



**IR Newsletter** no. 2 | 2009

**TrygVesta** 

The media in the Nordic region have paid more focus to insurance fraud in 2009. Some investors have expressed their concern for this development, however, without knowing to what extent the development actual affects TrygVesta’s results. The purpose of this newsletter is to shed light on this area.

## Insurance fraud

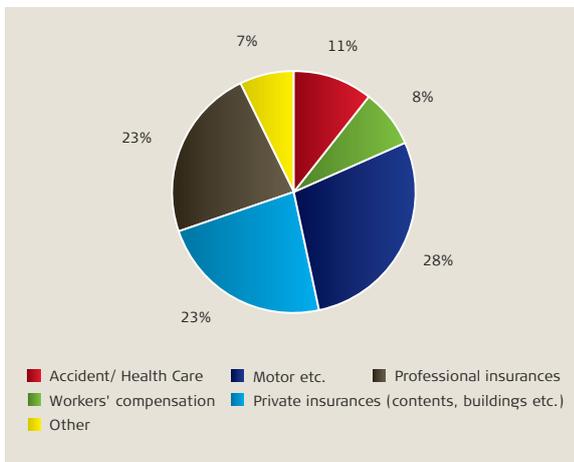
TrygVesta meets our customers with trust, meaning that we assume that the claim is sincere and correct. At the same time, it is important to us that honest customers do not get penalised via high premiums on the expense of dishonest customers. Hence, we are very thorough in our claims handling, and if we find suspicious circumstances, we apply the necessary resources for further investigation.

To put things into perspective, in 2008 the TrygVesta Group had the following key figures:

### TRYGVESTA GROUP KEY FIGURES 2008

Gross premiums:	DKK 17.3bn
Claims expenses:	DKK 11.8bn
Number of claims:	approx 600,000

### DISTRIBUTION OF CLAIMS EXPENSES IN DKK IN 2008



TrygVesta employs 24 people who investigate assumed frauds. Besides investigating specific cases, this group of employees also works with preventive work such as educating claims workers. The investigation directly contributes a yearly reduction of claims expenses of DKK 160-180m.

Approximately 2,500 claims or 0.5% of the 600,000 claims yearly handled in TrygVesta are investigated in detail. It is TrygVesta's experience that an estimate of 1-3% of the total claims involve fraud.

**Insurance fraud can take place in all areas, however, mainly within:**

- > Car theft
- > Car fires
- > Private/commercial property (theft/burglary)

Insurance fraud also occurs within the personal claims area. Typically, these claims are more expensive and more complex to investigate.

Often the media put insurance fraud into great focus, and the headlines create considerable attention. However, is it an actual issue in the financial crisis, and how does it affect TrygVesta's results?

The development within the relevant areas from the first half of 2008 to the first half of 2009 is described on the following pages.

## Car theft

Car theft is one of the areas where fraud is most often detected and solved. The motivation for fraudulent car theft claims is often based on easy way to repay the car loan.

Car theft rose by 32% from the first half of 2008 to 1,489 in the first half of 2009. As illustrated in the figure, the majority of the increase is related to the first quarter of 2009, an increase of 48% compared with the same quarter of 2008. Car theft rose by 17% in the second quarter of 2009 compared with the second quarter of 2008. A large part of increase concerns expensive leasing cars which are reported stolen.

Stealing equipment from cars is often committed by foreign gangs as well as car theft. It is not uncommon that these gangs "visit" a car dealer and strip new cars for airbags, stereo and GPS navigations systems.

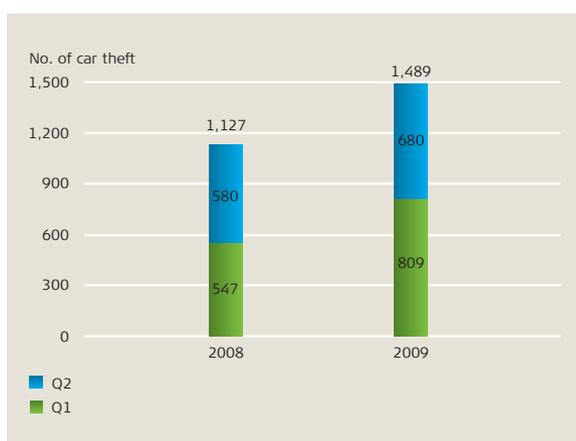
At other times our private customers are affected as well. The thieves strip all cars for equipment in a given area.

The theft can be linked to the foreign gangs due to the pattern, and due to the fact that the police have caught these thieves several times in their cars filled with these special types of stolen goods. Furthermore, the gangs have been stopped with designer furniture and other valuable equipment in their cars several times.

The police find several stolen cars abroad and from time to time also with the thieves behind the wheel. The thieves steal the cars by breaking into a house and then steal the keys for the car outside.

Cars theft expenses in Denmark and Norway amounted to DKK 72m in the first half of 2009. The increase was DKK 27m compared with the first half of 2008. Compared with the totalled gross premiums for cars, car theft totalled 2.9% in the first half of 2009 against 1.7% in the first half of 2008. Car theft affected TrygVesta's totalled combined ratio adversely by 0.8 percentage points in the first half of 2009 against 0.5 percentage points in the same period of 2008. Hence, car theft only has a marginal impact on the Group's result.

### CAR THEFT IN DENMARK AND NORWAY



Development in numbers from the first half of 2008 to the first half of 2009.



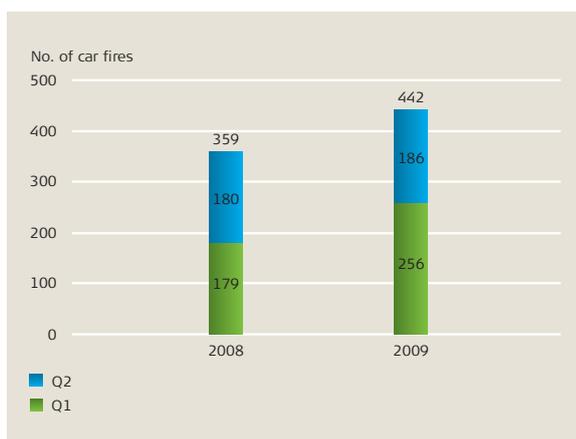
## Car fires

A car fire is one of the areas where most fraud cases are detected and solved. As for car theft, the motivation for fraudulent car fire claims is often based on easy way to repay the car loan.

The number of car fires rose by 23% in the first half of 2008 and totalled 442 in the first half of 2009. As illustrated in the figure, the majority of the increase was related to the first half of 2009 with an increase of 43% compared with the same quarter of 2008. Car fires rose by 3% in the second quarter of 2009 compared with the same quarter of 2008. However, underlying, a decrease in the number of car fires within private cars, while company car fires increased. How large a part of car fires that actual involves insurance fraud is difficult to say. However, the tendency is an increase of car fires for SUV, an area where car prices have dropped significantly. Also leased cars where it is hard to get out of these leasing agreements, car fires have increased.

Car fires amounted to DKK 29m in the first half of 2009 and were DKK 10m higher relative to the same period of 2008. Compared with the total claims expenses related for car claims, car fires amounted to 1.2% of gross earned premiums on cars relative to 0.7% in the first half of 2008. Car fires constituted TrygVesta's combined ratio adversely by 0.3% in first half of 2009 compared with 0.2% in the same period of 2008.

### CAR FIRES IN DENMARK AND NORWAY



Development in numbers from the first half of 2008 to the first half of 2009.

## Theft and burglaries

As previously mentioned a more specific fraud risk is seen within private and commercial property and are related to more specific and sensitive areas. It is within these areas most of the fraud cases are detected and solved. It is here hustlers see an opportunity to realise a gain by overstating an actual theft claim. The figure shows the development in number of recorded claims in Denmark and Norway respectively within theft/burglaries on the house content insurance.

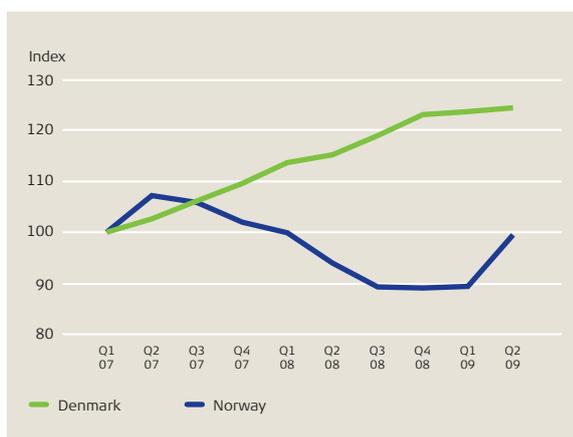
In Denmark a gradual increase of 25% in the number of claims was realised in the period from 2007 to mid 2009 whilst Norway grew by around 10% in the first half of 2009 after a longer period with a positive development. The negative development especially in Denmark is a growing problem and is not particularly related to the economic downturn as this increase was seen before the crisis begun.

This development has to be seen in context with the lacking effort from the police caused by limited resources to investigate burglaries which makes it too easy for the burglars. It is difficult to say how much of this development that is driven by the economic downturn but the assumption is that it is related to rough crime and serial burglaries often committed by foreign gangs. Thus the number of claims where fraud is involved is limited and estimated in the level of 5-8% of the number of claims in this area.

Burglary and theft related claims expenses increased by DKK 31m in Denmark in the period from the first half of 2008 to the first half of 2009. The increase is partly related to more expensive interior decoration and home electronics acquired when the economy was in good shape in 2004-2007. In the first half of 2009 claims expenses within house contents insurance totalled DKK 428m in Denmark and Norway.

Assessing the number of theft and burglaries among TrygVesta's customers in Denmark relative to the market shows a positive picture. In first half of 2009 139,052 reports were filed with the police. With TrygVesta's market share of 20.8%, TrygVesta should have had around 29,000 of these claims. As the number of theft/burglaries reported in the first half totalled 21,530 claims, hence TrygVesta had a lower share.

### THEFT/BURGLARIES/VANDALISM IN DENMARK AND NORWAY WITHIN HOUSE CONTENT INSURANCE



Index of development in number of claims from 2007 to the first half of 2009.

## Summary

It is difficult to determine the total cost of fraud, but our experience tells us that fraud is involved in 1-3% of the total number of claims, and TrygVesta's claims investigators "collect" DKK 160-180m of fraudulent claims per year.

Results are especially impacted from fraud within theft of cars, car fires and private/commercial property. During the first half of 2009 we saw an increase in the number of cars stolen and car fires but during the second quarter the increase eased off.

During the first half of 2009 claims related to car fires and theft of cars grew DKK 37m relative to the same period of 2008. Compared with the total claims expenses of DKK 6.3bn in the first half of 2009, claims expenses related to theft of cars and car fires were only around 0.5%.

Unfortunately, fraud is and will still be a focus area in TrygVesta, however, fraud has only limited impact on the Group's figures. As the level of fraud is rather limited in the Nordic region, this is partly related to the low number of unemployment (Denmark 3.7%; Norway 3.1%) and also that the Nordic countries only have relatively few poor people. Denmark is the country in the world with the lowest number of poor people<sup>\*)</sup> whilst Norway is on the fifth place (source OECD).

<sup>\*)</sup> measured as the share of a nation's inhabitants who have a household income which is less than half of the average household income in the country.

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