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**Managing Director of Topdanmark Livsforsikring**



# Agenda

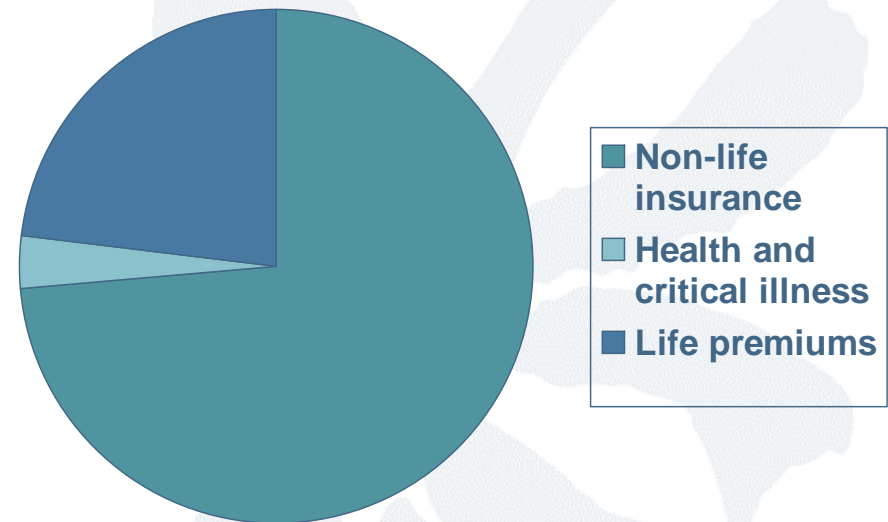
- Topdanmark Livsforsikring - in the Topdanmark Group and in the market
- Profit creation model
- Low interest rate environment - challenge of high guarantees
- The Topdanmark solution



# Topdanmark Livsforsikring in the Topdanmark Group

- Integrated in Topdanmark Group
- Subsidiary of Topdanmark Forsikring A/S (non-life insurance)
- Own management and legal structure
- Most staff functions, including IT, shared with parent company
- Using Topdanmark Forsikring's sales force as well as own salesforce for corporate scemes

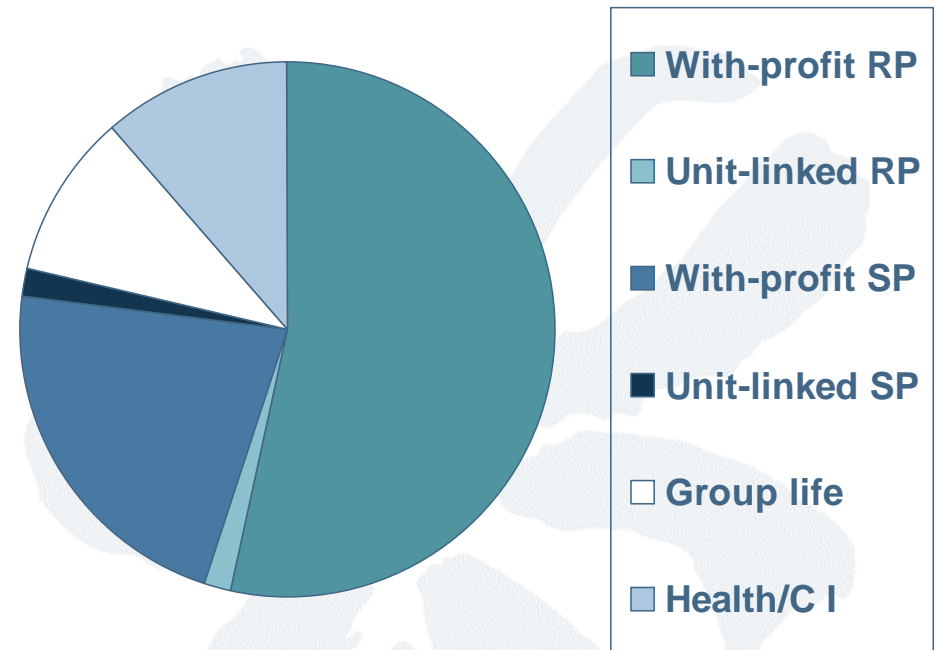
## Apportionment of premium income in Topdanmark



# Topdanmark Livsforsikring

- Premium income DKK 2.9bn
- Total assets under management DKK 25.6bn
- 400,000 policyholders
- 5th largest player (PFA, Danica, Nordea, SEB)
- 160 administrative employees
- 300 certified insurance sales reps, 41 sales centres, brokers, 400 bank branches, 15 specialised salespeople for corporate schemes
- Service across all segments
- Full product line
- Highest growth rate of the market
- One of the highest bonus ratios of the market

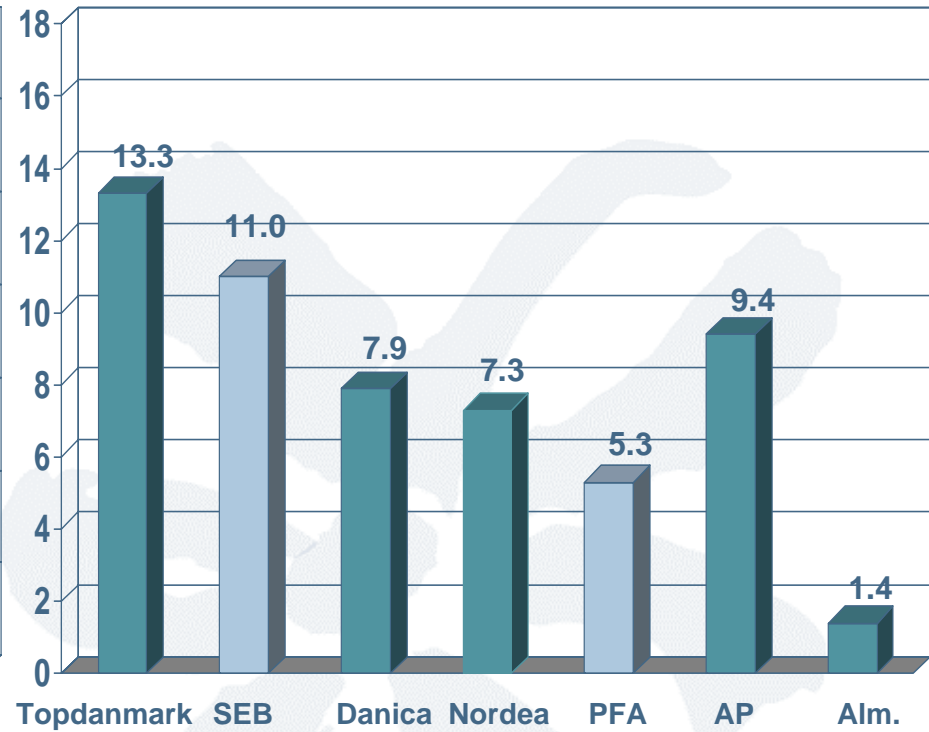
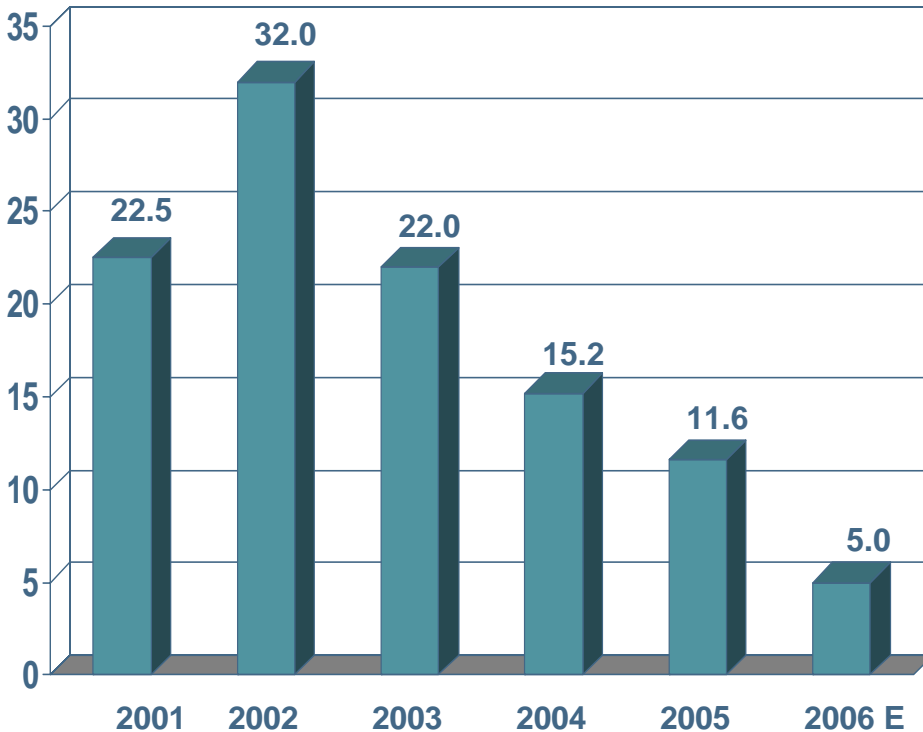
## Apportionment of premium income in life



# Continued high growth in regular premiums

Premium growth

Comparison of premium growth in regular premiums

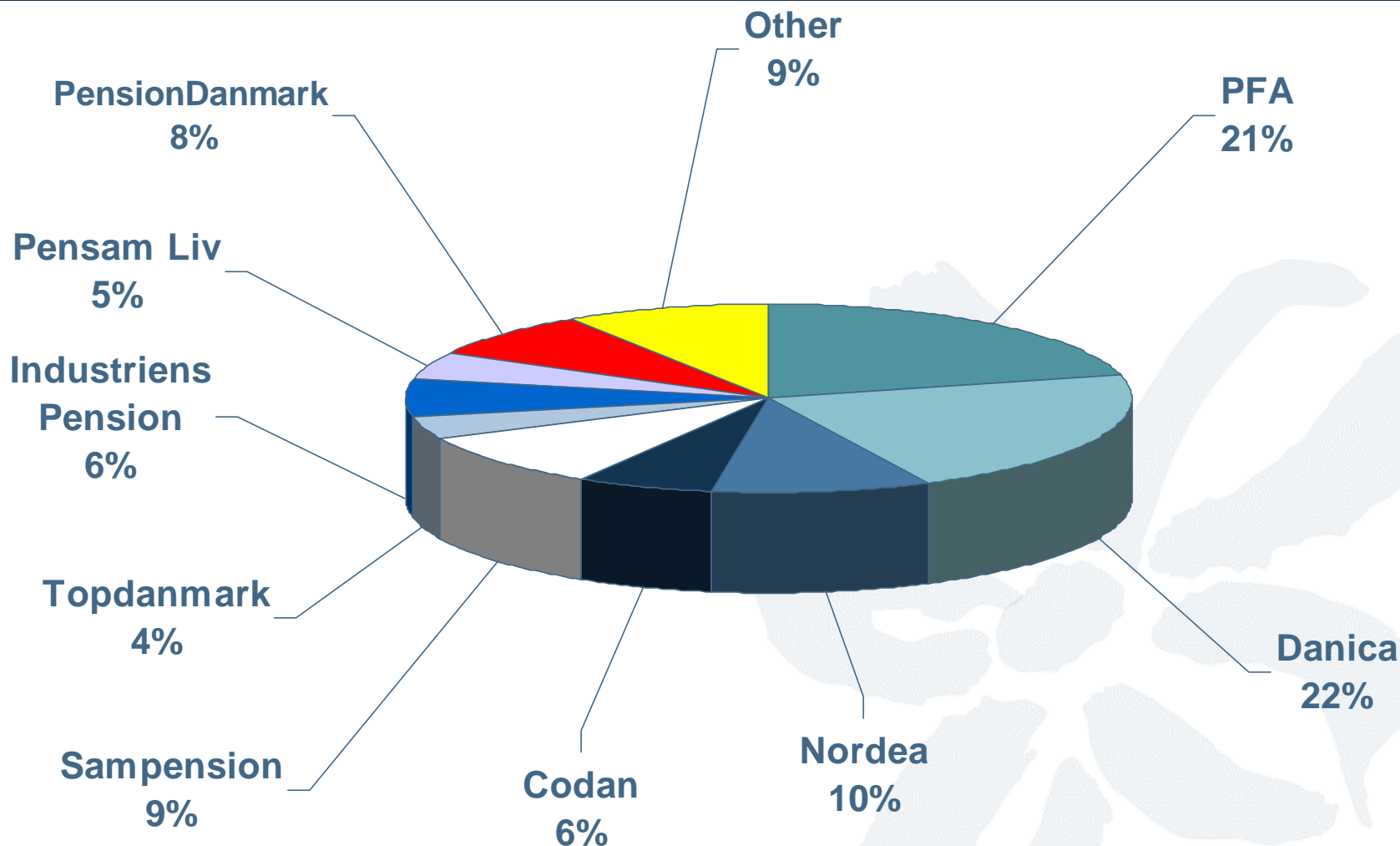


Topdanmark

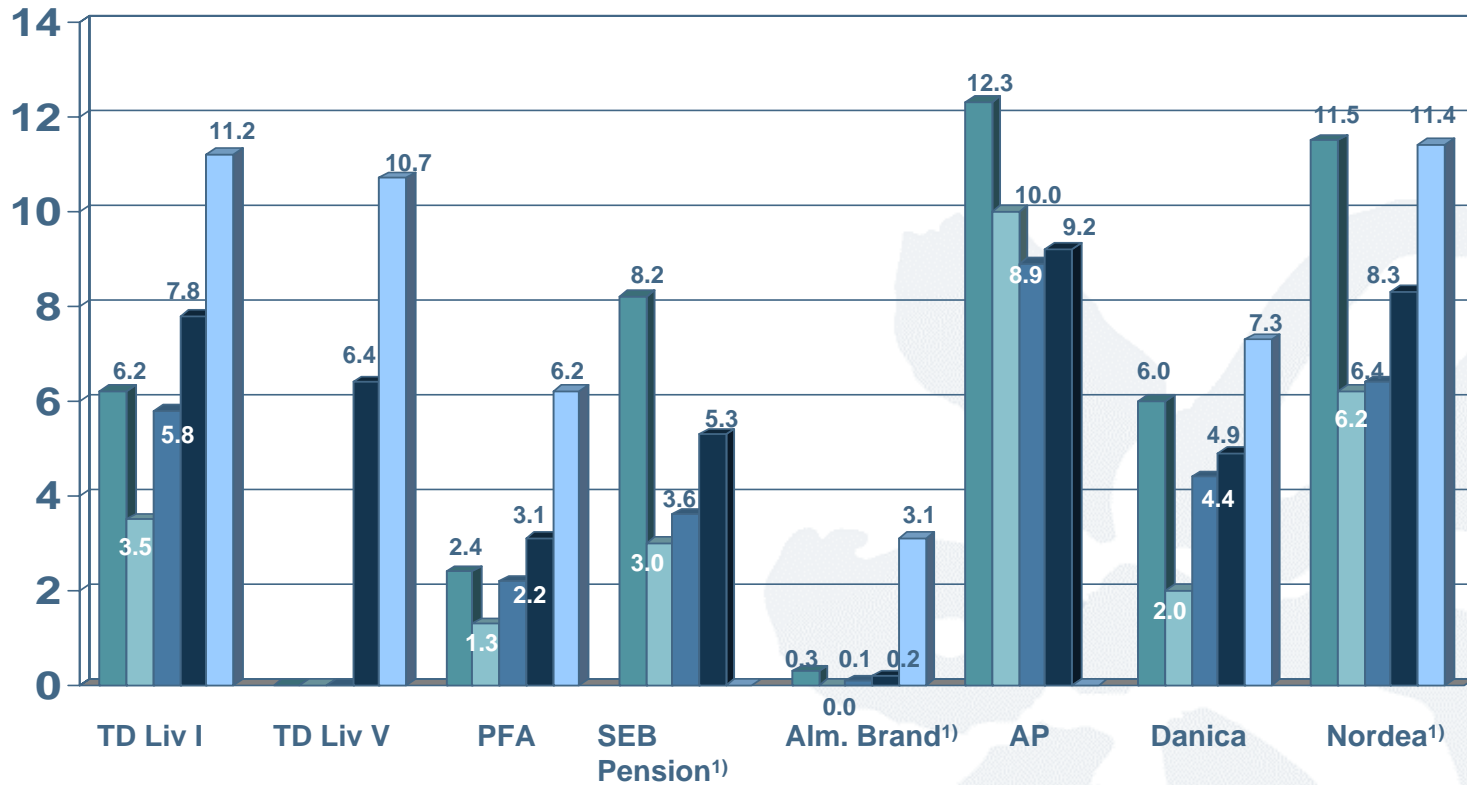
H1 2005

2005

# Market share - life insurance 2004



# Comparison of bonus ratios



1) Adjusted for shadow account



# Prospects in life insurance in 2006

## **5% expected premium growth**

- About 10% in regular premiums - primarily corporate schemes

## **Bonus ratio of 11.2% in Liv I, one of the highest of the market**

## **5% rate of interest on policyholders' savings in Liv I**

- Most other market players: 4.5%

## **Increased customer mobility**

## **Increased penetration among large businesses**

## **Introduction of new market interest rate product**

## **High customer satisfaction in research by Aalund Business Research**

## **Continued growth in health insurance**

- More frequently part of collective agreements



# Life and pension environment

- (Continued) primarily traditional guaranteed with-profit business
  - Increasing unit-linked market (lower capital requirements)
- Significant proportion of 4.5% guaranteed policies
  - Conservative investment strategies dominated by interest rate options
- Health continues to be financed by primarily public funds
- Highly regulated life and pension earnings models
  - Contribution principles
  - Shadow account
  - Model to be reported to FSA



# Regulated profit creation

- Section 20 of Danish Financial Business Act
  - Policies for allocation of profit
- Profit divided between
  - funds owned by shareholders / policyholders and
  - amongst policyholders
- Shareholders "share" of result to be reported to DFSA
  - model
  - split between
    - investment income derived from shareholders' funds
    - Risk allowance to be charged
  - "Shadow account"
    - Unearned risk allowance carried forward
- Proportion of result allocated to shareholders' funds
  - On a pro rata basis or through allocated assets
  - Risk allowance - to be reported at beginning of financial year



# Profit creation model makes added value visible

## Profit (before tax) in Topdanmark Livsforsikring comprises:

- Investment income from shareholders' funds
  - Risk allowance - if unearned carried forward
    - As a percentage of customers' savings
    - As a share of administrative and risk result (if a profit)
  - Result from Top Link
  - Result from health insurance and critical illness
- + unearned risk allowance from "shadow account"



# Normalised return in life insurance 1/2

## Assumptions:

- Solvency minimum: DKK 869m
- Minimum capital requirement:  $120\% \times \text{solvency minimum} = \text{DKK } 1,043\text{m}$
- Investment return on shareholders' funds: 4.5%
- Risk and administrative result: 0.5% of premiums = DKK 12m
- Customers' savings:
  - Liv I : DKK 9.8bn.
  - Liv V : DKK 7.9bn

# Normalised return on life insurance 2/2

## Return on life insurance:

	DKKm	
Investment return on minimum capital requirement 4.5%	47	
Risk allowance : 0.40% / 0.55% of customers' savings	82	
25% of risk and administrative result	<u>3</u>	
		132 ~ ROE = 12.7%

## Other life-related result:

Life-related non-life (health insurance and critical illness insurance etc.)	17	
Asset management	18	
Other synergies within, among others, distribution	<u>25</u>	
		60
		<u>60</u>
		192 ~ ROE = 18.4%

# Scenario or exposure 1/2

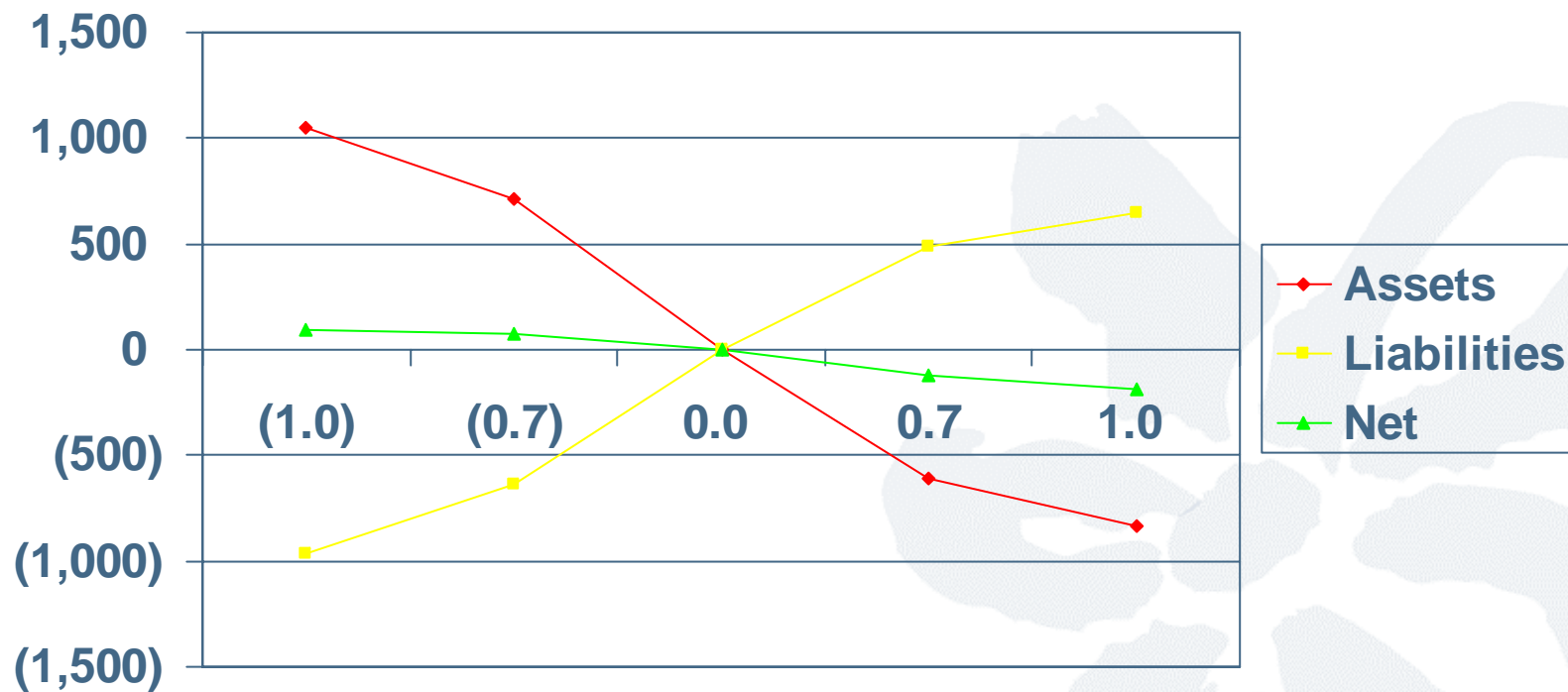
- Shareholders' funds are relatively "safe". Policyholders' bonus reserves will be charged prior to shareholders' funds
  - Bonus ratio (11% at Group level - one of the highest of the market)
  - Size of collective potential bonus reserve DKK 1.8bn - charged prior to shareholders' funds
  - Bonus potential on paid-up policies DKK 2bn - could partly participate in financing
  - And then shareholders' funds

# Scenario or exposure 2/2

## DFSA WORST CASE SCENARIO

- 1 pp increase in interest rates, and
- 30% decrease in value of shares, and
- 12% decrease in value of properties, and
- Foreign currency risk (99.5% value-at-risk), and
- Credit and counterparty risk (weighted average x 0.08)
  
- Would result in a total loss of DKK 2.1bn of which
  - shareholders' funds would absorb DKK 123m
  - and policyholders' funds DKK 1,948m

# Interest rate exposure - policyholders





# The Topdanmark Solution



## Split of portfolio



# Blood sharing between existing and new customers



## Challenge in the market

Large proportion of business guaranteed 4.5% - actual interest level much lower

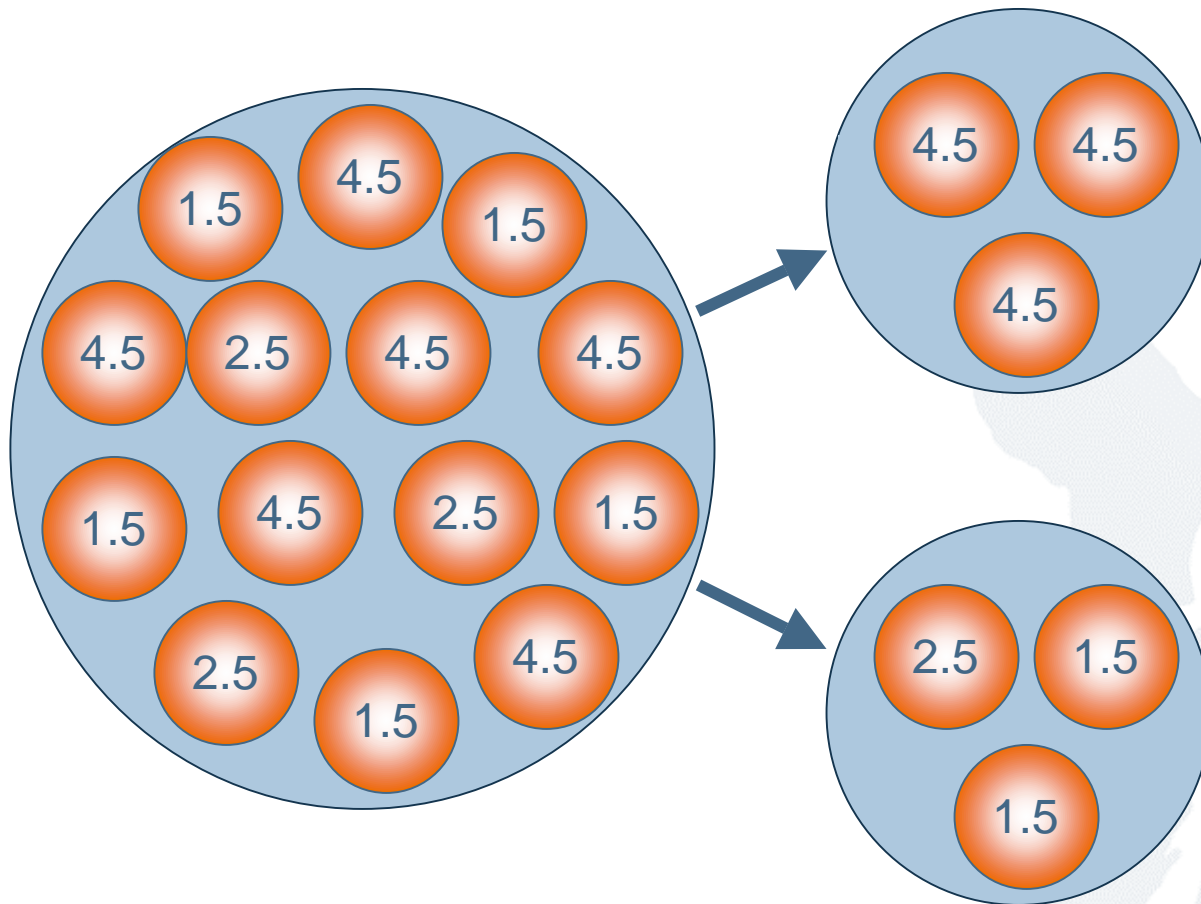


Conservative investment strategy:

- Derivatives (interest rate options)
- Few equities

Uncertainty for "new" customers (since 1994)

# Split improves investment strategy



## Investment strategy

- Significant proportion of bonds
- Properties
- Few equities (10%)
- Interest rate options

## Investment strategy

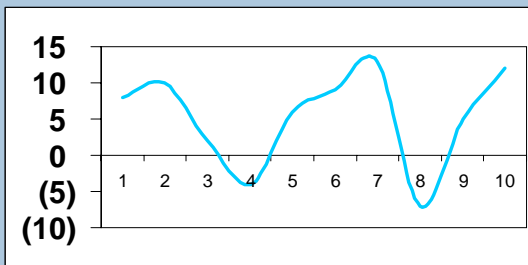
- Bonds
- Properties
- Equities (30%)

# Alternative solutions used in the market

## Unit-linked schemes:

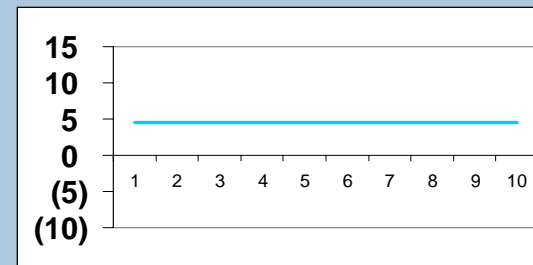
- Individual profit
- No guarantee
- Influence on investments

*Approximately 10-15% of premium income - lower proportion of total savings*



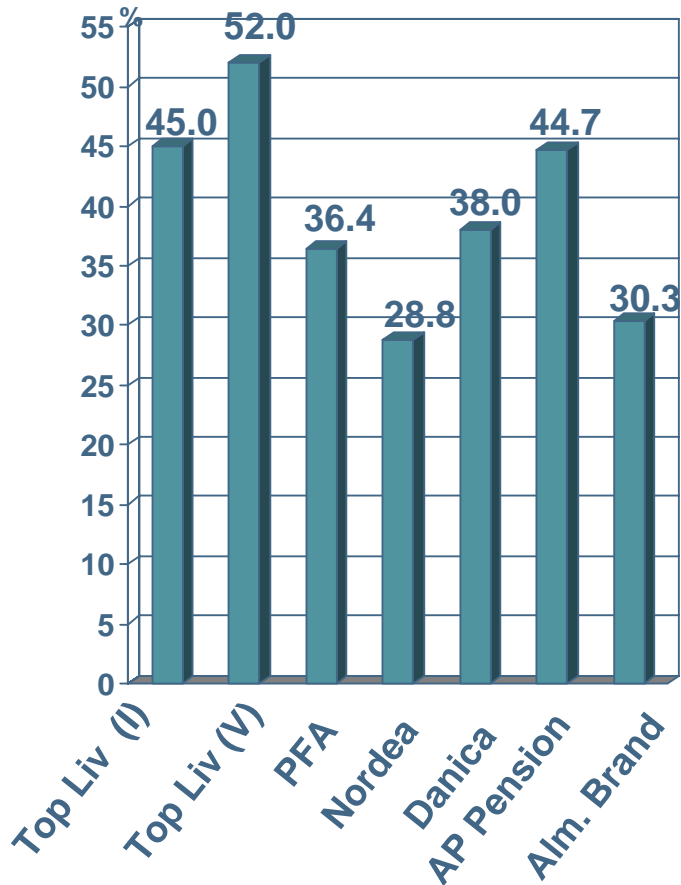
## "With-profit business":

- Solidarity
- Guarantees
- No influence on investments
- Equalisation of profit over time
- Contribution order
- Limitation on profit (risk allowance)

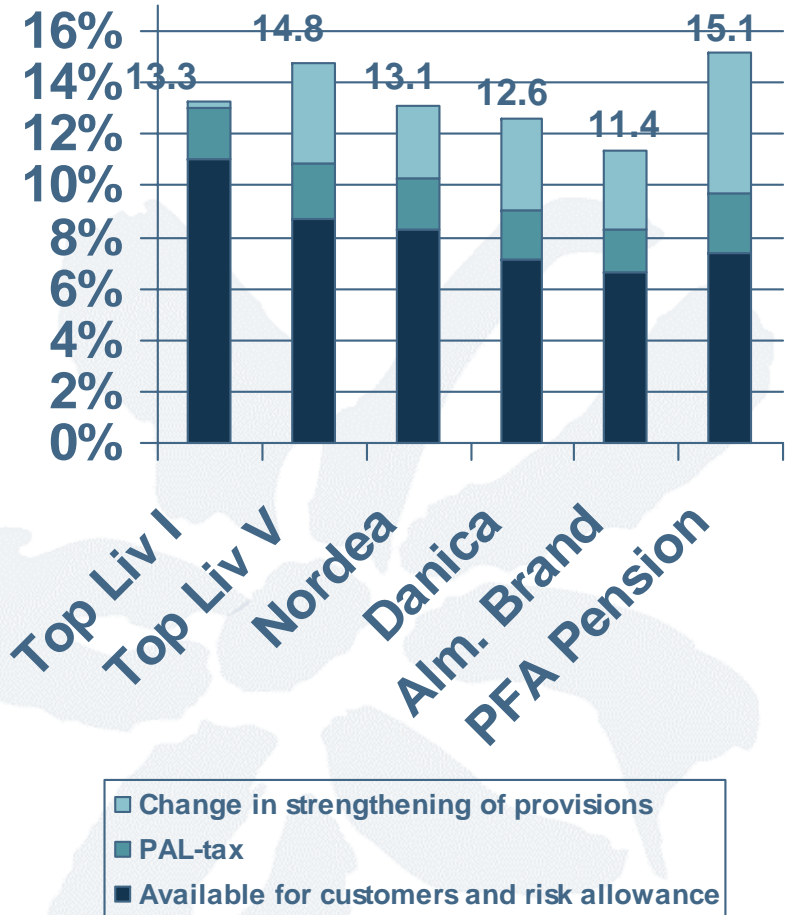


# High net return for Topdanmark's pension customers

Accumulated investment return 2001-2005



Comparison of net and gross returns 2005



# Questions?

