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**TrygVesta at Handelsbanken**

**13. January 2010**





Quantitative impact of Solvency II  
Morten Hübbe, CFO



## Solvency II

### Why a change was needed

- Current regime (Solvency I) 30 years old
- Lack of risk sensitivity and proportionality
- Lack of convergence of supervisory practice across EU

### Solvency II structured in 3 pillars

#### Quantitative requirements

- SCR, MCR, own funds...

#### Governance

- Risk management, ORSA...

#### Reporting

- FSA, public disclosure

### The Solvency II puzzle

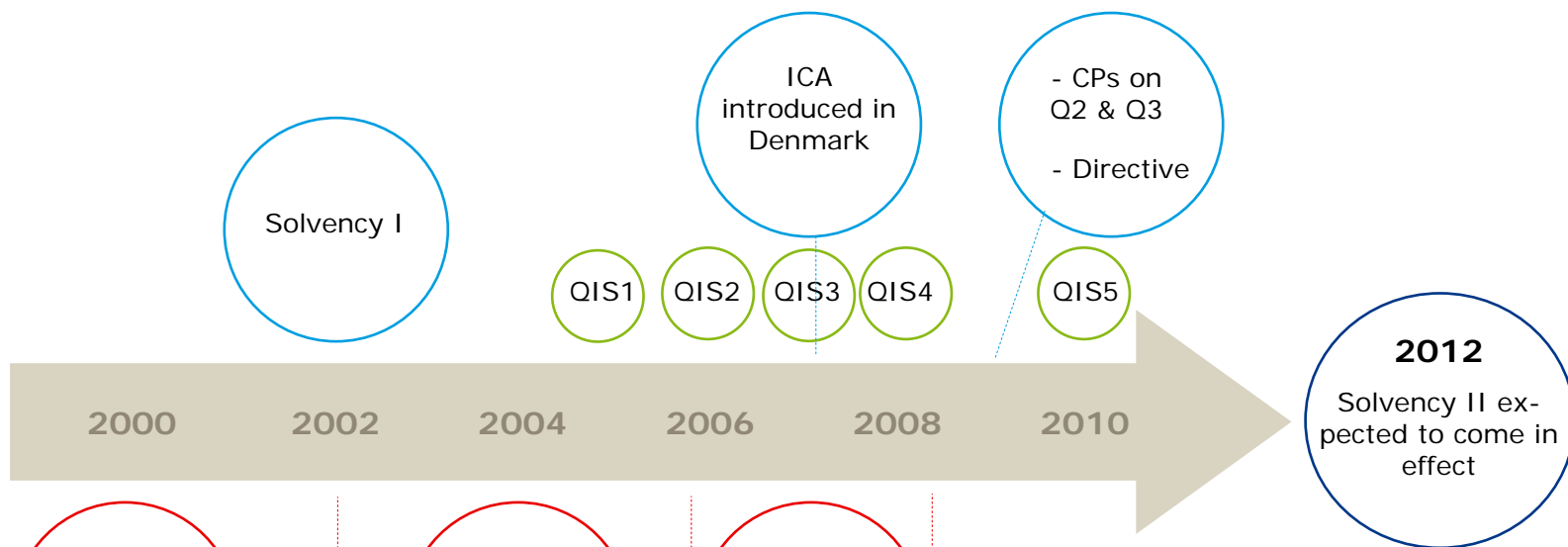


Source: Deloitte

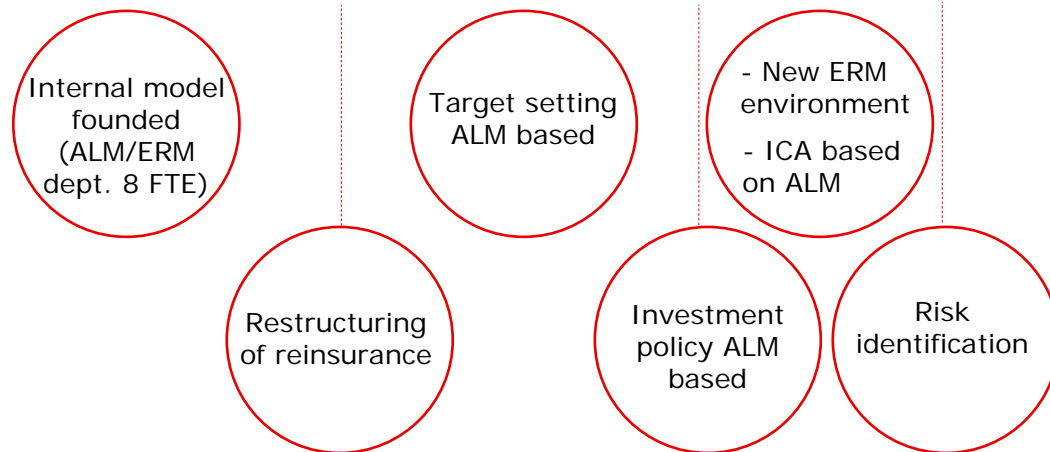
# Quantitative impact of Solvency II

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Legal environment



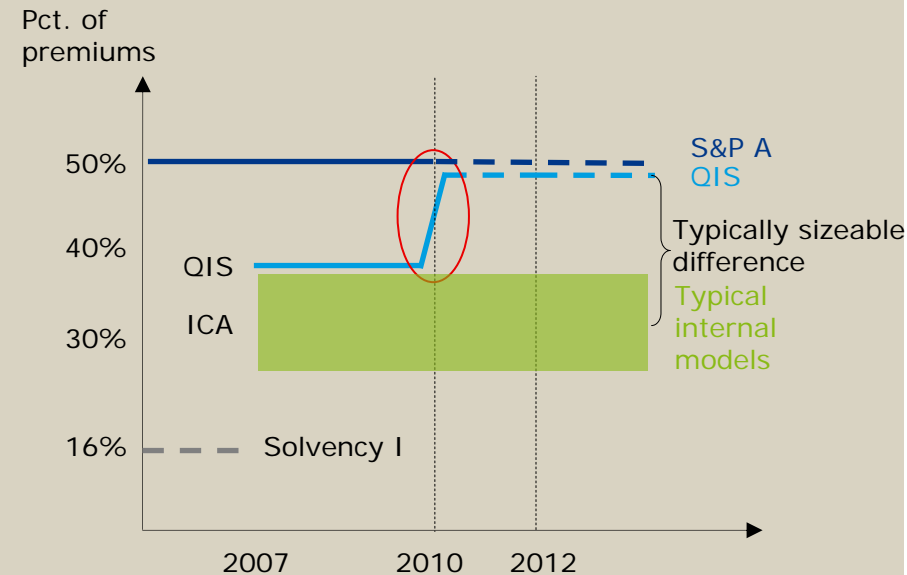
TrygVesta initiatives



# Development of regulatory capital requirement

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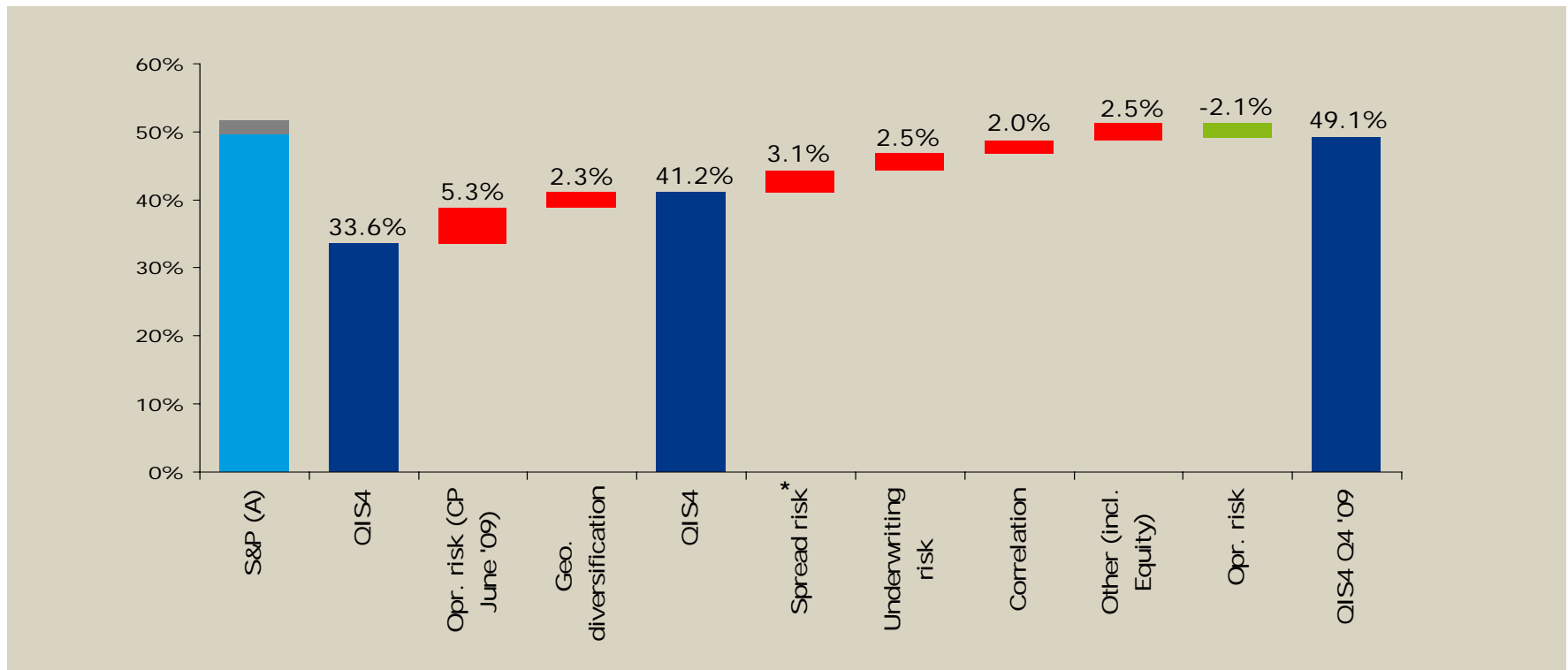
- 4 out of 5 QIS-rounds have been completed
- SCR standard model requirements changes with new Consultation Papers (CP)
- Recent CP's from Nov. 2009 increased SCR requirements substantially.
- For TrygVesta the increase was from 34% to 49% of premiums
- Now approaching S&P A requirements



# Increase in capital requirements – New CP's

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Capital requirement as percentage of premiums



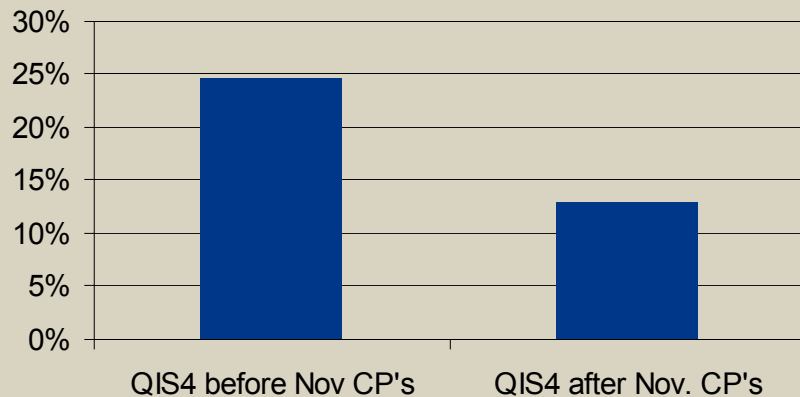
\* Does not include the effect of Danish mortgage backed bonds being treated different with respect to duration/maturity



# Increase in capital requirements – Correlations

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Diversification benefit as percentage of capital requirement for market risk



Change in the correlation for market risk

New market correlation matrix

CorrMkt	Int. rate	Equity	Prop.	Spread	Conc.	Fx
Int. rate	100%					
Equity	50%	100%				
Prop.	50%	75%	100%			
Spread	50%	75%	75%	100%		
Conc.	75%	75%	75%	75%	100%	
Fx	50%	50%	50%	50%	50%	100%

Old market correlation matrix

CorrMkt	Int. rate	Equity	Prop.	Spread	Conc.	Fx
Int. rate	100%					
Equity	0%	100%				
Prop.	50%	75%	100%			
Spread	25%	25%	25%	100%		
Conc.	0%	0%	0%	0%	100%	
Fx	25%	25%	25%	25%	0%	100%

# Increase in capital requirements

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- Geographical diversification can no longer be applied for non-life companies
- In practice risks are correlated within the Nordic countries, but not perfectly correlated
- Can be recognized in an internal model

- Increase in risk charges for premiums and reserves. Significant increase on

- Marine, aviation and transport

Premium risk: 12.5% ↗ **20%**

Reserve risk: 10% ↗ **17.5%**

- Third party liability

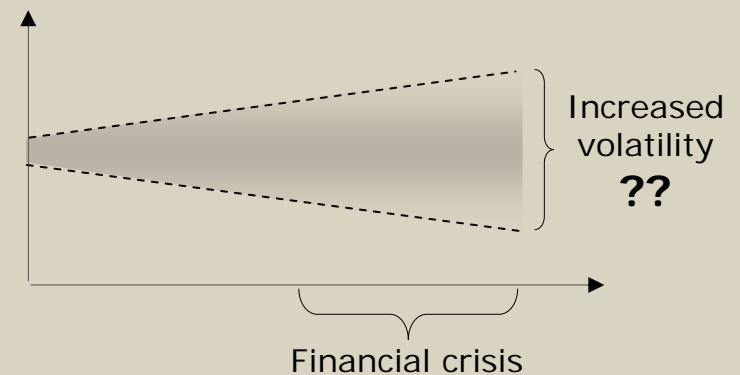
Premium risk: 12,5% ↗ **17.5%**

Reserve risk: 15% ↗ **20%**

## Geographical diversification



## Underwriting risk



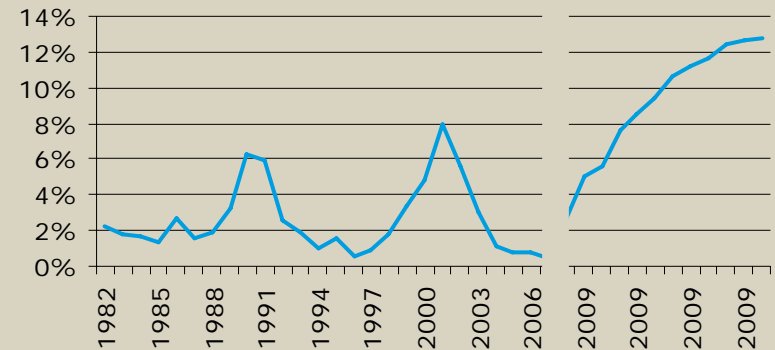


# Increase in capital requirements – Spread and equity risk

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- Marked increase in spread risk under financial crisis
- Significantly higher charges e.g.:
  - AAA rating, 5 year maturity:  
1.1% ↗ **5.5%**

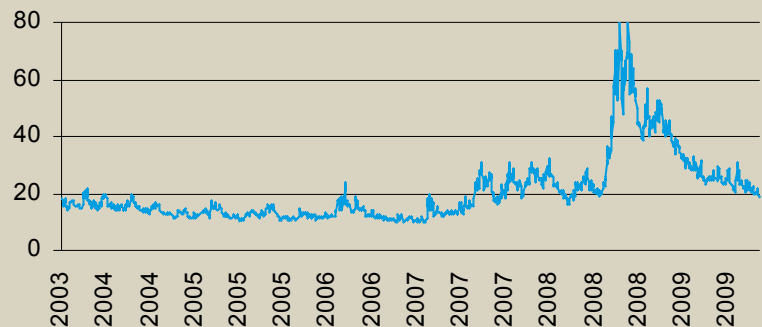
### Spread risk: Default rates – spec grade



Source: S&P and Moody's

- Equity volatility peaked during the crisis
- Equity risk charge:  
32% ↗ **45%**
- Property risk charge:  
20% ↗ **25%**

### Equity volatility



Source: S&P

UK and DK insurers have pre-implemented parts via ICA

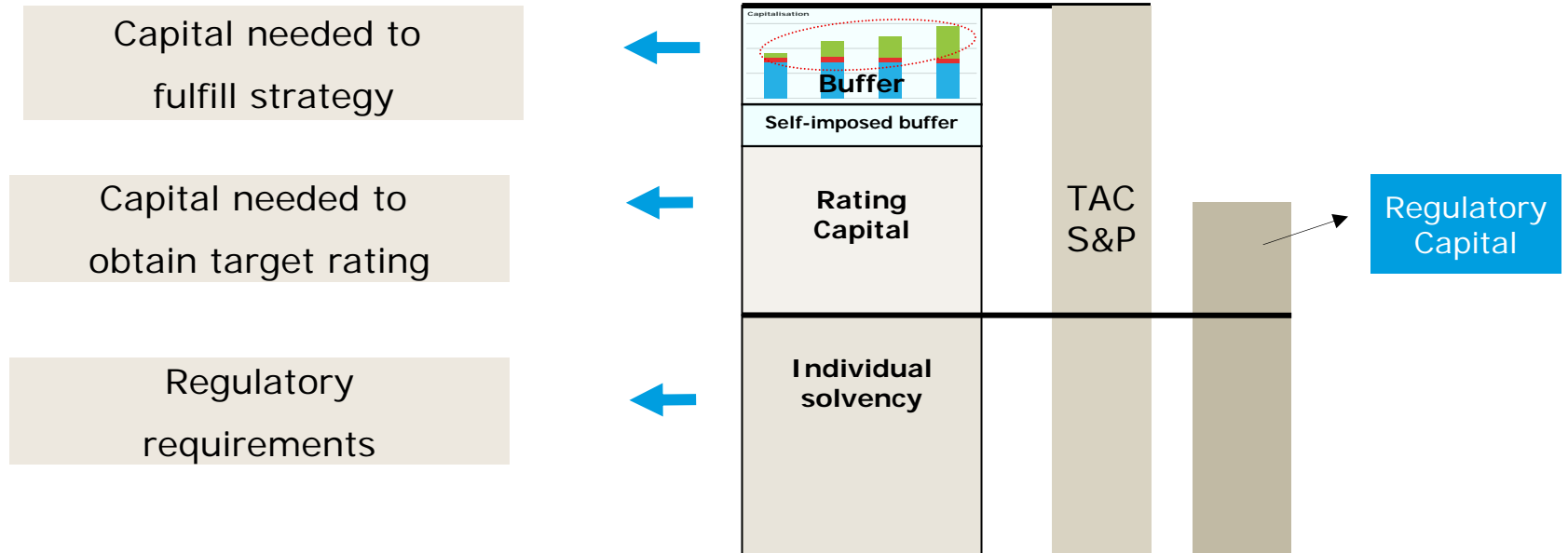
Solvency II related issue	DK (mainly risk based supervision)	UK (risk based supervision)	Other Europe (rule based or risk based supervision)
<b>Individual capital assessment (ICA)</b>	(√)	(√)	%
Internal modeling	(√)	√	%
ORSA	%	%	%
<b>Reserves – market value</b>	√	(√)	(√)
Reserves best estimate	√	√	(√)
Discounting of reserves	√	%	%
Risk Margin/CoC	(?)	(%)	%
<b>Risk Management</b>	(√)	√	(√)
Functions and Procedures	(√)	√	(√)
Rules regarding Investments	√	√	(√)
Documentation of RM policies	√	√	(√)

## Capital strategy

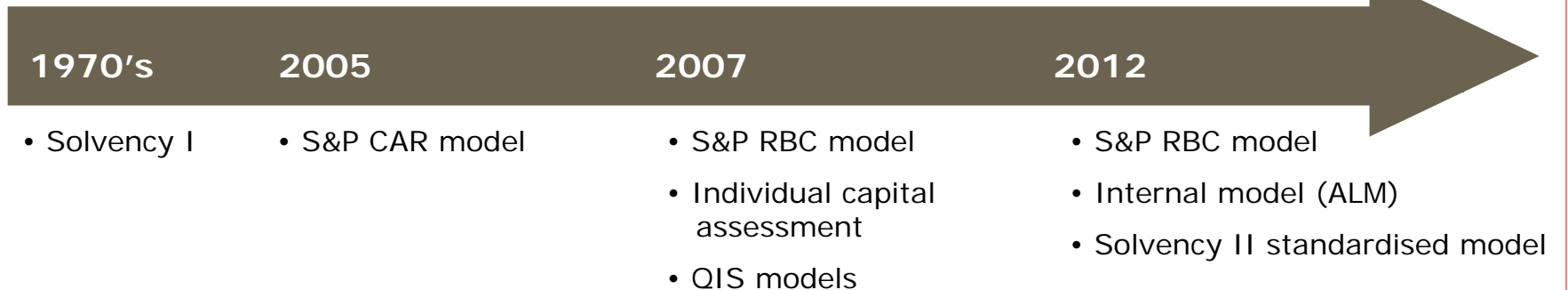
### Considerations

#### Dividend policy:

- 50% of net earnings
- share buy backs in addition



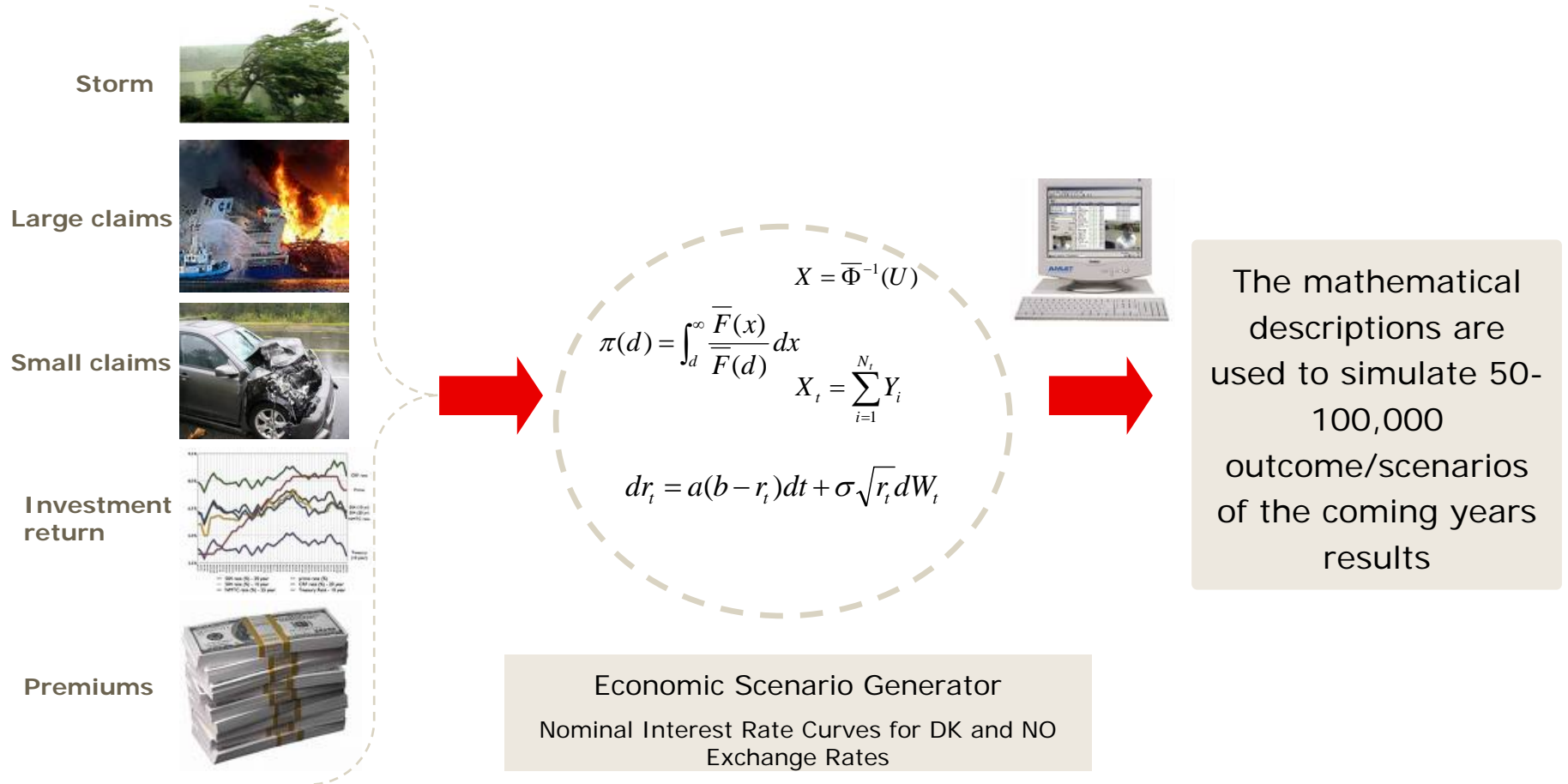
### Capital planning instruments



# TrygVesta – modeling stochastic

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The ALM model is a mathematical description of TrygVesta's risk profile



ALM model includes types of risk we have statistical data to describe

# Internal risk evaluation

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## Risk identification in ERM environment

**70 Risk owners**

**Risk database**

**Risk report and Risk map**

### Recession scenario e.g.:

- Equity risk
- Spread risk
- Real estate risk
- Concentration risk
- Down grading risk

## Scenarios – Total model

Risiko	Kumul scenario 1: Negativ udvikling i skader/hens	Kumul scenario 2: Lavere præmier i markedet	Kumul scenario 3: Bortfald af partnerskaber	Kumul scenario 4: Rescession, finansmarkedet	Kumul scenario 5: manglende styring af accept politik
<b>FORSIKRINGSRISIKO</b>					
1. Utilstrækkelige hensættelser					
1. Manglende reinsurance dækning					
5. Negativ skadeudvikling					
3. Tilfældige udsving i skader					
7. Øget inflation eger hensættelserne					
3. Pandemi					
3. Terror					
0. Manglende styring af acceptpolitik					
1. Manglende produktudvikling					
2. Indledning af dårlige risici og lave præmier					
3. Begrænset lensomhedsoverblik nye markeder					
4. Tab af store kunder eller gruppeaftale					
5. Tab på Garantier					
<b>MARKEDSRISIKO</b>					
7. Aktier					
8. Ejendomme					
9. Pennerisiko					
0. Spreadsrisiko					
1. Kredit og koncentration					
2. Dårligere investeringsresultat end konkurrenter					
3. Likviditetsrisiko					
4. Valutarisiko					
<b>STRATEGISK RISIKO</b>					
6. Ikke succesfulde strategiske valg					
7. Blødt marked					
9. Ændre prisætning hos konkurrent					
9. Manglende succes i Sverige, Finland					
... Bortfald af partnerskaber ...					
1. Internettet som salgskanal					
2. Omdømme risiko					
2. IT strategi / struktur					
4. Nye konkurrence salgsstrukturer					
5. Time-to-marked					
6. M&A					

Risk identification process leads to the quantification of 5 risk scenarios updated quarterly



Solid capital position and well on the way for Solvency II

Solvency and rating requirements are converging

Increased requirement in standard model will represent a challenge to large parts of the industry – increased focus on earnings

Increased potential for use of internal model



**Corporate – Konserndirektør Truls Holm Olsen**

**TrygVesta** 

Total corporate insurance market estimated to be DKK 30-35bn

## International players



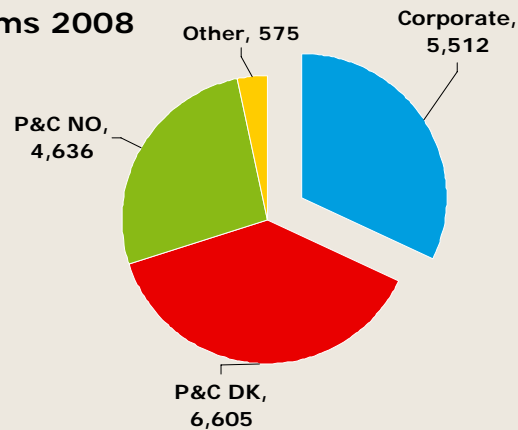
## Nordic players



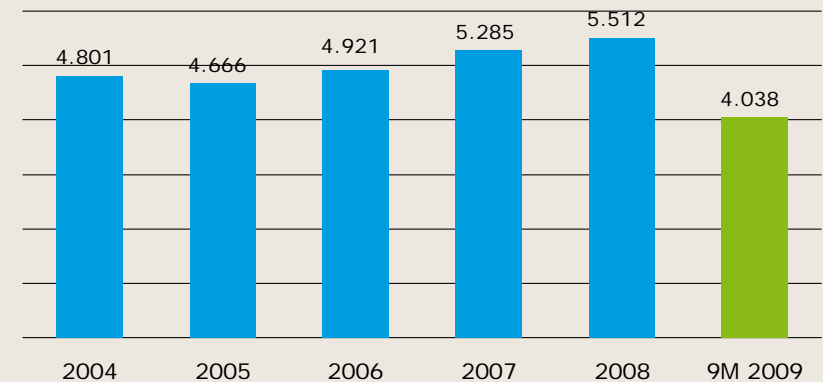
## Corporate maintains good growth and strong profitability

- Premiums up 3.1% in local currency (-1.9% in DKK) in 9M 2009, with positive growth in Norway while Denmark decreased
- Combined ratio of 84.8 in 9M 2009 compared with 82.7 in same period 2008

Group premiums 2008  
in DKKm



Gross premiums in DDKm

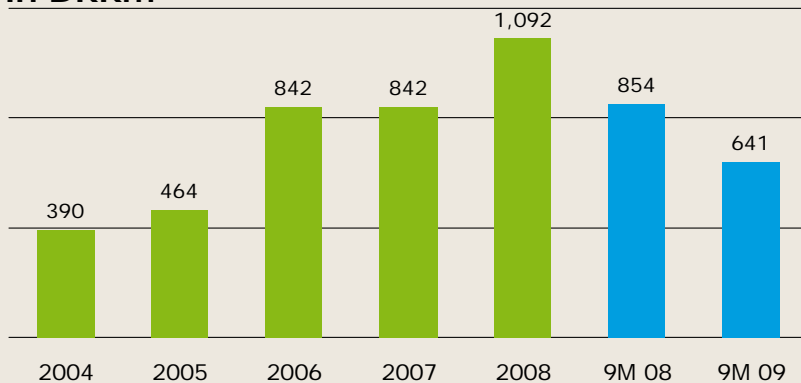


# Solid underwriting leads to good results

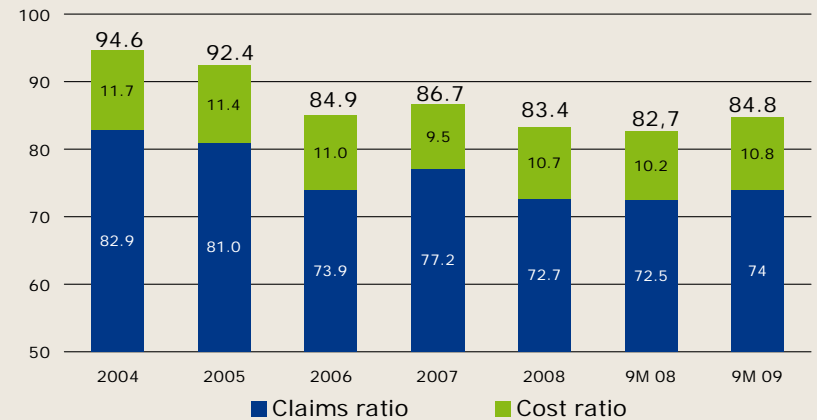
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Our good risk selection and prudent underwriting have provided a good background for earnings growth

### Technical result in DKKm

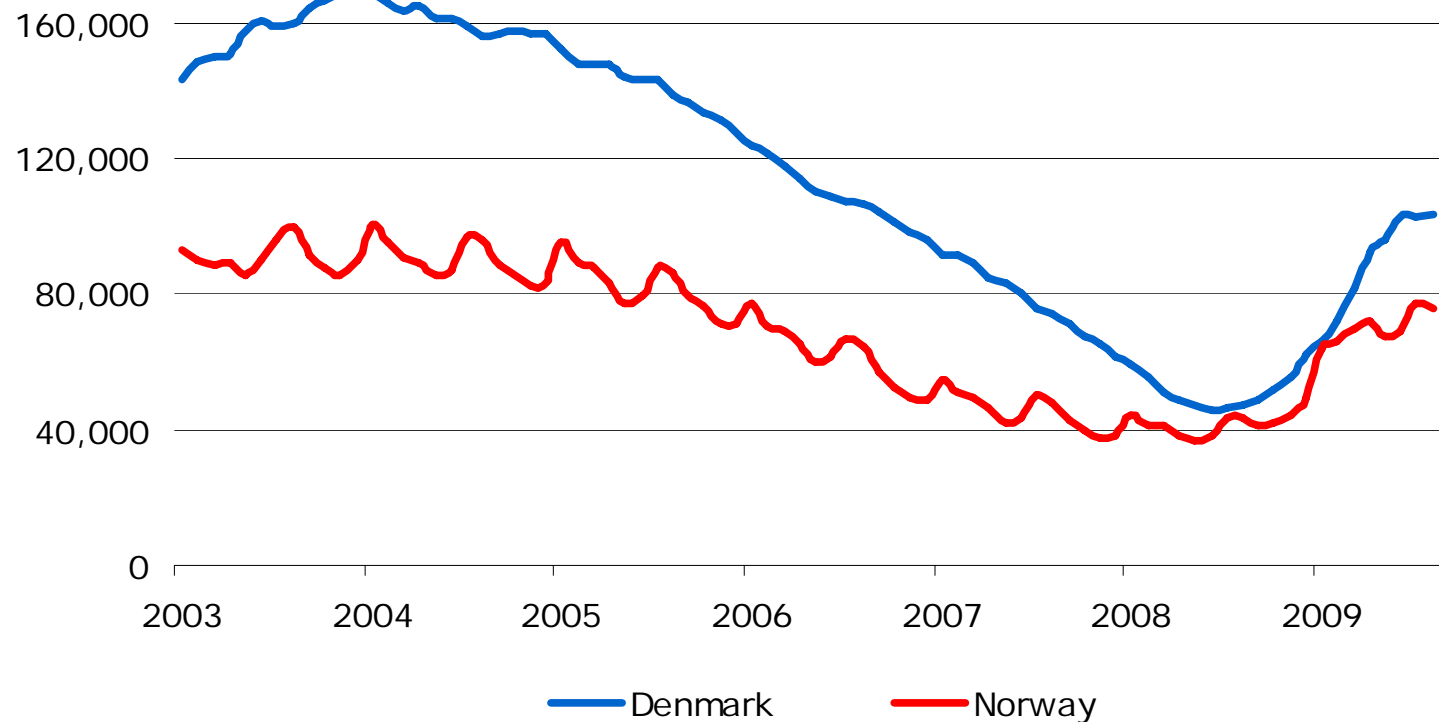


### Combined ratio





## Number of unemployed in Denmark and Norway



25.08.2009



Til våre samarbeidspartnere

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0216 Oslo  
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Kontor Lilleakerveien 2A  
www.trygvesta.no

Uttel \_\_\_\_\_  
Telefon \_\_\_\_\_  
Telefax \_\_\_\_\_

**Generelle fornyelsesbetingelser fra TrygVesta - høsten 2009. Gjeldende for perioden 01.12.09 – 01.12.10.**

**TrygVestas generelle fornyelsesbetingelser blir som følger:**

<i>Bransje</i>	<i>Premieendring</i>
<i>Auto/Arbeidsmaskin:</i>	+8%
<i>Eiendom:</i>	+8%
<i>Ansvar:</i>	+5%
<i>Transport:</i>	+5%
<i>Fiskeoppdrett:</i>	+5%
<i>Personprodukter:</i>	+5%

I tillegg kommer premieendring som følge av G- og aldersregulering, endring i antall samt indeksregulering på de respektive bransjer.

Kunder med utsatt lønnsomhet og eller lave rater vil bli spesielt vurdert ved fornyelse. Avvikler fornyelsene fra de generelle fornyelsesbetingelsene vil dette bli varslet spesielt.

Videre må vi ta forbehold om premieøkning pga. endringer i reassuransemarkedet, endring av RTV-andel,, eller andre påkrav fra offentlige myndigheter og instanser.

Vi ønsker med dette å gi våre samarbeidspartnere fortsatt stabile og forutsigbare rammebetingelser, og ser frem mot et fortsatt godt samarbeide.

## Preferred sectors



Service providing industries



Consultancy services/  
architects and engineers



Companies focusing on  
environment and climate



Food industry

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## Deselected sectors

- Public sector
- Heavy industry
- Energy/oil and gas

- Chemical industry
- Mining
- Furniture- and wood manufacturing industry

Thank you for your attention – questions?