



Newsletter 2018

Tryg Garanti

Tryg Garanti is specialised in surety and credit insurance

Tryg Garanti is the leading Nordic supplier of surety bond insurance and the fastest growing trade credit insurer in the Nordics. We are present in Denmark, Norway, Sweden, Finland and from beginning of 2018, also in Germany.

Tryg Garanti has a unique market experience based on a portfolio which is now more than 100 years old. Tryg Garanti has been one of the first players to develop a digitalised business model. This has resulted in high client satisfaction and strong cost advantages. Based on this, the role as the leading provider of bonds in the Nordics has been developed.

The surety business generates approximately 92% of the total premium income. The remaining part is from Trade Credit insurance.

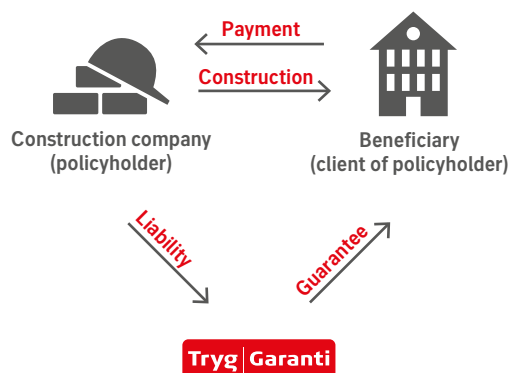
Target client segments are contractors and contract producing companies.

Surety

A surety bond is a guarantee to a beneficiary that Tryg Garanti compensates losses in case the policyholder is in breach of contract.

Example – construction of a new school

A construction company wins a tender to build a school for a city council. The council (beneficiary) requires a surety bond to secure compensation in case the contractor does not perform according to the construction contract. In case of breach, the council demands compensation from Tryg Garanti under the surety bond. Compensation is typically limited to maximum 15% of the contract value.



Surety is typically required, where contract fulfillment is of significant importance to the beneficiary and policyholders are typically found in the construction sector.

The process for ordering a bond in Tryg Garanti is fully automated in an online client self-service solution. The client accesses his online account and fills in an application, which – when checked and controlled – is transformed into a surety bond. The bond is delivered to the client's online account in an electronic format (pdf), which can immediately be forwarded to the beneficiary by e-mail.

Trade Credit Insurance

Credit insurance protects the policyholder from lack of payment on commercial receivables, typically due to a debtor going bankrupt. Trade Credit generates about 8% of the total premium income in Tryg Garanti.

An important added value is receivables management and surveillance of credit risk quality of policyholders' debtors.

Tryg Garanti target client segment for credit insurance is commercial clients in the SME segment.

The process for ordering a trade credit cover in Tryg Garanti is also fully automated in the online self-service platform. The client accesses his online account and requests a cover. Underwriting is partly automated and the client receives a cover confirmation directly in his online account.

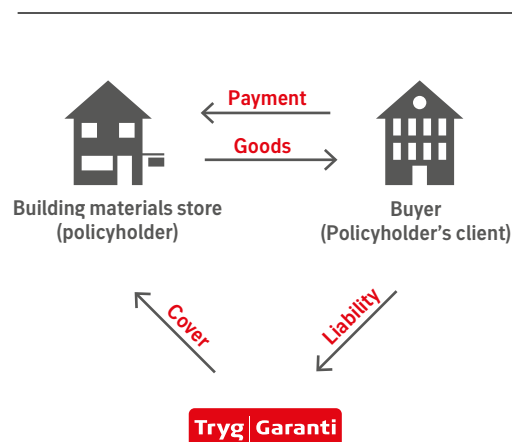
Right of recourse

Surety and trade credit insurance differ from other types of insurance in that the insurer has a right of recourse towards the party, who has not fulfilled his obligations.

Example – construction of a new school

The city council has called the surety bond, as the roof of the new school is leaking. Tryg Garanti is obliged to pay out compensation under the bond. The contractor is obliged to repay the amount to Tryg Garanti on demand.

The reason why a surety policyholder accepts the right of recourse is that it reduces the rate, which the policyholder has to pay for the bond. In trade credit, the right of recourse is a legal consequence of Tryg Garanti taking over rights related to the unpaid receivable from the policyholder, when a loss is indemnified.



Due to the right of recourse, the main risk for Tryg Garanti is always the credit risk quality of the party, who has not performed under the contract. Consequently, the credit risk quality of companies/clients is a main underwriting criteria for a surety and trade credit insurer.

Reinsurance

The portfolio is sensitive to business cycles as a negative business cycle may affect many risks simultaneously, potentially provoking cyclical frequency losses.

To mitigate this special characteristic of the portfolio, reinsurance is applied to a very high extent. From 2018 and onwards, Tryg Garanti holds a maximum of 20% of any risk (against 50% in prior years), which means that Tryg Garanti can realise

a claims ratio of 220 before the net combined ratio exceeds 100. Severity losses are further capped in accordance with Tryg general reinsurance principles, covering also the retention of Tryg Garanti. This means that the maximum loss on a risk will never exceed DKK 100m. After a very high claims ratio a somewhat higher price for reinsurance should be expected for the upcoming renewal.

Core reinsurance is signed on risk attaching basis involving that a risk is covered from inception until final release. This is done to avoid fluctuations in availability of reinsurance capacity from year to year.

Financial performance of surety and trade credit in Tryg

In a 10-year timeframe, Tryg Garanti's business has been highly profitable and very robust to cyclical

influences. Even during the most difficult years of the global financial crisis, the combined ratio did not exceed 100. Premium growth has been significant. This reflects increased activity from new activities in Norway, Sweden and Finland. Also, high demand from the core Danish client book has lifted the topline significantly.

Competitors and market

In the Nordics, the surety product is provided by a large number of banks, who write the product as 'bank guarantees'. Relatively few insurance providers also provide the product, but under the name 'surety bonds'. The two products are identical.

Trade credit is dominated by few, large international specialised insurance companies (Coface, Atradius, Euler Hermes). Banks are not active in this line.

Key figures of Tryg Garanti

DKKm	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Gross Premium income	437	390	340	318	317	298	251	204	174	153	140	135
Net premiums	158	145	127	118	110	114	97	79	65	61	54	51
Technical result	176	178	153	106	17	14	2	58	45	44	73	85
Combined ratio	60	54	55	67	95	96	100	72	75	74	51	40

Internationally, the surety product is written by a number of large insurance companies including; Allianz (Euler Hermes), Zurich, Tokio Marine, Travellers and Chubb (ref ICISA).

According to the latest market data published by the International Credit Insurance and Surety Association, ICISA, claims ratios are satisfactory in an international perspective for both surety and trade credit.

Tryg Garanti entering the German market

The German market has similarities to the Nordic market as relatively few local insurance companies are active. The main part of the market, 70%, is in the hands of the banks. 30% are assumed to be written by insurance companies. The main local insurance providers are R+V, Euler Hermes, VHV and AXA. In addition, a number of international players are active in the high end of the market.

Rates in Germany are substantially higher than in the Nordic markets. Tryg has a strong cost advantage over local German providers, who have up to 20 p.p. higher cost ratio. A cornerstone in Tryg Garanti's business model is the fully digitalised and online client self-service solution. The online solution can support the organisation and the clients irrespective of the geographical location.

The activities in Germany are a natural expansion of the successful development of local presence in the Nordic market outside of Denmark, which started out in 2006.

Germany is the largest single trading partner for Nordic exporters and Nordic clients increasingly require support for German activities. Also, German companies have increasingly become active in the Nordic market and require Tryg Garanti support.

Support has so far been provided as a cross-border service. From existing business, we know that German clients appreciate Tryg's solutions.

Cross-border business is already fully supported by existing infrastructure (IT, reinsurance etc.). This infrastructure is fully prepared to also support local presence in Germany.

Tryg Garanti is to set up local offices in Hamburg, Cologne and Munich during 2018/2019. Tryg Garanti has appointed a country manager for Germany with extensive executive experience from the German market as well as from the surety business in Denmark.

Surety – Key Figures ICISA^{a)} Members (excl. reinsurance members)



Trade Credit – Key figures ICISA^{a)} Members (excl. reinsurance members)

