

Risk segmentation and the Danish private market





Agenda

- **Market place**
 - **Competitive situation**
 - **Financial ratios**
- **Trends in the private market**
- **Risk management**
 - **Profitability on product level**
 - **Micro rating**
 - **Pricing**
 - **Examples: Motor and contents**
 - **Opportunities and constraints**
- **Value creation in Topdanmark**



Market place

- Factors influencing earnings and growth

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Many major fire claims in agricultural and commercial lines

Severe disturbance in the financial markets

Profit margin peaked in 2007

Increasing CR in the accounts of many companies

Significant investment losses due to financial crisis

New players in the industrial market

Media focus on price increases now

Increasing claims inflation

Increased competition in sales via car dealers

Continued success of health insurance

Market place is changing

Automatic indexation under pressure

Success of new travel insurance and electronics insurance

Earnings in insurance under continued pressure

Budskabet om billige forsikringer når ikke ud

Aktionærer scorer kassen på forsikrings-selskaber

Sundhedsforsikring bliver dyrere

Kæmpe prishop på forsikringer

Forsikringsbranche forsvarer prisstigninger

Prut om prisen på din bilforsikring

Pres på forsikrings-selskaber

Tjek forsikringen - det betaler sig

Spar 27.000 kr. på bilforsikringen



Several companies now need to increase prices

Trygvesta hæver præmier på boligforsikringer

På trods af et mildt vejr, færre våde kældre og stormskader på boliger, ser landets største forsikringselskaber sig nødsaget til at hæve præmierne på villaforsikringer

Regruskab
AF ANNE LOUISE HOUPMANN

Inflation giver dyrere husforsikringer

ADRIAN PRISHER: Danmarks største forsikringselskaber, Trygvesta, hæver på boligforsikringer med op til 12 pct. i løbet af første halvår. Det betyder, at boligejere i mange områder vil opleve en stigning i deres forsikringspriser. Det skyldes primært inflationen, som har gjort det dyrere at erstatte skadet boliger og indretninger. Desuden har flere af de forsikringselskaber, der er medlem af Regnskabet, også besluttet at hæve præmierne på boligforsikringer. Trygvesta, som er landets største forsikringselskaber, har besluttet at hæve præmierne på boligforsikringer med op til 12 pct. i løbet af første halvår. Det betyder, at boligejere i mange områder vil opleve en stigning i deres forsikringspriser. Det skyldes primært inflationen, som har gjort det dyrere at erstatte skadet boliger og indretninger. Desuden har flere af de forsikringselskaber, der er medlem af Regnskabet, også besluttet at hæve præmierne på boligforsikringer.

Forsikringer bliver dyrere

Danmarks største forsikringselskaber, TrygVesta, bebuder nu højere priser på boligforsikring.

AF PETER NYHOLM

Der bliver tjent flere penge på forsikringsvirksomheden end nogensinde. Alligevel skal præmierne på enkelte områder hæves med op til 12 pct. Sådan lyder meldingen fra Danmarks største skadesforsikringselskaber TrygVesta, som kom med halvvejs-

Bosse, at det er meget vigtigt, at priserne på især bygningsforsikringer nu kommer i vejret.
"Jeg vil tro, at forsikringselskaberne vil komme levere rimelige resultater i det kommende år. Men det er afgørende på de områder, som jeg har nævnt i dag."
Stine Bosse håber samtidig, at den hårde konkurrence, der har sendt priserne for boligforsikring ned i de sidste år, hævet og nu bliver erstattet af en mere sund forbrugersdynamik.

Hidsigt konkurrence

Der ses det nu ud til, konkurrencen på boligforsikring er blevet mere aggressiv på pris-

der ikke basis for, siger Stine Bosse, der dog understreger, at TrygVesta ikke p.t. har planer om at hæve priserne for boligforsikring.
Erstatningsudbetalingen ligger hos TrygVesta på mellem 60 og 70 pct. i forhold til prækursindbetalinger på boligforsikringer. Heri skal så lægges forsikringselskabets omkostninger. Ifølge Stine Bosse er overskuddet på boligforsikring så højt på omkring 10-15 pct. Men skal lægges et eventuelt skud fra investeringstid, så ligger det på omkring 5 pct. Al det kommer pris pr. betragtes så i lyset af, at der er kommet flere nye aktører på markedet.

bilforsikringer. De har efter sammenlignelse med tidligere været 10 pct. efter gees fra konkurrencepressen.

Priskrig på forsikringer er slut

Medlemspriserne på flere forskellige forsikringer er blevet sænket, og det betyder, at flere mennesker nu kan få forsikringer til en lavere pris. Det skyldes primært konkurrencen, som har gjort det muligt for forsikringselskaberne at sænke priserne på nogle af deres produkter. Det betyder, at flere mennesker nu kan få forsikringer til en lavere pris. Det skyldes primært konkurrencen, som har gjort det muligt for forsikringselskaberne at sænke priserne på nogle af deres produkter.

AF LENE ANDERSEN
lene.andersen@ibk.dk

Man kan se det på de nye forsikringspriser, som er blevet sænket på flere forskellige forsikringer. Det betyder, at flere mennesker nu kan få forsikringer til en lavere pris. Det skyldes primært konkurrencen, som har gjort det muligt for forsikringselskaberne at sænke priserne på nogle af deres produkter.

Også Topdanmark forsikrer har besluttet at sænke priserne på nogle af deres produkter. Det betyder, at flere mennesker nu kan få forsikringer til en lavere pris. Det skyldes primært konkurrencen, som har gjort det muligt for forsikringselskaberne at sænke priserne på nogle af deres produkter.

Vi vil nærmest væltet omkuld. Vores svartider steg fra to til syv-otte dage.

Vibeke Krogh, undervisningsleder i Topdanmark

Prishop på sundhedsforsikringer

Brug af sundhedsforsikringer steg voldsomt under sygehuskonflikten. Branchen overvejer præmieførtøjelse.

Samtidigt kritiserer læger, at for mange bliver undgået opereret via deres sundhedsforsikring.

AF LENE ANDERSEN
lene.andersen@ibk.dk

Brug af sundhedsforsikringer voksede kraftigt under forløbet konflikten på sundhedsområdet. Det gør endda på pensionistpopulationen, der er særligt påvirket af det. Det skyldes primært konkurrencen, som har gjort det muligt for forsikringselskaberne at sænke priserne på nogle af deres produkter.

Stigning på 30 pct. Som en udvikling oplever PFA Pension. Her steg antallet af henvendelser næsten 30 pct. under konflikten.

Vi følger det meget tæt og ser hele tiden på, om det hænger sammen, så omkostningerne ikke bliver for høje. Vi følger det meget tæt og ser hele tiden på, om det hænger sammen, så omkostningerne ikke bliver for høje.

Underdirektør Vibeke Krogh, Topdanmark, fortæller, at antallet af henvendelser steg næsten 30 pct. under konflikten.

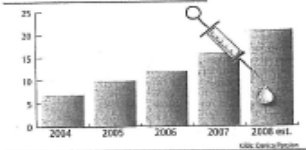
Vi vil nærmest væltet omkuld. Vores svartider steg fra to til syv-otte dage. Hvis vi sænker svartiderne, vil det være til fordel for patienterne.

Vibeke Krogh, undervisningsleder i Topdanmark

Danica hæver priser på sundhedsforsikring

Sundhedsforsikring
AF ANNE LOUISE HOUPMANN

Flere og flere bruger deres sundhedsforsikring. Så mange kunder bruger Danica Sundhedsforsikring mindst en gang om året. Procent



Øget sikringsniveau
Trygvesta forventer det med, at det også skyldes, at flere mennesker nu kan få forsikringer til en lavere pris.

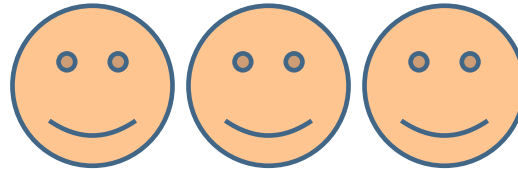
I højere grad har flere øjnene op på, at de har en forsikring, der kan dække ind, så længe det offentlige bliver f.eks. PFA Pension - der er endnu sige udbydere af sundhedsforsikringer - har øret, at konflikten har og anvendelsen af sundhedsforsikringer med 30 pct.
"Hvis den tendens fortsætter, kan det godt være, vi bliver nødt til at hæve priserne, men i første omgang sætter vi på at forbedre vores sundhedsforsikring," siger i Danica Pension, pressechef PFA Pension.

Financial ratios

- How Topdanmark is doing!

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Earnings - Non-life



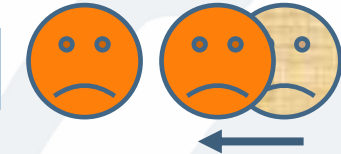
Growth - Non-life



Sales



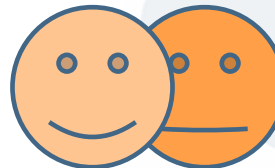
Customer lapse



Growth - Life



Expense ratio



Earnings – Investment



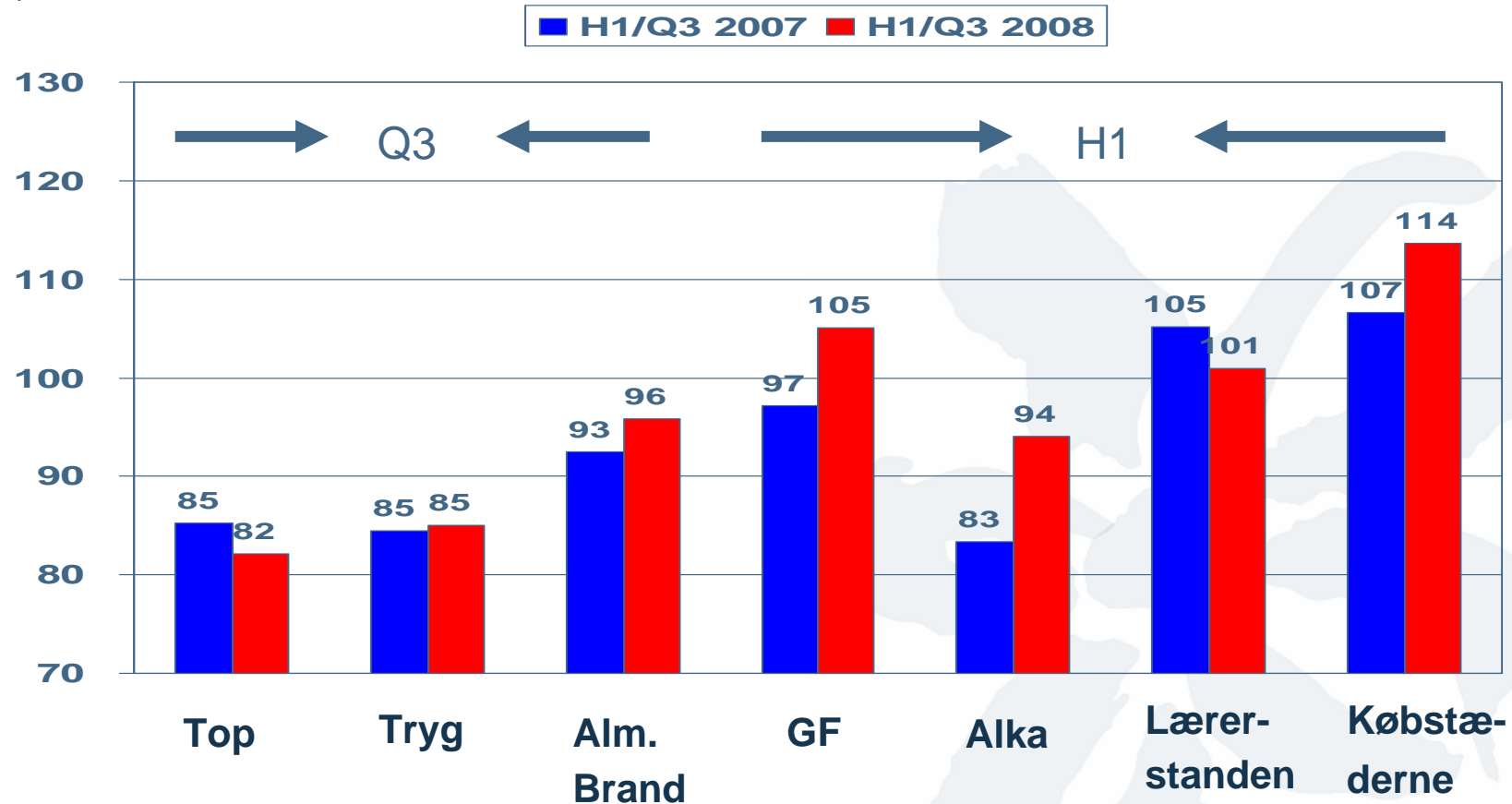
Financial ratios

- Comparison of companies

1/2

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Increasing CR for most companies



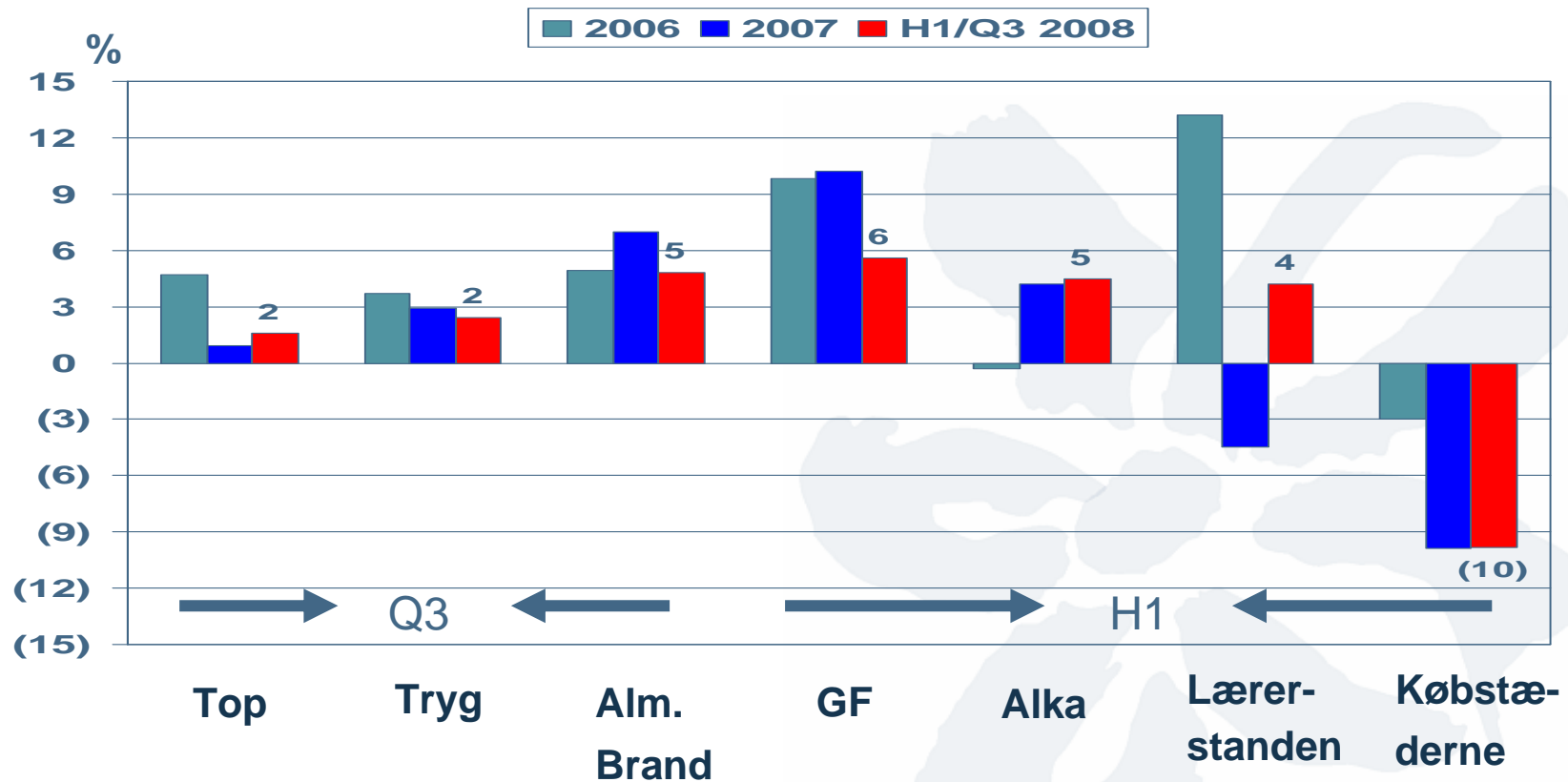
Financial ratios

- Comparison of companies

1/2

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Trend in premium growth - Non-life



Financial ratios

- Topdanmark's goals of success

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- We need to boost growth
- We need to cut down on expenses
- We need to invest in further measures to improve competition
- We need to ensure good earnings

Continued goal of 5% growth
... but adjusted for any reductions

Continued goal of an expense ratio
lower than the general market level

Price reductions most needed in
motor and workers' comp' insurance

Goal:

- ✓ CR of 89 in the next 1 or 2 years
excl. gains/losses on claims provisions
- ✓ CR of 91 in the long run excl.
gains/losses on claims provisions



Applies to both private and professional markets

Trends in private market

- In general

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Success criteria and consequences

Success criteria

Sales power

Risk management

Claims handling

Provides opportunity for

Real growth

Real growth

Improved profitability

Fewer claims payments

Could improve

Expense ratio

Expense ratio and/or

Loss ratio

Loss ratio

Trends in private market

- In general

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Success criteria and consequences

Success criteria

Provides opportunity for

Could improve

Examples of measures:

- Scalepoint, video assessment, discount agreements, glass damage repairs and "fraud consultants"
- More proactive claims handling, e.g. management of whiplash claims

Development of new claims system

Claims handling

Fewer claims payments

Loss ratio

Success criteria and consequences

Success criteria

Sales power

Provides opportunity for

Real growth

Could improve

Expense ratio

Distribution channels and their interaction

- Certified insurance sales representatives, sales centres, banks, call-centres, car dealers, brokers and internet

Efficiency of market pressure

Claims handling

Fewer claims payments

Loss ratio

Trends in private market

- Efficiency of market pressure

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Impact on sales efficiency - illustration

Premium per sale	Hit rate	Visits per week	Number of weeks	Number of reps.	Annual sales DKKm
DKK 5,000	30%	5	40	100	30
DKK 5,000	30%	5	40	200	60
DKK 5,000	30%	10	40	100	60
DKK 5,000	60%	10	40	100	120
DKK 7,500	60%	10	40	100	180

Trends in private market

- In general

Success criteria and consequences

The large companies have a distinct advantage over the small companies

Success criteria

Provides opportunity for

Could improve

Sales power

Real growth

Expense ratio

Risk management

Real growth

Improved profitability

Expense ratio and/or

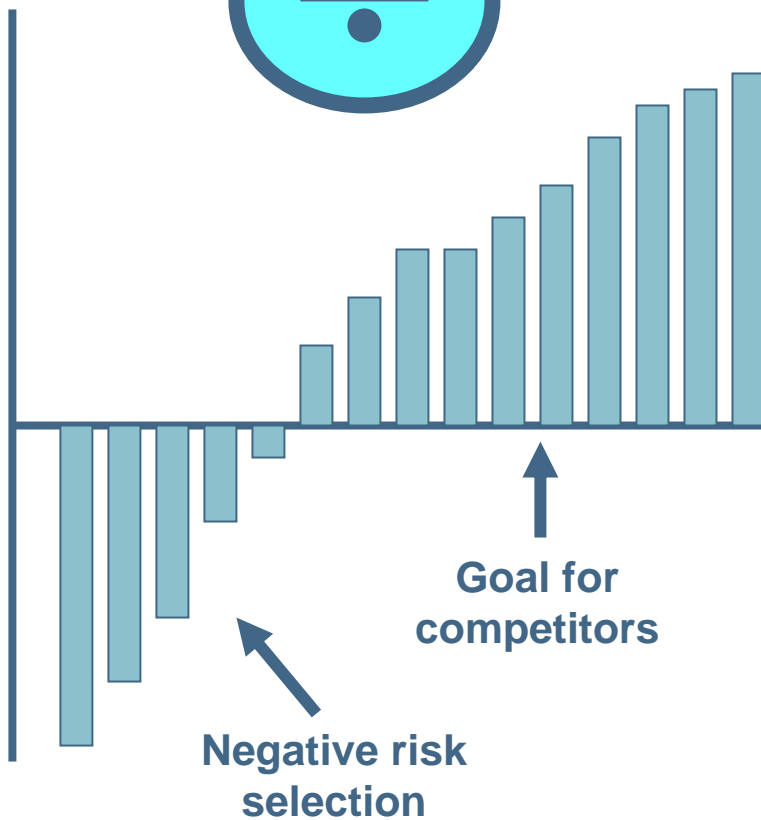
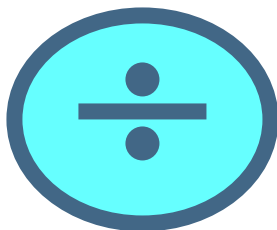
Loss ratio

Claims handling

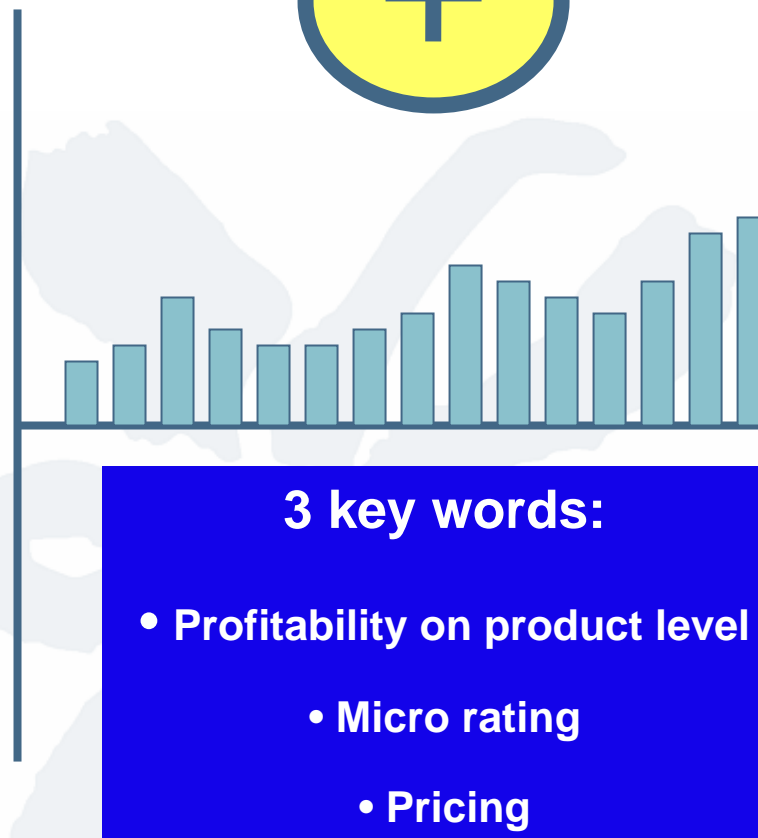
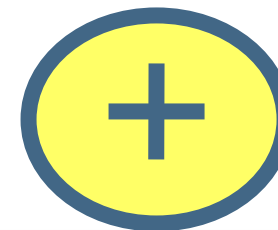
Fewer claims payments

Loss ratio

Earnings



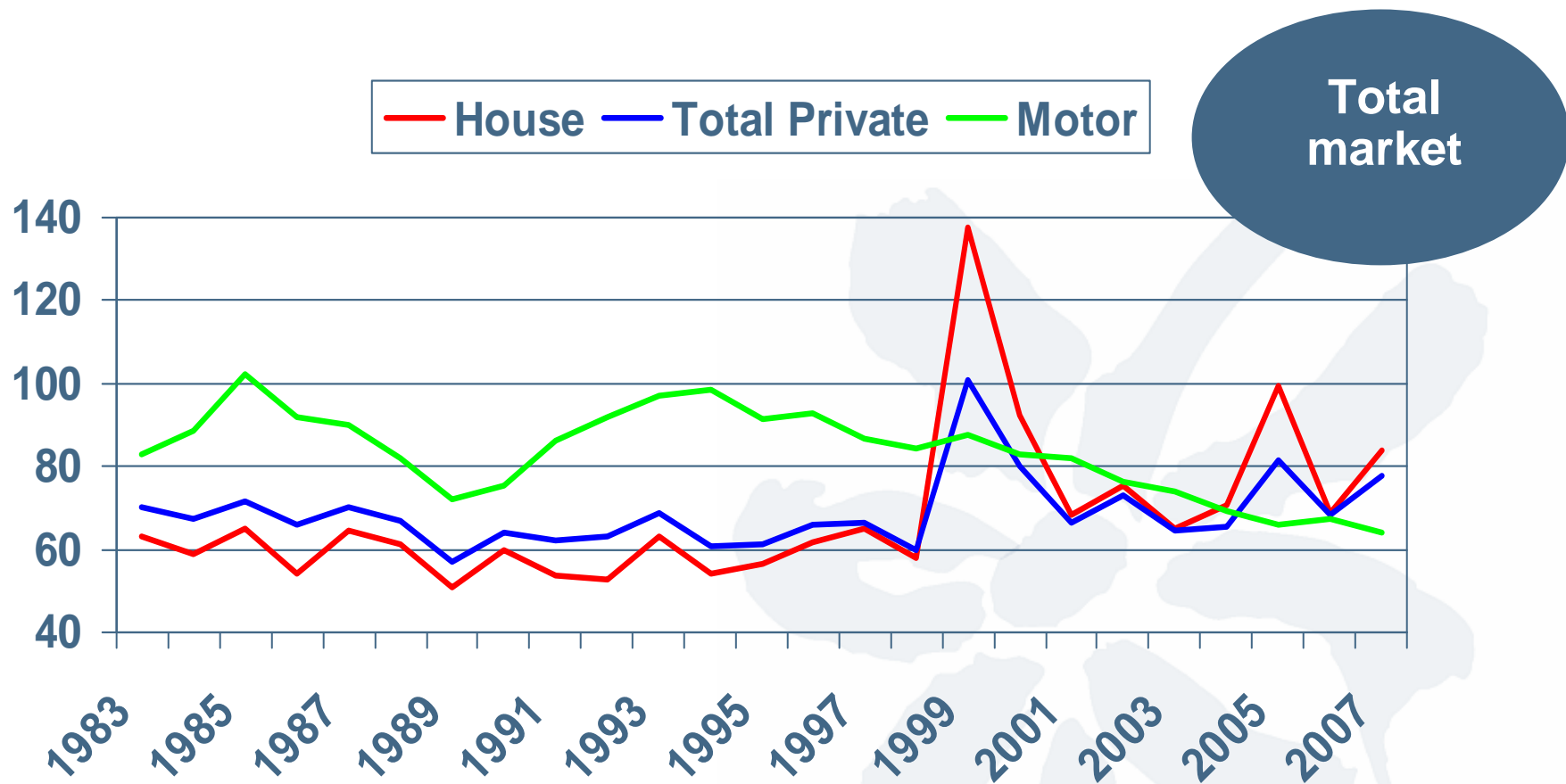
Earnings



Profitability on product level

- Historical development in loss ratio

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Profitability on product level

- A bit of number gymnastics

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"Unequal" earnings in mass market

<u>Combined ratio</u>	<u>Normalised</u>	<u>Ideal, e.g.</u>	<u>Consequence</u>
Motor	80	93	Reductions: about 14%
Private products	100	86	Increased: about 16%
Accident	80	80	Unchanged
Total	88	88	



Quick adjustment to "ideal earnings" **could**, in the short term, have an adverse impact on growth/earnings

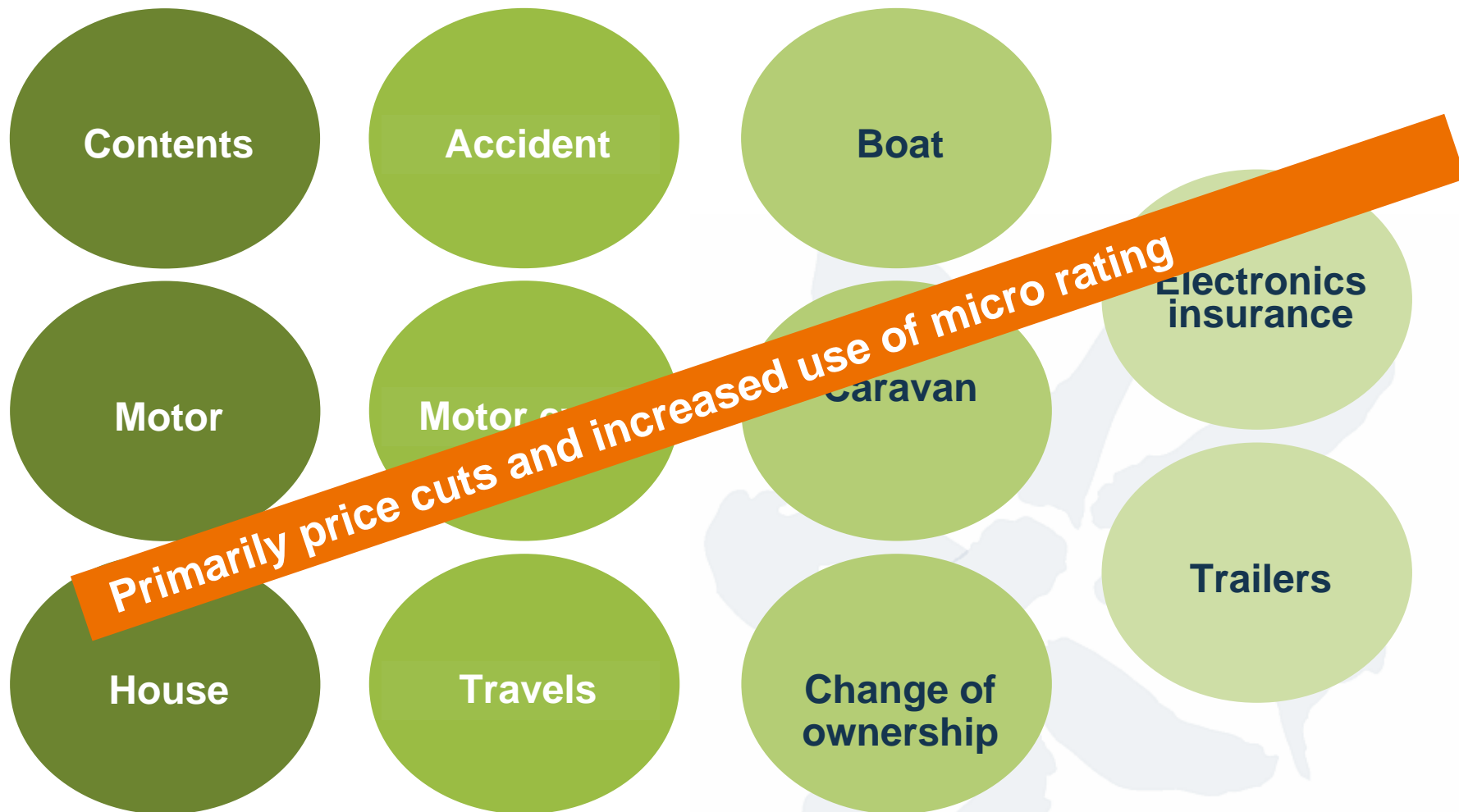
Consequence:

- Any new price cuts should be made in motor insurance
- Competitors' price increases in private products allow for changes
- However, currently no plans to increase prices



Profitability on product level

- In recent years Topdanmark has implemented new prices in ... 18



Profitability on product level

- Most recent measures in motor insurance

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New price cuts in 4 areas in mileage rating from 2008-11

1

Over the age of 60: A further 9% reduction in liability insurance

2

Car group 8-10: 5%-17% reduction in liability insurance

3

Bonus levels 3-6: 4%-14% reduction in comprehensive and liability insurance

4

Quicker transfer to "Veteran Driver" for customers paying old prices

What is micro rating?

Insurance was originally based on the solidarity principle

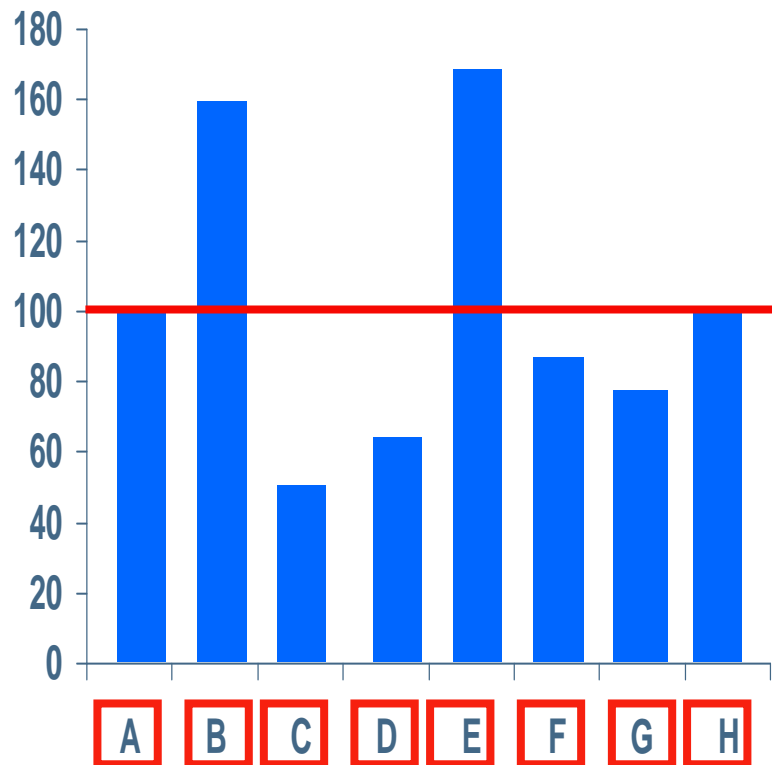
- For example, 100% solidarity would result in the same price for all cars!

Rating:

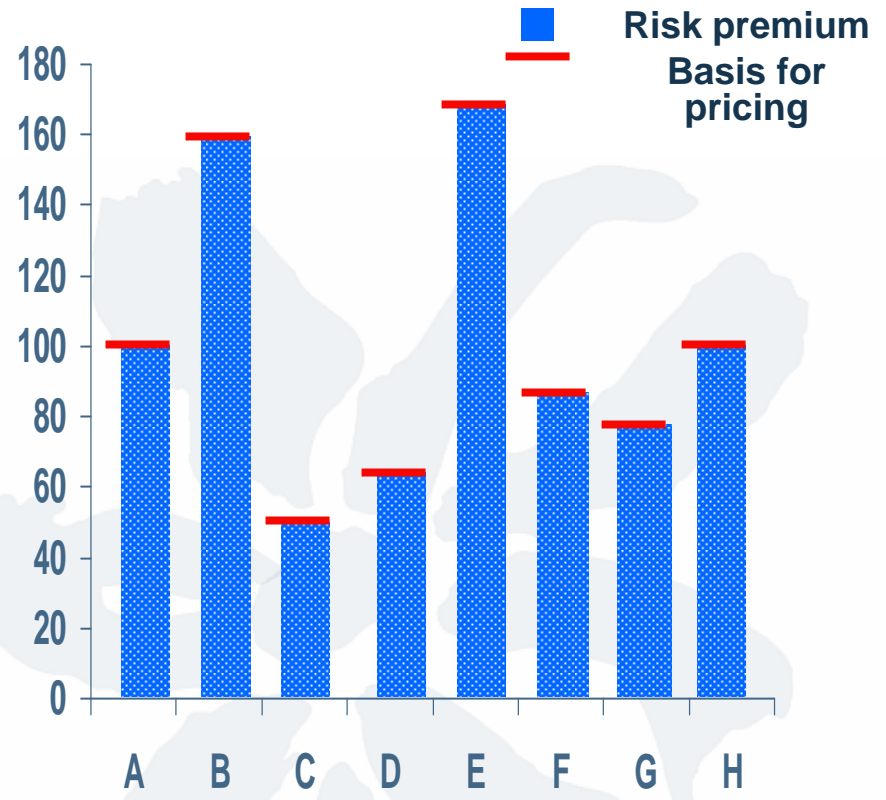
- Obstructing the solidarity principle by basing pricing on several criteria
- Increasing number of criteria used and this trend will continue
- The number of rating criteria is now so large and the pricing so finely meshed that prices are only available electronically – this trend has created the concept of micro rating

How it works!

1/6



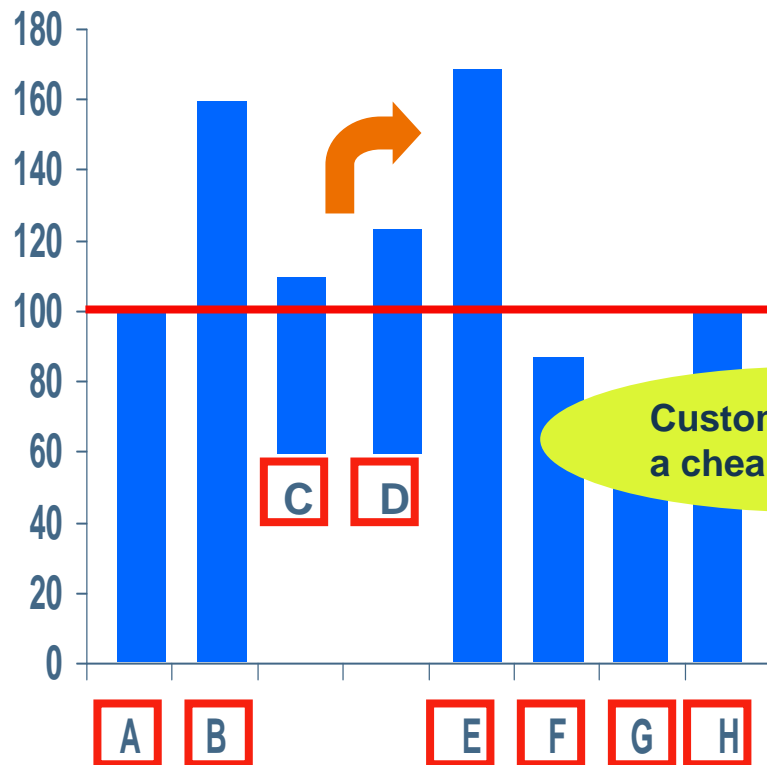
Company without price differentiation



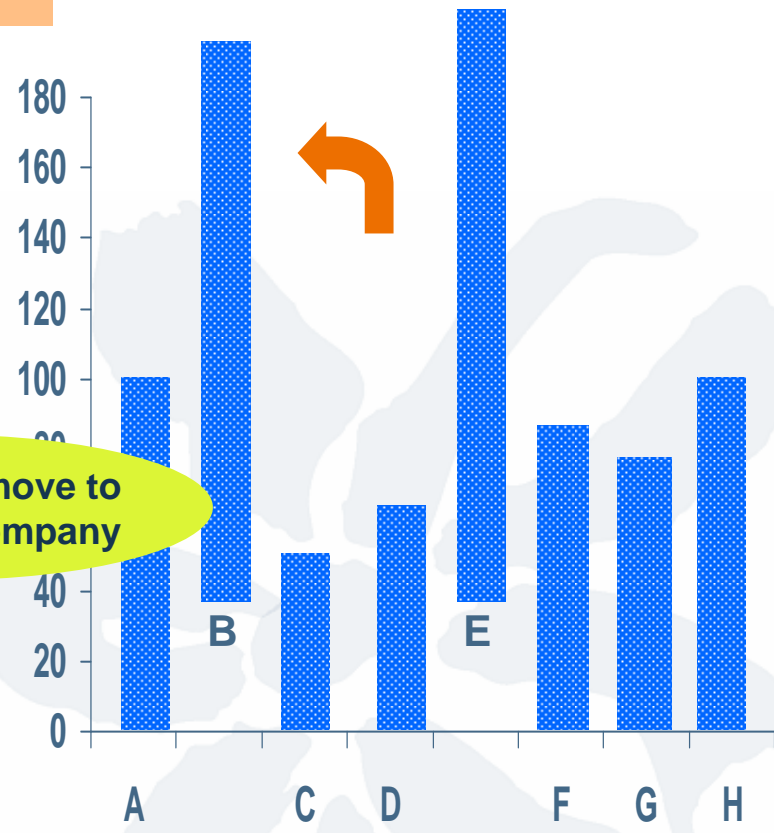
Company with price differentiation

How it works!

2/6



Company without segmentation

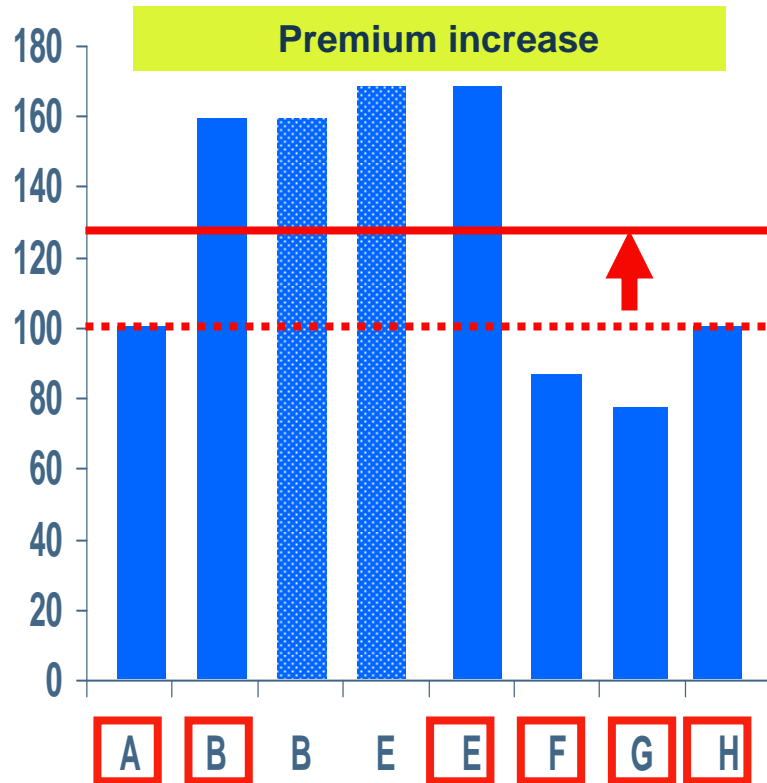


Company with segmentation

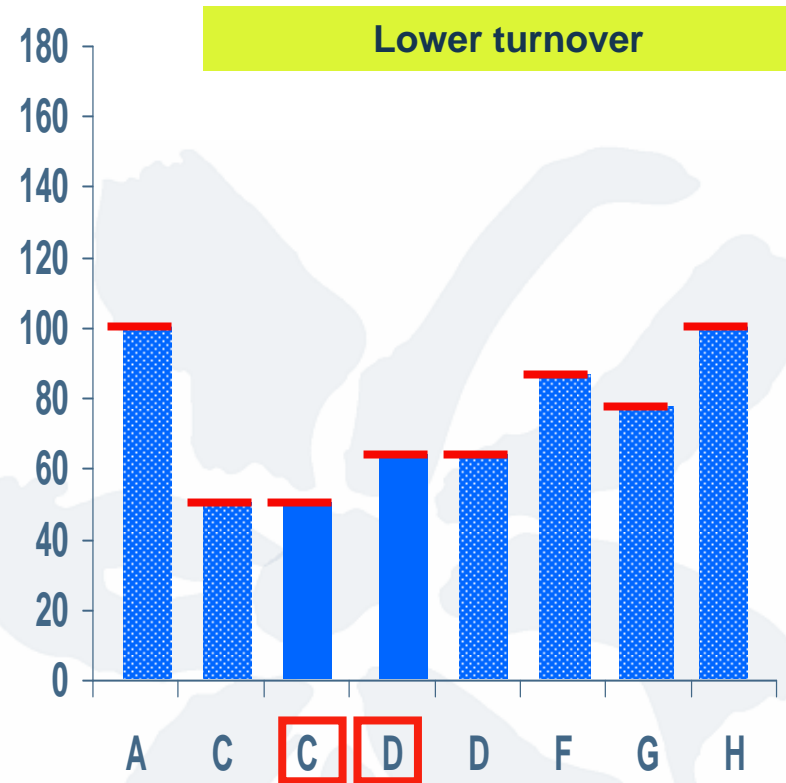
Customers move to a cheaper company

How it works!

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Company without segmentation



Company with segmentation

How it works! 4/6



Company without segmentation



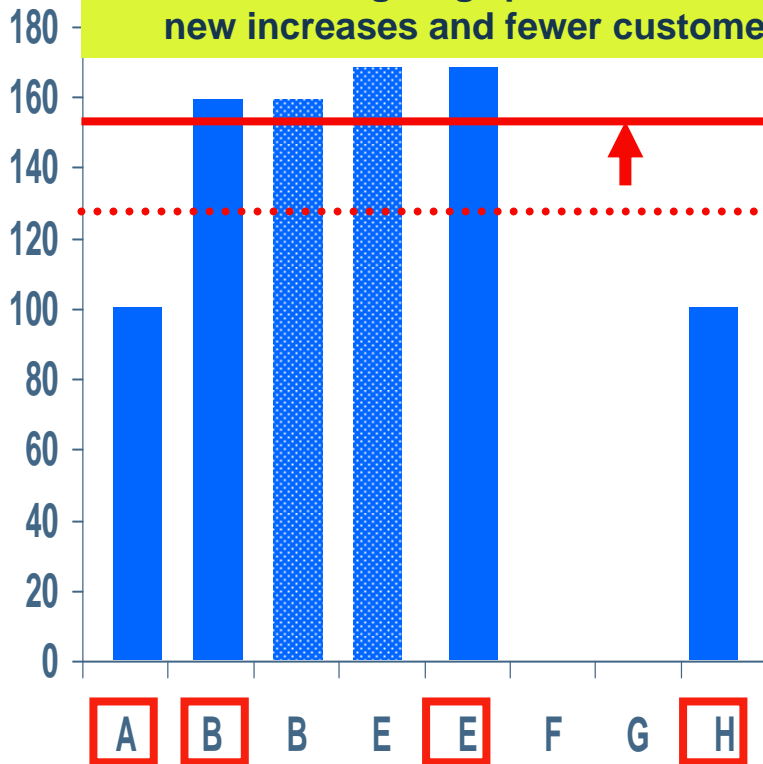
Company with segmentation

Customers move to a cheaper company

How it works!

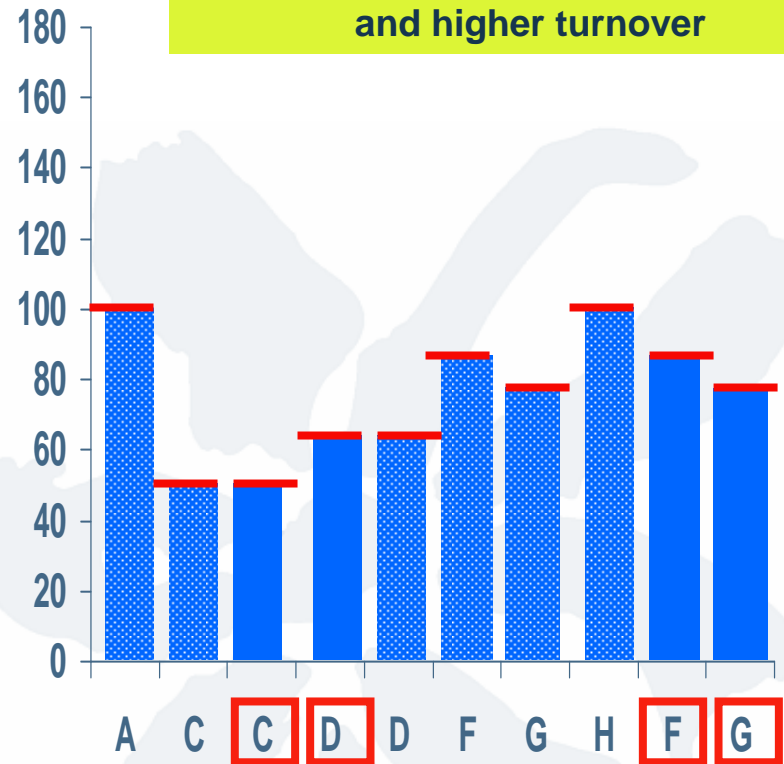
5/6

Getting "big" problems – new increases and fewer customers



Company without segmentation

Ending up with both higher earnings and higher turnover



Company with segmentation

How it works!

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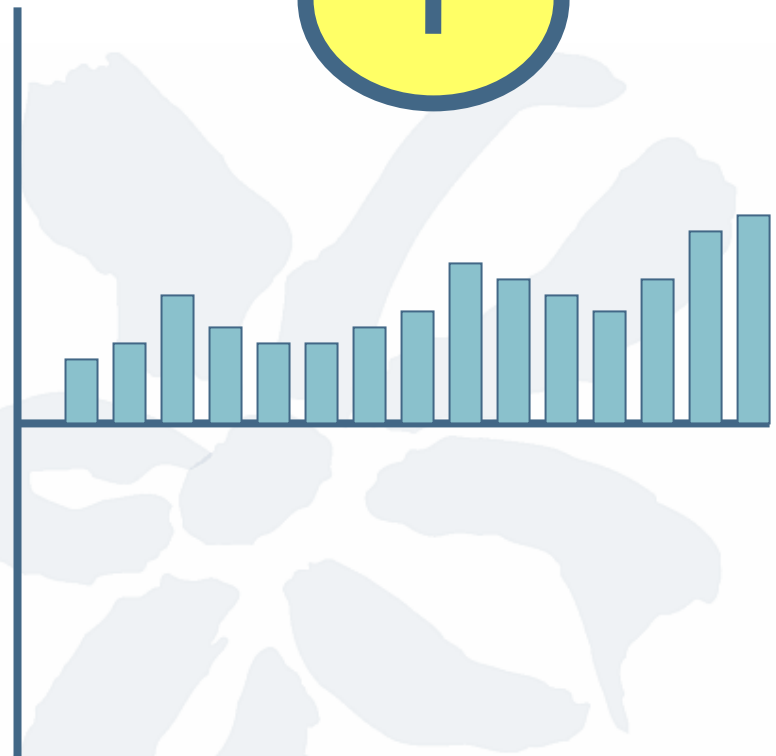
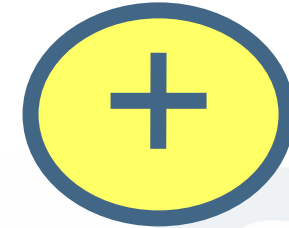
Summary:

- Customers speculate against solidarity and move to where they get the cheapest insurance policy – the customers are the winners!
- A company with significant price differentiation attracts low risk customers and is not attractive to high risk customers. In the short term it results in a decrease in turnover which is later offset by competitors having to increase their prices to get the same earnings. When the market increases prices, the company gets the opportunity to again increase its growth without affecting earnings per customer
- A company with little price differentiation attracts high risk customers without charging an additional premium. In order to have the same earnings all customers must be charged a price increase which results in loss of customers

Examples of measures in Topdanmark

- More sophisticated rating
 - Motor, including mileage rating
 - Contents, including address rating
- Opportunities and constraints
 - House in terms of cloudbursts
 - Other factors

Earnings



Examples of rating criteria of Topdanmark's motor prices

Rating criteria	Number of groups	Difference - most expensive/cheapest
Area	4	> 20%
Car group	10	> 100%
Age of car	4	> 20%
Bonus level	13	> 500%
Age of customer	5	> 50%
Number of km	6	> 50%
Excess	7	> 50%



Generates more than 400,000 prices

How Topdanmark's mileage rating works in the market

<u>Number of km</u>	<u>Average price DKK</u> Avg.=100		<u>Hit rate new business</u>
Under 8,000 km	3286	78	47%
8,000-14,000 km	3947	94	43%
14,000-20,000 km	4529	108	36%
20,000-26,000 km	5035	120	35%
26,000-32,000 km	5562	132	28%
Over 32,000 km	6287	149	27%
Average	4213	100	39%

How Topdanmark's car rates work in the market

Age of customer	Risk premium		Risk premium DKK	
	DKK	Avg.=100	Men	Women
Aged 17-22	6178	233	7264	3329
Aged 23-25	3522	133	3508	3509
Aged 30-50	3077	116	3000	3293
Aged over 50	2235	84	2271	2221
Average	2653	100	2643	2678

Not used in pricing



From Chevrolet's website!

Chevrolet: 3 years insurance at a fixed price part of car purchase!

If you buy a new Chevrolet, we offer you an Alka/Chevrolet car insurance policy as part of your car purchase, i.e. you will pay insurance for the next 3 years at an extremely attractive price as part of an overall package

Facts on insurance package

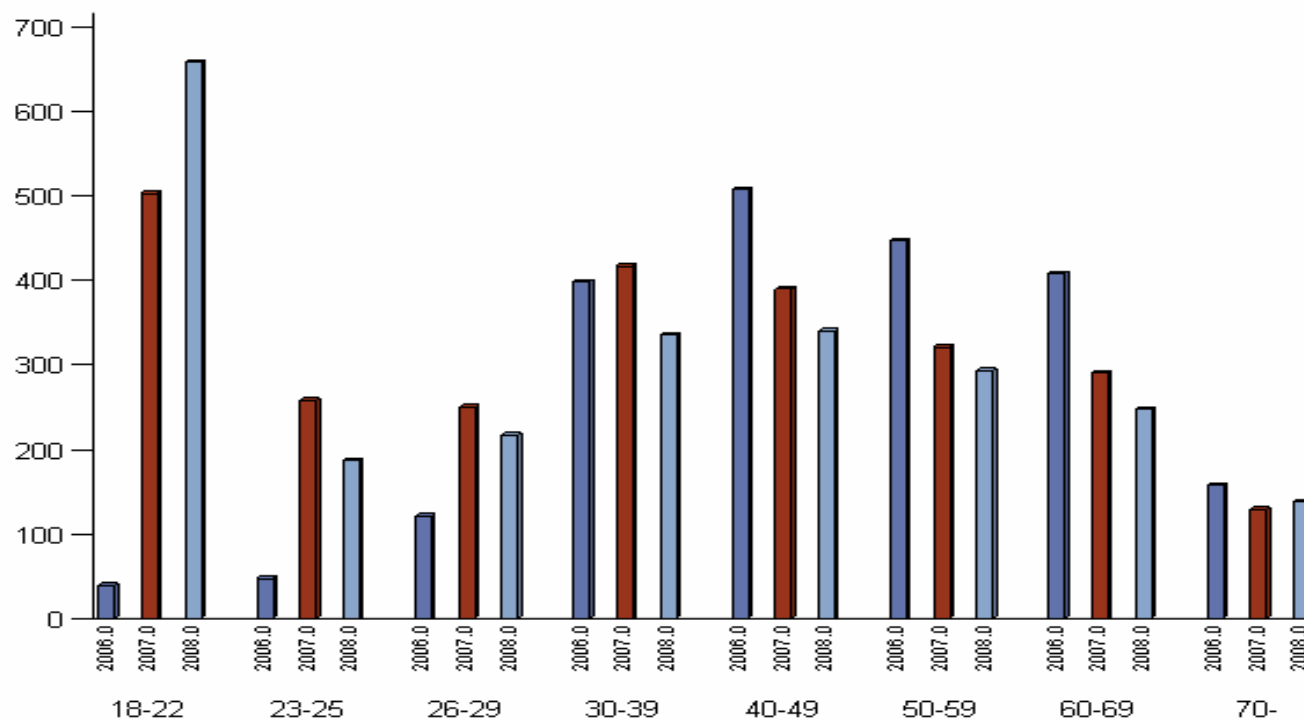
- 3 years premium paid as a part of the overall package
- Premium depends only on what type of Chevrolet you buy
- Excess of DKK 4,380 for first claim (aged over 30)
- Excess of DKK 8,760 for first claim (aged under 30)
- Driver will be "veteran driver" if 3 years with no claims

Price examples

<u>Model</u>	<u>DKK</u>
Matiz 0.8-1.0	2700
Aveo 1.4	3500
Nubira 2.0	4300
Epica 2.5	5500

New Chevrolet by age

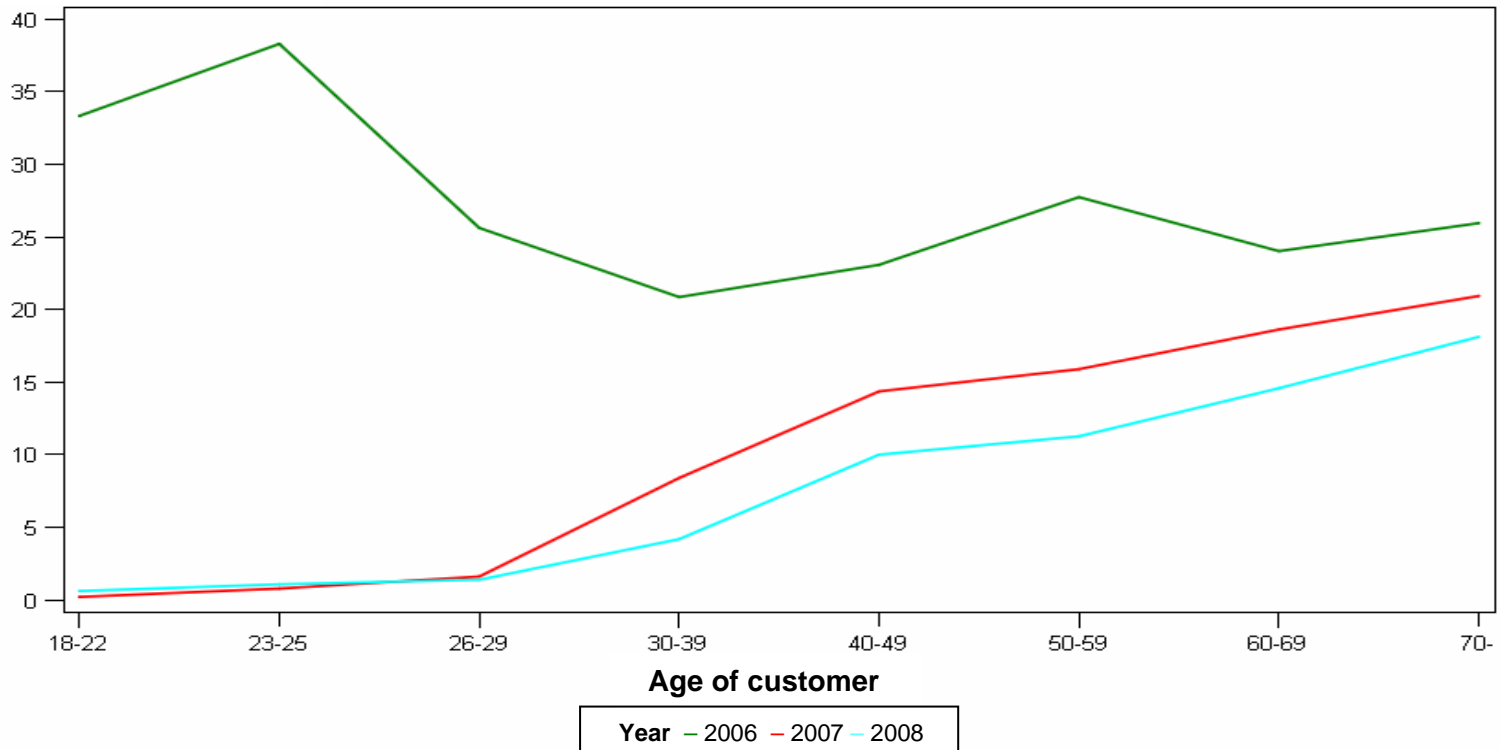
Number



Age of customer

Topdanmark's market share for Chevrolet

Market share Top



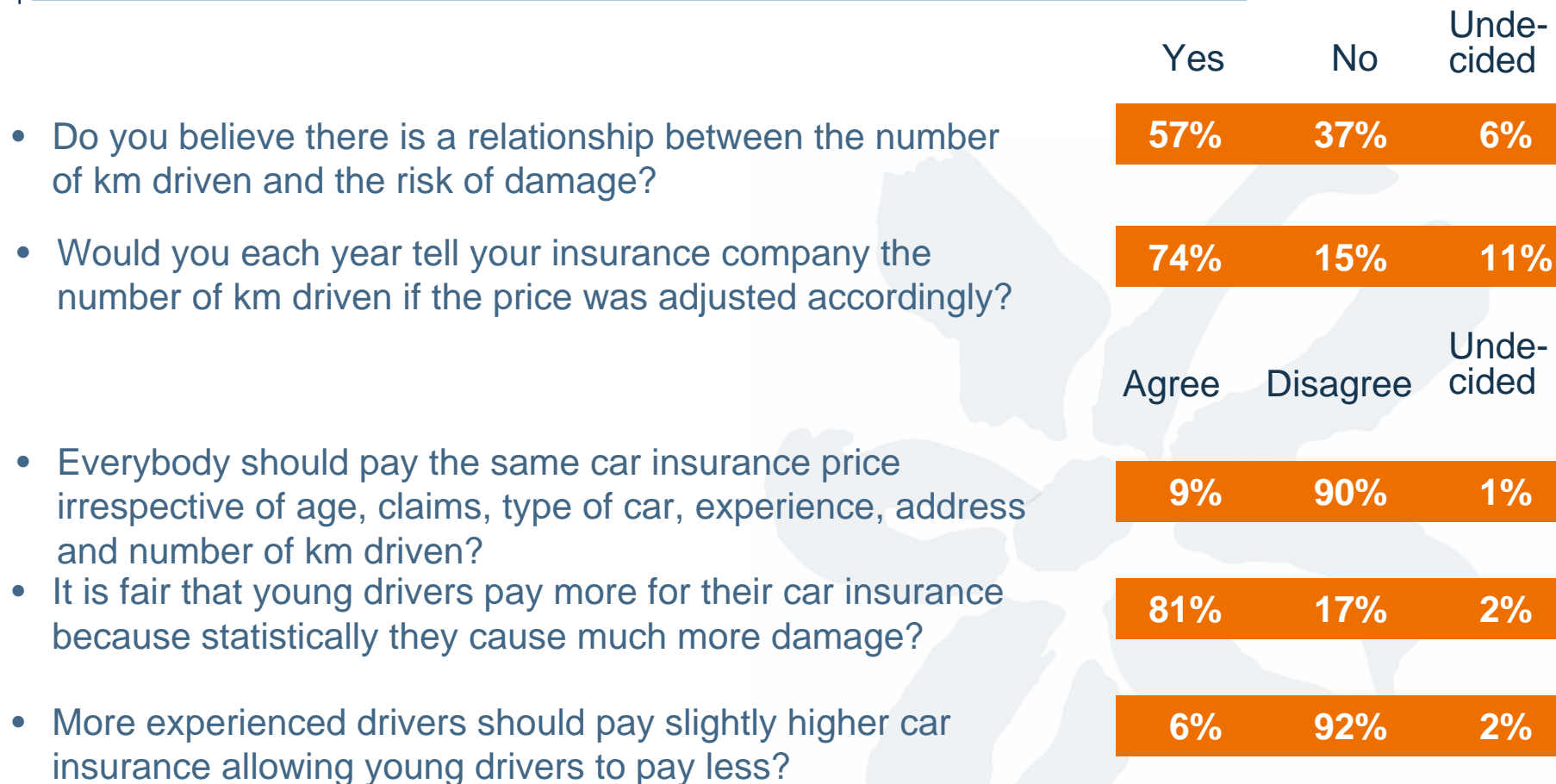
Pricing

- Motor

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Market survey from Capacent Epinion – Sep. 2008



- 943 web interviews with car owners

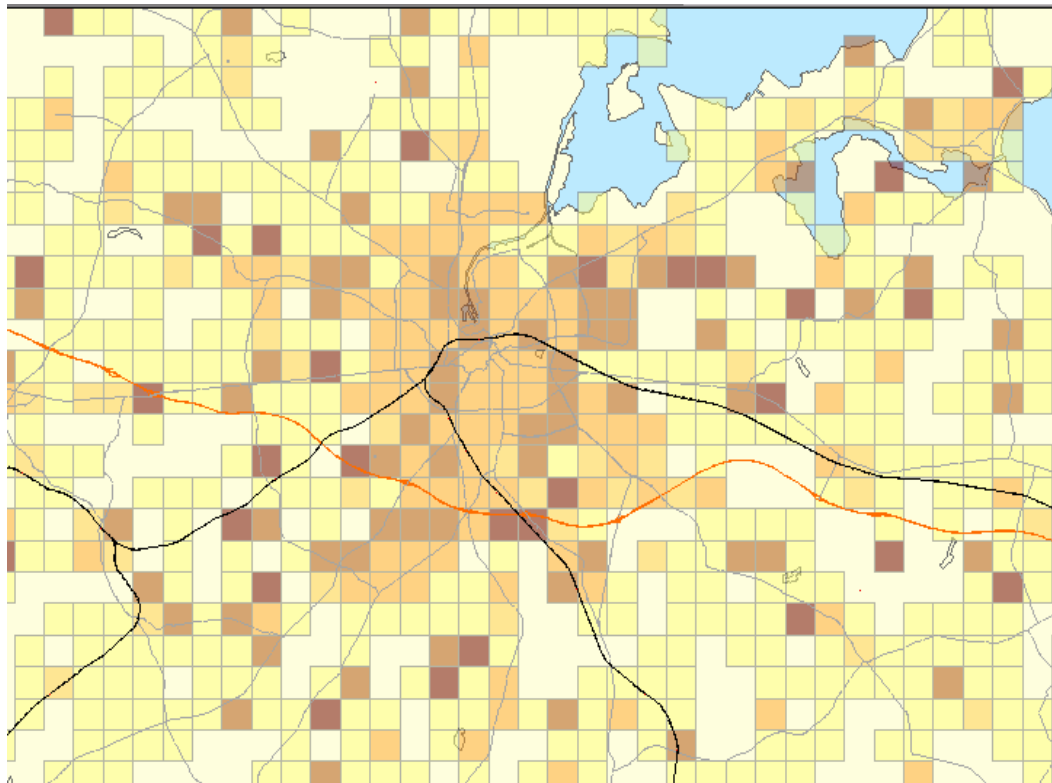
Background and opportunities

- Topdanmark works extensively on risk analysis of contents insurance as the risk of theft has changed significantly in recent years and continues to change
- Information from Statistics Denmark combined with Topdanmark's own information has made it possible to change from postal codes to address rating



Examples of effect

Example of address rating - from Odense



Odense divided into small geographical areas

- The figure shows the loss ratio for theft

.... but Odense was previously considered as one are!

Deciding the risk premium – the difficult part!

The more data is available, the more precise it will be

- The amount of data (internal and external), the quality of data and the calculation capacity are crucial factors for hitting the risk premium as precisely as possible!

The size of the company is crucial for the pricing!

- Large amounts of data for analysing
- Significant analysing capacity

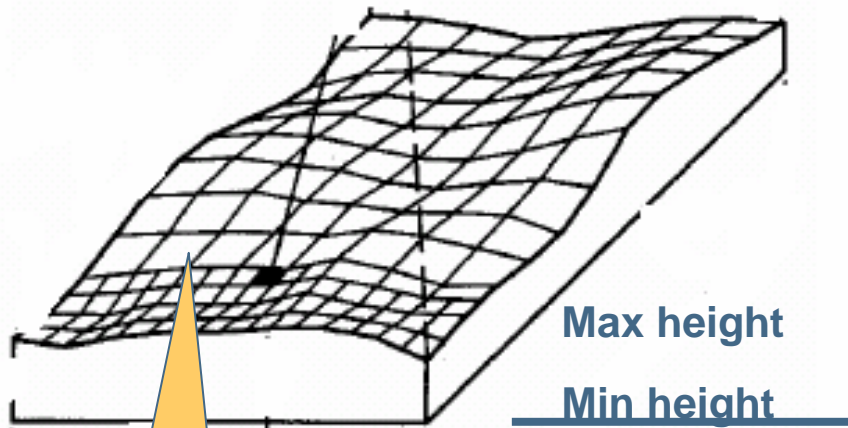
Pricing

- Opportunities for house - cloudbursts

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Cloudbursts: "Rain intensity exceeding 15 mm in 30 minutes"



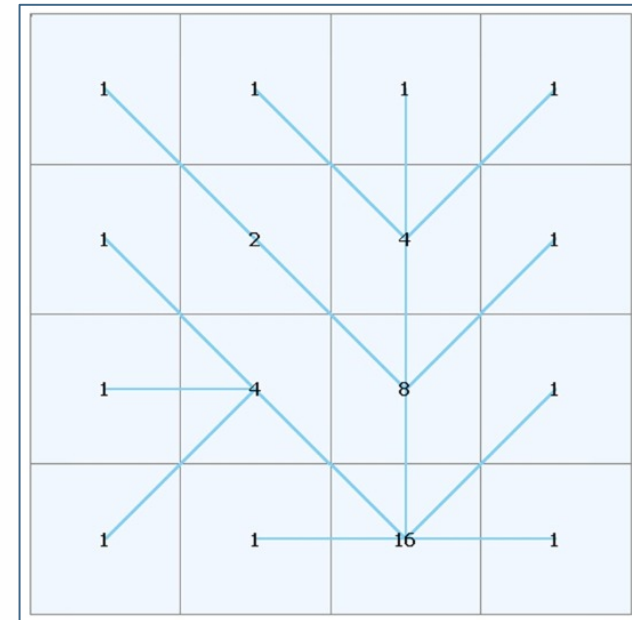
Max height

Min height

Difference in height

100X100 m cell

Example of water flow



If the value is 1, only the cell itself sends water into the cell, i.e. no water flow. On the other hand 30 is the maximum water flow.

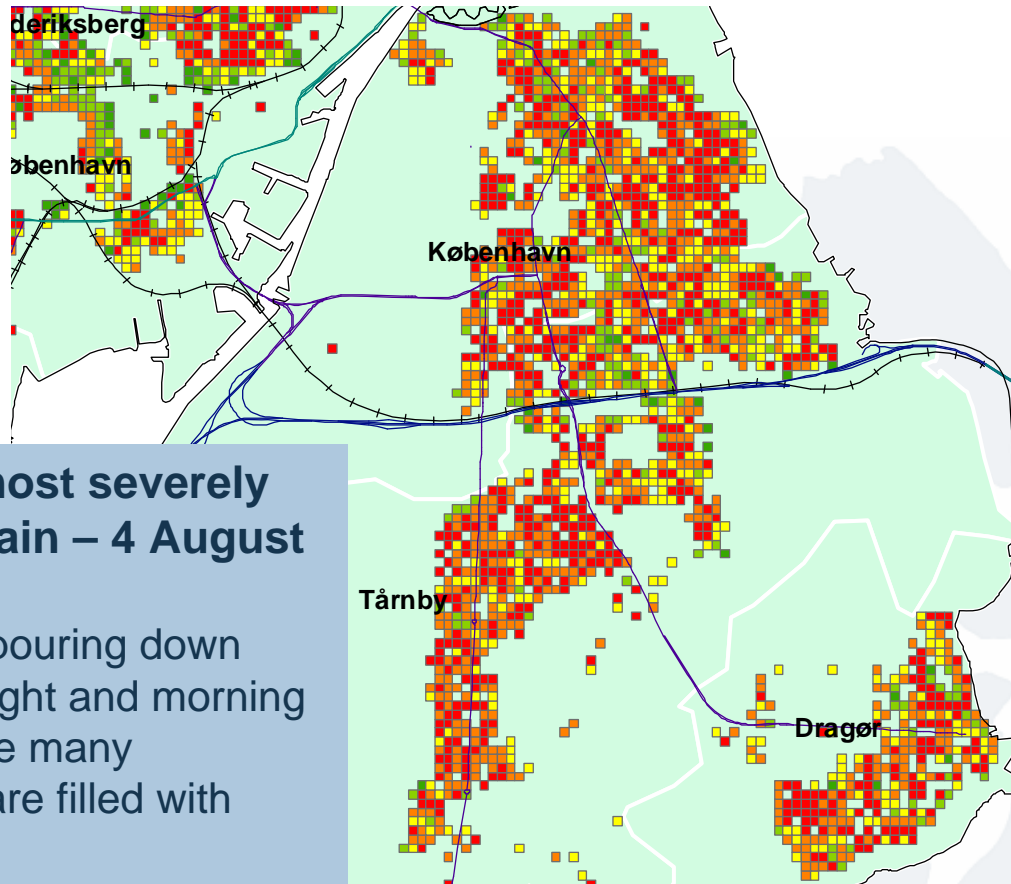
Pricing

- Opportunities for house - cloudbursts

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Result of difference in height and water flow - Amager



Share nation-wide	Risk index
20 %	61
20 %	80
20 %	100
20 %	131
20 %	220
100 %	

”Amager most severely hit by the rain – 4 August 2008

It has been pouring down during the night and morning and therefore many basements are filled with water ...”

Average risk premium today about DKK 70

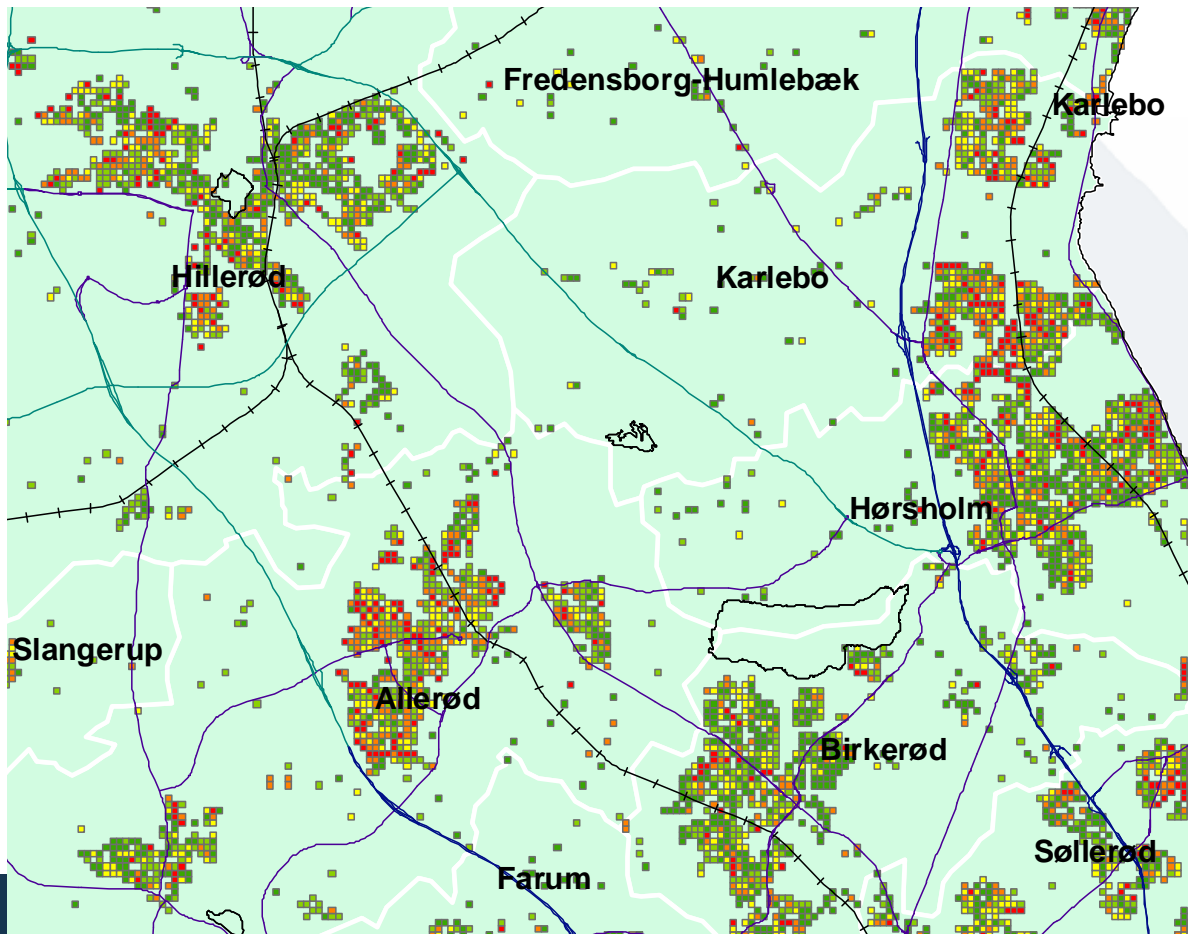
Pricing

- Opportunities for house - cloudbursts

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Result of difference in height and water flow - North Zealand



... so far no plans to use this information

Rating criteria

Ethical constraints on the use of data

- We must be able to explain our pricing
 - e.g. DKK 50,000 for a young man with a BMW living in ...

As a large insurance company we must be able to offer all our private customers cover of ordinary risks within a reasonable price spread!

... but allowing for the opportunity to require high security precautions

- ✓ Micro rating is not a new phenomenon!
 - but only reflects a more finely meshed pricing structure
- ✓ The customers will be the winners as they will see even greater price differences!!
- ✓ Other things being equal, the large companies will benefit from the new trends!
- ✓ We believe in our own pricing!
 - where continued price adjustments are based on risk assessments

... and we can, desire to and must always improve!

Value creation in Topdanmark

- Summary

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Virtuous circle

Increase in earnings base

Lower expense ratio

Fewer claims payments

More price competitive

Improved reputation

Smaller customer lapse

Increase in additional sales

Increase in rate of customer conversion

Virtuous circle

Behaviour is the best form of communication

- **Ensuring that we measure up**
- **Good service = giving customers a little more than they expect**

... the centre line has become narrower



Value creation in Topdanmark

- Dansk kundeindeks (Danish customer index)



Most recent survey of satisfaction

