



**Handelsbanken  
Nordic Insurance Seminar  
4 October 2010**

**Topdanmark  
By Christian Sagild, CEO**

→ • **Share profile**

• Can the Topdanmark model be exported?

• Crisis and value creation in non-life

• Solvency II

# Share profile

## Clearly focused strategy

- Danish player
- Stable insurance risks
- Low expense ratio
- Limited financial risk
- Efficient capital management
- Relatively limited top line growth
- Profitable growth - in that order
- Relatively high net result
- Large share buy-back programme
- No limitations set out in the Articles of Association

The Topdanmark share is a value case – not a growth case

# Agenda

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- Share profile

-  • **Can the Topdanmark model be exported?**

- Crisis and value creation in non-life

- Solvency II

# Can the Topdanmark model be exported?

- What is the right strategy for one company is not necessarily the right strategy for another
- A global IBM study showed that the most value creating insurance companies are focussing on
  - Geography – within a country / state
  - Line of business – across national borders / states
- No documentation seen for correlation between efficiency and cross-national strategy
  - On the contrary the level of CR is normally lowest in the home market
- Not sure it will be value creating for Topdanmark to expand into, for example, the Swedish market
  - The Swedish market is dominated by mutual companies
    - Will increase the risk premium on Topdanmark's shares
- For Topdanmark the synergies between life and non-life in the Danish market are greater than those of expanding within non-life insurance across national borders
- Therefore it continues to be Topdanmark's strategy to be a focused player in the Danish non-life and life insurance market

# Agenda

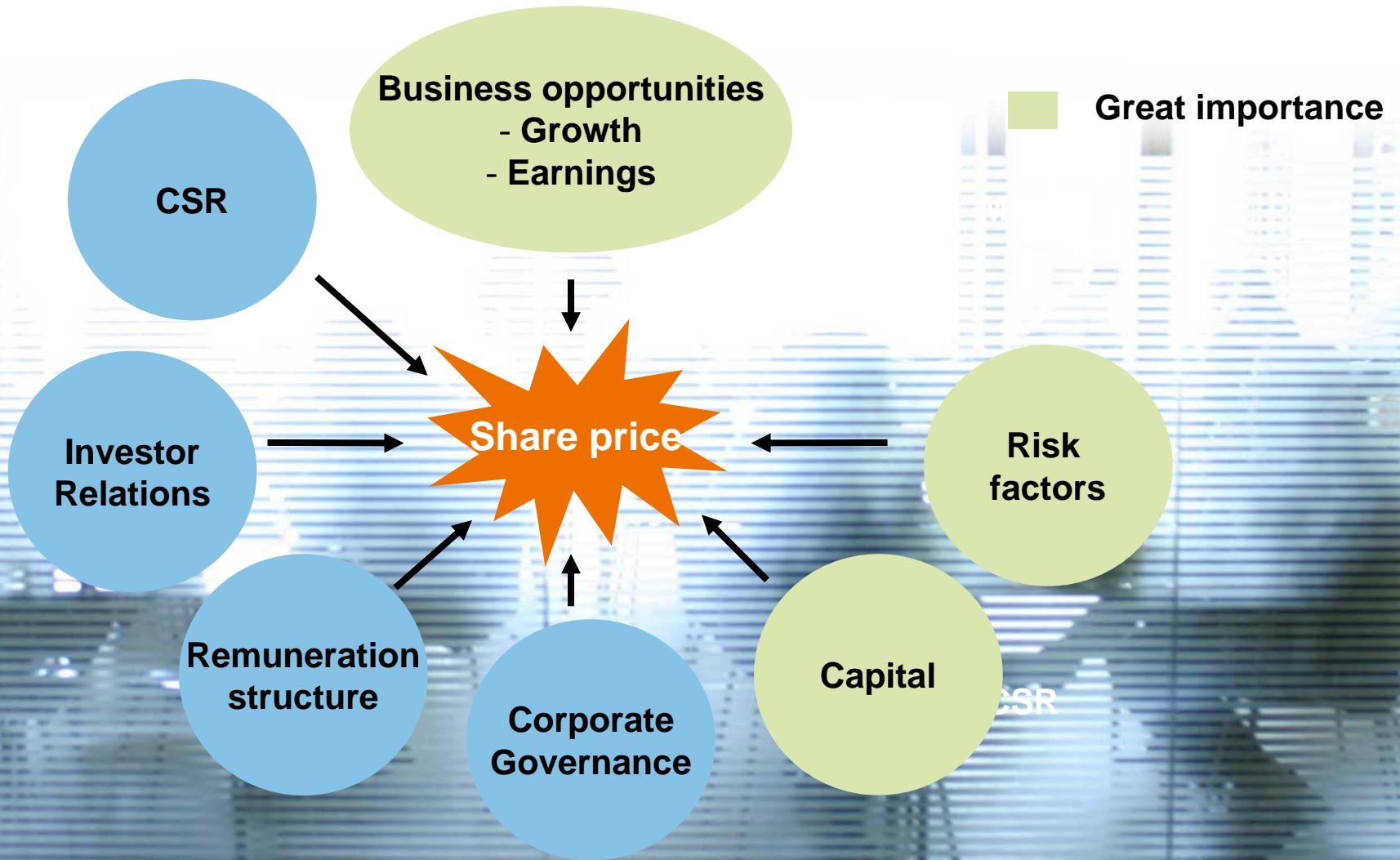
- Share profile

- Can the Topdanmark model be exported?

-  • **Crisis and value creation in non-life**

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# Topdanmark's share price model



# Effect of the crisis on risk factors

## Reduced risks

- Investment risk reduced by around 50%
- In the event of a "new 2008" we will see an overall profit

## New risk model

- Risk indicator introduced
- New and lower limits for equity exposure
- No further investments in CDOs





# Effect of the crisis on capital

## Solvency II before, during and "after" the crisis

**Spring 2008:** Based on requirements on risk-based capital

**Autumn 2009:** CEIOPS advice requiring additional buffers and capital not proportional to the actual risk

**Spring 2010:** Draft from the EU Commission with a number of modifications to the CEIOPS advice

**Mid-November 2010:** Reporting QIS5 figures to the DFSA

## Consequences for Topdanmark

- The same solvency requirements for Topdanmark as for similar companies with lower profitability / higher risk
- More details under "Solvency II"

**It is Topdanmark's strategy to have a lean capital structure**

# Effect of the crisis on growth

Growth – % p.a.

## **Mass market**

- Number of cars, fewer car and house sales

## **SME / industrial market**

- Business liquidations, fewer employees and reduced values insured
- Negative premium adjustments



**Estimated negative effect: 2-3% on growth in 2009 and 2010**

- Will it stabilise in 2011?

**Narrow scope for action!!!**

... Instead great need to focus on maintaining earnings

# Effect of the crisis on earnings

## Factors impacting earnings

### Interest rates

- Short-term:
- Long-term:

### Negative claims inflation

- Fire claims
- Theft claims
- Salaries for claims handling based on historical agreements

### Positive claims inflation

- Claims frequency in motor insurance
- 2011: Low increase in salaries

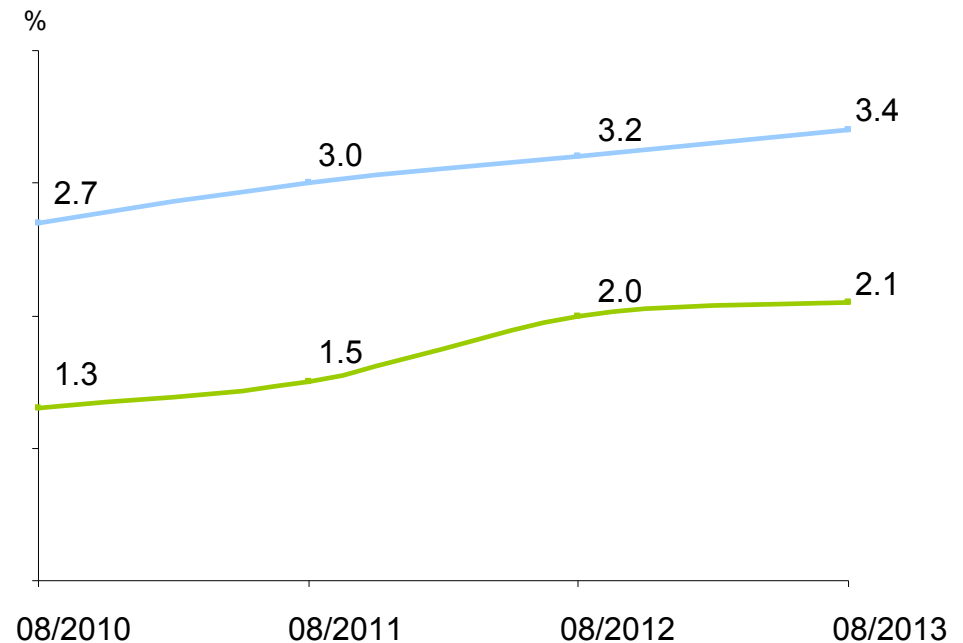


Own scope for action

# Effect of increase in interest rates

- Claims provisions are matched by corresponding assets
  - Changes in interest rates have no effect on overall value of claims provisions and matching investment assets
  - A 1pp increase in the interest rate curve reduces the CR by about 1.3pp corresponding to DKK 115m before tax
- The premiums reserve is invested in short-term interest-bearing assets
  - A 1pp 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

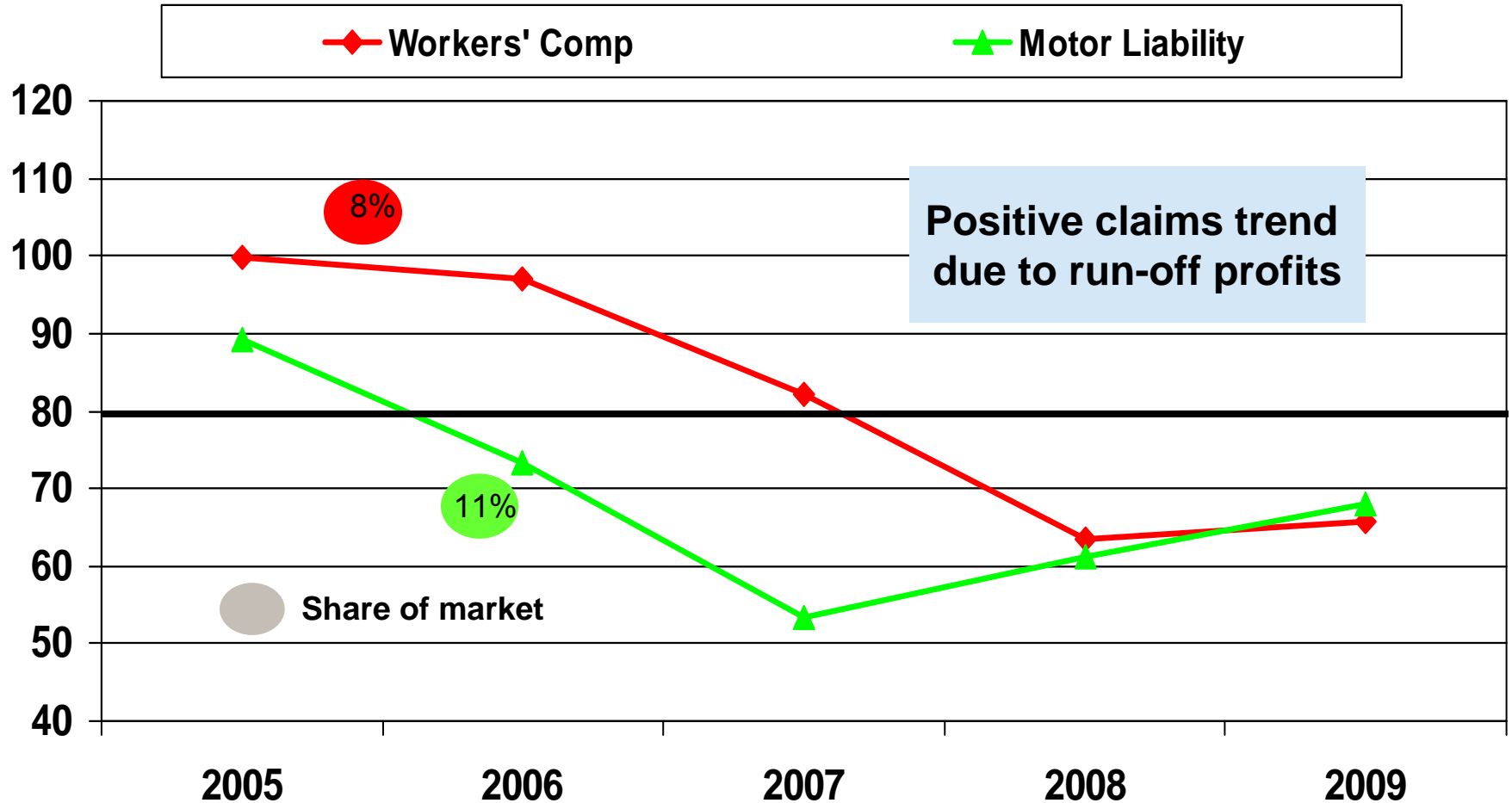


3-month forward interest rate

10-year forward interest rate

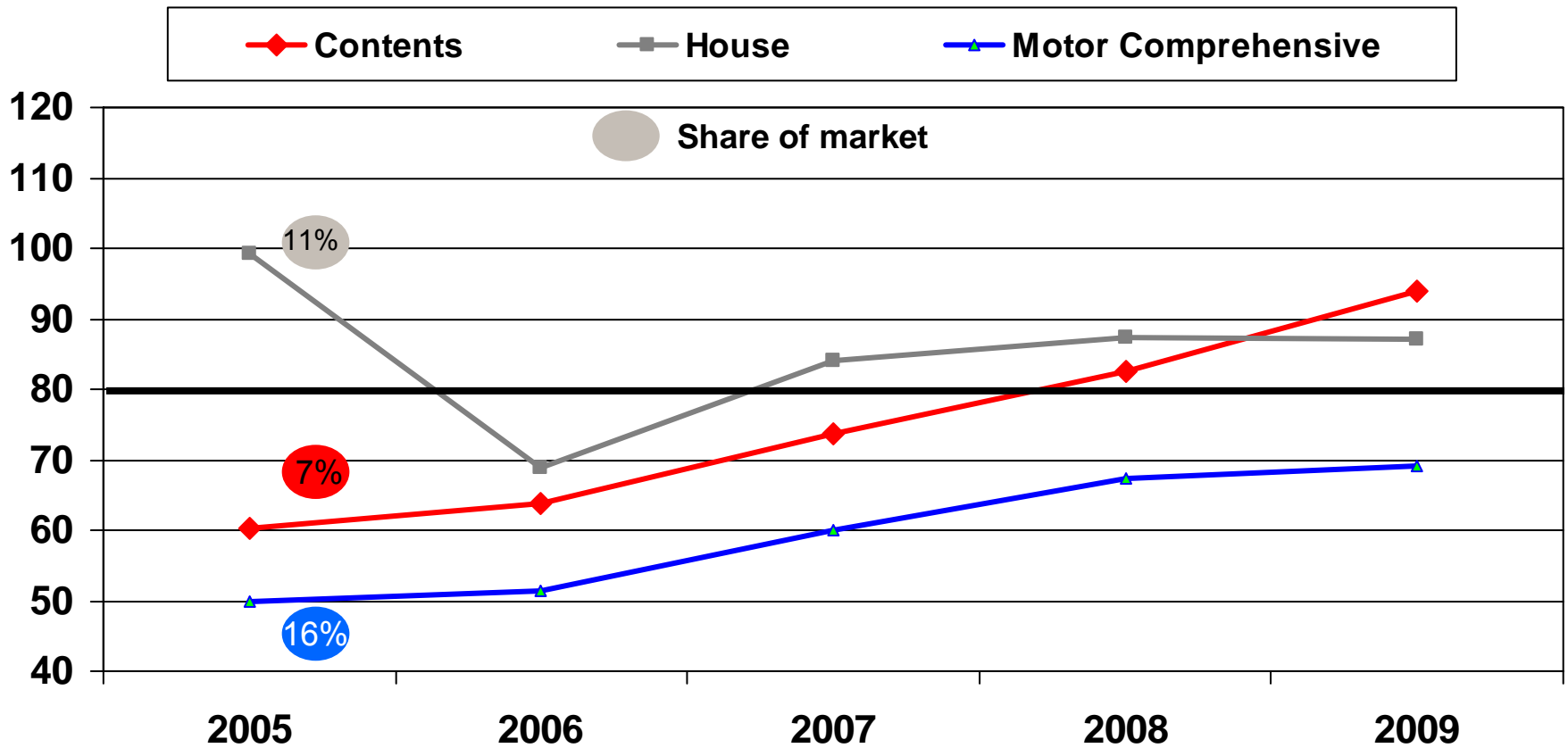
# Market: Loss ratio – Workers' Comp and Motor Liability

All companies



# Market: Loss ratio – Contents, House and Motor Comprehensive

All companies



# Earnings: Own scope for action

## Extraordinary focus on expenses

Intelligent employment freeze

- General restraint

## Efficient control of claims incurred

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

- External suppliers and own staff

Goal: To reduce CR by 1pp in 2010

## Price increases

Mass market: 12%

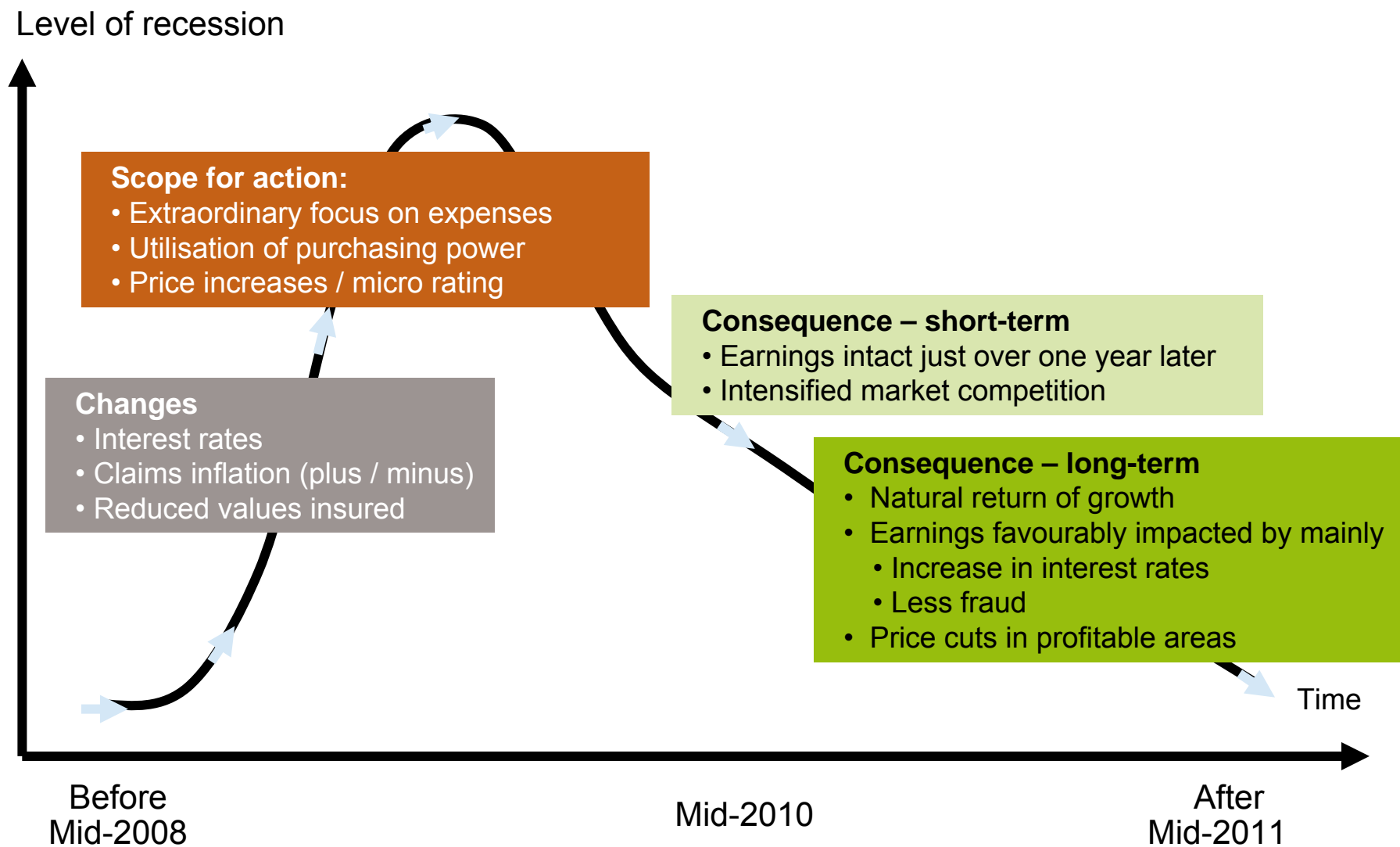
- Primarily house and contents
- Subsequently improving unbalanced earnings

SME market: 9%

- Building and property in fire and theft insurance



# Probable scenario – Growth and earnings





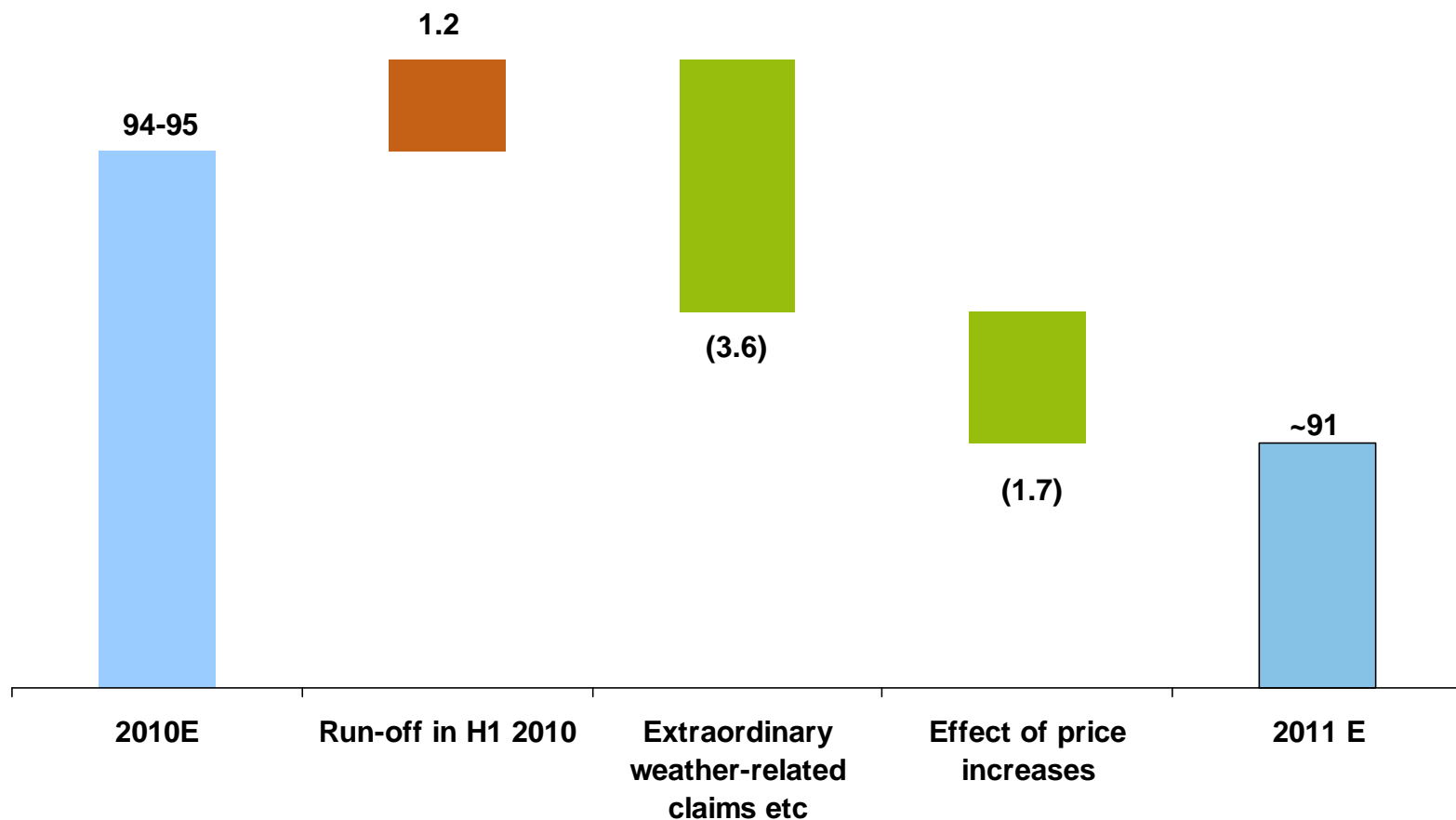
# Deterioration of technical results in 2010

In 2010 technical results in the Danish market hit by

- Decline in interest rates. Since 1 Oct 2009 about 1.5pp decline in interest rates for bonds of 3.5 years duration => about 2pp (DKK 900m) deterioration of CR
- Weather-related claims. Overall snow loading and cloudburst claims of DKK 1m and 1.5m respectively before reinsurance
- Continued recessionary effect. Estimated effect of DKK 500m
- Overall estimated deterioration of technical results before reinsurance of about DKK 4bn. Net effect of about DKK 3bn from DKK 45bn of gross premiums earned

# Prospects of improved CR in 2011

excl. any run-off profits / losses - other things being equal



# Follow-up on strategy

## Strategy:

- Profitable growth – in that order

## Current position

- Basically, goal of 10% profit margin corresponding to CR of 91 has been achieved
- Challenge now to achieve our long-term goal of premium growth in non-life of 1pp above the index



# Initiatives to reach growth goal in non-life

## Measures taken by Topdanmark

- Activities undertaken to maintain portfolio
- Experimenting with new selling methods through Danske Bank Group
- Sales staffing increased to the level before the financial crisis
- Changes in products offered
- Greater emphasis on sales through brokers
- Entering road transport market

## External factors

- Stabilisation of macroeconomic conditions
- Other Danish insurance companies have announced price increases

# Price increases – Personal and SME markets

	Personal	SME
Topdanmark	√	√
Tryg	√	√
Codan	√	(√)
Alm. Brand	√	(√)
Smaller companies	√	

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-  • **Solvency II**

# Unchanged goal of solvency capital of DKK 4.5bn

- In isolation the capital requirement of the QIS5 specifications is slightly lower than to be expected from previous drafts
  - However, the DFSA has required that the new solvency requirements be calculated after splitting the life insurance portfolio into homogeneous interest rate groups
- Topdanmark has not yet quantified the solvency consequences of this
  - It expects a lower than previously assumed capital requirement on the non-life business and a higher one on the life business
  - Overall the capital requirement is expected to be unchanged
  - Therefore Topdanmark has not changed its goal to accumulate solvency capital of DKK 4,500m by the end of 2012
  - If contrary to expectations Topdanmark cannot use an internal model on the non-life insurance risk, the solvency requirement will be around DKK 1bn higher
- If so, it could be financed by issuing tier 2 capital
    - For example with a 4pp margin to the reinvestment rate the pre-tax extra cost will be DKK 40m (post-tax: DKK 30m)
    - By way of comparison the post-tax profit for a normal year is around DKK 1bn
    - No effect on Topdanmark's share buy-back programme

# Buy-back potential 2010

(DKKm)	31 Dec 2009
Estimated necessary solvency capital 2012 - Before growth	4,500
Solvency accumulation 2010 and 2011 (shareholders' equity)	(500)
Subordinated loan capital - Insurance	(250)
<hr/> Necessary solvency capital - Holding 31 Dec 2009	<hr/> 3,750
Shareholders' equity 31 Dec 2009	4,465
Hybrid capital	403
Goodwill	(441)
Other intangible assets	(288)
Tax asset	(40)
<hr/>	<hr/> 4,099
Surplus capital 31 Dec 2009: DKK 349m	
Expected profit after the cash flow effect of tax (average value)	850
Movements in shareholders' equity	150
<hr/> Expected capital cover 31 Dec 2010	<hr/> 5,099
Necessary solvency capital before growth and providing for Solvency II	3,750
Accumulation of shareholders' equity for Solvency II	250
3% growth in solvency requirements	135
<hr/> Necessary solvency capital 31 Dec 2010	<hr/> 4,135
Surplus capital / buy-back potential in 2010	964

Any solvency capital requirement exceeding DKK 4,500m in 2012 will be covered by issuing further supplementary capital. In June 2010 Topdanmark Forsikring issued subordinated loan capital of DKK 100m with step-up in 2015 and expiry in 2018. This issue is intended as resources for the change to Solvency II and therefore it will not be included in the share buy-back potential until the actual Solvency II requirement is known.





**Thank you for your attention  
- questions?**

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