

January 2010

SEB Enskilda Nordic Seminar 2010

7 January 2010

by Christian Sagild, CEO of Topdanmark

Agenda



- **Share profile**

- Key value drivers and main trends

- Threats and opportunities

- Sector outlook

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



Agenda

- Share profile



- **Key value drivers and main trends**

- Threats and opportunities

- Sector outlook

Key value drivers

Growth

Earnings

Focus on
profitable
growth
- in that order



Growth changes

- Summary of most significant factors

Growth - % p.a.

Mass market

- Cars and houses - lower 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!!!

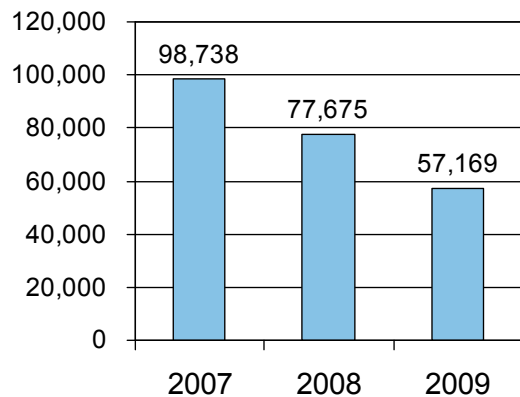
... Instead significant need for focusing on retaining earnings

Growth changes

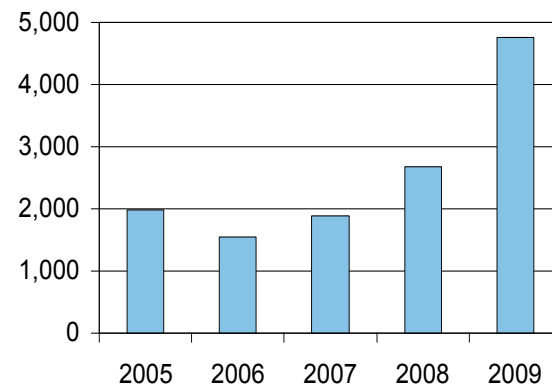
- Summary of most significant factors

Financial crisis puts pressure on companies' turnover

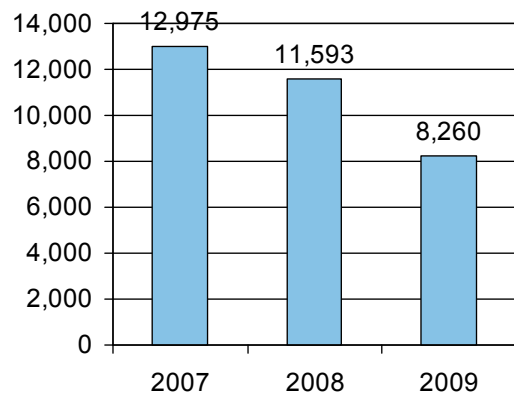
Motor policy requests - Jan to Oct



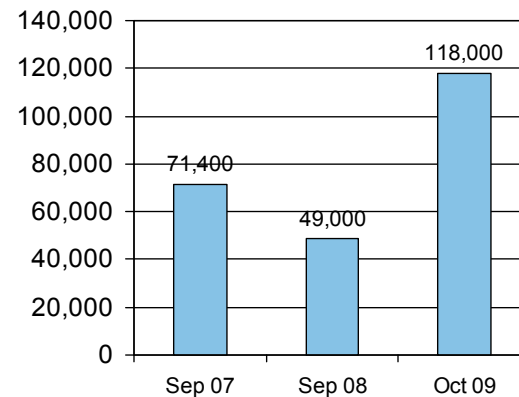
Liquidations - Jan to Oct



Change of ownership proposals - Jan to Oct



Unemployment

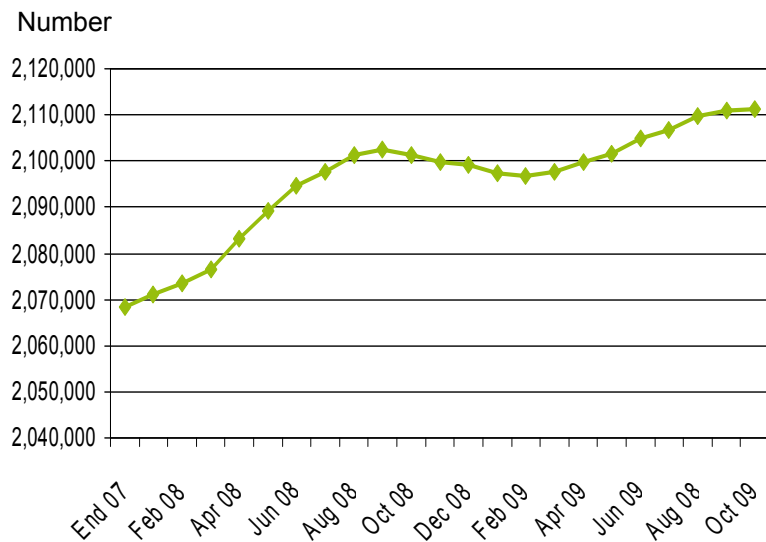


Growth changes

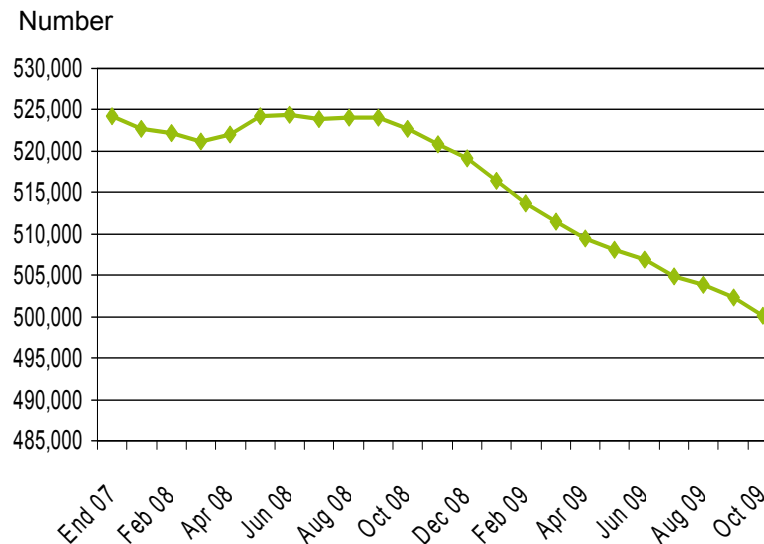
- Summary of most significant factors

Financial crisis puts pressure on companies' turnover

Number of private cars in Denmark



Number of vans / trucks in Denmark



Earnings changes

- 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

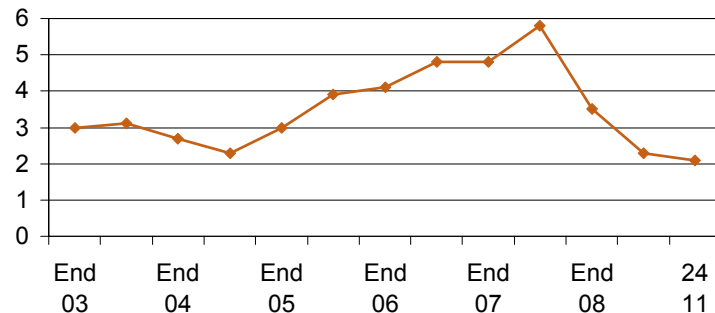
Earnings changes

- Interest rates: Changes in short and long-term interest rates

Short-term interest rates

- impact on technical interest rate

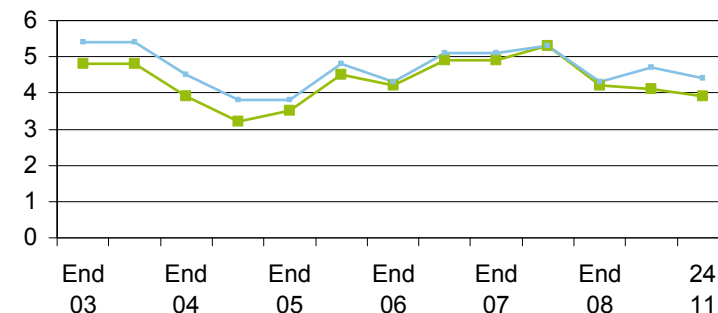
% p.a.



Long-term interest rates

- impact on discounting of reserves

% p.a.



— 20-year bond — 10-year bond

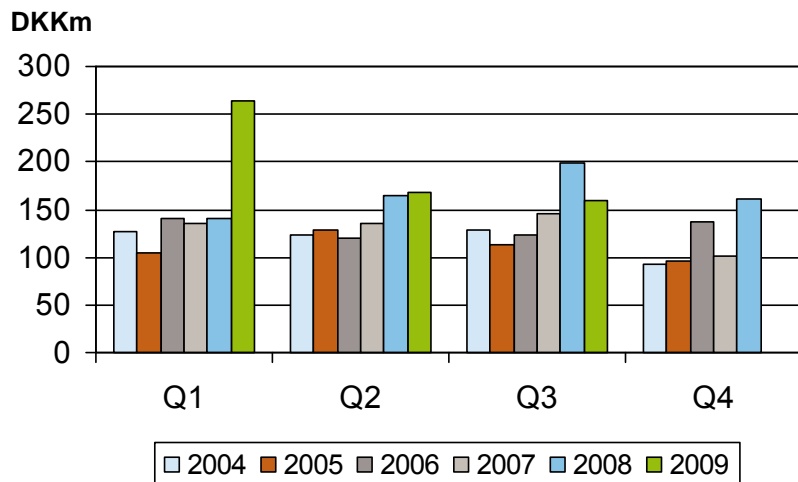
Change in interest rates of plus / minus 1 pp causes a change in profit margin of plus / minus 0.6 pp

Change in interest rates of plus / minus 1 pp causes a change in CR of minus / plus 1.1 pp

Topdanmark

- Examples of trend in claims incurred

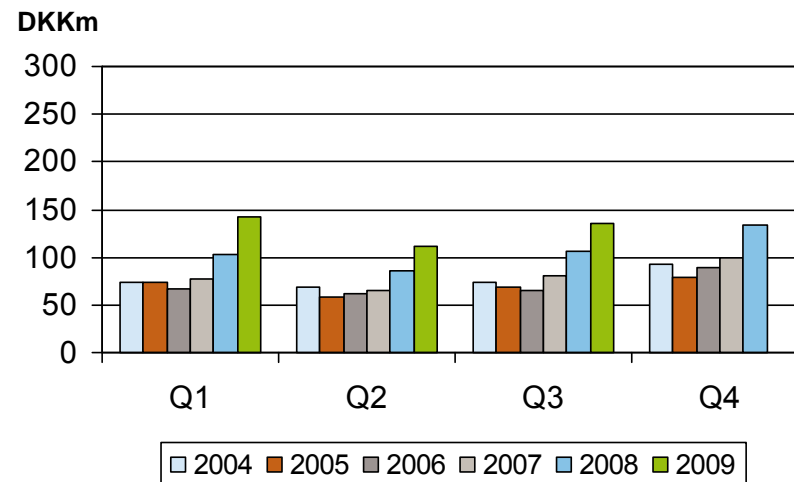
Fire claims



Effect on CR

1 pp

Theft claims



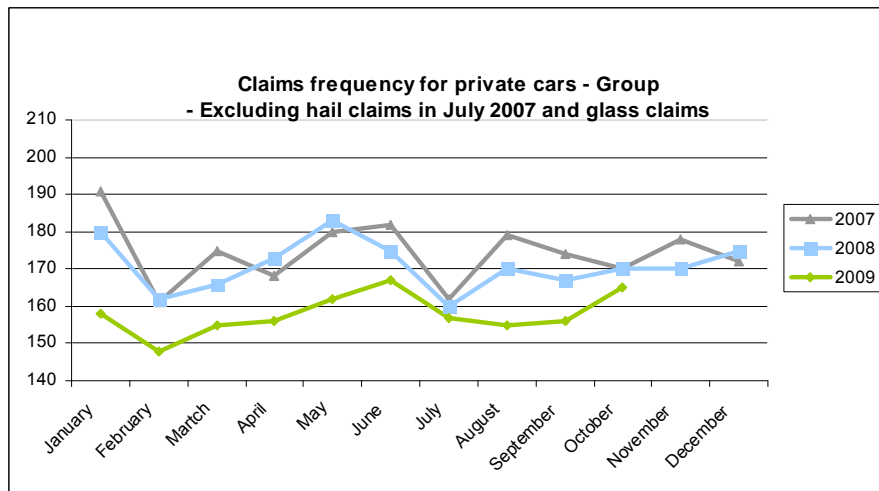
Effect on CR

2 pp

Earnings changes

- Positive claims inflation - frequency: Examples in motor insurance

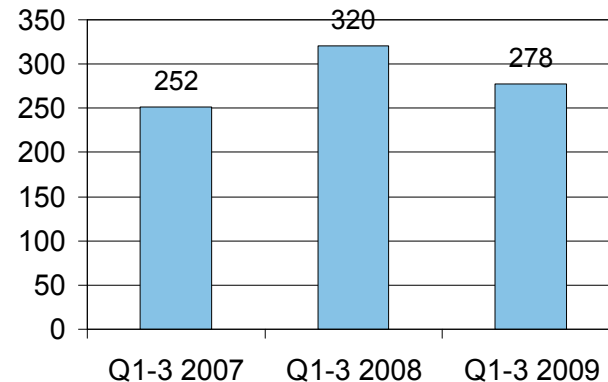
Claims frequency private cars – excl. glass claims



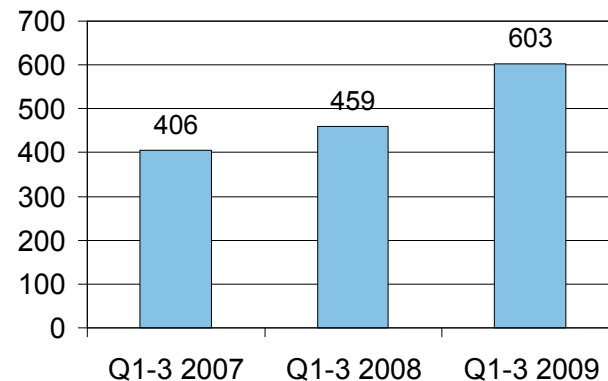
Effect on CR

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

Number of burned cars

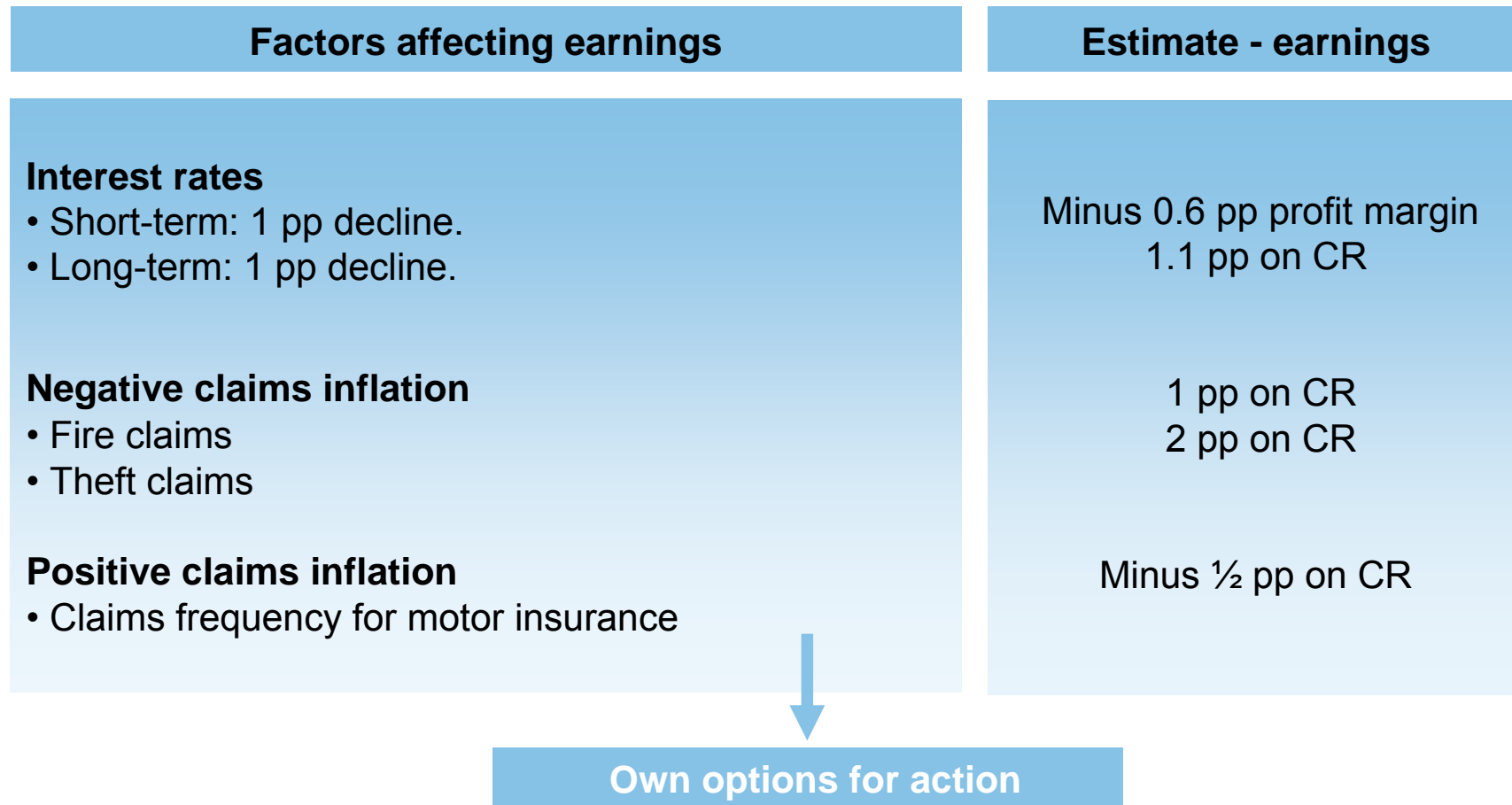


Number of disappeared cars



Earnings changes

- Summary of financial consequences



Important: Estimates connected with uncertainty and are regularly changed

Options for action

- The three most significant on earnings

Sector	Topdanmark
Extraordinary focus on expenses	<p>Intelligent employment freeze Goal: To reduce number of employees > 130</p> <ul style="list-style-type: none">• General restraint
Efficient control of claims incurred	<p>Focus on savings on claims paid to customers within motor, building and property insurance</p> <ul style="list-style-type: none">• External suppliers and own staff <p>Goal: To reduce CR by approx 1 pp</p>
Price increases	<p>Mass market</p> <ul style="list-style-type: none">• House and contents <p>SME market</p> <ul style="list-style-type: none">• Fire and theft within building and property insurance



Price increases

- Topdanmark

Personal

- House and contents policies
- Average increase of 12%

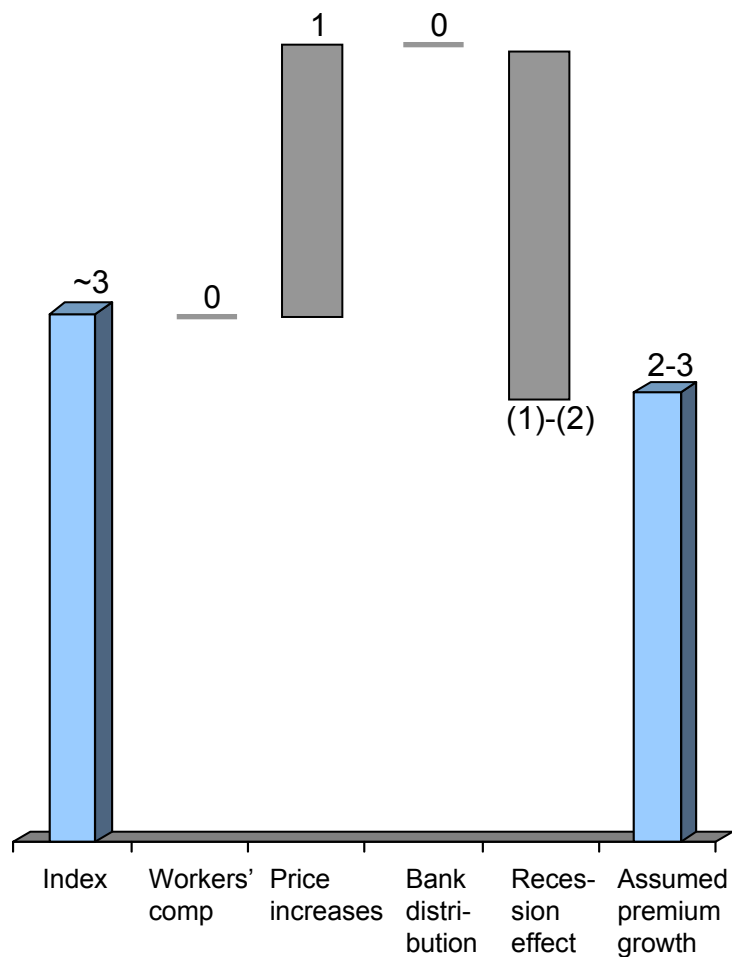
• SME

- Buildings and property policies
- Average increase of 9%

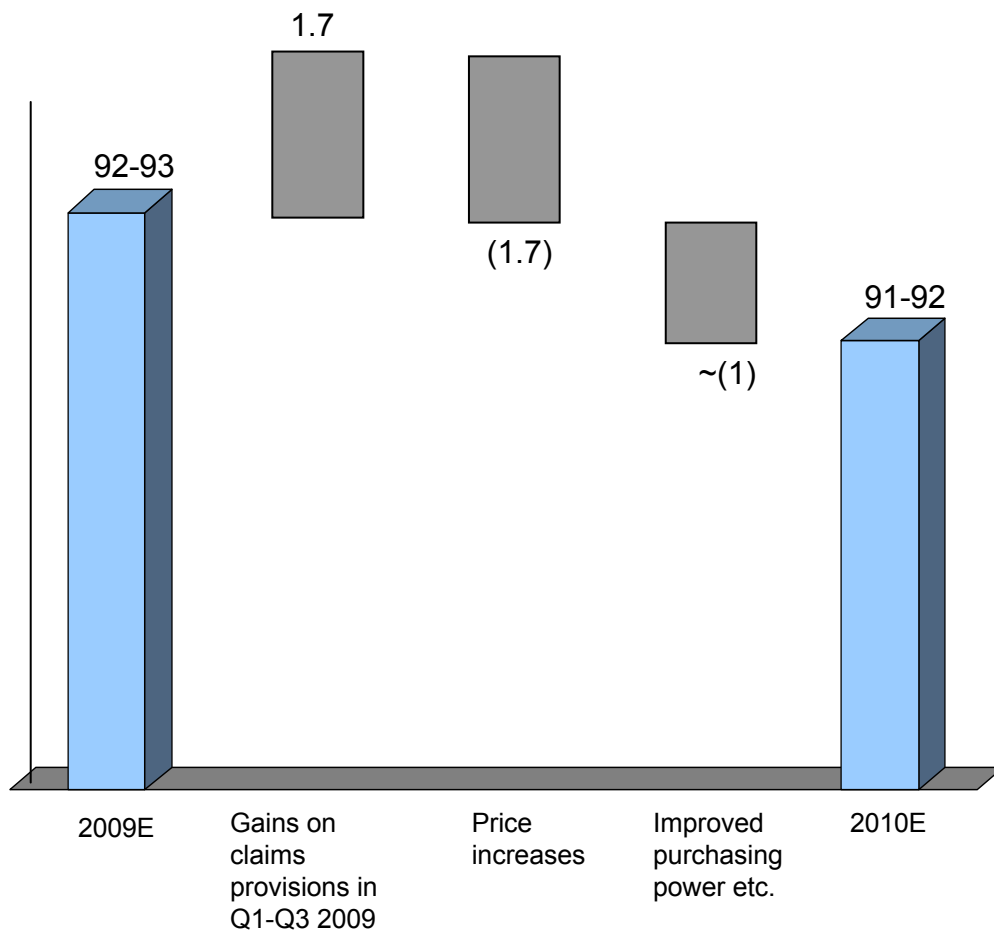
Effect on premiums earned at least DKK 300m, with just over half of this being seen in 2010

Assumptions for 2010 forecast

Premium growth as a percentage.



CR excl. any gains on claims provisions



Agenda

- Share profile

- Key value drivers and main trends



- **Threats and opportunities**

- Sector outlook

Threats and opportunities

- Threats

Threats

Sector

- Worsening of crisis
- Solvency II
- Termination of automatic indexation

Threats

- Worsening of crisis

Topdanmark assumes that the crisis will continue unchanged into 2010

If the crisis worsens, it will have an adverse effect on

Growth
Earnings



Cannot be impacted by Topdanmark
Further cost reductions, price increases etc.

Topdanmark's return requirement of a 10% profit margin will be unchanged
- but a time lag is possible

Threats

- Solvency II

- Using assumptions based on CEIOPS' advice to the Commission, SCR 2012 calculated at year-end 2008 is higher than the capital base even after optimisation
- The capital base will be increased by around DKK 800m in 2009 - 2011 (DKK 300m included in the 2009 guidance)
- Accordingly the share buy-back will be reduced by DKK 250m in 2010 and 2011
- Assuming normalised profit of around DKK 1,000m after tax, the share buy-back will amount to DKK 500 - 600m each of the two years
 - Buy-back yield of 5%
- Reconsiderations if expectations of Solvency II change

Threats

- Termination of automatic indexation

- Today a significant proportion of the products are linked, on an annual basis, to the wage increase index. Consequences:
 - All product prices increase at the same rate independent of the claims trend
 - Companies more reluctant to increase prices based on risk
- Possible political pressure to remove this indexation
- The large companies would benefit from such removal
 - Have sufficient data and actuarial expertise available

Threats and opportunities

- Opportunities

Opportunities

Sector

- End of crisis
- Solvency II
- Increase in interest rates

Specific for Topdanmark

- Micro rating
- More efficient claims handling

Opportunities

- End of crisis

Growth

- Normalisation of insurance values
- Mass market
 - More cars, increase in house sales etc.
- SME market
 - Startup of new businesses, increase in workforce, larger stocks of goods, increased transportation of goods etc.



Estimated positive effect: 1 - 2% on growth

Earnings

Normalisation of fire and theft claims



Estimated positive effect: 1 - 2% on CR

Opportunities

- Solvency II

If CEIOPS' recommendations on solvency capital are adopted, insurance companies are to build up capital / maintain their levels of capital

Tightened requirements on profitability

Increased discipline in the sector

Increased M&As

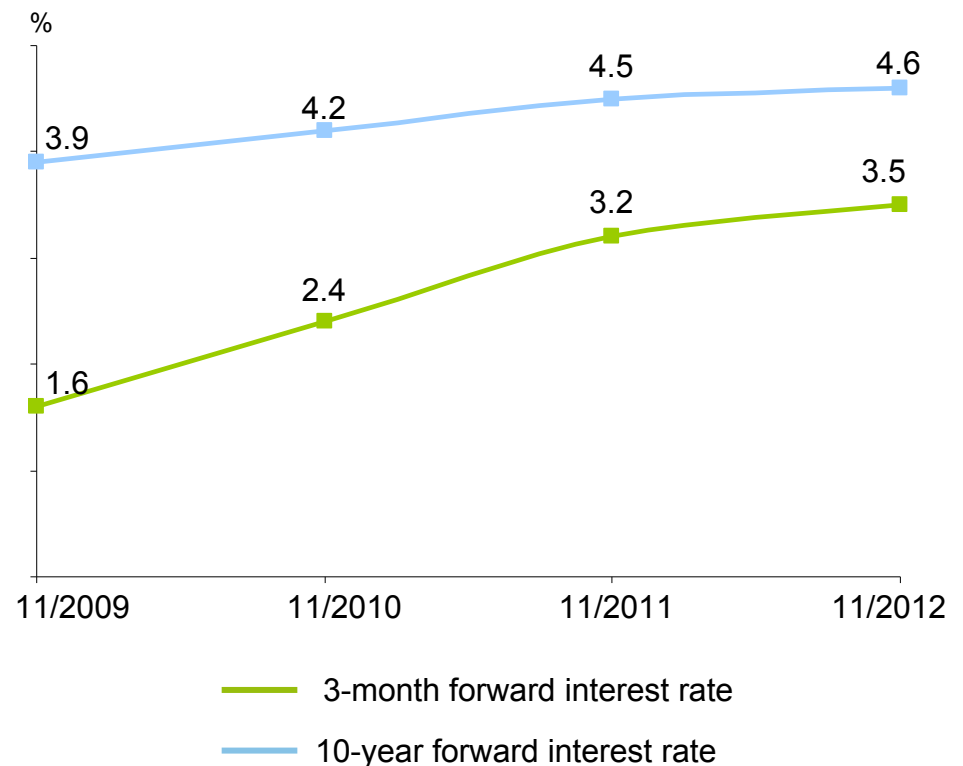
Opportunities

- 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
- Premium reserves are 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



Opportunities

- Micro rating

More correct pricing in terms of risk will improve the robustness of earnings






- Attracts good risk customers
- Reduces the proportion of bad risk customers

In the short term micro rating has an adverse effect on growth (price cuts for good risk customers)

In the long term micro rating ensures profitable growth as those companies who do not use micro rating will be forced to increase premiums to maintain earnings

Opportunities

- More efficient claims handling

Area	Present annual saving (DKKM)	Future saving
Personal injury “Well-helped”, Appeal, Scan Crash	70 – 80	
Tradesmen services and cooperative partners Loss adjusters, Scalepoint, loss prevention	60	
Motor claims Table PC, photo assessment, glass	30	
Fraud Consultants	60	
Quality, productivity Lean, best practice	50	

Threats and opportunities

- Summary

Growth

Earnings

Threats

Sector

- Worsening of crisis
- Solvency II
- Termination of automatic indexation



Opportunities

Sector

- End of crisis
- Solvency II
- Increase in interest rates



Specific for Topdanmark

- Micro rating
- More efficient claims handling

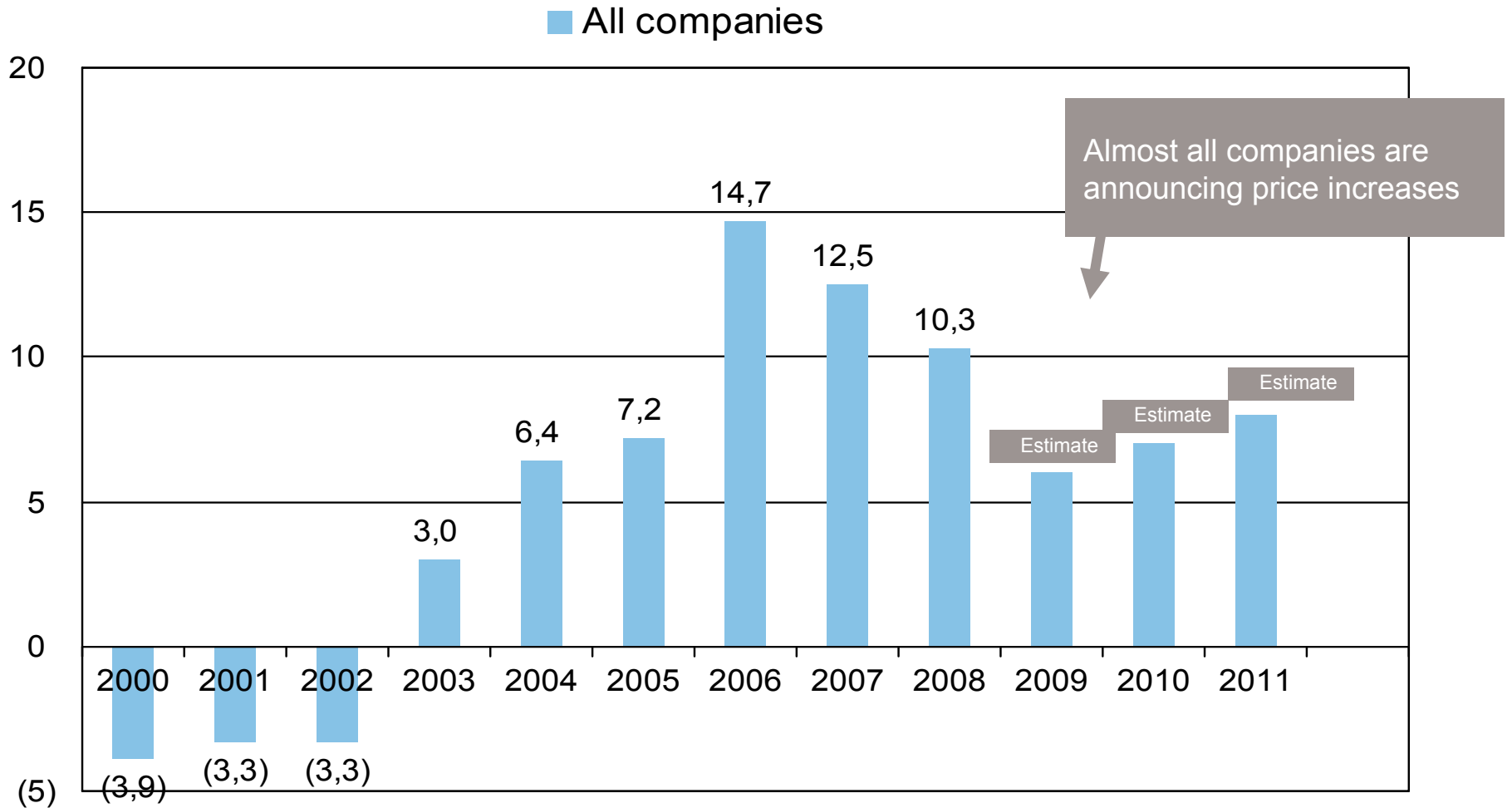


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- Key value drivers and main trends
- Threats and opportunities
- • **Sector outlook**

Sector outlook

- Trend in gross profit margin - probable scenario



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

Disclaimer

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 → [Risk management](#) .

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