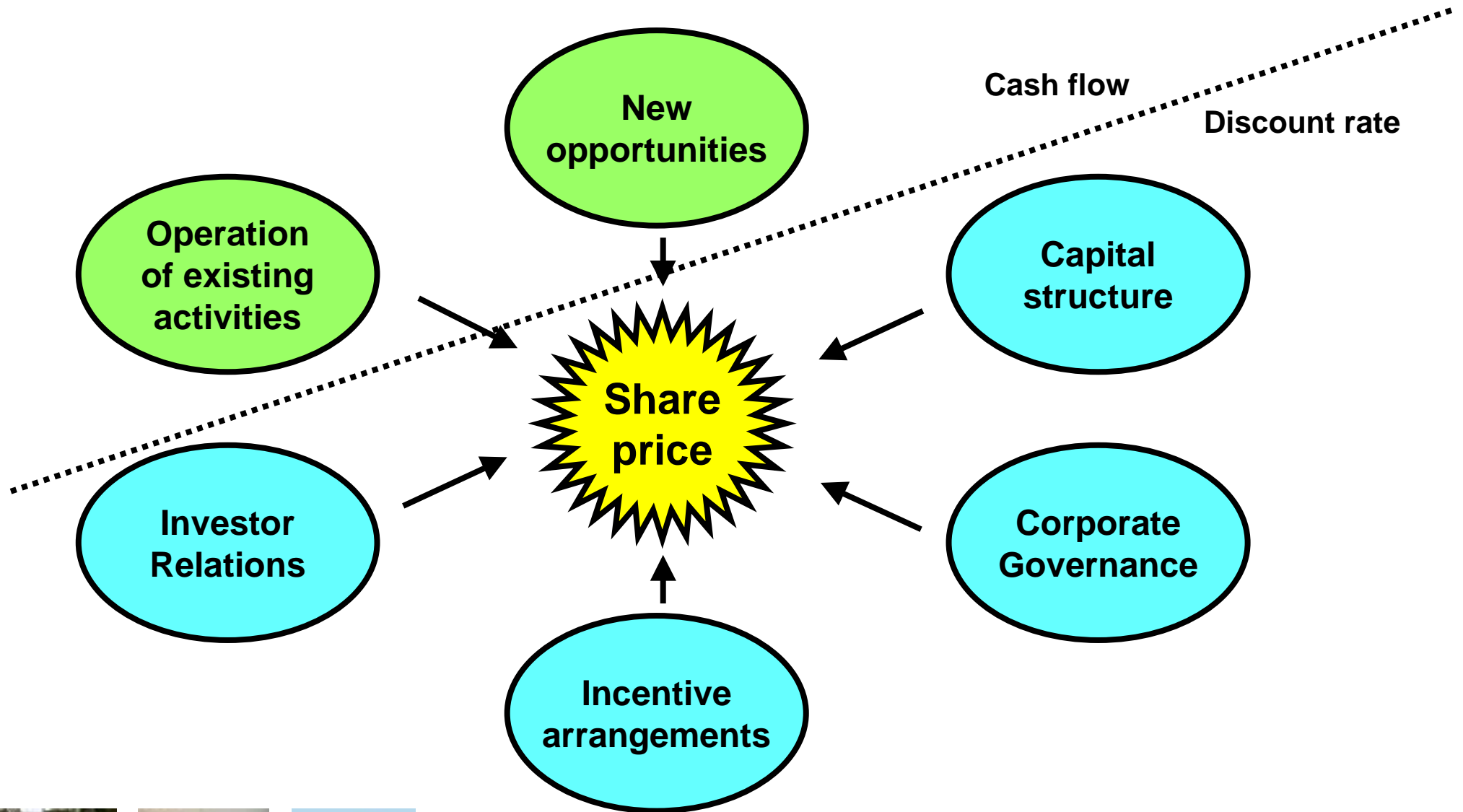
- Danske Bank
- DLG
- "home"

Product development

- Top Industrial Rescue
- Top Agricultural Rescue
- Topdanmark Welfare



Value creation in Topdanmark



Capital structure

Capital

- **Topdanmark is an insurance company**
 - Not an investment trust
- **Topdanmark intends to avoid unnecessary excess capital**
 - Share buy-back



Share buy-back

- Since 1998, 37% reduction in share capital due to share buy-back programme
- Last 3 years' average pay-out ratio ≥ 100
- Last 3 years' "yield" $> 10\%$
- Expected share buy-back of DKK 600 - 700m in 2002
 - 12% of market cap
- Continued high level of share buy-back expected for 2003



Return on equity - ROE

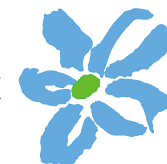
Example

Business

Premiums	100
Technical interest	<u>4</u>
Total income	104
Combined ratio	<u>96</u>
Profit from business	<u><u>8</u></u>

ROE

Premiums = 2 x equity	
Profit from equity	6%
Profit from business (2x8)	<u>16%</u>
ROE	<u><u>22%</u></u>



Corporate Governance

- **Has removed all relevant limitations set out in the Articles of Association**
- **Lives up to the principles of good Corporate Governance**
- **No shareholder holds more than 10%**
- **A high share price is the only protection against uninvited take-over bids**
- **Revolving stock option scheme for management**



Corporate Governance - advantages and disadvantages

Advantages

- Narrowing gap between fair value and market value
- Regulating behaviour of:
 - Board of Directors
 - Board of Management
 - Senior Management
- Key selling point

Disadvantages

- Focus on take-over in the press
 - only at the beginning



Incentive arrangements

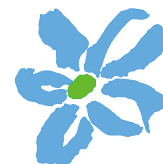
Management

(Board of Management, Board of Directors, Senior Management)

- Revolving share option scheme
 - Payment represents about 2-3 months' post-tax salary

Employees

- Employee shares
 - Seniority model
 - Salary model
 - * Additional shares by tender
 - * Payment represents up to 4 months' post-tax salary



Investor Relations

Ensuring that Topdanmark's value creating activities are known by the share market and consequently reflected in its share price

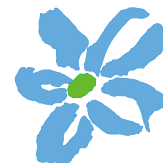
Working at for example ...

Increasing foreign stake

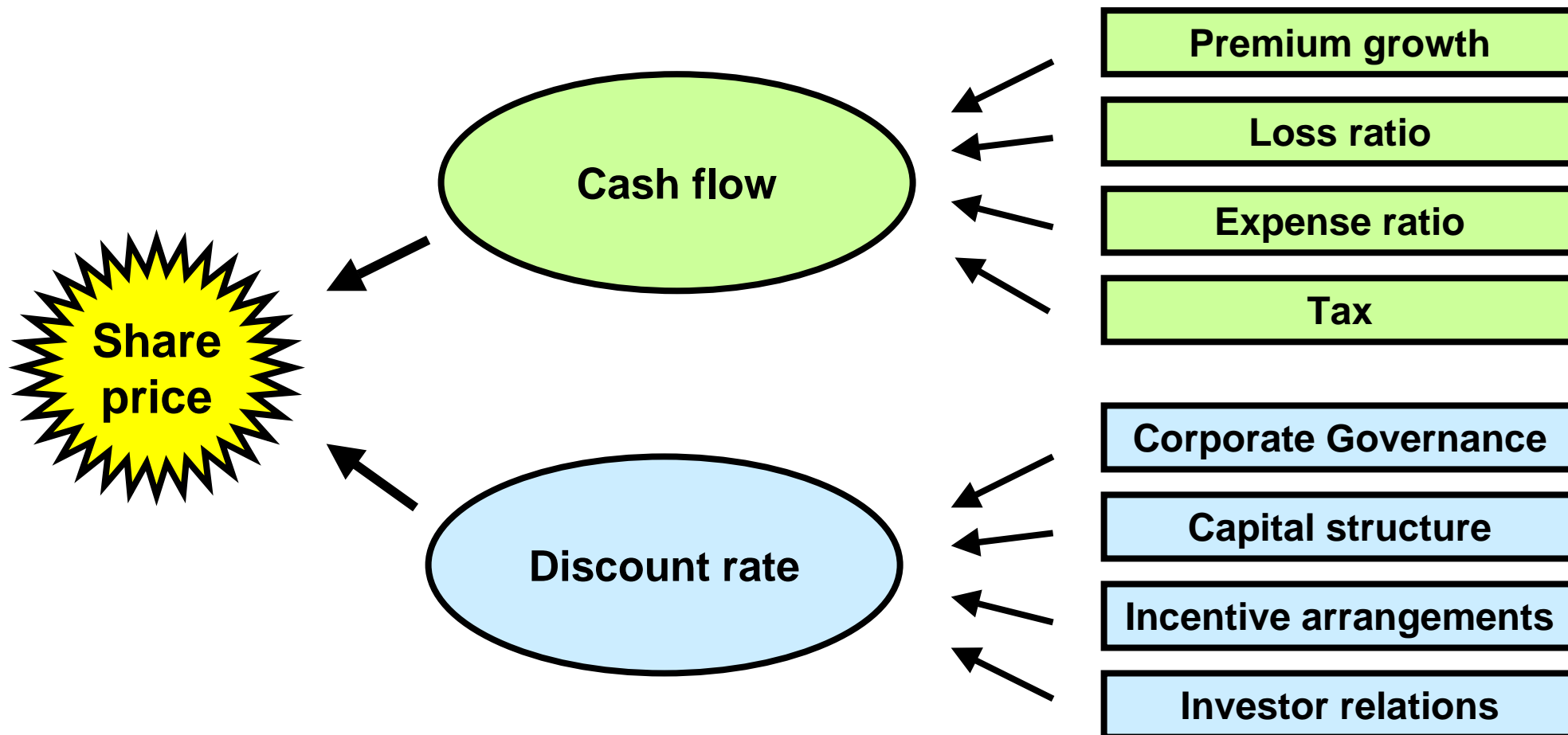
- **Increase from 5% in 1999 to 32% today**

Increasing the liquidity of the share

Showing the importance of life insurance for the value creation

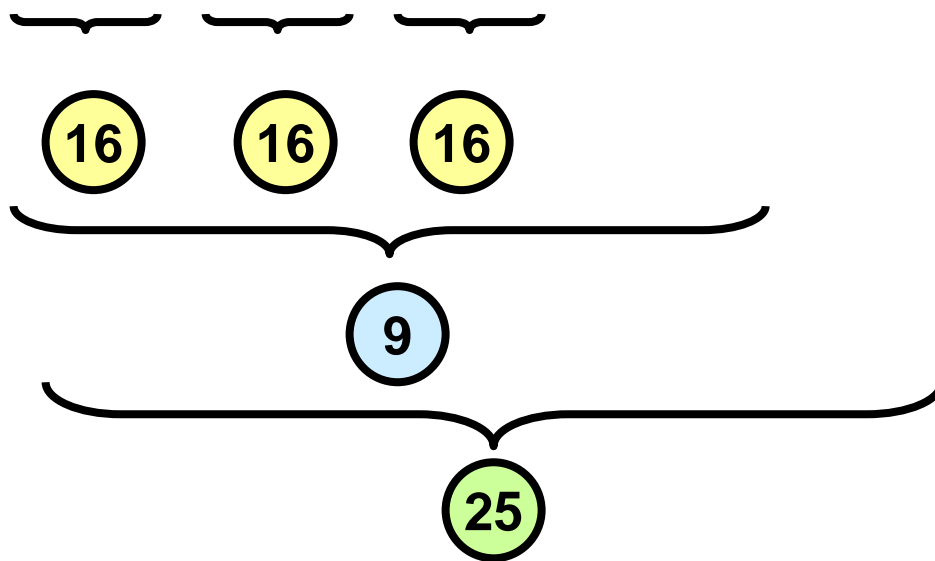


Simple model for value creation



Results from share price simulation model

Annual premium growth (%)	4	4	4	4	5	4	5
Combined ratio	98	97	96	95	98	98	95
Discount rate	12.5	12.5	12.5	12.5	12.5	11.5	11.5
Share price	257	273	289	305	266	282	346



Conclusion

- **Focused strategy**
- **Simple business model**
 - High cash flow
 - Adapted capital structure
 - Large share buy-back
- **Working to reduce discount rate**



www.topfacts.dk



Enskilda Securities 19-09-02

