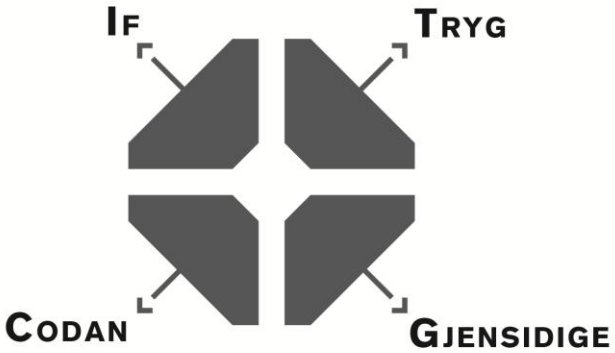
MASTER THESIS

THE NORDIC INSURANCE MARKET
CONSOLIDATION OPPORTUNITIES AMONGST THE BIG FOUR



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Executive Summary

Mergers and acquisitions have shaped the Nordic general insurance market to how we know it today. It is primarily through consolidations that If, Tryg, Codan and Gjensidige have grown and established themselves as market leaders. The maturity of the market can be recognized in the current low organic growth possibilities. That makes us believe that consolidation still is as relevant today as it has been for the last century. A consolidation between two of the four market leaders would completely change the Nordic insurance market. The objective of this thesis is to uncover if this is financially possible and profitable.

The strategic analysis examines the macro and micro economical factors affecting the general insurance companies in the Nordic region. We unveiled that the market is attractive with positive earnings prospects for the future. The Herfindahl 13-index indicates low market concentration. However, we find the competition intensity in the industry to be moderate.

On the basis of the strategic analysis we perform a consolidation analysis. By analyzing the companies' market shares and their strategies, we found that Codan and Gjensidige would be the best fit. The SWOT analysis supports our findings. Through a consolidation the companies could take advantage of their strengths and opportunities, and reduce their weaknesses and threats. Furthermore, we find evidence pointing to that Gjensidige would be the expected buyer in this consolidation scenario. The financial analysis and valuation is therefore only performed on Codan.

The financial analysis shows that Codan has been profitable for the last five years. This is recognized in our calculations of return on net operating assets, return on equity and combined ratio. Through our prognosis we estimate that Codan will continue to be profitable.

Based on the forecast, the residual income model estimates Codan's value of equity to be DKK 33.367 billion. We estimate the total synergy effects between Gjensidige and Codan to be DKK 806 million. When this sum is added to the value of Codan, we find the maximum price that we recommend Gjensidige to pay for Codan in order to profit on the merger. We call this Gjensidige's resistance point, and this value is about DKK 34.173 billion.

When we take into account Gjensidige's excess cash of NOK 8.9 billion, we believe that the merger is financially possible. If the actual price of Codan is below Gjensidige's resistance point, we believe that this consolidation adds value and that it therefore is profitable.

1 Contents

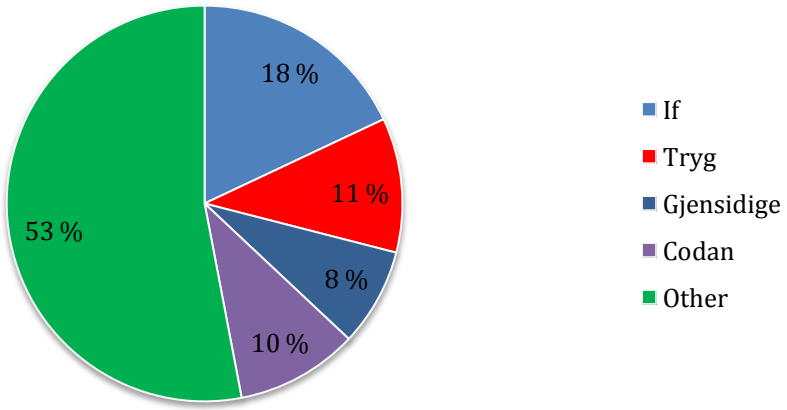
1 Introduction

1.1 Introduction to the Nordic General Insurance Market

In this master thesis we will take a closer look on the Nordic insurance market. We will focus on the general insurance business, which is dominated by four insurance companies.

The Nordic insurance market is in many ways a special market area and considerably different from the rest of the European insurance market. It is recognized by low combined ratios, meaning that the insurance operations are profitable. This means that the Nordic insurance companies can be less dependent on high investment returns in order to create profit. Furthermore, the market concentration is considered to be moderate. These factors make it an attractive place for the four largest companies.

The biggest players in the Nordic market are respectively If, Tryg, Codan and Gjensidige. If is by great margin the biggest operator in the market, while the three others are quite even. The market shares in the Nordic region are shown in chart below.



Own creation. Source: Annual Report Presentation 2010 Tryg

A common factor for the market in general, and for these four companies in special, is that they have grown through consolidation in form of mergers and acquisitions. Through the 1990's and the beginning of 2000's they all expanded by great measure. During this period they established themselves as the companies we know today. Consolidation is in many ways important in the insurance business. Most importantly, consolidation enlarges the company and gives it power in a business where size really matters.

All of the four companies, except Codan, are market leaders in their respective countries. In order for them to grow they therefore need to look outside their own country. The Nordic market is a natural area for them to expand. In this thesis we will discuss the possibilities for this. More specifically, we will assess the best consolidation opportunity considering the four insurance companies, and we will analyze if this consolidation is financially possible and profitable.

1.2 Problem Statement

Our motivation for writing a thesis about consolidation amongst general insurance companies in the Nordic region derives from three reasons.

First, by looking at the development in the general insurance industry over the last thirty years, one can see that there have been many changes in how the insurers operate. In the last ten years, there have been many events that have defined the competition situation in the Nordic region, where four companies have great power in national regions.

The **second** reason is due to the fact that the insurance operations in the Nordic region are statistically characterized by high profits, compared to other regions in the world. This makes it especially interesting to analyze the companies operating in the Nordic region.

The **third** reason is that in this industry and market, use of consolidation is a central factor in order to capture new market shares, enter a new market and to grow. A consolidation between two of the four largest insurance companies would have great impact on the market situation in the Nordic region, and certainly change the balance of power.

In relation to our motivation, this master thesis answers the following problem statement:

What is the best consolidation opportunity considering the four largest general insurance companies in the Nordic region, and is this combination financially possible and profitable?

In order to structurally answer this question we will use several research questions in order to control the theoretical and practical approach. They will also influence and form the relevance and limitations in this master thesis.

Strategic analysis:

- Which macro economical factors influence the industry's earnings?
- Considering the competition intensity, how attractive is the Nordic insurance market?

Consolidation analysis:

- Which two of the four insurance companies are best matched for a consolidation, considering their current situation and outlook for the future?
- Considering the consolidation, which of the two companies can be recognized as a possible buyer?

Financial analysis:

- How has the profitability been in the previous five years for the targeted company?
- What are the expected future prospects of the targeted firm?

Valuation:

- What is the estimated market value of the targeted company?
- What is the estimated value created by synergy effects in the consolidation?
- Is there a possibility for an acquisition or a merger between the two companies?

1.3 Limitations

When writing about the consolidation possibilities in the Nordic insurance market, there are many subjects that could be taken into consideration. In order to be more precise when writing this thesis, it has been necessary to limit the area of research. This section will describe the limitations regarding our thesis.

Our focus is on the four largest general insurance companies in the Nordic region. Some of these companies do business in the Baltic countries as well, but we will exclude this business in our analysis. Furthermore, the companies operate in several business areas like banking, general insurance and life insurance and pension. Our focus will exclusively be on the companies' general insurance business.

In the first chapter, where we give a description of the four companies, there are limited information regarding Codan's vision and mission. This is a consequence of Codan being 100% owned by Royal & Sun Alliance. We have, in this chapter, used all the information that is available in order to provide the best possible description of Codan.

Solvency II and the new capital requirements are often related to consolidations. The subject will be mentioned in some parts of the thesis, and it will shortly be discussed in the PESTEL analysis. However, the subject is quite comprehensive and complex, and we will therefore not elaborate on the subject. That will lead us outside the objective with this thesis.

We have chosen to only shortly describe the laws and the accounting principles involved in reporting of the income statement and the balance sheet.

Our focus is more directed towards the financial analysis in this part, as we find it more relevant considering our problem statement.

In the financial statement analysis, our analysis period is from 2005 until 2009. We consider that five years are sufficient in order to analyze the historical performance of the targeted firm. We have not included 2010 because the annual reports for the year were not available during the writing period of this thesis. We have, however, used the market shares from 2010 in other parts of the thesis. This is because we believe it gives a more correct and updated picture of the market situation using the latest updated data.

In the preparation of the prognosis, we have chosen to use the average Nordic gross domestic product growth rate when forecasting future growth in net premiums. We argue that this is correct since all the four companies operate in the Nordic region.

Regarding the consolidation subject, there are many issues that could be taken into consideration. However, the focus of this thesis is to investigate the best consolidation match between the four companies and if the chosen combination is profitable and/or possible. Therefore, issues regarding the implementation of a merger and acquisition, the pitfalls involved and legal and governmental issues will not be discussed in this thesis.

1.4 Method

We will in this thesis perform a fundamental analysis involving both a strategic and a financial analysis. This analysis should form the basis for the prognosis and the valuation. In addition we will analyze the synergy effects involved in a consolidation in order to assess the potential added value.

In the following sections we will explain the theory and the models we have applied in order to answer the problem statement and the research questions.

1.4.1 Strategic Analysis

In the strategic analysis we will first take use of the PESTEL analysis. PESTEL consists of the factors Political, Economical, Social, Technological, Environmental and Legal. The objective is to investigate to which degree these factors affect the operations of the four Nordic insurance companies.

In order to establish a framework for the general insurance industry in the Nordic region, Porter's Five Forces will be applied. This method focuses on the forces that determine the competitive intensity of an industry. Porter's five forces include three forces from horizontal competition; the threat of established rivals, the threat of new entrants and the threat of substitute products. The two last forces focus on vertical competition; the bargaining power of suppliers and the bargaining power of customers. This model therefore gives an overview over the current market situation, as well as it can indicate the expected competition situation in the future.

The strategic analysis will be summarized in the SWOT analysis. The purpose with the SWOT analysis is to give an overview of the strength, weaknesses, opportunities and threats that may affect the companies' business in the future.

1.4.2 Financial Statement Analysis

The financial statement analysis will be initiated with a reformulation of the target company's financial statements and balance sheets for the period 2005-2009. Based on the reformulated statements, we will calculate key ratios such as claims ratio, expense ratio and combined ratio.

The Du Pont model will be applied in order to assess the operating profitability of the target firm. From the model we will calculate return on net operating assets, profit margin and asset turnover. We will use return on net operating assets (RNOA) instead of return on assets (ROA), because RNOA distinguishes operating and financial items. For an insurance company value is created in the operations, therefore RNOA is best suited when analyzing the profitability of the operations.

The figures calculated in the financial statement analysis will be used to evaluate the historical results of the target insurance company. They will also be used in the budgeting and valuation chapters.

1.4.3 Prognosis and Valuation

In order to perform the valuation of the targeted firm it is necessary to forecast the future performance of the company. The prognosis will be based on both the strategic and the financial analysis.

We will apply the residual income model (RI-model), also known as the economic value added model (EVA), in the valuation of the targeted company. This model is together with the discounted cash flow model (DCF-model) the two most popular valuation models.

We have chosen to use the RI model because this model is more applicable on companies where it is harder to estimate the free cash flow.

A general insurance company cannot pay out all its calculated free cash flow to creditors and debtors due to its future obligations. Furthermore, a general insurer is obligated to invest a large part of the incoming premiums in financial assets. One could estimate an adjusted cash flow, but this would be a comprehensive operation. The DCF-model can therefore not directly be applied on the targeted company.

In the thesis we will not discuss the process regarding selection of a valuation model. According to the theory, both the RI-model and the DCF-model should give the same value of the company. We will therefore use the RI model due to the reasons described above.

In order to complete the valuation we will perform a sensitivity analysis. The purpose with this analysis is to critically evaluate the assumptions made in the forecast of the future operations. Hence, the sensitivity analysis works as a control of the prognosis.

1.4.4 Literature Review

We have throughout the working process of this thesis sought to create the best possible literature overview related to our problem statement. At the same time, we have been careful and remained critical regarding the literature we have used.

The literatures we have used have been limited to our problem statement. Primarily, we have taken use of the curriculum related to our studies, cand.merc AEF. However, where it has been necessary we have included other sources of literature. Our objective has throughout the thesis been to use the available literature in order to raise the academic level of the thesis.

For a large part of this thesis we have used the annual reports of the four respective companies as a source. This implies to both the strategic and the financial analysis. The annual reports have all been audited and approved by authorized audit firms.

Naturally, it is the respective companies that prepare and submit the annual reports. It is therefore important to bear in mind that these reports primarily will try to give the best possible impression of the company.

In the estimation of the Capital Asset Pricing Model we have used Professor Aswath Damodaran's research to supply the market premium. His research is well-known and we recognize it to be a valid source.

The beta values used in calculation of the CAPM comes from the database, Datastream. We recognize this to be a valid source and assume the beta output to be correct.

1.4.5 Structure of the Thesis

This thesis is divided into five main parts: a company description, a strategic analysis including a consolidation analysis, a financial statement analysis, a prognosis and valuation, and a synergy analysis.

The overall structure of the thesis is basically that we will use the strategic analysis and the consolidation analysis in order to assess which of the four companies that are best suited for a consolidation. Here we will also state which company that should be the buyer and which that should be the target firm going forward. Thereafter we will use the financial analysis, including the valuation and the analysis of the synergies, to assess whether or not the target firm is profitable and if the consolidation creates added value.

In the first part, we will describe the four largest general insurers in the Nordic market. The objective with this part is to give the reader an overview of the four companies. It therefore includes a description of the companies' history, how they are today, their vision and values and their goals and strategy.

The strategic analysis assesses the macro and micro economical factors affecting the general insurance companies in the Nordic region. Our objective with this part is to see how these factors affect the future earnings of the respective companies. The findings will be taking into consideration and used in the prognosis and the valuation. As described above, the main objective with the strategic and the consolidation analysis is to decide which of the four companies that have the best fit for a consolidation.

We will choose the best consolidation scenario and decide the companies' roles. Thereafter, we will perform a financial statement analysis of the targeted firm. The objective with this part is to analyze the historical key ratios of the targeted firm in order to evaluate the development of its insurance business. Most importantly, the financial statement analysis forms the basis for the prognosis and the valuation of the targeted firm.

We will use the outcome of both the strategic and the financial analysis in order to prepare the prognosis. The objective is to make a prognosis that is realistic and valid to use in the valuation.

When the analysis and the prognosis are complete, we will be able to perform the valuation. This will give us the complete value of the targeted company. As mentioned above, the overall objective with the financial analysis is to assess if the chosen target firm is profitable. The estimated value of the targeted firm will give us the answer to that, and it will also be used to assess if it is an affordable price for the buyer.

In the last part of this thesis we want to analyze the synergy effects involved with the consolidation. The purpose is to recognize which parts of the two chosen companies that create added value. It should give an overview in order to evaluate if the consolidation makes economical sense, by looking at the synergy effects in relation to the price of the targeted company.

The last part of the thesis will also assess Gjensidige's buying power. This will be done with an analysis of the company's excess cash and access to external financing.

Finally, we will be able to answer our problem statement. All the analysis previously made in the thesis will form the basis of our answer.

2 The General Insurance Market in the Nordic Region

In the introduction we mentioned that four companies dominate the general insurance market in the Nordic region. These are; If, Tryg, Codan and Gjensidige. Furthermore, we also mentioned that the market is characterized by a low combined ratio.

The combined ratio is the sum of claims ratio and expense ratio, and is one of the best measures when comparing insurance companies' performance. The ratios will be explained in detail later in the thesis, but the chart below gives an overview of the development of these ratios amongst the four companies over a five year period.

Table 1

Net Claims Ratio:	2005	2006	2007	2008	2009	Average
If	66,2 %	72,5 %	73,4 %	74,4 %	74,6 %	72,2 %
Tryg	72,0 %	69,0 %	67,6 %	71,1 %	75,0 %	70,9 %
Codan*	75,9 %	77,3 %	75,2 %	72,5 %	70,5 %	74,3 %
Gjensidige	71,2 %	76,1 %	78,8 %	77,4 %	77,1 %	76,1 %
Expense Ratio:	**2005**	**2006**	**2007**	**2008**	**2009**	**Average**
If	24,3 %	17,4 %	17,2 %	17,4 %	17,6 %	18,8 %
Tryg	17,1 %	16,9 %	16,8 %	17,1 %	17,2 %	17,0 %
Codan*	18,6 %	17,1 %	17,5 %	17,5 %	17,6 %	17,7 %
Gjensidige	20,5 %	18,9 %	17,5 %	17,0 %	17,7 %	18,3 %
Combined Ratio:	**2005**	**2006**	**2007**	**2008**	**2009**	**Average**
If	90,5 %	89,9 %	90,6 %	91,8 %	92,2 %	91,0 %
Tryg	89,1 %	85,9 %	84,4 %	88,2 %	92,2 %	88,0 %
Codan*	94,6 %	94,4 %	92,8 %	90,0 %	88,0 %	91,9 %
Gjensidige	91,7 %	95,0 %	96,3 %	94,4 %	94,8 %	94,4 %

** Codan's ratios is a combination of Codan Forsikring, Trygg-Hansa, Privatsikring and Trekroner*

We see that Gjensidige has clearly the highest average combined ratio during the period. Tryg on the other hand has the lowest average combined ratio. The net claims ratios vary a lot, while the expense ratios have been quite consistent.

In the following we will give a short introduction of the four insurance companies. The objective with this chapter is to get a quick overview of these companies. We will therefore look on the companies' history and how they operate today. Furthermore, we will describe their values, vision, goals and strategies.

2.1 If

2.1.1 History and Development of If

The history of If reaches back to the 18th century and that makes it the oldest insurance company in Norway. In the following a summary of If's history will be told.

1999: If was created by a merger of the general insurance parts of Skandia (Sweden) and Storebrand (Norway). The plan was to create the leading general insurance company in the Nordic region.

2000: If opened a minor branch in Finland.

2001: The plans for an extended Nordic business were met, by an agreement of merging Sampo's general insurance business with If. From this point If was the largest general insurer in the Nordic region. The merger meant that from 2002, If's markets included the Baltic region.

2003: The business portfolio of Sea and Energy was sold. In this way If could specialize more on its core business, general insurance, and reduce its risk exposure.

2004: During this year Sampo bought Skandia's and Storebrand's shares in If. If became 100% owned by Sampo.

2006: If got permission to operate in Russia.

2008: If bought the Russian insurance business SOAO Region. The company was established in the private market in Russia, mainly Motor insurances.

2.1.2 If Today

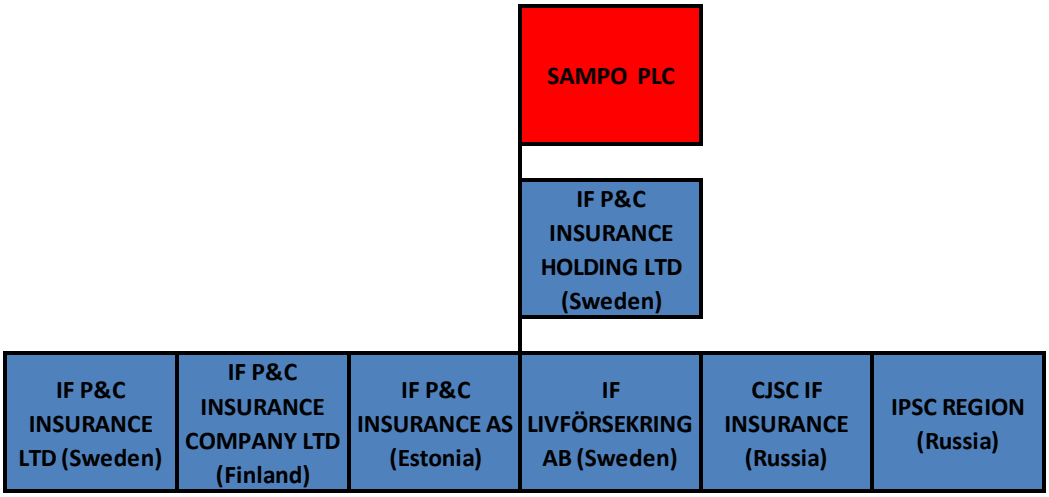
If is the largest general insurer in the Nordic Region and operates in all the Nordic countries. Today, If is the second-largest player in Norway with a market share of 26.2%, 18.6% in Sweden and 24.7% in Finland. Denmark is the Nordic country where If is least exposed with a market share of approximately 5%.[1] If has 6,583 employees[2] and insures more than 3.6 million customers in the Nordic and the Baltic region.

[1] Annual Report 2010 Tryg, p. 19
[2] Annual Report 2009 Sampo, p. 13

The gross premiums written in 2009 were about EUR 3,888 million before reinsurers' share.[3] The combined ratio resulted in 93.8%.

The If P&C Insurance Holding LTD (Sweden) is 100% owned by Sampo PLC (Finland). If P&C Insurance Holding LTD has P&C companies registered in the following countries; The Swedish registered If P&C Insurance LTD does business in Sweden, but also controls branches in Norway and Denmark. The Finnish, Russian and Baltic (Estonia) operations have registered companies in their respective countries.

Illustration 1: Legal structure of If Insurance including Sampo PLC:



Own creation. Source; Sampo Annual Report 2009, p. 24

The private segment is If's most important and contributes to 48% of the total gross premiums written.[4] The commercial segment contributes to about 30% of the total gross premiums written, and the corporate segment to about 16 %. The remaining gross premiums are created from operations in the Baltic region and in Russia.

2.1.3 If's Vision and Values

The company's vision:

To be the leading property and casualty insurance company in the Nordic and Baltic regions with the most satisfied customers, leading edge insurance expertise and superior profitability.[5]

[3] Annual Report 2009 Sampo, p. 44
[4] www.if.no, http://www.if.no/web/no/om/Fakta/Privat/Pages/default.aspx
[5] www.sampo.com, http://www.sampo.com/group/mission-and-strategy

If's mission is:

To offer attractively priced insurance solutions that provide customers security and stability on their business operations, housing and daily life.[6]

2.1.4 If's Strategy and Goals

Key elements in If's long-term strategic direction:

Area of Focus:	How:
Customer value	If will exceed customer expectations through superior insurance solutions, fast and accurate claims management and sympathetic behavior.
Focused Insurance Expertise	If will purposefully strengthen the organization's skills in developing, pricing and distributing insurance products, as well as in the areas of liability loss prevention and claims management.
Nordic Business Platform	If will create competitive advantage through economies of scale and know-how transfer through an integrated Nordic and Baltic platform.
Investment Strategy with Balanced Risk	If has adopted a low risk strategy in investments by maintaining a balance between insurance commitments and investment assets in terms of currency and duration.

Source: http://www.sampo.com/group/mission-and-strategy

If 's strategic goal is to establish better profitability and customer satisfaction in the long run than its competitors, coupled with high creditworthiness. The financial targets are to achieve a combined ratio of less than 95% and a return on equity (ROE) of at least 17.5%.[7]

[6] Annual Report 2009 Sampo, p. 8
[7] www.sampo.com, http://www.sampo.com/group/mission-and-strategy

2.2 Tryg

2.2.1 History and Development of Tryg

The name Tryg first emerged in 1911, about 180 years after Tryg's first component was established, Kjøbenhavns Brand. During the 1990's Tryg started to take shape of what it is today. The following is a summary of the mergers and acquisitions that took place during the 1990's and 2000's. [8]

1994: The Danish insurance operations of Winterthur were acquired by Tryg.

1995: The merger between Tryg and Baltica took place.

1998: Dansk Kaution, now Tryg Garanti, became a part of Tryg. The same year Tryg entered the Polish insurance market, acquiring a strategic stake in the company Energo-Asekuracja.

1999: Tryg emerged with Denmark's second-largest banking group, Unibank, and the general insurance operations from Unibank were integrated in Tryg. Later the same year the Norwegian insurance company Vesta became a part of the group. Tryg acquired the English company Colonia Baltica, integrating it with Tryg-Baltica International and forming TBi.

2000: Tryg, Vesta and Unibank contribute to the formation of Nordea.

2005: TrygVesta was listed on the OMX Nordic Stock Exchange Copenhagen on 14th of October.

2006: TrygVesta launched a Swedish branch, Vesta Skadeförsäkring. TrygVesta divested Chevanstell Limited and it became a run-off business.

2008**:** TrygVesta created a Swedish corporate business, initially with an office in Stockholm. TrygVesta and Nordea extended their successful partnership, operated since 1999.

2009: The acquisition of the Swedish insurance company, Moderna Försäkringar, making Moderna a part of TrygVesta. The acquisition of Moderna contributed to an increase of about 250 employees, and increased the groups market share in Sweden.

2.2.2 Tryg Today

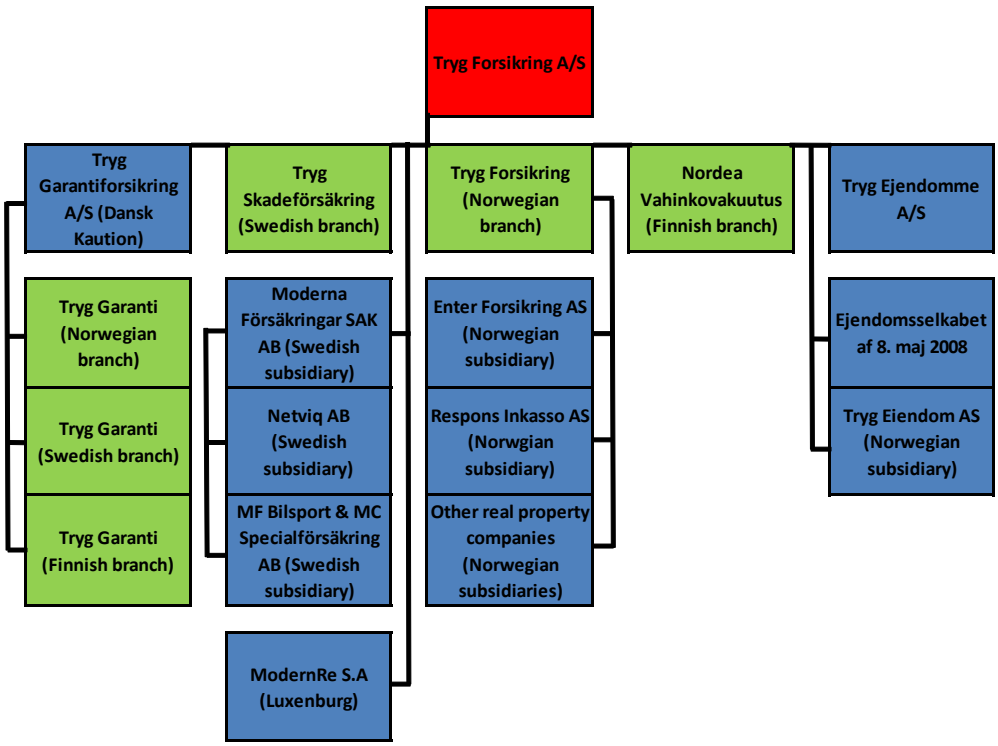
During the summer of 2010 TrygVesta changed its name to Tryg. Tryg is the second-largest general insurer in the Nordic region and operates its general insurance business in Denmark,

[8] http://www.tryg.com/uk/Menu/About+us/History

Norway, Sweden and Finland. The company is the largest player in Denmark with a market share of 20.8%[9] and the third largest player in Norway with a market share of 17%. Tryg's market share in Finland and Sweden is respectively 2.3% and 3.3%.[10] Tryg has more than 4,300 employees. It insures over 2.7 million customers in the private market and more than 140,000 customers in the business market. [11] The total gross premiums sold in 2009 were DKK 18,283 million, and they reported a combined ratio of 92.3%.[12]

Tryg is listed with 40% of its shares on the OMX Nordic Stock Exchange Copenhagen. The last 60% is owned by TryghedsGruppen smba.[13]

Illustration 2: Legal structure of Tryg Insurance, exclusive Tryg A/S:



Own creation. Source: Annual Report 2009 Tryg, p. 4

In order to service both the private and commercial segment, Tryg is divided into two groups called Customer Services & Sales Direct and Customer Services & Sales Partner. The direct channel is where insurances are sold under Tryg's own brand. The partner channel is a combination of many distribution channels and involves merged businesses, franchise and partnerships. The corporate market is served through a separate distribution channel.

[9] Annual Report 2010 Tryg
[10] Annual Report 2010 Tryg, p. 19
[11] Annual Report 2010 Tryg, p. 1
[12] Annual Report 2009 Tryg, p. 8
[13] http://tryg.dk/netinsurance01/notes.do?uniklink=ProfilEjerforhold

The private and the commercial segments are the most important. They account for about 70% of the total insurance business in Tryg. Denmark accounts for about 37% of the total insurance business, Norway 24%, Sweden 6% and Finland 3%. The corporate segment in Denmark, Norway and Sweden accounts for about 30% of the total insurance business in Tryg.[14]

2.2.3 Tryg's Vision and Values

The vision of Tryg:

Is to be perceived as the leading peace-of-mind provider in the Nordic region

The mission of Tryg:

Is to secure a stable, high-quality supply of products and services offering peace of mind to private households

Tryg's values are based on their vision and mission:

We create peace of mind because:

- We show people respect, openness and trust
- We show initiative, share knowledge and take responsibility
- We provide solutions characterized by quality and simplicity
- We create sustainable results

[14] Annual Report 2009 Tryg, p. 5

2.2.4 Tryg's Strategy and Goals

The goals for Tryg can be divided into four themes. The table below describes the specific areas of focus and how Tryg's goals are connected to them.

Area of Focus:	Goals for 2010-2011:
Profitable Growth	• Profitable growth in Sweden and Finland and increased market share – 2012 goal of 6-8 % • Premium initiatives to ensure profitability of less cost effective products • Moderna becoming a branch of Tryg
The Peace-of-Mind Delivery	• Common Nordic brand platform • Increase customer loyalty, retention rate and proportion of concept customers • Improve distribution strategy and customer accessibility
Self-Service	• Handling of motor claims in Denmark • New group internet platform • Start of common Nordic business models, process and IT systems
Human Competencies	• To be the most attractive workplace in the financial sector in the Nordic region • Leading the Strategy – management training program with increased organizational effect • The Living House and The Living Organization start to show effect • Best in class at CSR initiatives within climate, prevention, inclusion and well-being

Source; Annual Report 2009 Tryg, p. 18

2.3 Codan A/S

2.3.1 History and Development of Codan

Codan has a long history that can be traced back to 1782 when Phoenix Assurance Company was established in London. The company later started to operate in Denmark and grew its market share through mergers and acquisitions. More than a century later, in 1916, A/S Forsikringsselskabet Codan was established. In 1940 Phoenix Assurance Company and A/S Forsikringsselskabet Codan merged and took the name Codan as we know it today.[15]

From the beginning of 1999 until 2008 the company went through several acquisitions and structural changes. Here is a short summary:

1999: Codan acquired the Swedish insurance company Trygg-Hansa and the Lithuanian company Lietuvos Draudimas.

2002: The Swedish insurance company Trekroner Forsikring A/S and its subsidiary Trekroner Livs Forsikring A/S are acquired.

2002-2003: Codan changed its organizational structure and established a common Nordic business platform that includes both Codan and Trygg-Hansa.

2006: Codan acquired the Norwegian insurance companies White Label Insurance and Duborgh Skadeforsikring. The acquisition helped Codan strengthen its position as the third largest player in the Nordic market.

2007: Royal & SunAlliance (RSA), which from before owns 72% of the shares in Codan, bought out the rest of the shareholders. RSA takes full control of the company, and Codan is delisted from NASDAQ OMX Nordic in January 2008.

2008: Codan changed its well-known blue brand with a new purple logo. This is done to mark the new era of Codan, and strengthen its position as a Nordic company with strong international ties.

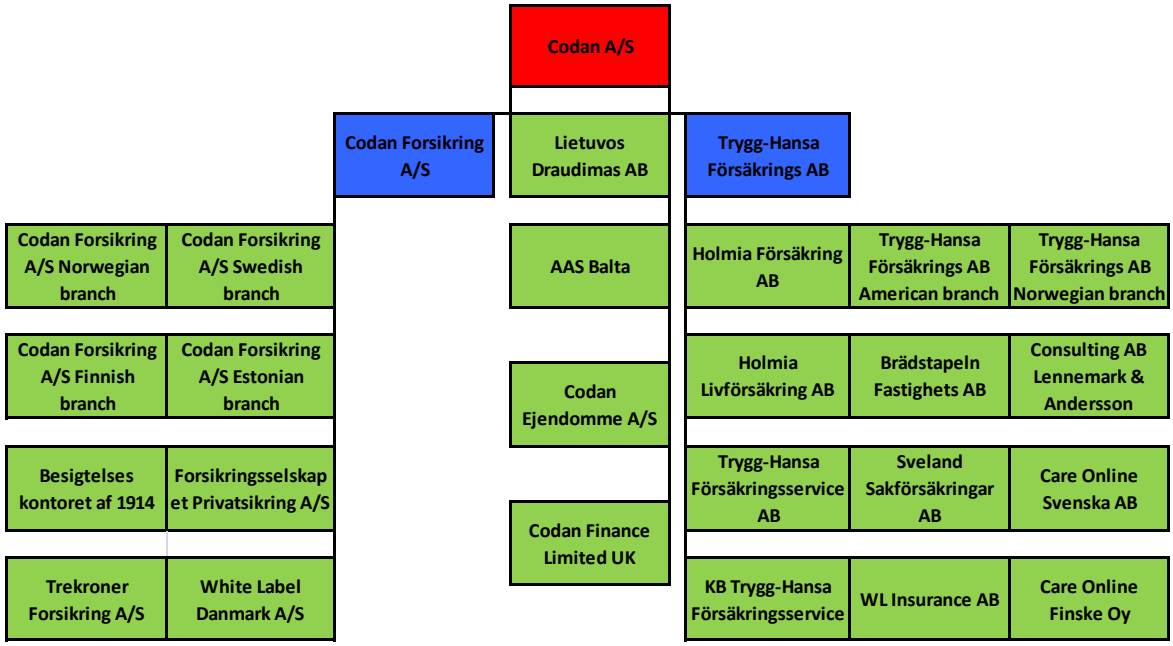
[15] http://www1.codan.dk/om-codan/profil-af-codan/pages/historie.aspx

2.3.2 Codan A/S Today

Codan A/S is today the third largest general insurer in both Denmark and the Nordic market. It offers general insurance products to private individuals and companies, and has branches in Norway, Sweden, Finland and Estonia.[16] In Denmark the company enjoys a market share of 13.9%, and in Sweden 15.7%.[17] In Norway, Finland and Estonia it has minor market shares compared to the largest players in the respective countries. Codan has about 3,200 employees in the Nordic region. The total profit in 2009 was approximately DKK 2.8 billion, and they reported a combined ratio of 88%.

Codan A/S is a subsidiary and fully owned by Royal & SunAlliance (RSA), one of the leading insurance companies in the world with over 20 million customers. Codan A/S is divided into the subsidiaries Codan Forsikring A/S and Trygg-Hansa Försäkrings AB.

Illustration 3



Own creation. Source: http://www1.codan.dk/om-codan/virksomhedsinfo/pages/ledelse-og-organisation.aspx

The subsidiary Trygg-Hansa Forsikrings AB is located in Sweden and consists of two branches and several subsidiaries. The company's two branches are located in Norway and USA, while most of the subsidiaries are located in Sweden.

[16] Annual report 2009 Codan, p. 4
[17] Annual Report 2010 Tryg, p. 19

Trygg-Hansa is the third largest general insurer in Sweden and is vital for Codan in order to maintain its position in the Nordic insurance market.[18] In 2009 the subsidiary accounted for 70.3% of the total profit in Codan A/S.

The subsidiary Codan Forsikring A/S is located in Denmark and has branches in all the Nordic countries including Estonia. General insurance is the company's core business, except in Finland where Marine is their niche product. The company also consists of four subsidiaries with locations in Denmark and Sweden. In 2009 the subsidiary accounted for 17.7% of the total profit in Codan A/S.

2.3.3 Codan's Values

Codan is a large company with international roots, and due to the company's size and geographical spread its stakeholders are of great importance. This is reflected in the company's values. They have three core business values:[19]

- *Integrity*
    - *We stand for openness, justice, integrity and care. We will at any time follow the current legislation, rules and standards concerning the business areas we operate in.*
- *Performance*
    - *We encourage a positive and challenging performance culture. We encourage our employees to take personal responsibility for their own development.*
- *Responsibility*
    - *We act responsibly both as individuals and as a company. This concerns how we run the company, how we handle risk and how we behave in relation to key stakeholders.*

2.3.4 Codan's Strategy and Goal

Codan's primary goal is to:[20] "*Deliver sustainable profitable performance"*

This should be delivered through focus on four key strategies:

- *Profitable growth through focus on target segments, rating action and acquisitions*
- *Technical capabilities through maintaining a balanced portfolio and continued investment in risk selection and pricing sophistication*

[18] http://www.trygghansa.se/om-trygghansa/om-foretaget/pages/trygg-hansa-i-korthet.aspx
[19] http://www1.codan.dk/om-codan/profil-af-codan/pages/forretningsprincipper.aspx
[20] Annual review 2009 RSA, p. 11

- *Operational excellence through further simplification of processes and effective use of IT*
- *People engagement through becoming an employer of choice*

2.4 Gjensidige Forsikring ASA

2.4.1 History and Development of Gjensidige

Gjensidige's roots can be traced back to 1816 when Lands Private Brandassuranceforening was founded. In 1847 Gjensidige started its' life insurance business named Gjensidige Liv, and in 1922 Gjensidige was established under the name Samtrygd.[21] In 1974 Gjensidige Liv and Samtrygd entered into cooperation under the name Gjensidige Skadeforsikring, and a few years later they were jointly managed. [22]

From the beginning of 1999 until 2010 the company went through several acquisitions and structural changes[23]. Here is a short summary:

1999: Gjensidige, Gjensidige Liv and Sparebanken NOR joined forces and combined their business operations to form Gjensidige NOR.

2001: The Group entered the health care services market in Norway through its acquisition of Falck Security Alarms.

2002: Gjensidige NOR split into two cooperating groups, the general insurance group Gjensidige NOR Forsikring and the publicly listed banking and life insurance company Gjensidige NOR ASA.

2003: Gjensidige NOR ASA merged with DnB Holding ASA to form DnB NOR ASA.

2005: The cooperation between Gjensidige NOR Forsikring and the newly merged company DnB NOR ASA was terminated. The Gjensidige brand was once again adopted.

2007: The Swedish insurance company Tennant Insurance Group AB was acquired.

2009: Gjensidige acquired the Danish insurance company Nykredit Forsikring A/S.

[21] Prospect Gjensidige Forsikring, p. 103
[22] Prospect Gjensidige Forsikring, p. 104
[23] Prospect Gjensidige Forsikring, p: 104

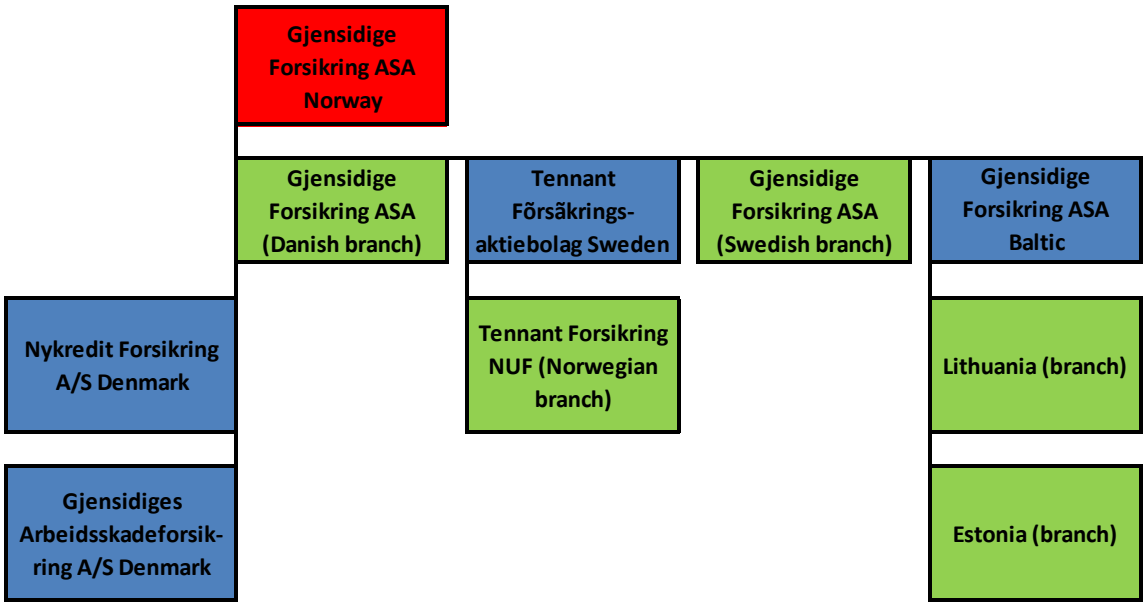
2010: In June 2010 Gjensidige Forsikring BA was converted to a publicly limited company and listed on Oslo Børs.

2.4.2 Gjensidige Today

Gjensidige is today the largest general insurance company in Norway and the fourth largest in the Nordic market. It is a publicly listed company on Oslo Børs where Gjensidigestiftelsen owns 63.5% of the company's shares.[24] Gjensidige has today over 4,000 employees and it insures approximately 1 million general insurance customers and 92,000 businesses in Norway.[25] The total gross premiums written were in 2009 NOK 15.6 billion and they reported a combined ratio of 94.8%.

The company's core segments are General insurance Norway, General insurance Nordic and General insurance Baltic. The company's structure is shown in the chart below.

Illustration 4



Own creation. Source: http://gjensidige.com/web/Forsiden/Om+konsernet/Virksomheten/Strukturkart

General insurance Norway (Gjensidige Forsikring ASA Norway) is divided into a private segment and a corporate segment. These two segments can be described as the company's core business.

[24] http://www.gjensidigestiftelsen.no/no/selskapsstyring/eierskap
[25] Prospect Gjensidige Forsikring, p. 112-121

In 2009 General insurance private Norway accounted for 49.6% of the total gross premiums written, while the corporate segment accounted for 30.9%.[26] As the leading provider of general insurance products, Gjensidige enjoys a market share of 28.1% in the private market and 30.1% in the corporate market. [27]

The segment, General insurance Nordic, involves the Danish and the Swedish private and corporate market. It accounted for 16.4% of the total gross premiums written in 2009.[28] Through the acquisitions in the two countries it has gained a market share of 5.8% in Denmark and 1.2% in Sweden.

In Denmark, Gjensidige offers general insurance products to private and corporate customers as well as municipalities and other public sector entities. The company operates with two brands. The Nykredit brand is used for sales within the Nykredit private customer base, while the Gjensidige brand is used for the remaining customer base in Denmark. [29] In Sweden, Gjensidige offers general insurance products to private and corporate customers. The Swedish operations also comprise the company's white label business, which runs through the subsidiary Tennant Insurance Group AB.[30]

General insurance Baltic, Gjensidige Forsikring ASA Baltic, accounted for 3.7% of the total gross premiums written in 2009.[31] After entering the market in 2006, Gjensidige has grown through several acquisitions. The most important one was the acquisition of Länsförsäkringer's Baltic insurance portfolio in 2009. Today Gjensidige Baltic has a market share of around 9.2% in the Baltic countries.

[26] Prospect Gjensidige Forsikring, p. 106
[27] Annual Report 2010 Tryg, p. 19
[28] Prospect Gjensidige Forsikring, p. 106
[29] Prospect Gjensidige Forsikring, p. 118
[30] Prospect Gjensidige Forsikring, p. 119
[31] Prospect Gjensidige Forsikring, p. 106

2.4.3 Gjensidige's Vision and Values

Gjensidige's vision is:

We know the customer best and care most.

The company has today two core values they strive to fulfil[32]:

- *Availability*
    - *It should be easy for the customers to contact us*
    - *We should be easy to understand*
    - *Difficult tasks should be perceived as simple*
    - *We should listen, be personal and attentive to our customers*
- *Helpfulness*
    - *Every customer should feel special because Gjensidige are helpful to their customers and knows the customers' interests and needs*

2.4.4 Gjensidige's Strategy and Goals

Based on Gjensidige's vision and values their goals are:[33]

To maintain its status as the leading, profitable and customer-oriented Nordic general insurance player by further expanding and strengthening its insurance business in the Nordic and Baltic regions, and to focus on developing non-general insurance operations that support the company's core general insurance business.

In order to achieve these goals the key components of Gjensidige's strategy are to[34]:

- *Optimize value and profitability of the core general insurance business in Norway*
    - *Continue disciplined and targeted underwriting of general insurance risks*
    - *Maintain and develop loyalty program and affinity group relationships*
    - *Maximize the benefits of multiple distribution channels*
    - *Focus on cost saving and efficiencies*
- *Expand general insurance operations outside Norway*
- *Seek to strengthen the general insurance business through offering of supporting product lines in Norway*
- *Maintain cost and capital discipline*

[32] Gjensidige Årsrapport 2009, p. 4
[33] Prospect Gjensidige Forsikring, p. 4
[34] Prospect Gjensidige Forsikring,, p. 101-103

3 Strategic Analysis

The objective with the strategic analysis is to evaluate both the macro and the micro economical factors affecting the general insurance companies. It is important to assess these factors to be able to estimate the future earnings for the four insurance companies in the Nordic region. Furthermore, the factors evaluated in this analysis form the basis for the decision regarding which of the four companies that is the best match. Therefore, the strategic analysis will be essential concerning the consolidation analysis in the next chapter.

3.1 PESTEL Analysis

The PESTEL analysis will be used in order to evaluate the macro economical factors. This analysis focuses on how the political, economical, sociological, technological, environmental and the legal factors affect the insurance companies' daily business.[35] Its objective is to assess the attractiveness of the Nordic general insurance market.

3.1.1 Political Factors

Political factors are how and to what degree the government intervenes in the insurance business. The political factors that will be discussed are laws and regulations, political stability and taxation policy.

The financial service industry, in which the insurance companies operate, is highly regulated. The insurance companies play a big role in the business society today, and due to all the risk they undertake they are cornerstones in the economic world. Therefore, it is natural that the governments set guidelines through laws and regulations.

Denmark, Sweden and Finland are members of the European Union (EU), while Norway is related to EU through the European Economic Area (EEA). This means that all the Nordic countries are subject to EU Directives.

It is the task of the European Commission to ensure that the EU law is applied throughout all the Member States.[36] In addition, each country has a financial supervisory, which regulates and controls the operations of the insurance companies. Thus, the insurance companies in the Nordic region have to follow both EU Directives and the regulations determined by the local governments. These will be further discussed under legal factors.

[35] Johnsen et. Al, 2002,Exploring Corporate Strategy,
[36] http://ec.europa.eu/eu_law/index_en.htm

The Nordic countries are quite similar in the way they are governed. They are all known for their efficient system of governance based on the democratic principles. Another common factor is their social policy and focus on a comprehensive welfare society. This has laid the foundation for the efficient markets we know today. The government does not intervene in a destructive way. Instead it sets guidelines in order to secure a fair and competitive business environment. The political stability in the Nordic countries ensures a predictable business environment for the general insurance companies.

The current company tax rate differs in the four countries. The tax rate is 25% in Denmark, 28% in Norway, 26% in Finland and 26.3% in Sweden.[37] According to statistics from OECD, the average tax rate in 31 of the worlds' largest economies is 24%. Thus, the Nordic countries are above average and this may reduce the companies' competitiveness.

Changes in the current tax system may occur in the future. The European Commission has proposed a common system for calculating the tax base of businesses operating in the EU. The purpose is to increase coordination and ease the companies' work computing its taxable income.[38]

Applicable insurance laws, regulations, government approvals and policies and the interpretation or enforcement thereof, may change at any time. Due to the insurance companies' dependency on these, this may adversely affect the insurance companies' business results of operations or financial position.

3.1.2 Economical Factors

Economical forces play a major part in the activities of the general insurance companies. The three most important economical factors concerning the general insurance business are economical growth and trends, interest rates and inflation.

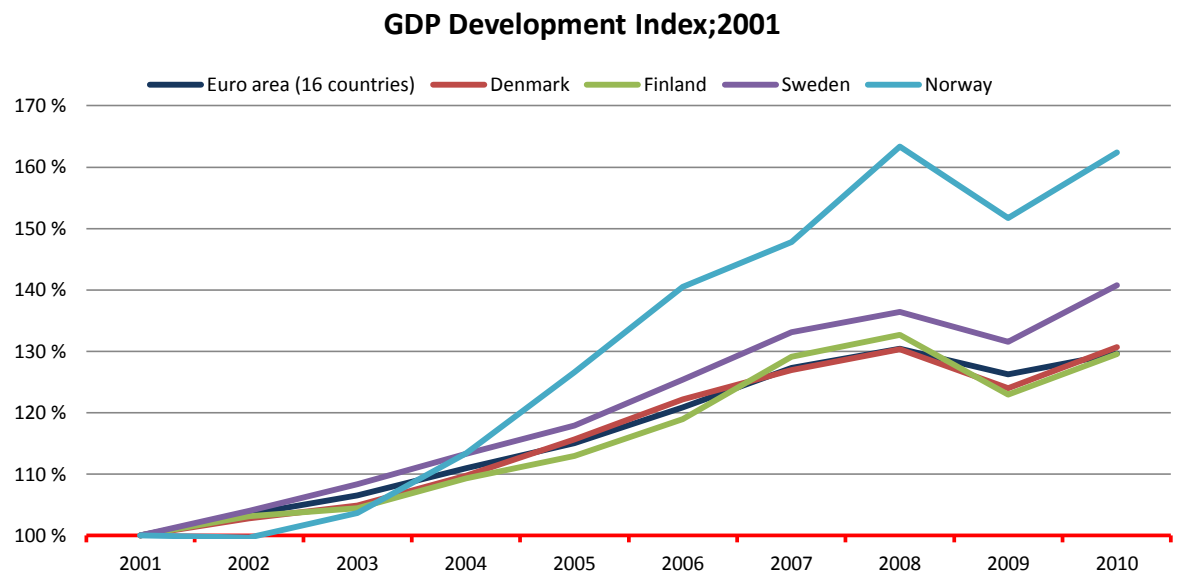
3.1.2.1 Economic Growth

The current economical situation in the Nordic countries is reasonably good compared to many other European countries.[39] They are among those countries, which came out of the financial crisis without deficit, high unemployment, etc.

[37] www.oecd.org/ctp/taxdatabase
[38] European Commission: http://ec.europa.eu/taxation_customs/taxation/company_tax/common_tax_base/index_en.htm
[39] http://epp.eurostat.ec.europa.eu

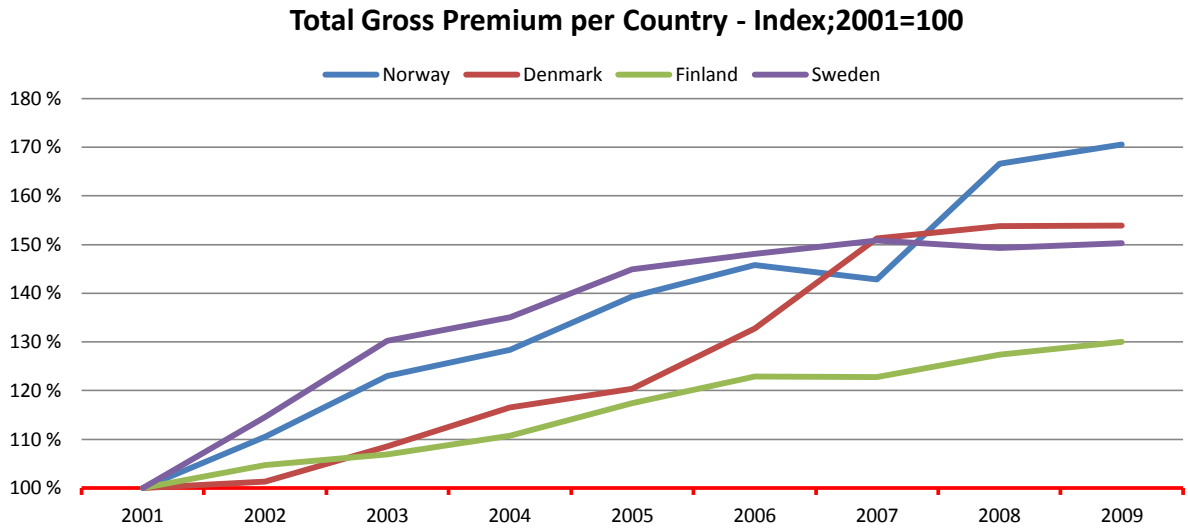
When looking at one countries' economical situation, economic growth is a key factor. The most commonly used measure of economical growth is Gross Domestic Product (GDP).

Chart 1



Source data: Eurostat

Chart 2



Source data: Federation of Finnish Financial Services, SSB, Statistikbanken, The Swedish Insurance Federation

The first graph shows the development of GDP over the last nine years, while the second graph shows how premiums written have developed over the last eight years. As both the graphs are showing, the Nordic market has been an attractive place to do business, with a growth in GDP and premiums written.

A comparison of the two graphs shows that correlation is present between GDP and premiums written. Factors behind the economic growth are private and public consumption. They have both been high in recent years. Especially private consumption has contributed to the economic growth.

For the insurance companies, both private and public consumption means increased demand for insurance products and increased premiums written. Examples of such insurance products are car insurance, house insurance, travel insurance etc.

Due to the financial crisis, the Nordic countries experienced a negative growth in GDP in 2009. Norway managed the crisis best with a decline of 1.7% in GDP, while Finland experienced a decline in GDP of 8.2%.[40] However, forecast for the two years ahead predicts that all the Nordic countries will experience a positive growth in GDP.

3.1.2.2 Economical Trends

Most of the trends we experience in the world economy today are a result of the recent financial crisis. Europe is struggling with a significant amount of national debt, the United States is experiencing record high budget deficit and the rebellions in North Africa are causing threateningly high oil prices.

These trends are important to consider, because they indirectly affects the Nordic insurance market. The European debt crisis and the budget deficit in the US are threatening the economical growth. In addition, increased oil prices can lead to inflation and higher interest rates, which again affects consumer consumption in a negative way. Less consumer consumption means fewer goods to insure and decreased profit for the insurance companies. It is a vicious circle, where the insurance companies have no control.

Furthermore, the uncertainty that is characterizing the world economy today has a negative effect considering the insurance companies' investments. Due to the imposed capital requirements, insurance companies have a great need to place this extra capital. When there are significant fluctuations in the market, the return varies as well.

3.1.2.3 Interest Rates

Interest rates have a great impact on the economy and are often used as a tool to control a country's economical situation. The insurance companies' profits are affected by the interest rate.

[40] Eurostat. http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home

A low interest rate stimulates consumption and increases number of goods and assets that need insurance. A high interest rate on the other hand, weakens people's purchasing power and causes fewer goods or assets to insure. In this way the total premium income will be affected by changes in the interest rate.

The interest rate does not only affect the Nordic insurance companies' profit through changes in consumption. It may also affect the companies' investment return and claims provisions.

Due to the capital requirements they are imposed, many insurance companies choose to invest their capital in bonds. A low interest rate will reduce the company's investment return, while the company will benefit from increasing interest rates.

The interest rate has a similar affect on the claims. Insurance companies use discounting of claims-reserves, therefore declines in interest rate lead to increased claims provisions. The opposite is the case when interest rates are increasing.

As discussed above, the Nordic countries experienced economic growth and increased consumption in the years before the financial crisis. A contributory factor for this economic growth was the relatively low interest rate.

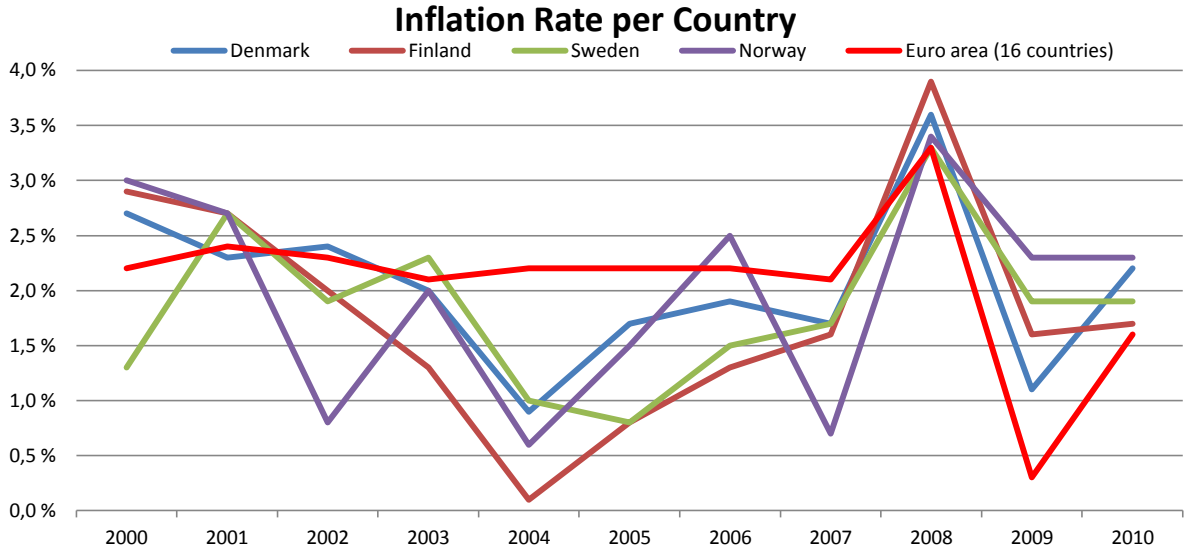
Today, the interest rate is unusual low in a historic perspective. This is because the governments are recovering from the financial crisis, and they try to stimulate the economy and ensure economic growth. In the following years, as the economy in the Nordic countries improves, one would expect increased interest rates.

3.1.2.4 Inflation

The targeted inflation rate is around 2% a year in the Nordic countries.[41] Increased inflation could damage a country's economic growth and competitiveness. It could influence insurance companies in a negative way as increased inflation weakens people's purchasing power, which again may reduce the demand for insurance products. Inflation may also provoke higher wage demands from employees and increase companies' costs.

[41] The Norwegian Financial Institution & The European Central Bank

Chart 3



Source data: Eurostat

The graph above shows that, except around the financial crisis, the inflation rate has been quite normal in the Nordic countries over the past ten years.

When looking at the inflation rate within one country, it is always important to compare it with other countries' inflation rate. Inflation is primarily damaging for a country when it exceeds other countries inflation rate over a longer period of time, as this will reduce the country's competitiveness. For most of the years, the inflation rate in the Nordic countries has been below the Euro area's inflation rate.

3.1.3 Social Factors

We consider the most important social factors concerning the general insurance industry to be population and population growth rate, life expectancy, age distribution and education.

The total population in the four Nordic countries in 2010 is 25,085,046 million, where Sweden is the largest country with a population of approximately 9.3 million. The table below shows how the population has developed from 1990 until 2010.

Table 2

Population	Year 1990	Year 2010	Year 2035 (expected)
Denmark	5 135 409	5 534 738	6 032 864
Finland	4 974 383	5 351 427	6 047 113
Norway	4 233 116	4 858 199	6 024 167
Sweden	8 527 036	9 340 682	10 835 191

Source: Nordic Statistical Yearbook 2010

The table also shows the population projections for 2035. The fastest increase is seen in Norway with an increase in population of 24%. The projection for Denmark is 9%, Sweden 16% and Finland 13%.[42] The increasing population will create a larger market for the insurance companies in the Nordic region.

A characteristic regarding the Nordic countries is the high life expectancy. Among men, the life expectancy is 76.5 years in Denmark and Finland, while it is higher in Norway and Sweden, respectively 78.6 years and 79.3 years. Women tend to live longer and the life expectancy for them is 80.8 years in Denmark, 83.1 years in Finland and Norway, and 83.3 years in Sweden.[43]

For the insurance companies, high life expectancy is a positive factor. It is natural to assume that people will hold insurance products as long as they live. Hence, high life expectancy increases the insurance companies' profit.

An increasing number of people in the Nordic countries graduate at higher education levels than earlier. In 2010, the number of graduated students was 45,714 in Denmark, 60,075 in Finland, 35,201 in Norway and 60,428 in Sweden.[44]

Educated people get jobs with general higher salaries than uneducated people. They contribute to the society in form of research and development and increase a country's GDP. This leads to increased welfare among the population, and has a positive effect on the demand for insurance products.

[42] Nordic Statistical Yearbook 2010, p. 38
[43] Nordic Statistical Yearbook 2010, p. 35
[44] Nordic Statistical Yearbook 2010, p. 80

3.1.4 Technological Factors

Internet and IT systems are the most important technological factors for insurance companies. As technology develops all the time, effective use of both Internet and IT systems could lead to cost reductions for the companies.

With the development of the Internet, an increased number of insurance companies offer insurance products and claims handling on their home pages. This reduces the companies' expenses as the customers do most of the job themselves.

Cost savings could also be achieved through development of IT systems. Typical examples are more effective accounting systems, booking systems, claims handling and storage of data. A development, which several companies have implemented, is electronic billing. Because of all the bookings, the insurance companies generate a huge amount of invoices. If these could be handled electronically, the cost savings would be significant.

3.1.5 Environmental Factors

When considering environmental factors, the most essential ones are weather and climate changes. These are particularly important for the insurance companies, due the high costs they may cause in form of reassurance and claims payments.

It is a fact that the increasing emission of the greenhouse gas (CO2) contributes to global warming and creates climate change. In recent years, natural disasters around the world are a result of this.[45] The Nordic countries are fortunate concerning their geographical location. The risk experiencing natural phenomenon like earthquakes, tsunamis and tornados are low. At the same time, the Nordic countries are one of the best in the class producing renewable energy in form of hydro- and wind power, and this reduces the emission of CO2.[46]

However, despite these factors the Nordic countries are not unaffected by the global warming. Data on trends concerning the weather in the Nordic countries over the last ten years show that[47]:

- The mean temperature has increased. Seven of the last ten winters in Denmark have recorded above-average temperatures, and Norwegian winters have since 2004 been warmer than normal.

[45] IPCC, *Climate Change 2007: The Physical Science Basis,* p.104-106
[46] Nordic Statistical Yearbook 2010, p. 25.
[47] Danish Meteorological Institute, Norwegian Meteorological Institute, Swedish Meteorological and Hydrological Institute and Finnish Meteorological Institute.

- The frequency of cloudbursts and extreme precipitation has increased. In Sweden, the period from 2000 until 2009 is the decade that has measured most incidents of extreme precipitation since the measuring started in 1930. In Finland, seven of the last ten years have recorded above average annual precipitation.
- There are more frequent cases of windstorms.

These weather and climate changes have caused increased reassurance and claims cost for the Nordic insurance companies. The future prospects are not positive. According to a report on climate changes written by the Intergovernmental Panel on Climate Change (IPCC), the climate will continue to change in form of higher temperatures, more frequent windstorms, heavy rain and floods. Furthermore, the report concludes that as a result of these changes: "The insurance industry should expect increased climate related claims."[48]

Through the Kyoto Protocol the governments are committed to reduce emission of CO2.[49] However, the challenge is immense and time consuming. Therefore, global warming will continue to affect the Nordic climate and the Nordic insurance business. It can be necessary for insurance companies to set new standards for extraordinary weather related claims.

3.1.6 Legal Factors

The insurance companies in the Nordic region are subject to statutes from EU directives and national regulations. These statutes are quite comprehensive. Therefore, we will only give a short description of the most important ones and how they affect the insurance companies.

3.1.6.1 Capital Requirements and Solvency Margin[50]

Insurance companies within the EU and the EEA are subject to a solvency margin capital requirement. The solvency margin is the extra capital that the regulators require an insurance undertaking to hold against unforeseen events.[51] Pending the adoption and implementation of Solvency II, the companies are subject to both capital adequacy requirements and solvency margin requirements based on Solvency I.

According to the capital adequacy requirement, insurance companies shall at all times maintain a capital ratio of at least 8% of the company's assets and the company's off-balance sheet liabilities. The minimum solvency margin requirement is calculated based on either the companies' gross incoming premiums or gross claims payments over the last three years.

[48] IPCC, *Climate change 2007: Impacts, Adaption and Vulnerability*, p. 543-545
[49] Nordic Statistical Yearbook 2010, p.27.
[50] Directive 2002/13/EC & Directive 73/239EC of The European Parliament and of The Council
[51] The European Commission: *http://ec.europa.eu/internal_market/insurance/solvency_i_en.htm*

The two calculation methods are stated in article 16a in the Directive 2002/13/EC, and the solvency margin should be the highest one of the two results:

- 18% of premium written up to €50 million, plus 16% of premiums above €50 million.

Or:

- 26% of claims up to €35 million, plus 25% of claims above €35 million.

The new solvency capital requirements are presented in Directive 2009/138/EC, also known as the Solvency II directive. According to the European Commission, the main objectives with Solvency II are to better match solvency requirements to the true risk encountered by an insurance undertaking and also to encourage insurers to improve their measurement and monitoring of the risks.[52]

Solvency II is based on a three-pillar approach.[53] The first pillar contains the quantitative requirements. These are the Solvency Capital Requirement (SCR), which is a risk-based requirement and the Minimum Capital Requirement (MCR), which is a lower requirement and its breach triggers the ultimate supervisory intervention: the withdrawal of authorisation.

Pillar two contains qualitative requirements. It includes effective risk management systems and prospective risk identification through the Own Risk and Solvency Assessment (ORSA).

Finally, pillar three covers supervisory reporting and disclosure. The insurance companies are required to disclose publicly, on an annual basis, a report on their solvency and financial condition.

According to the European Commission, each member state of the EU and the EEA must implement the new rules by October 31, 2012.[54] Therefore, it is still uncertain exactly in what manner the Solvency II rules will impact the different insurance companies. It seems inevitable though that due to the increased solvency margin requirements, some of the smaller insurance companies may not be able to fulfill the requirements. As a result, the new requirements may accelerate consolidation between businesses.

[52] The European Commission:*http://ec.europa.eu/internal_market/insurance/solvency/architecture_en.htm*
[53] The European Commission:*http://ec.europa.eu/internal_market/insurance/solvency/architecture_en.htm*
[54] Directive 2009/138/EC of The European Parliament and of The Council, Article 309, p.115.

3.1.6.2 Other Regulations

The solvency capital requirements are the regulation affecting the insurance companies the most. However, there are several other regulations that they have to comply. These are also stated in the EU directives, and in the following only a few of them will be mentioned.

There are regulations regarding how a company shall estimate premiums and assess its liabilities. An insurance company shall determine premiums that are in reasonable proportion to the risk it assumes and the services the company offers. Regarding a company's liabilities, it is required to make sure it has the necessary assets to cover the liabilities derived from the company's insurance activities.

Finally, cooperation agreements between insurance companies in form of mergers or acquisitions, has to be approved by the national financial authorities. This is to ensure that the cooperation does not affect the competition within the business in a negative way.

3.2 Porter's Five Forces

In this section we want to establish the parameters for the competition intensity in the general insurance market in the Nordic region. With this micro economical analysis, the goal is to uncover the five forces explained in chapter 1.4. The analysis will contribute to the overall evaluation of expected future income and costs levels for the industry.

Illustration 5: Porter's Five Forces

Source: Claus Nygaard, Strategizing – kontekstuel virksomhedsteori, 3. udgave 2006, p. 149

3.2.1 The Threat of New Entrants

The number of companies in the market affects the future earnings and growth. The threat of new entrants is therefore an important factor for the four general insurance companies. The threat can be evaluated by analyzing the entry barriers in the market.

As previously mentioned there are many legal regulations for the general insurance companies. These regulations consist of both national as well as regional laws. One of the most fundamental is the capital requirements that must be fulfilled in order to operate as a general insurer. These capital requirements create higher barriers of entry.

The most powerful players in this market have used consolidation to create economies of scale. The relatively small market makes it difficult for new entrants to achieve economies of scale. It is therefore fair to state that the general insurance market in the Nordic region is a consolidated market.

A general insurance company needs specialized competence. This means not only knowledge of the overall operations, but also specialists in order to solve the many diversified tasks. This involves everything from engineers to portfolio managers. There may be a difficulty in acquiring enough skillful personnel for a new entrant.

The largest players in the Nordic general insurance market all have great distribution networks. Their distribution channels do not only consist of direct distribution, but also indirect distribution. These networks are created through partnerships and agreements with banks, institutions, brokers and so on. The importance of these networks is evident as a large part of their business is created through indirect distribution channels.

A new entrant would therefore not have the same resources or accessibility as established companies. As a new player on this market, you would need to rely on direct distribution channels in the beginning such as call centers and the Internet. As distribution via Internet becomes more common, these barriers will be lower in the future. The last years have shown a growth in Internet sales for Nordic insurance companies.[55]

Entrants who for example want to specialize in core products can meet some barriers due to the multi-product discount in certain markets. By assembling a product bundle, larger insurers can increase sales by giving discount on some products if the customer buys several insurances.

[55] www. regjeringen.no, http://www.regjeringen.no/nb/dep/fin/dok/nouer/2008/nou-2008-20/6/3/5.html?id=539800

The companies' low combined ratios make the general insurance market in the Nordic region an attractive market to enter. It is important to understand the factors that contribute to the low combined ratios as they may create barriers to entry. The main contributor to the low combined ratios is the low expense ratios. Low expense ratios can have a deterrent effect on new entrants. In order to compete with these low expense ratios, there is a need of economies of scale. Economies of scale create synergy effects, contributing to reduction in expenses.

We also recognize high gross premium income as a main contributor to the low combined ratios. It may be difficult for a new entrant to achieve both a low expense ratio and high premium income. Therefore, these factors do create a barrier to new entrants.

Finally, insurance products are commoditized products. This means they are easy to access and relatively easy to copy. New entrants can therefore sell the same insurance products as the established companies do. There is though another aspect of commoditized products. That is innovation in the insurance industry. As products are easy to copy and the market is mature, it is difficult to differentiate.

3.2.2 The Bargaining Power of Suppliers

In order to evaluate the future expense levels for the general insurance companies, it is important to assess the different expenses in relation to suppliers in the market. The evaluation will be based on today's bargaining power of suppliers and if the situation will change in the future.

One of the areas where suppliers have great bargaining power is in reinsurance. General insurance companies use reinsurance to reduce their own risk. The reinsurers are today disciplined in calculating risk and pricing it. A growth in premiums involving reinsurance has consequences for the respective general insurer. Extraordinary storms and large claims influence the price on reinsurance. In situations like this the bargaining power of reinsurers becomes higher, as reinsurance paid increases for the general insurer, and will be reflected in higher prices.

An area that creates high expenses is the development of internal IT systems. Often the development of these systems is outsourced to suppliers with the necessary knowledge. The firms need to have large capacity as these systems will be used by insurance companies where it is crucial to operations that these systems are reliable.

We therefore assume that the development and implementation of these systems is reserved to only a few IT-companies. This makes the bargaining power of these suppliers high.

If, Tryg, Codan and Gjensidige have all grown through consolidation of other insurance companies. A combination of several companies usually creates difficulties, as many insurance companies use different internal IT systems. A joint internal IT system is a crucial factor in order to reduce expenses. Implementation of common internal IT systems is though an expensive process.

As mergers and acquisitions is an apparent path to growth in the Nordic general insurance market, this expense may be an important factor also in the future. The competition for IT suppliers may change in the future. For example, Asian suppliers may enter the market, creating higher competition and lowering the bargaining power of these suppliers.

The insurance companies rely on important partnerships. Some general insurance products can be recognized of being compulsory products. This means that the customer does not always evaluate the product before buying it. These products are especially related to motor insurances.

Many car dealers have partnerships with insurance companies where they in return receive provisions for selling insurance products. These car dealers have the bargaining power of choosing which insurance company they want to cooperate with. The same goes for banks and real estate agents, and these partners can therefore also be recognized to have some bargaining power.

The general insurance companies deal with claims purchasing. When claims incur and the insurance company becomes responsible, it can often use preferred suppliers when replacing the claim. This can be in form of using manpower, buying materials or artifacts. It is therefore common to enter partnership agreements, meaning that the companies enter deals with the suppliers in order to reduce the claim costs. The amount spent on claims purchasing are very high every year, hence the agreements with these suppliers are of great importance. The bargaining power of these suppliers is expected to vary in relation with the amount of business the insurance company creates for the supplier.

3.2.3 The Threat of Substitute Products

The general insurance companies have to deal with the threat of substitute products. This factor also plays a part in determining today's and the future competition situation.

If this changes and the threat of substitute products increase, it can affect the income level in the industry.

The general insurance market is a mature market in the Nordic region. The customers in this region have high income, which means that most people can afford to be insured. Therefore, insurance has become a common expense for most people. The alternatives to not buying insurance products are limited, especially for most private and commercial customers.

The only evident threat of substitute products today seems to be self insurance. This can take place in different agreements. One threat is what many larger corporations do today. They operate with a margin in case of accidents. It can be for example that they cover a large amount if a claim incur. It can be the first DKK 10,000,000 of a claim, and then a general insurer covers the rest. This is commonly known as captive fronting.[56] By operating this way, the general insurer operates with lower risk which is recognized in lower premiums. This practice takes place today, but if it becomes more common in the future it can threaten the premium income for general insurers.

3.2.4 The Bargaining Power of Customers

In order to evaluate the future income level in the general insurance market it is important to assess the bargaining power of customers.

In the last years much has happened in the general insurance market. The understanding of insurance products has from a customer's point of view changed. As the insurance companies have been influenced by governments and by legislation, the products have become easier to understand. This has certainly increased the customers bargaining power, as products have become easier to understand.

Another aspect is that it is easy to terminate an agreement and switch to another insurer. The products are similar and easy to compare for the customers. As products do not differentiate, the customers become very price sensitive. Internet and knowledge creates accessibility to easily switch insurance company. On this level the customer has great bargaining power.

[56] http://www.captive.com/newsstand/jlcovt/Fronting.html

The relatively small market with few market leaders, reduce the customers' influence on prices. The market leaders have become disciplined in setting prices and the price level for insurances is high in the Nordic region.

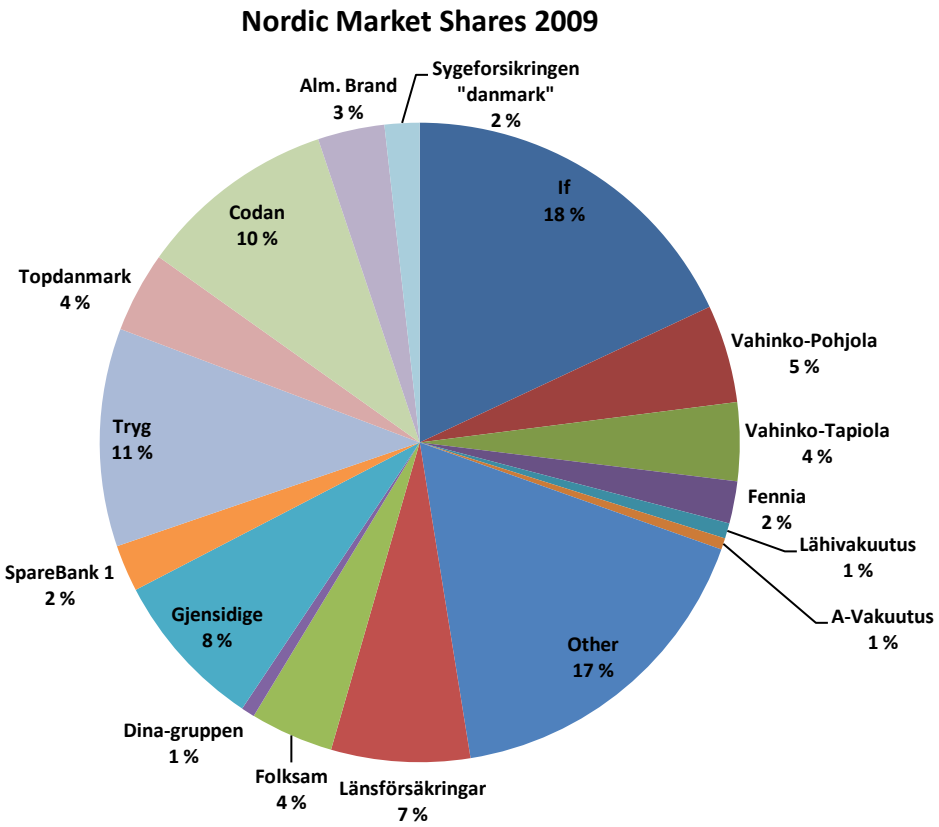
Another field that can influence the bargaining power of the customers is compulsory insurances. One example is car dealers who offer motor insurance. These car dealers have contracts with insurance companies, and many customers therefore buy insurance there. The same is the case for change-of-ownership insurances sold by real estate agents. These compulsory products reduce the bargaining power of the customers.

3.2.5 The Threat of Established Rivals

The last force to be analyzed is the threat of established rivals. The general insurance market in the Nordic region is as previously mentioned a mature market with several established rivals. Furthermore, it is today clearly a consolidated market. By examining the four largest general insurers in the Nordic region, history tells us that they have all used consolidation as a tool to reach economies of scale.

The largest players are disciplined when setting prices, which can be recognized in the level of the combined ratios. These players are recognized with high pricing power.

Chart 4



Own creation. Sources: Statistical institutes in each country[57]

The diagram above shows that the Nordic general insurance market consists of a few large companies that operate in several Nordic countries, and several country specific companies. Some of the companies who have a national specific focus are so large that they can be recognized as a large player when considering the total Nordic market. This relates to for example Länsförsäkringar in Sweden. Still, the four largest companies evaluated in this thesis have about 47% of the market shares in the Nordic region. This can indicate low competition in the market when recognizing the value of economies of scale in the insurance industry.

The indications for relative low competition in the market can be strengthened by calculating the Herfindahl Index[58] for this market. The HI-13-value is 7.57 % in the Nordic region. This HI-13-value accounts for the 13 largest players in the market. The HI value indicates low concentration, although not far from moderate concentration.

[57] Each country source:
NO:http://www.fno.no/no/Topp/Sok/#&&q=markedsandeler+forsikring
DK:http://www.forsikringogpension.dk/presse/Statistik_og_Analyse/statistik/selskaber/markedsandele/Sider/Forsikringsselskaber-markedsandele.aspx
SE:http://www.forsakringsforbundet.com/productdocuments/852/Kvartalsstatistik%20Q4%202009%20publ%20rev%202010_04-12.pdf
FI:http://www.finanssivalvonta.fi/se/Statistik/Forsakringssektorn/Forsakringsbolagen/Pages/Default.aspx
[58] Per Vejrup-Hansen et al., Erhvervsbeskrivelse – Økonomiske begreper og data om virksomheders omverden, 2006, p. 170

If we would look on national levels in the respective countries we would experience moderate concentration. The Nordic general insurance industry can be recognized of being an oligopoly. The main income in the industry belongs to a few companies who dominate the region, having a multi-national focus.

The disciplined pricing of these dominating companies influences the low expense ratios in the market. Economies of scale are a great contributor in order to reach the benchmark of 16-17%[59] in expense ratio, which limits the attractiveness of the market for new entrants.

The insurance products are commoditized products. They are easy to copy and hard to differentiate. This creates higher transparency for customers, as they easily can compare products between companies. This can affect the competition, as price becomes the most important factor for the customer.

The Nordic general insurance market is small in size. Insurance in this region is highly developed and growth opportunities are limited. By looking at recent years, premiums have grown but the customer portfolios and market shares have been relatively stable. As a result of this we can argue that there is moderate growth opportunity in the Nordic market.

When evaluating the distribution it is clear that the larger companies have created advantages through partnerships. Distribution through banks is an advantage that is today mainly reserved for the largest players. The relative low distribution via Internet creates problems for entrants and smaller players, as wage expenses are high. The larger general insurers take advantage of economies of scale.

3.2.6 Conclusion of Porters Five Forces

In accordance with Porter the competition intensity can be recognized as strong when there are many or equally large firms, low growth in the market, large operational fixed costs, high transaction costs and the products are hard to define.

The analysis of Porters Five Forces shows that the general insurance industry in the Nordic region is mature and consists of a few large dominant players, and several minor national players. The analysis shows that there are high barriers of entry. The suppliers have some power, but it is hard to conclude that the situation will change from today influencing the general insurance companies.

[59] Table 1

The insurance products today are standardized. Development shows that it is hard to differentiate or to create substitute products. The products have become transparent affected by the law and the maturity of the market.

The growth opportunities in the market today and for the future seem to be minimal. The market shares of the four largest companies have been stable in recent years. The companies have overall changed their focus from growth to profitability. This does not mean that they don't want growth in different markets, but if they look for growth it should be profitable growth.

The conclusion of the analysis is that the competition intensity in the industry today is moderate. The competition is mainly between the largest companies that operate in more than one market. In years with high profitability these companies have high equity and the possibility for further consolidation is present. Further consolidation may create lower competition intensity. On the other hand, the focus on profitability can create higher competition trying to attract the most profitable customers. This argument is strengthened by the low organic growth in the market.

3.3 Conclusion of the Strategic Analysis

The conclusion of the macro economical, competition and industry analysis are summarized in the SWOT analysis. The purpose is to give a total evaluation of the specific factors, which supports our selection of a possible consolidation amongst two of the four general insurance companies. It will also work as a summary of our evaluation of the future growth and income situation in the Nordic region. The SWOT analysis is made per company, in order to get a overview of the differences and similarities between the companies.

This analysis should also stress the company's strategic targets described in the introduction part, as this will support our evaluation in the consolidation selection. The summary will include the connection between the internal factors strengths and weaknesses and the external factors opportunities and threats. In order to consider the future creation of value, it is important to assess the companies' competences compared to the external opportunities and threats.

3.3.1 SWOT

Table 3

	IF	Tryg	Codan	Gjensidige
Strengths	- Wellknown brand in FI& SE & NO	- Wellknown brand in DK & NO	- Wellknown brands in SE & DK	- Wellknown brand in NO
	- Largest Nordic general insurer	- Largest general insurer in DK	- Large in DK & NO	- Largest general insurer in NO
	- Know-how in the Nordic market	- Know-how in the Nordic Market	- Know-how in the Nordic market	- Know-how in Norway
	- Low expense ratio	- Lowest expense ratio of the four companies in 2009	- Low expense ratio & combined ratio in SE	- Low expense ratio
	- High equity		- High profitability in SE	- High equity
		- Ownerstructure prevents hostile takeover		- Ownerstructure prevents hostile takeover
		- Partnership with Nordea		- High discipline in cost and capital
Weaknesses	- Low market share in DK	- Small presence in SE & FI	- Low market share in NO	- Small presence outside NO
	- Growing combined ratio	- Growing combined ratio	- Low profitability in DK	
	- Small growth opportunities in the Nordic region	- Loss in number of customers		- Minimal growth opportunities in NO
	- Difficulties in integrating a Nordic IT-platform	- Difficulties in integrating a Nordic IT-platform	- Difficulties in integrating a Nordic IT-platform	
	- Ownerstructure, limitation in own development		- Ownerstructure, limitation in own development	
		- Low profitability in less cost effective products		- Adjustments related to listing on the Stock Exchange
		- Low focus on profitability in SE & FI		
Opportunities	- Growth + acquisitions in DK	- Growth + acquisitions in SE & FI	- Growth + acquisitions in NO & FI	- Growth + Acquisitions in SE, DK & FI
	- Development in internet services & sales	- Development in internet services & sales	- Development in internet services & sales	- Development in internet services & sales
	- An integrated Nordic IT-platform	- An integrated Nordic IT-platform	- An integrated Nordic IT-platform	
	- Greater focus on profitability	- Greater focus on profitability	- Increased profitability in DK	- Greater focus on profitability
	- IPO		- IPO	
	- Higher internal insurance expertise			- Larger distribution network
				- More partnerships
				- Offering of supporting product lines
Threats	- Solvency II	- Solvency II	- Solvency II	- Solvency II
	- International entrants - especially corporate segment	- International entrants - especially corporate segment	- International entrants - especially corporate segment	- International entrants - especially corporate segment
	- Tougher competition -> threat of other consolidations (NO & SE & FI)	- Tougher competition in the Nordic region	- Tougher competition in DK & SE	- Tougher competition in NO
	- Climate changes -> larger and more frequent claims	- Climate changes -> larger and more frequent claims	- Climate changes -> larger and more frequent claims	- Climate changes -> larger and more frequent claims
	- Change in laws	- Change in laws	- Change in laws	- Change in laws
	- Low market growth in the Nordic region	- Low market growth in the Nordic region	- Low market growth in the Nordic region	- Low market growth in the Nordic region
	- Higher costs related to reassurance	- Higher costs related to reassurance	- Higher costs related to reassurance	- Higher costs related to reassurance
	- Loss of partnerships	- Loss of partnerships	- Loss of partnerships	- Loss of partnerships
	- No real growth	- No new possible acquisitions in SE & FI		- High entry barriers in other Nordic coutries
		- Change in executive positions		

4 Consolidation Analysis

In the strategic analysis we analyzed the macro economical factors and the attractiveness of the Nordic insurance market. The SWOT analysis summarized our findings, and table 3 shows that there are great consolidation opportunities in the Nordic market.

The objective with this chapter is to evaluate and decide which of the four general insurance companies that is best suited for a consolidation. In total there are six possible consolidations in our scenario. In the consolidation analysis we will analyze the companies' market shares and their core strategy. The decision will be based on the analysis of these factors. Finally we will state who we believe should be the buyer and the target firm.

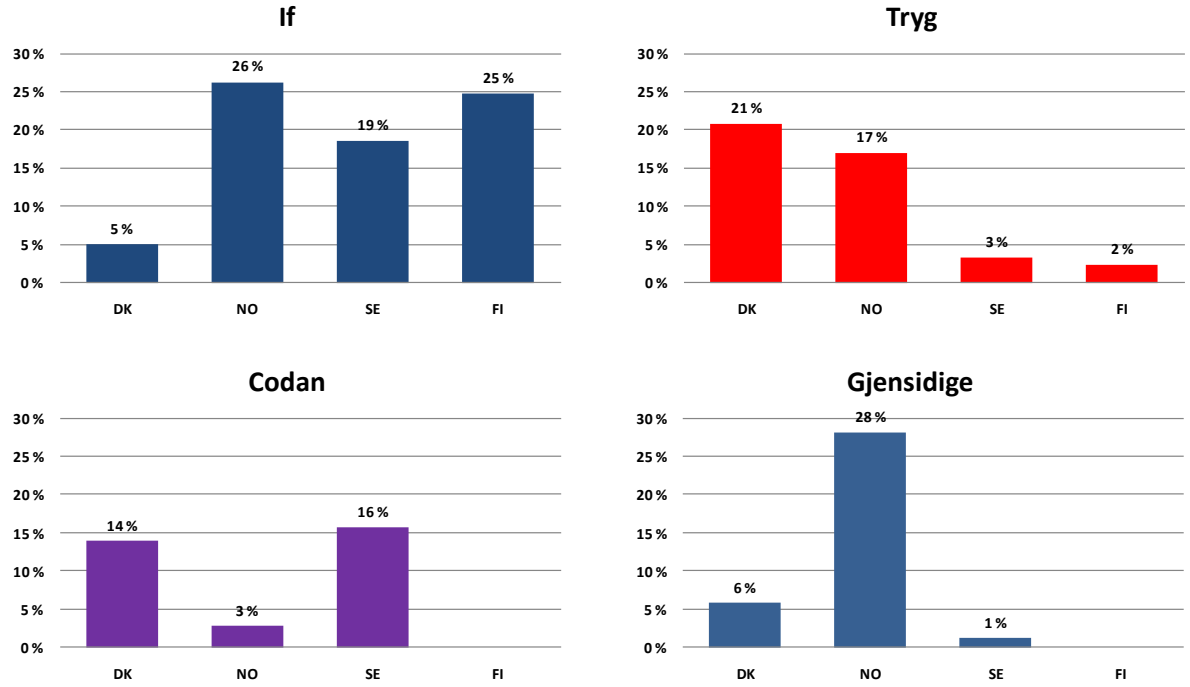
4.1 Analysing the Companies' Market Shares

The market shares of the four companies are of great importance when looking on the opportunities for a consolidation. If two consolidated companies impede the competition in the market, the European Commission and the national competition authority will prohibit the consolidation.[60] In the EU directive 139/2004 the regulations regarding mergers are stated. According to this directive a merger should be approved if it does not significantly weaken the effective competition in the market, in particular by creating or strengthening a dominant player.[61]

In the figures below the respective companies market shares in Denmark, Norway, Sweden and Finland are listed.

[60] The European Commission: *http://ec.europa.eu/competition/mergers/overview_en.html*
[61] EU Directive 139/2004, article 2.2, page 21

Chart 5



Own creation. Sources: Statistical institutes in each country

By evaluating the market shares, there are certain combinations that could create legal problems in some countries.

If has a significant market share in all the countries except Denmark, and a consolidation where If is involved would create a dominant player. Tryg is also an inappropriate consolidation partner. A consolidation between Tryg and Codan will create a dominant player in Denmark, while a consolidation between Tryg and Gjensidige would lead to a significant market share in Norway.

One could solve these legal issues by selling some of the customer portfolios. However, there are many difficulties involved in such a sale. One aspect to consider is that a sale would lead to a loss of key customers from core business. This forced sale of customer portfolio is assumed to create losses in fair value of the customer portfolio and profitability. This situation would not maximize the advantages created by a consolidation.

From evaluating the market shares shown in chart 5 there is one combination that seems to be the best fit. This combination is Codan and Gjensidige. A consolidation between these two companies would result in a market share of 20% in Denmark, 31% in Norway, 17% in Sweden and non in Finland. In other words it would be the largest general insurance company in Norway and one of the largest in both Denmark and Sweden.

It is then necessary to evaluate whether a merger between Gjensidige and Codan would create a dominant player and weaken the competition. We believe that due to If's great presence in Norway, Sweden and Finland and due to Tryg's great presence in Norway and Denmark, this consolidation will not form an evident obstacle for competition. By that we mean that the consolidated companies will not be able to control the barriers to entry, access to suppliers or markets, the price of the products or the interests of the customers.

Based on these factors we assume that this consolidation will not impede the effective competition in the Nordic general insurance market. We therefore argue that Gjensidige and Codan is best suited for a consolidation when analyzing the companies' market shares.

4.2 Analysing the Companies' Strategies

In order to complete the consolidation analysis it is important to assess whether the companies' strategies are aligned with the possibility of a consolidation. The possibility of a consolidation can be both strengthened and weakened by looking at the companies' strategies.

If is today the market leader in the Nordic region. They have gained high market shares in all the Nordic countries except in Denmark. Their strategic focus is to retain market shares, creating profit from existing portfolios. Future strategic goals is to improve existing business, focusing on better customer relationships, create higher internal insurance expertise, lowering expenses and creating balanced risk for their investments.[62]

The conclusion of this is that If does not focus on a consolidation or on gaining higher market shares in the Nordic region at this point. It is also understandable that the company has this focus on value creation considering their present market share and their development in previous years. One could argue that they are in their cycle where there is need for profitability instead of growth.

Tryg has gained high market shares in Denmark and Norway. Their strategic focus[63] is, also like If, mainly on profitability. Still, Tryg focuses on growing its market shares in Sweden and Finland. The growth in Sweden and Finland should be profitable. This means that new market shares in these areas can't be won by lowering premiums above what is profitable.

It will be difficult to gain new market shares, considering the tough competition. Furthermore, their strategic goals focus on other aspects of profitability.

[62] Annual Report 2009 If
[63] Annual Report 2009 Tryg

The focus is on increased customer loyalty and on improving distribution. The reduction in expenses should be accomplished by prioritizing IT, and by reaching higher efficiency from their employees.

The conclusion of Tryg's strategy is that there is an evident focus on profitability. The possibility for a larger consolidation does not seem to be present on a short-term basis. By looking at recent consolidation in Tryg, the last significant acquisition was Moderna in Sweden. This meant that Tryg became more present in Sweden. Therefore, we expect Tryg to focus on their current business and to increase the profitability in this area.

Codan's strategic focus[64] is also on profitable growth. More precise, they want to focus on target segments, rating action and acquisitions. Furthermore, it is evident that they want to lowering expenses regarding operations, processes and use of IT. Codan also wishes to focus on the employees in order to create more engagement. The strategic goal regarding the employees can also bring more expertise to their business.

The conclusion of Codan's strategy is that their main focus is on profitability and profitable growth. They do differ from Tryg and If, through directly having a strategy that involves growing through acquisitions. Norway can be seen as a favorable place to grow as they already have a market share of 3%. In addition, they have previously shown interest here through the acquisitions of White Label Insurance and Duborgh.

Their other growing strategy focuses on profitable growth on target segments. Codan's expertise can be useful when considering segments where they can be recognized as market leaders. One example can be their marine business, where they have shown great determination by buying portfolios.[65]

Gjensidige's strategy[66] is based on maintaining its status in Norway with optimizing value and profitability. Gjensidige also want to expand its insurance business in the Nordic region. Maintaining its status in Norway should be achieved through focus on disciplined and targeted underwriting, customer relationships, multiple distribution channels, cost savings and efficiencies. Regarding their expansion plans, it is stated in the annual report that they want to expand in the Nordic region. We argue that the recent acquisition of Nykredit indicates that Denmark is a potential country for further acquisitions.

[64] Annual Report 2009 Codan
[65] http://www1.codan.dk/om-codan/profil-af-codan/pages/historie.aspx
[66] Annual Report 2009 Gjensidige

The conclusion of Gjensidige's strategic focus is that the Norwegian market should be a base of profitability in order to ensure growth outside Norway. The strategy related to Norway is to optimize value and profitability. In order to grow they need to look outside Norway, and they have a clear focus on expanding their business in the Nordic region. Therefore, the possibility for a consolidation is evident in an analysis of Gjensidige's strategy.

Based on the companies' strategies we argue that Gjensidige and Codan are best suited for a consolidation. It is evident that their strategies include expansion plans, while If and Tryg have a greater focus on profitability.

4.3 Analysing Codan & Gjensidige from a SWOT Perspective

A consolidation can take advantage of the two companies' strengths and reduce their weaknesses. Furthermore it can realize opportunities and limit their threats. In the next section we will evaluate Gjensidige and Codan, and argue why they are a good fit based on our SWOT analysis.

When we look at the strengths we see that Gjensidige has a strong history in Norway and also a large customer base. Codan on the other hand, has well-known brands in both Denmark and Sweden. Through a consolidation they can build on these strengths and become a powerful unit in the Nordic general insurance market. In addition, they both have know-how in the Nordic market, and therefore it is more likely that a consolidation would be successful.

From evaluating the weaknesses it is clear that they have limited growth opportunities within their home countries. Especially Gjensidige has outgrown the Norwegian market. Core competences from both companies can be shared, resulting in reduced expenses and higher profitability. This expertise can for example involve knowledge in price settings, risk management or IT specialists. Through optimizing shared competences present weaknesses can be reduced.

In order for both of them to grow, their best opportunity is to expand in the Nordic countries. This could more easily been done trough a consolidation as they can use both companies brands and expertise. Furthermore, as it will increase their presence in the different markets, they have a great opportunity to increase their profit. Another aspect is that a consolidation can create a more complex internal IT system, but if implemented effectively the gain from an integrated Nordic IT platform would be even greater.

Finally a consolidation will ensure that they better can handle the threats they are exposed to in the market. As a consolidation will strengthen their position in the market, the threat of new entrants will be reduced. Furthermore, there are much uncertainty related to the new Solvency 2 rules, and especially the new capital requirements. A consolidation will exclude this threat, as the new company's capital strength will increase significantly.

By analyzing a consolidation between Gjensidige and Codan from a SWOT perspective, the scenario seems reasonable.

4.4 Conclusion of the Consolidation Analysis

In the analysis of the companies' market shares we emphasized that the European Commission could prohibit a consolidation if it creates a dominant player and weakens the competition in the market. In respect to this, the analysis showed that a consolidation where If or Tryg were involved would create a dominant player.

The result of the analysis was therefore that Gjensidige and Codan would be best suited for a consolidation. We argued that they would be a good fit because they both are major players in their respective countries and have a small presence in the other Nordic countries. The consolidation would make them the largest general insurer in Norway and one of the largest in Denmark and Sweden. We assume that this combination would not impede the competition in the market. Thus, the European Commission would accept the consolidation.

The analysis of the companies' strategies also indicated that Gjensidige and Codan would be the best fit. We saw that If and Tryg's strategic focus was to increase the profitability regarding their current business. This was also the main focus for Codan, but their strategy also included acquisition plans. Gjensidige is the only company that has a clear expansion strategy. They are the market leader in Norway and need to look to the Nordic market in order to expand their business.

From a SWOT perspective we argue that through a consolidation the companies can take advantage of the companies' opportunities and strengths, and limit their weaknesses and threats. Based on the consolidation analysis we therefore assume that Gjensidige and Codan are best suited for a consolidation. Next, we need to state the roles of the two companies.

We will base this decision on the information from the annual reports and on the owner structure of the two companies. By assessing the annual reports it is obvious that Gjensidige has a greater focus on expansion compared to Codan.

In Gjensidige's annual report it is stated that they would seek to gain growth through acquisitions in the Nordic region.[67] Codan on the other hand has no clear expansion strategy.

Furthermore, a review of the two firms' ownership structure indicates that it would be easier for Gjensidige to perform a consolidation. Unlike Gjensidige, Codan is owned by another company. Codan's decisions regarding consolidations are therefore greatly influenced by their mother-company. Based on this we find it more likely that Gjensidige would seek an acquisition in the Nordic region, and we will therefore consider the scenario where Gjensidige will be the buyer and Codan will be the target firm.

In the rest of this thesis we will evaluate and analyze whether or not a consolidation between Gjensidige and Codan is financially profitable and possible. In order to answer that, we will perform a financial statement analysis of Codan including a valuation, and we will analyze the synergy effects involved.

[67] Annual Report 2009 Gjensidige, p. 10

5 The Financial Statements of General Insurance Companies

In order to understand the financial statement analysis, we find it relevant to explain in short how general insurance companies report their income statement and balance sheet. We will explain the common key numbers and how income is generated. The objective is to give the reader a better understanding when looking at the reformulation of the income statement and the balance sheet.

Illustration 6

Income Statement:	**Balance:**		**Key Ratios:**	
Premiums	**Assets:**			
- Claims		Investment Assets		
- Expenses		Reinsurance Shares	Claims / Premiums	= Claims Ratio (%)
= Underwritning result		Receivables		
+ Interest Rates		Other Assets and accruals		
= Insurance Result	**Liabilities:**		Expenses / Premiums	= Expense Ratio (%)
(+/-) Investments		Equity		
- Transfer to Interest Rates		Insurance Provisioning		
= Result before Tax		Provisions	Claims + Expenses / Premiums	= Combined Ratio (%)
		Debt		
		Accruals		

Own Creation. Source: www.irmi.com and www.lloyds.com

5.1.1 Underwriting Result

The underwriting result is recognized as one of the most central performance figures. This is because the underwriting result describes the income from the insurance operations, showed in the illustration above.

The underwriting result is the sum of premium income minus claims and expenses. The claims account for the claims occurred in the given period. The expenses on the other hand, account for the expenses related to the operations.

The underwriting result is often showed as the key ratio, combined ratio. This ratio is a combination of the claims and expenses divided by premiums. If the combined ratio is 100%, it means that the insurance company uses all its premium income to cover the claims and expenses. Thus, depending on the investment result, an insurance company should gain a combined ratio below 100% in order to make profits.

5.1.2 Investment Result

In addition to the underwriting result, insurance companies operate with large investments creating an investment result. These investments are a combination of both investments bound to operations and investment of free equity. The investments are commonly a portfolio containing bonds, real estate and stocks.

As a result of prepaid premiums from customers and that claims are paid backwards, the insurance companies create a return by investing the provisions. Illustration 6 shows that the return created on provisions is transferred in the financial statement to affect the insurance result as interest rates. Most commonly the provisions are only invested into bonds in order to minimize risk.

The equity not bound to the insurance operations is also invested. This equity is known as free equity, and it brings an additional investment return.

5.1.3 Dividing the Equity

Naturally, insurance companies want the return on their investments to be as high as possible. However, risk is an element that has to be taken into consideration. As explained, the total income is a combination of the cash flow from the insurance operations and the investments. The interest result that influences the insurance result needs to be treated with low risk, because it affects the amount available for paying claims.

If the provisions are too low, insurance companies generally have equity to cover 100% of the insurance operations. The largest part of this equity is placed in financial assets. The free equity, on the other hand, is not directly involved in the insurance operations and can therefore bear higher risk.

To sum up, the risk profile for equity involved in the insurance operations and financial assets is not identical. Therefore, it is important to divide the equity bound to operations and the free equity in order to create consistence between the return and the risk.

Basic balance equation: Total Equity (=book value)[68]

$$Total\ Equity = (Operational\ Assets - Operational\ Liabilities) + (Financial\ Assets - Financial\ Obligations)$$

$$Total\ Equity = Invested\ Equity\ (NOA) + Free\ Equity\ Invested\ in\ Financial\ Assets\ (NFA)$$

$$Free\ Equity\ Invested\ in\ Net\ Financial\ Assets\ (NFA) = Total\ Equity - Invested\ Equity\ (NOA)$$

The basic balance equation above shows how much of the total equity that is invested in the insurance operations, and therefore how much of the total equity that is free equity invested in net financial assets.

5.2 Regulation and International Financial Reporting Standards

In this section we will briefly describe the regulations and the international financial reporting standards which the insurance companies are obliged to follow. As stated in the limitations, we will not elaborate on these regulations as they are quite comprehensive. Instead, this section should give a quick overview of the insurance companies' obligations concerning the financial statements and their objectives.

International Financial Reporting Standards (IFRS) was implemented in the European Union by the International Accounting Standards Board (IASB) and entered into force in January 2005.[69] In a Commission Regulation from November 2008 it is stated that the objective of these standards is: "to prescribe the basis for presentation of general purpose of financial statements and to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities".[70]

The national regulations set by the Norwegian Financial Supervisory Authority and the Danish Financial Supervisory Authority, are based on the IFRS. Therefore, both Gjensidige and Codan are obliged to follow these standards. In order to achieve its objective, the standards set out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

[68] Penman, 2010, Financial Statement Analysis and Security Valuation, p. 245
[69] Commission Regulation (EC) No 1126/2008, p. 1
[70] Commission Regulation (EC) No 1126/2008, p. 5

Financial statements can be described as a structured representation of the financial position and the financial performance of an entity. Its objective is to provide information that is useful to a wide range of users in making economic decisions. Therefore, a financial statement should contain an income statement, a balance sheet, an equity statement, a cash-flow statement and explanatory notes.[71] According to the regulations set by the national financial authority, financial statements have to be prepared both on a semi annual basis and on an annual basis.

5.3 The Balance Sheet

In this section the reporting of the balance sheet from insurance companies will be explained. The regulations are based on international standards set by the national authorities and IFRS, as explained above. The section should give an overview of the assets and liabilities reported from general insurance companies, and provide a basic understanding to how the reformulation is accomplished.

5.3.1 The Assets in the Balance Sheet

The balance sheet of general insurance companies differs from non-financial companies. Insurance companies do not divide fixed assets and current assets. The assets are instead classified into five main groups:[72]

1. Intangible assets
2. Total investments
3. Receivables
4. Other assets
5. Prepayments and accrued income

The assets should be estimated in accordance with basic regulations stated in IFRS. This means that the assets and liabilities in the balance sheet should initially be reported in present value. Still, other assets and intangible assets are given in cost price after amortization. The same is accounted for in the item, goodwill.

The total investments are the sum of investments in group entities, other financial assets and deposits with ceding undertakings. All of these values should be reported in present value.

[71] Commission Regulation (EC) No 1126/2008, page 5-6
[72] Annual Report 2009 Codan Forsikring, p. 19

To sum up, operational assets are given in cost price after amortization, and investments assets are given in present value.

5.3.2 The Liabilities in the Balance Sheet

The liabilities in the balance sheet can be classified into three main groups:[73]

1. Total equity
2. Total provisions
3. Total payables

The total equity is the sum of share capital, share premium account, total revaluation reserve, total reserves, retained earnings and proposed dividends.

The total provision consists mainly of provisions for unearned premiums, provisions for outstanding claims and other provisions that the company owes the customers. These types of provisions are measured in different ways. The provisions for unearned premiums are measured as the part of premiums written which is to be allocated to the following financial year or to the subsequent financial years.[74] The provisions for outstanding claims are the amount set aside to meet the total estimated ultimate cost to an insurer, setting all claims arising from events which have occurred up to the end of the reported period, whether reported or not, less the amount already paid.[75]

The level of the provisions differs between the insurance companies, and the regulations are not sufficient. As a result of that, some insurance companies are more conservative and some are less conservative when it comes to the amount set aside for provisions. This will therefore affect the book value of equity. The level should be clearly matched to the risk profile of insurance operations. The higher risk involved, the higher run-off loss can be expected. On the other hand, if too much is set aside for provisions, the company will have a positive run-off result.

The total payables are basically calculated to amortized cost price, except from derivatives and payables that are associated to trading or associated with investment properties. These payables are not classified in short and long-term debt, as they are divided into non-financial companies.

[73] Annual Report 2009 Codan Forsikring, p. 20
[74] International Association of Insurance Supervisors, http://www.iaisweb.org/index.cfm?pageID=47&vSearchLetter=p
[75] International Association of Insurance Supervisors, http://www.iaisweb.org/index.cfm?pageID=47&vSearchLetter=c

5.4 The Income Statement

The income statement is divided into the following main setup for general insurance companies:

1. Balance on the technical result, general insurance
2. Investment return
3. Other items

The balance on the technical result general insurance, is a combination of the earned premiums net of reinsurance, the claims incurred net of reinsurance, bonus and rebates and net operating expenses.

In order to calculate the net premiums, bonus and rebates have to be included. In the income statements of insurance companies the earned premiums are shown without the effect from bonus and rebates. The bonus and rebates are shown as an own item in the statement.

The claims and expenses in the income statement are shown in greater detail. This makes it possible to get an overview of the expenses involved in the business of general insurance.

The values of reinsurance are both calculated into the net premiums and the net claims paid. In order to estimate the net result of reinsurance, the total reinsurance bought and total reinsurance received should be estimated. This means that the items involving reinsurance from net premiums and net paid claims need to be combined.

The investment result is also reported in great detail, and the setup gives a god overview of items included in the total investment return. However, the income and expense items are not structured into net investment income and net investment expenses.

5.5 Information Level in the Financial Statement

As previously mentioned, a general insurance company needs to follow laws and regulations when reporting its financial statements. Codan and Gjensidige both prepare similar reports. Codan is not registered at any stock exchange, unlike Gjensidige. Therefore, Codan only reports what they are legally obligated to. Gjensidige on the other hand, are obligated to deliver more information and information about the business is given in greater detail.

Codan is also divided into several subsidiaries under Codan A/S. The information level in the subsidiaries is a bit different.

Codan Forsikring, Trekroner and Privatsikring deliver information with the same setup. Trygg-Hansa on the other hand deviates a bit, but deliver information at the same information level. Codan's information is therefore possible to use in a financial statement analysis in the same way as information from a stock exchange listed company would be used.

The key ratios previously mentioned are also reported. In the same manner one can use these ratios to compare profitability to competitors. One could argue that the key ratios would be better suited for comparison if they were given on a national level and included groupings of business segment. This could for example be private or corporate segment.

To sum up, the information level of both Codan and Gjensidige is given in detail. The reports give a good picture of the business today and expectations for the future. Codan's reports are in several aspects given in less detailed than its listed competitors. Thus, this will be taken into consideration in the analysis.

5.6 Audited Annual Reports

The annual reports used in this analysis are from 2005-2009. All of Codan's annual reports are audited and approved externally. This means that the annual reports are approved to live up to the legal standards, giving the correct picture of the business.

6 The Financial Statement Analysis

The income statement and the balance sheet give the details to discover the sources of profitability and growth. Our objective with the financial statement analysis is to analyze the historical key ratios for Codan in order to evaluate the development of its insurance business in preparation for forecasting and valuation. In order to be more precise, we will evaluate Codan on a five-year basis, from 2005 until 2009. A full financial statement analysis will only be performed on the targeted company, Codan.

The calculations will be based on a reformulated income statement and balance sheet. Profitability that generates value comes from a firm's business operations. Therefore, a reformulation is necessary in order to separate income and costs created by the operations from the income and costs related to the investments.

In the financial analysis, we will use the Du Pont model to analyze Codan's operating profitability. By performing this analysis our aim is to identify if and where value is created. In addition, the firm's return on equity and investment mixture will be taking into consideration. In order to make a forecast, we need to understand what drives profitability and growth. Therefore, this chapter will together with the strategic analysis form the basis for the prognosis and the valuation in the following chapters.

6.1 Reformulation of the Balance Sheet

The process of reformulating the balance sheet of Codan is a comprehensive process. This is due to the fact that we only want to look on the Nordic insurance market, which means that we exclude Codan's business in the Baltic countries. In addition, as Codan A/S is 100% owned by RSA, they do not prepare a complementary annual report.

It has therefore been necessary to use the annual reports of Codan Forsikring A/S, TreKroner, Privatsikring and Tryg Hansa, when reformulating both the balance sheet and the income statement. We have simply added the numbers from these reports in order to get the result of Codan.[76] By analyzing these companies we cover all the subsidiaries associated with Codan in the Nordic region.[77]

We are aware of the effect Tryg Hansa will have on the income statement, as they originally report their statements in SEK.

[76] See appendix for financial statements for all companies

[77] See Group Chart in chapter 2

In a perfect world, it would have been possible to see exactly when a claim or a premium was paid, and use the exchange rate for that day. However, in order to get a consolidated result for Codan, we have chosen to use the exchange rate at the final day of each year.

The main challenge concerning the reformulation of the balance sheet is to separate operational items from financial items. This is important in order to give a correct picture of Codan's insurance business. Operational assets and operational liabilities include those items involved in the insurance operations. These are the items that create the basic income for the company. The financial assets and the financial liabilities on the other hand, include those items that absorb and obtain capital.

We have classified intangible assets, total receivables, total other assets and total prepayments and accrued incomes as operational assets. We have also chosen to classify total insurance technical provision as an operational asset, in addition to be an operational liability.

Our argumentation for this classification is based on the nature of the insurance business. The insurance companies receive a premium on the insurance products in advance, and they make a return from investing the received premiums. The invested received premiums are called the insurance technical provisions. As this contributes to the insurance technical result, we argue that the insurance technical provisions are a part of the insurance operations and therefore also an operational asset.

In the reformulated balance sheet the insurance technical provisions in 2009 constitutes DKK 31.5 billion of total investment assets of DKK 38.3 billion. This means that the financial assets are calculated as the difference between the total investment assets and the insurance technical provisions. In 2009 financial assets was DKK 6.8 billion. The total operational assets in 2009 give a total of DKK 38.5 billion.

Total equity available for investments and dividends was in 2009 approximately DKK 10.9 billion. Here we have included share capital, share premium account, total reserves, retained earnings and proposed dividends.

Regarding the liabilities it could sometimes be difficult to separate a financial item from an operational item. Therefore, when classifying these items it is essential to read the financial statements carefully and to show great cautiousness. Concerning financial liabilities we have chosen to include debt to credit institutes, debt to Group entities, derivatives, trade accounts payable and lease obligations.

We have classified these items as financial liabilities, because they are interest bearing and that separates them from the operational liabilities. In 2009 the financial liabilities constituted DKK 478 million.

Finally in the reformulated balance sheet we have the operational liabilities. Here we find the items that are related to the operational business. They include total insurance technical provisions, total other provisions, deposits received from reinsurers, payables arising from direct insurance contracts, payables arising from reinsurance contracts, current tax liabilities, other payables and accruals and deferred income. The sum of the operational liabilities in 2009 was DKK 33.9 billion. The complete reformulated balance sheet is shown in table 4 below.

Table 4: The Reformulated Balance Sheet

Reformulated Corrected Balance Sheet Codan

in '000 DKK	2005	2006	2007	2008	2009
Intangible assets	379 885	356 351	441 063	434 469	513 586
Total receivables	3 239 635	3 834 757	3 710 601	3 126 065	2 864 034
Total other assets	4 097 393	3 432 016	3 939 874	4 084 563	2 762 123
Total prepayments and accrued income	649 526	687 210	709 615	737 210	908 695
Total insurance technical provisions	28 747 236	31 491 535	32 973 835	29 898 473	31 500 859
Operational Assets	**37 113 674**	**39 801 869**	**41 774 988**	**38 280 780**	**38 549 296**
Financial Assets	**1 375 847**	**3 754 121**	**3 562 842**	**6 066 775**	**6 830 026**
Total Assets	**38 489 521**	**43 555 990**	**45 337 829**	**44 347 555**	**45 379 323**
Corrected equity	**6 235 740**	**6 242 271**	**6 786 423**	**7 217 820**	**6 499 831**
Total equity	**7 601 802**	**8 726 556**	**9 305 400**	**11 642 618**	**10 943 923**
Debt to credit institutes	449	220	0	0	0
Debt to group entities	533 789	297 407	487 272	327 501	424 111
Derivatives	0	0	0	0	1 450
Trade accounts payable	33 302	29 686	23 694	30 663	31 896
Lease obligations	15 349	14 778	12 950	14 006	20 793
Financial Liabilities	**582 889**	**342 090**	**523 916**	**372 170**	**478 250**
Total insurance technical provisions	28 747 236	31 491 535	32 973 835	29 898 473	31 500 859
Total other provisions	151 624	152 523	179 823	97 900	203 442
Deposits received from reinsurers	26 700	27 406	17 920	13 416	14 498
Payables arising from direct insurance contracts	190 595	145 423	200 230	238 024	125 934
Payables arising from reinsurance contracts	270 174	234 071	263 439	135 503	132 963
Current tax liabilities	5 288	328 001	7 891	759 359	693 729
Other payables	616 930	1 694 843	1 506 715	805 318	801 447
Accruals and deferred income	296 283	413 541	358 663	384 776	484 277
Operational Liabilities	**30 304 830**	**34 487 343**	**35 508 513**	**32 332 767**	**33 957 150**
Total Equity and Liabilities	**38 489 521**	**43 555 990**	**45 337 829**	**44 347 555**	**45 379 323**
Total equity	**7 601 802**	**8 726 556**	**9 305 400**	**11 642 618**	**10 943 923**
Invested Equity (NOA)	**6 808 845**	**5 314 525**	**6 266 474**	**5 948 013**	**4 592 146**
Free equity invested in financial assets (NFA)	**792 958**	**3 412 031**	**3 038 926**	**5 694 605**	**6 351 776**

We note that operational assets are significant greater than operational liabilities, which means that Codan A/S is independent of external capital in order to operate its business.

It is also worth noticing that Codan A/S has generated more financial assets than financial liabilites. Codan's total equity is invested in net operating assets and net financial assets, respectively DKK 4.59 billion and DKK 6.35 billion in 2009.

6.2 Reformulation of the Income Statement

The main objective with the reformulation of the income statement is to separate income and costs related to the operational business from return and costs related to the investments. Therefore, in the reformulated income statement we have primarely reposted the items into an order that allows us to perform a more precise analysis of Codan's profitabilty and growth opportunities.

Regarding the net premiums, we have included the items gross premium written, change in the provision for unearned premium and bonuses and rebates. These items are all related to the core income created in Codan, and it is the net premium that constitutes the denominator in the calculation of both the claims ratio and the expense ratio.

In the original income statement the item bonuses and rebates is posted as an operational expense. The item can however be interpreted as a price reduction on the policy, and hence a reduction in premium income and turnover. We have therefore chosen to include the item in net premiums. In 2009 net premiums was approximately DKK 14.37 billion.

Reinsurance related items are in the original income statement divided and posted together with premiums, claims and expenses. When reformulating the income statement, we have chosen to remove and gather these items for two reasons. The first reason is that we want to capture the real income generated by Codan's core operations. Reinsurance can for example reduce net claims paid or net premiums, which again affects the outcome of the key ratios. Second, we want to gather all the items related to reinsurance in order to see how they affects Codan's technical result. When all the reinsurance items are gathered, it is easier to analyze their impact on the company. Net result of reinsurance was DKK -484.5 million in 2009.

The net claims paid include the items gross claims paid, change in the provision for claims and change in other insurance related provision. Net operating expenses include acquisition costs, administrative costs and other operating expenses. In line with the explanation above, we have excluded the items concerning reinsurance.

It is net claims paid and net operating expenses that constitutes the nominator when calculating claims ratio and expense ratio, respectively. In 2009, net claims paid was approximately DKK -10 billion, while net operating expenses was -2.6 billion.

Finally, the technical result is the sum of net premiums, net claims paid, net operating expenses and insurance technical interest. In 2009 the technical result for Codan was approximately DKK 2.4 billion. The complete reformulated income statement is shown in the table below.

Table 5: Reformulated Income Statement

Reformulated Corrected Income Statement Codan

in '000 DKK	2005	2006	2007	2008	2009
General Insurance					
Premiums					
Gross premiums written	13 415 244	14 195 945	14 827 940	14 229 619	14 779 196
Change in the provision for unearned premium	-293 477	-244 775	-282 730	-109 678	236 866
Bonuses and rebates	-77 993	-82 139	-94 654	-63 129	-89 675
Net premiums	**13 043 774**	**13 869 032**	**14 450 556**	**14 056 812**	**14 926 387**
Claims					
Claims paid, gross	-8 330 990	-8 297 563	-9 039 145	-10 090 473	-10 983 720
Change in the provision for claims	-1 921 961	-1 945 289	-1 996 104	98 220	950 657
Change in other insurance related provision	0	0	0	0	0
Net claims paid	**-10 252 951**	**-10 242 852**	**-11 035 249**	**-9 992 253**	**-10 033 063**
Reinsurance					
Premiums ceded to reinsurers	-480 379	-555 189	-530 225	-512 657	-578 319
Change in the provision for unearned premium, reinsurers'	-36 939	-6 711	-31 034	-8 007	25 491
Reinsurance commissions and profit participation	6 584	8 709	11 913	10 868	16 463
Reinsurance bought	**-510 734**	**-553 191**	**-549 346**	**-509 796**	**-536 365**
Claims paid, reinsurers' share	975 184	416 381	326 307	745 899	465 411
Change in the provision for claims, reinsurers' share	-114 287	-335 007	385 549	-433 382	-413 573
Reinsurance received	**860 897**	**81 374**	**711 856**	**312 518**	**51 839**
Net result of reinsurance	**350 163**	**-471 817**	**162 510**	**-197 278**	**-484 526**
Operating Expenses					
Acquisition costs	-697 002	-736 951	-914 049	-1 071 993	-1 104 385
Administrative expenses	-1 725 195	-1 639 358	-1 610 280	-1 386 519	-1 504 776
Other operating expenses	-10 308	0	-6 318	-1 363	-10 874
Net operating expenses	**-2 432 505**	**-2 376 309**	**-2 530 647**	**-2 459 875**	**-2 620 035**
Insurance technical interest	**616 235**	**756 299**	**969 221**	**930 209**	**610 912**
Technical result, general insurance	**1 324 716**	**1 534 353**	**2 016 392**	**2 337 616**	**2 399 675**

6.3 The Financial Analysis

In the following section we will analyze Codan's financial performance for the last five years, from 2005 to 2009. The analysis will be based on the reformulated balance sheet and the reformulated income statement. In the first part of the financial analysis we will analyze the operating profitability by using the Du Pont model.

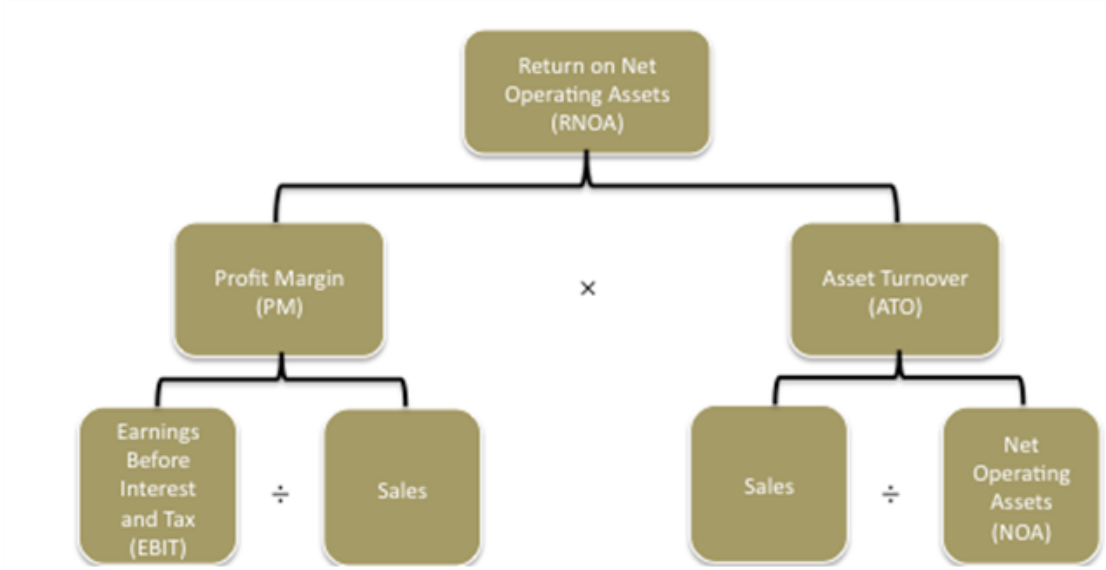
Our objective is to identify if and where value is created, and we will calculate key ratios like profit margin, asset turnover and return on net operating assets. In addition, we will also review the claims ratio, the expense ratio and the combined ratio, as they are vital in the analysis of the firm's operating profitability.

The second part will contain an analysis of Codan's return on equity and the development of the provisions. In the last part of the financial analysis, focus will be on the company's investment mixture and their capitalization margin.

6.3.1 Operating Profitability

The Du Pont model is used as a decomposition of operating profitability. The model states that profitability in operations comes from two sources.[78] **First**, the more net premiums that end up in the technical result increases the return on net operating assets (RNOA). **Second**, RNOA increase as more net premiums are generated from the net operating assets. The first is a profitability measure and the second is an efficiency measure.

Illustration 7: The Du Pont Model



[78] Penman, 2010, Financial Statement Analysis and Security Valuation, 372

It is worth mentioning that the model could be broken down into even more levels. However, the breakdown showed in the figure above is sufficient for our analysis.

Before we can start the analysis, we have to define the inputs shown in the Du Pont model. The operations of an insurance company differ from non-financial firms. Therefore, the inputs are also defined differently.

The first input we have to define is sales. When we look at the insurance operations, it is naturally to define net premiums as the total turnover created in an insurance company. This is because it is here income is generated. Thus, sales concerning Codan are defined as:

$$
\begin{aligned}
&Gross\ Premiums\ Written \\
-\ &Change\ in\ the\ Provisions\ for\ Unearned\ Premiums \\
-\ &Bonuses\ and\ Rebates \\
\hline
=\ &Net\ Premiums
\end{aligned}
$$

The net operating assets are, as mentioned in the reformulated balance sheet, defined as operating assets minus operating liabilities. In the calculation of the asset turnover, we will use the average number of net operating assets.[79]

Finally, we have to define the operating profit (EBIT). For the insurance companies it is the technical result that corresponds to the operating profit, and it is this result that will be used in the analysis. It is defined as:

$$
\begin{aligned}
&Net\ Premiums \\
-\ &Net\ Claims\ Paid \\
+\ &Net\ Result\ of\ Reinsurance \\
-\ &Net\ Operating\ Expenses \\
+\ &Insurance\ Technical\ Interest \\
\hline
=\ &Technical\ Result
\end{aligned}
$$

In the table below we have calculated the three most important key ratios from the Du Pont Model, for the years 2005 until 2009. The development of the ratios is clearly positive.

[79] Penman 2010, Financial Statement Analysis and Valuation, p 371.
ATO = Sales/ 0,5 * (NOA beginning of period + NOA end of period)

Table 6: Key Ratios

	2005	2006	2007	2008	2009
Profit Margin	10,16 %	11,06 %	13,95 %	16,63 %	16,08 %
Asset Turnover	1,92	2,29	2,50	2,30	2,83
Return on Net Operating Assets	19,46 %	25,31 %	34,82 %	38,28 %	45,53 %

Return on net operating assets is a combination of profit margin and asset turnover. Its significant increase from year to year is due to the fact that the technical result has increased at a greater rate compared to net operating assets. RNOA is a measure of operating profitability. It is therefore safe to say that Codan's operations are quite profitable. By looking at the two drivers of RNOA, we can discover where the value is created.

The profit margin[80] has had a regularly growth in the five year period, except for the last year. By looking more closely at the reformulated income statement, we find the reason for the little decline the final year. As the profit margin consists of net premiums and technical result, its outcome depends on how these two values change in relation to each other. From 2008 to 2009 the increase in net premiums has been greater than the increase in the technical result. At the same time, in 2009, both net operating expense and net result of reinsurance turned out to be higher than in the previous years. The net effect is a lower profit margin. Despite the minor setback in 2009, Codan' profit margin over the five-year period is very good. Hence, its net premiums are a great contributor to the technical result.

When analyzing the profit margin, it is also important to look behind the numbers. This is especially the case when analyzing an insurance company, due to the fact that the provisions involved may have a great impact on the result. Insurance companies typically operate with an estimated provision regarding IBNR, which stands for Incurred But Not Reported. This is related to the claims the company will have to pay in the future.

If provisions for IBNR are set too low, that will have a positive impact on the technical result, which again will result in a higher profit margin. On the other hand, if the provisions are set too high that will impact both the technical result and the profit margin negatively. In both cases, this will affect the result the next year or the coming years as the real costs occur. It is a very difficult task to estimate provision for IBNR, and because of that, IBNR causes great uncertainty in the calculation of the profit margin.

[80] Penman, 2010, Financial Statement Analysis and Valuation, p 371
Profit margin = technical result general insurance / net premiums

When analyzing Codan's income statement, we can see that during the first three years their business is good with high premium income and relatively low claims costs. For these three years we also see that the change in provision for claims is increasing, which may indicate that they want higher protection against increasing claims in the future. This has a negative effect on the technical result and the profit margin.

However, this trend changes for the last two years. The premium income is still good, but claims paid are increasing. For these two years we see that the change in provision for claims is significantly lower and also positive. This is due to the fact that Codan, in this period, uses the provisions from the previous years to pay the increasing claims, while they at the same time transfer back some of the provision. The net effect of this is an improved technical result and profit margin.

Often, insurance companies increase their provisions when the business is going well, in order to have a "reserve" for poorer periods. In the long run, by following this method, the result evens out. Therefore, when analyzing an insurance company, one needs to consider its business over a period of several years in order to get the correct picture of the business.

Asset turnover is a measure of Codan's efficiency. It measures to which degree Codan's operational assets contribute to generate sales. The asset turnover has, in line with both PM and RNOA, had a positive development over the five year period. Its minor setback in 2008 can be explained by a slightly decrease in net premiums compared to net operating assets.

When looking at the asset turnover, it is especially the driver net operating assets that are interesting to analyze. One operational asset that has a great impact on the technical result is total receivables. As shown in the reformulated income statement, this item is quite high in all years. A positive trend is that it has been reduced in both 2008 and 2009.

Table 7: Total Receivables Turnover

	2005	2006	2007	2008	2009
Total Receivables Turnover	4,03	3,62	3,89	4,50	5,21

That is also reflected in the table above. Total receivables turnover[81] measures the ability of total receivables to generate sales. It is increasing, meaning that more receivables are turned into sales.

[81] Total receivables turnover = net premiums / total receivables

This item is of great importance for two reasons. First, by increasing the turnover on total receivables, Codan will have more money available for investments. This will increase the insurance technical interest and also the technical result.

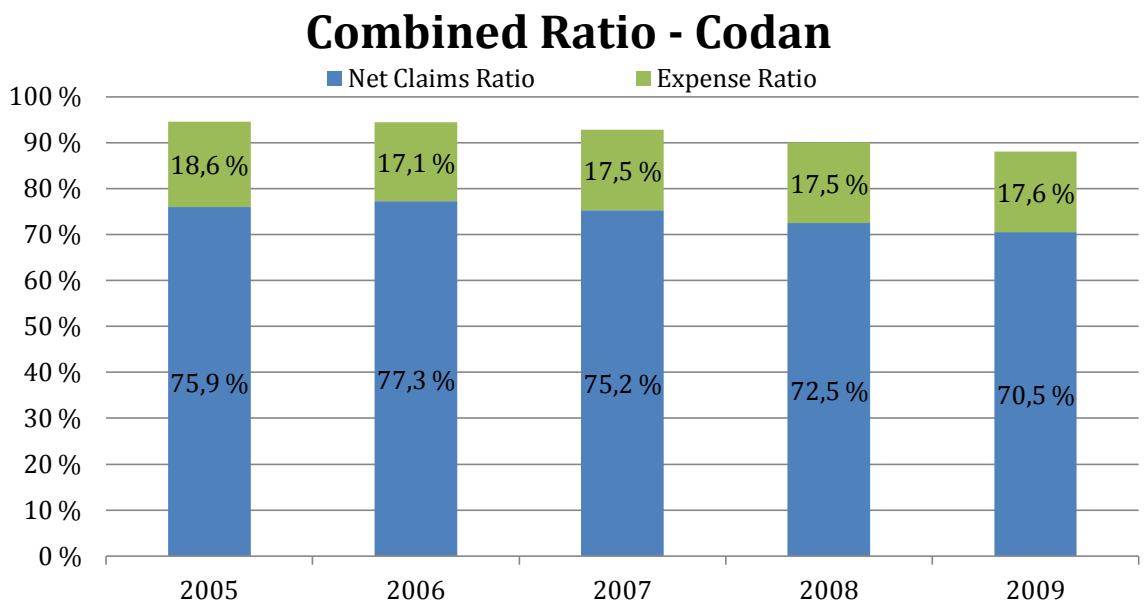
Second, according to the new solvency II requirements, an insurance company's capital requirement will be affected by the company's total receivables. This means that if a company, like Codan, has a large amount of receivables in its balance, it has to increase its capital requirement level. If the company, on the other hand, increases its turnover on total receivables it can reduce their capital requirement level and more money would be available for investments.

The ratios calculated based on the Du Pont model gives a good picture of Codan's operations and its profitability. However, a full analysis of the company's operational profitability should also include a review of the claims ratio, the expense ratio and the combined ratio, and their development over the five-year period.

We will first analyze the combined ratio. It is a combination of the net claims ratio and expense ratio[82]. The net claims ratio includes the claims ratio[83] and the reinsurance ratio[84]. These ratios are the most important value drivers in a general insurance company, and will therefore be analyzed in great detail.

[82] Expense Ratio = Net Operating Expenses / Net Premiums
[83] Claims Ratio = Net Claims Paid / Net Premiums
[84] Reinsurance Ratio = Net Result of Reinsurance / Net Premiums

Chart 6



As illustrated in the chart above, the combined ratio shows a positive performance trend from 2005 until 2009. The combined ratio has decreased from about 94.6% in 2005 to 88.0% in 2009. If examined closer, it is the net claims ratio that is the greatest contributor to the decreasing combined ratio with a decrease of about 5.4%. The expense ratio has also improved, with one percentage point.

The net premiums have constantly improved, from DKK 13 billion in 2005 to DKK 14.9 billion in 2009. The net operating expenses has been almost the same, moving from DKK 2.4 billion in 2005 to DKK 2.6 billion in 2009. Regarding the net claims paid, it has decreased from about DKK 10.3 billion in 2005 to about DKK 10 billion in 2009.

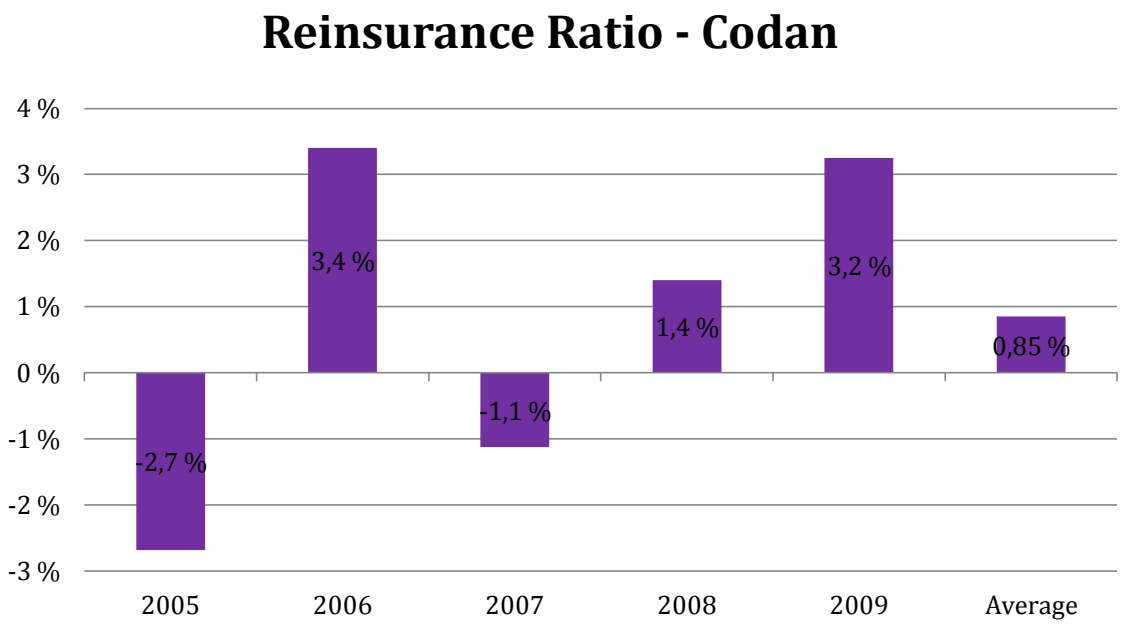
In Codan, it is Codan Forsikring and Trygg-Hansa that constitute the majority of the total business. Changes in these two subsidiaries have a great effect on the total performance of Codan. Codan Forsikring has increased its volume of premiums written by about 29.5% from 2005 to 2009. On the other hand, gross claims paid have increased with about 51% in the same period.

Trygg-Hansa had an increase in premiums written of only 2% in local currency from 2005 to 2009. However, when looking at this development in DKK the change is negative of -6.3%. Similar to Codan Forsikring, gross claims paid have increased with 24.4% in local currency.

Codan Forsikring has had a moderate increased in its total expenses, while Trygg-Hansa has managed to decrease its total expenses. The effect of total expenses is therefore a minor contributor to the positive development in the combined ratio.

Considering the reinsurance ratio, it is fair to argue that its fluctuations are influencing the result in Codan. It has in two of the five years given a positive effect, meaning that the reinsurance bought is less than the reinsurance received.

Chart 7



One could expect the claims ratio and the reinsurance ratio to correlate, but the analysis shows otherwise. As this is not the case, one could argue that Codan has placed its reinsurance well. The reinsurance bought has been relative stabile over the five years. This means that Codan has maintained a good retention level in relation to risk reduction and costs, considering the development during the five years.

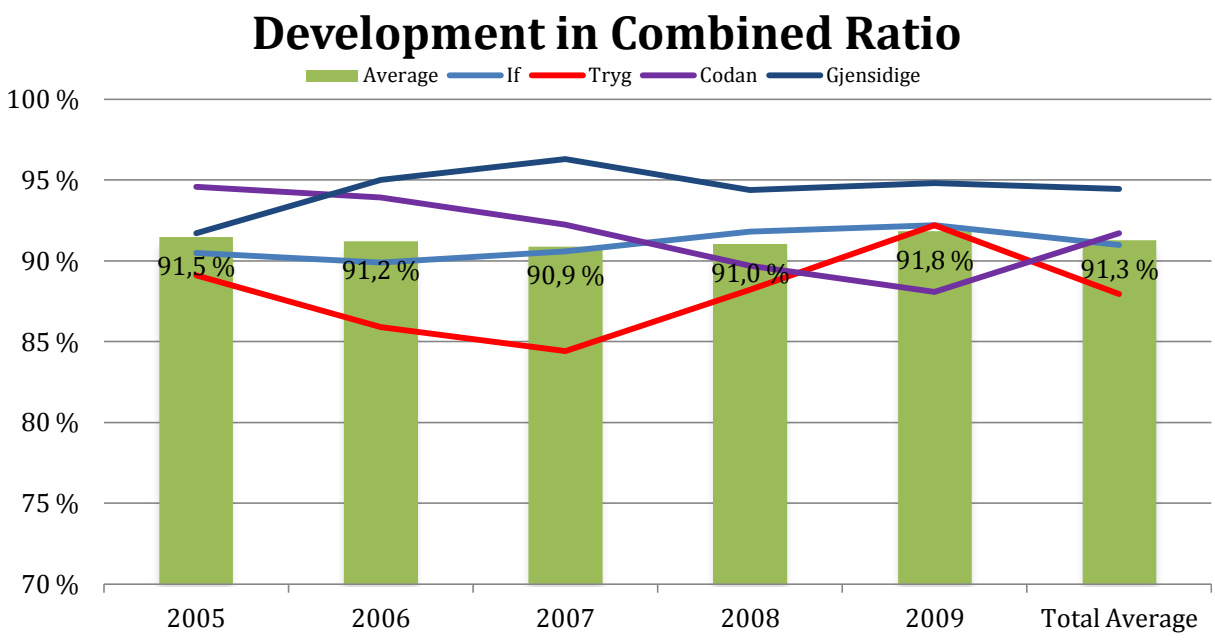
The variation in the reinsurance ratio is therefore created by the reinsurance received. In 2005 where the ratio is negative, the reinsurance received was about DKK 860 million. In 2009 the reinsurance received was only DKK 51 million while reinsurance bought was about DKK 536 million.

6.3.1.1 Operating Profitability – Benchmarking

In the previous chapter the focus was explicitly on Codan's performance. In order to analyze the key ratios even further and to budget for the future, it is a good measure to look at the averages for the five year period. We also want to include the performance level of Codan's rivals, in order to create a performance benchmark.

In this section the key ratios; combined ratio, expense ratio and net claims ratio of Codan will be analyzed together with its nearest competitors. It should be clarified that Codan's ratios exclude their Baltic business as in the rest of this thesis. Regarding the calculation of the other competitors' ratios, their business in the Baltic is not excluded. However, their ratios only include their general insurance business and are suitable to be used for comparison.

Chart 8

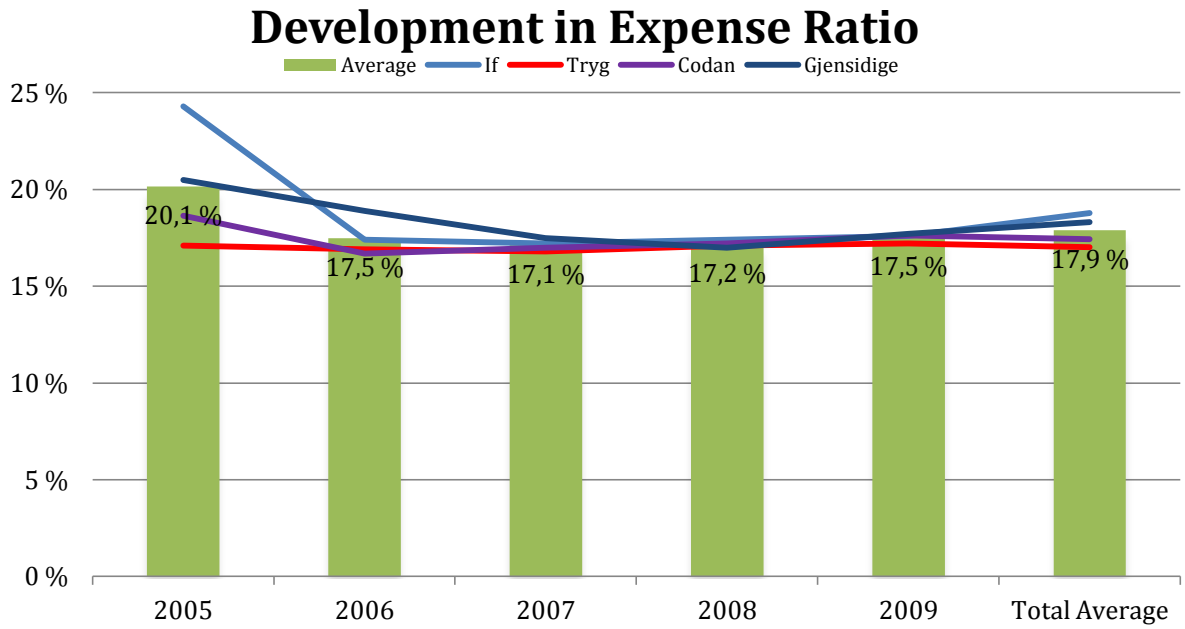


From the chart above it is clear that the peers in the Nordic general insurance market have performed quite similar in the years 2005-2009. One could argue that the performance levels have come closer the last two years. The average combined ratio has been quite stabile over the five-year period. However, when analyzing the individual companies we can see the combined ratios vary.

Comparing the competitors, If and Gjensidige have had relative stabile combined ratios, varying between 90%-95%. When analyzing Codan and Tryg the picture is a bit different. Codan shows a stabile decreasing trend, while Tryg's combined ratio fluctuates more.

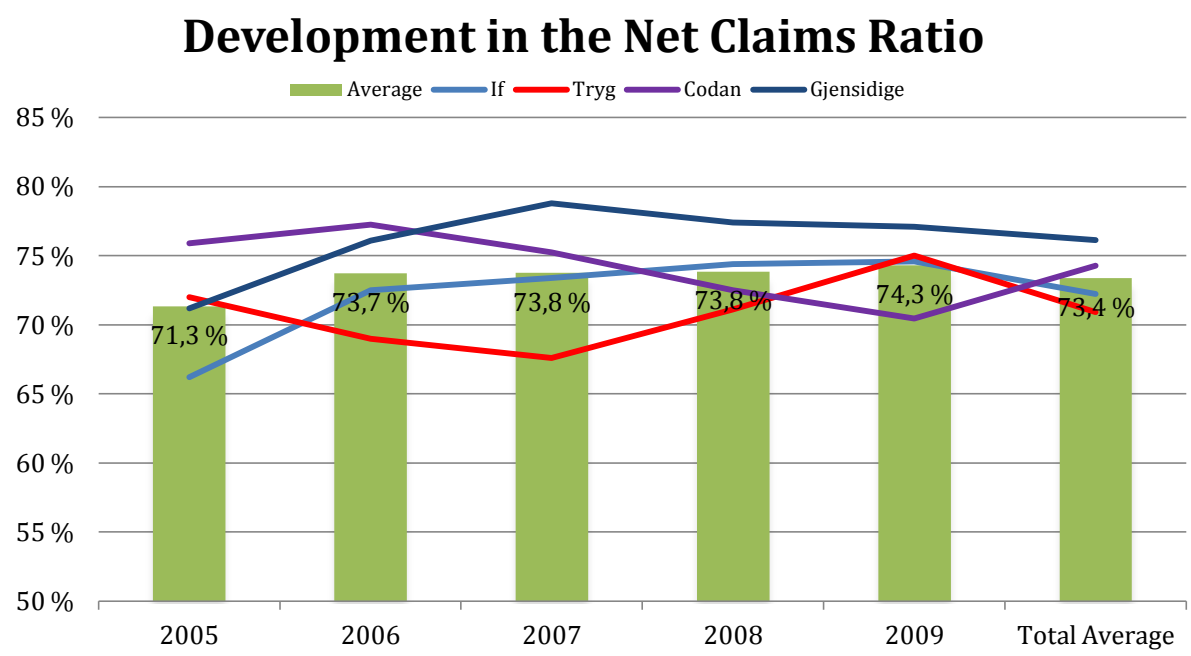
In order to analyze and explain the development further, we will split the combined ratio into its two components; the expense ratio and the net claims ratio.

Chart 9



An analysis of the expense ratio shows that it has been very stabile in recent years for all of the companies. Gjensidige and If have especially benefitted from their decreasing expense ratio. One could argue that the ratio has not moved at all in recent years if the time period had started in 2006. It is clear that all of these four peers lie around a business benchmark between 17%-18%. We therefore argue that the changes in the combined ratios are not a result of changes in the expense ratio.

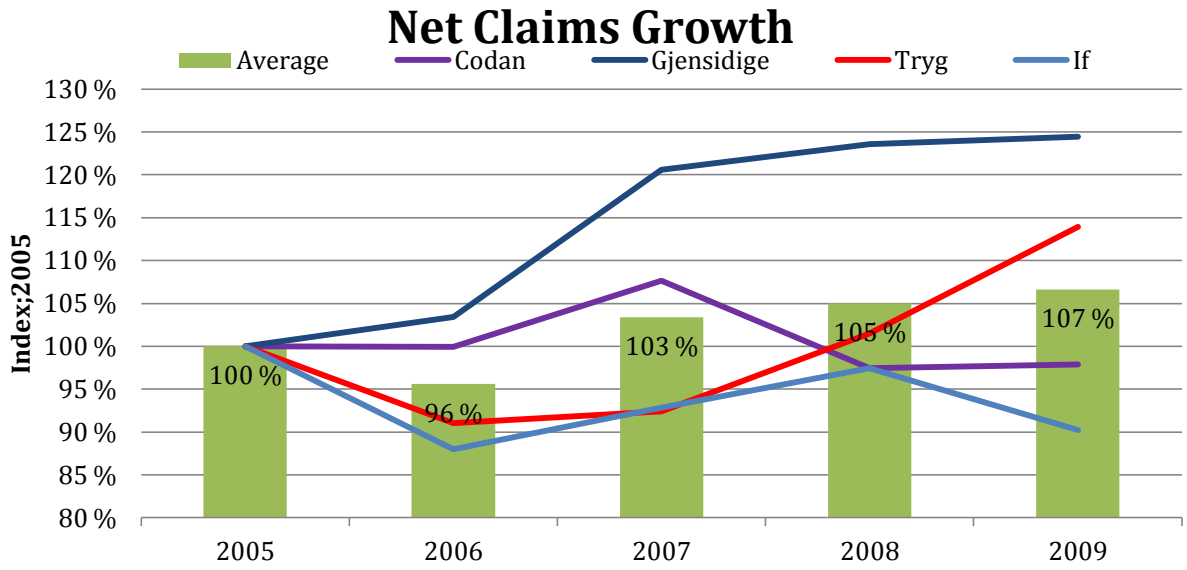
Chart 10



The development in the net claims ratios tells the same story as the combined ratios. It is a positive development in this period, with small changes in the average level after 2005. Codan had the poorest net claims ratio out of the four companies in 2005. Despite that, Codan has the best trend. The other companies fluctuate more than Codan, and have a negative performance trend.

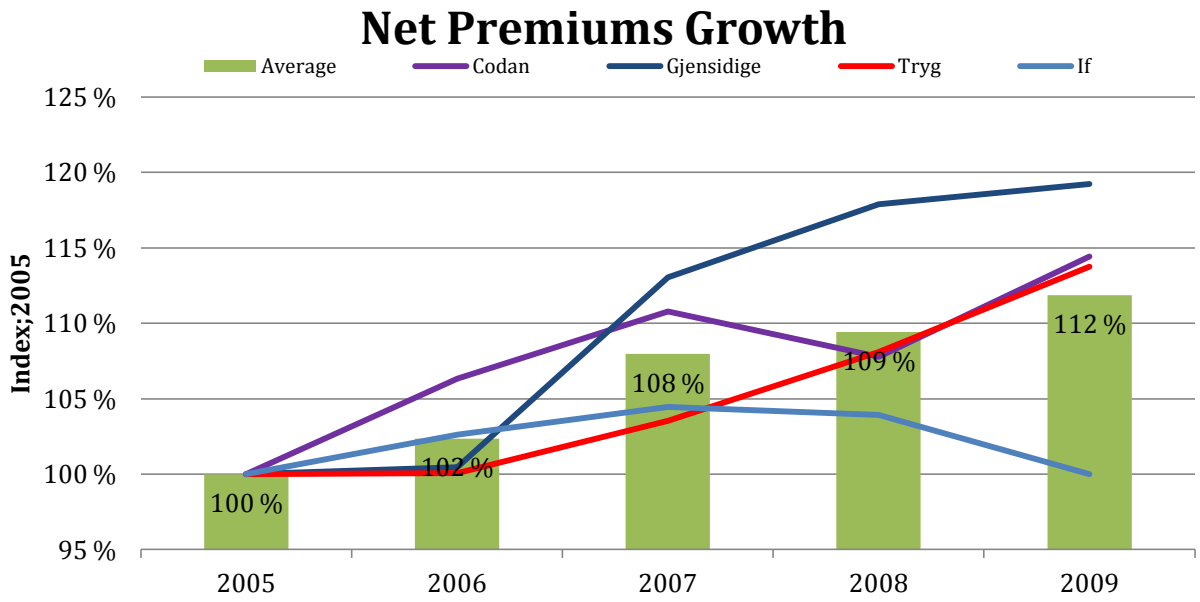
To sum up, the net claims ratio is the component that affects the changes in the combined ratio the most. The effect could be a result of fluctuations in net premiums, that net claims change a lot, or that both parameters change at the same time. In order to explain the reason for these fluctuations, both net claims growth and net premium growth have to be analyzed.

Chart 11



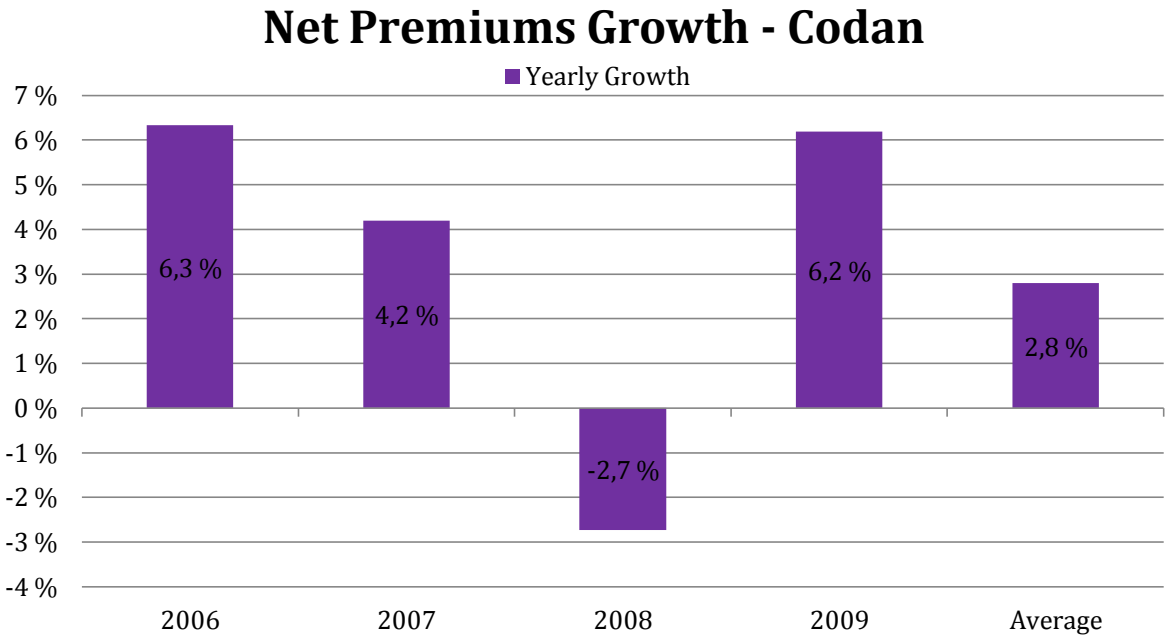
When analyzing the years where the combined ratio is low, we also find a low claims growth. In 2006, all but Gjensidige had a negative claims growth. After 2006, the average claims growth has been increasing. This effect is also seen in increasing average combined ratios. The development in Codan is quite good compared to its competitors. Only If has had a more positive development in net claims.

Chart 12



When analyzing the net premium growth, the four largest companies have grown on average 12% in net premiums from 2005-2009. The growth is however very different. If has not grown at all in premium income. Codan has only grown 8%, while Tryg and Gjensidige have grown respectively 14% and 19%.

Chart 13



Analyzing the net premium income, the growth in Codan has varied some. It is only in 2008 that the net premiums growth has been negative. In all the other years the growth has been positive and greater than the growth in net claims paid. The result is that we have seen an improved combined ratio from 2005-2009.

6.3.2 Return on Equity

So far in the financial analysis we have analyzed Codan's operating profitability based on the historical key ratios. In this part of the analysis we will look on the relationship between Codan's profit for the year and its equity by including the return on equity (ROE). This ratio measures the overall profitability of the company.[85]

Due to the fact that we split the equity between equity derived from operations and equity derived from investments, there are two ways of calculating the return on equity.

[85] Penman, 2010, Financial Statement Analysis and Valuation, X

Either by using the total equity or by using the equity derived from operations. RNOA is a measure of the profitability of the operations, which we already have analyzed. Therefore, in this part we will look on the profitability of the total business by using the total equity.

It will be calculated based on this formula[86]:

$$ROE = \frac{Profit\ for\ the\ Year}{Average\ Total\ Equity}$$

Its development for the years 2005-2009 is shown in the table below.[87]

Table 8

	2005	2006	2007	2008	2009
ROE	13,98%	13,32%	18,10%	25,73%	18,11%

The fluctuations over the last three years are quite interesting, and can be explained by looking at the reformulated financial statements. The great increase from 2007 to 2008 is due to an increase in profit for the year of over DKK 1 billion. This is again mainly driven by a very good investment return, which increased with DKK 1.3 billion that year.

ROE decreases over the final year, and this is due to a greater increase in total equity compared to profit for the year. Regarding the profit for the year it only has a modest increase. A big contributor to this is a decrease in the investment return of DKK 1.29 billion.

We see that the return on equity is lower compared to RNOA. This is mainly due to the fact that we know include the net financial assets in the calculation of ROE, and they are not as profitable as the net operating assets. This is especially evident in the year between 2008 and 2009. In this year the financial assets increased with DKK 763 million, while ROE decreased with 7.62%.

However, over the last three years ROE is 18% or above, and that tells us that Codan's overall business has been quite profitable.

6.3.3 Development in Provisions

In relation to the development in premiums, it can be a good measure to look at the development of provision for unearned premiums and outstanding claims.

[86] Annual report 2009 Codan A/S, p. 28
[87] In the calculation of ROE we have adjusted for provision for contingency reserves in order to get a more correct picture of Codan's profit for the year.

Table 9

in '000 DKK	2005	2006	2007	2008	2009
Provision for unearned premiums	4 883 428	5 233 742	5 467 402	5 081 814	5 306 742
Provision for outstanding claims	23 817 396	26 212 919	27 454 842	24 774 844	26 150 575
Provision for bonuses and rebates	46 412	44 875	51 591	41 815	43 543
Total insurance technical provisions	**28 747 236**	**31 491 535**	**32 973 835**	**29 898 473**	**31 500 859**

From the table above, we see that the development in total insurance technical provisions is not showing a clear trend. The level is relatively stable during the period, not increasing or decreasing more than 10%.

In order to explain the difference in provisions, it would be a good idea to compare it to premium income. When the premium income increases and more business are created, the expected claims level will increase. Higher premium income should therefore increase provisions.

Table 10

	2005	2006	2007	2008	2009
Net premiums	13 043 774	13 869 032	14 450 556	14 056 812	14 926 387
Total insurance technical provisions	28 747 236	31 491 535	32 973 835	29 898 473	31 500 859
Provisions in percentage of premiums	220 %	227 %	228 %	213 %	211 %

Own Creation. Source: Appendix X Balance Statement and Appendix X Income Statement

The table above shows that the provisions have been between 228%-211% of the net premiums in the period, 2005-2009. This means that the provisions margin is high, strengthening the assumed risk strategy in Codan. The levels seen in the table above fit Codan's policy.[88]

6.3.4 Investment Analysis

As part of the reformulation, Codan's total investment return is excluded. This is because we are most interested in looking at the company's operations. The investments in an insurance company nevertheless have large effect on the overall business result as previously explained. The companies' strategy on investments is therefore important to analyze in order to recognize returns and risk in comparison to the investment-mix.

[88] Annual Report Codan A/S 2009, p. 32

Table 11

in '000 DKK	2005	2006	2007	2008	2009
Investment assets					
Investments in properties	1 004 790	1 068 682	1 130 204	746 133	642 261
Investments in Group entities	904 799	1 192 797	1 347 694	1 242 132	946 328
Investments in associated companies	16 651	17 317	15 796	13 628	13 773
Loans to Group entities	310 000	310 000	310 000	1 000 000	1 074 955
Other financial investment assets					
Equity investments	4 026	4 045	192 524	100 899	292 990
Bonds	27 690 428	32 494 519	33 375 159	32 705 506	35 184 176
Other loans	158 702	137 872	144 304	145 231	166 710
Other	793	0	0	0	0
Total financial investment assets	**30 090 189**	**35 225 231**	**36 515 682**	**35 953 529**	**38 321 195**
Deposits with ceding undertakings	**32 894**	**20 426**	**20 995**	**11 719**	**9 691**
Total investment assets	**30 123 083**	**35 245 657**	**36 536 677**	**35 965 248**	**38 330 886**

The total investment assets have risen with 27% from 2005-2009. The majority of the growth can be tracked to 2006. More precisely the large increase can be traced to the growth in bonds, increasing 17% in 2006. The table above shows that the majority of the investment-mix is bonds. In 2009, bonds stood for 91.7% of the total investments. This investment-mix confirms our expectations for a relative risk-averse investment strategy with the majority invested in bonds.

Table 12

in '000 DKK	2005	2006	2007	2008	2009
Investments					
Income from Group entities	32 767	161 444	97 609	72 956	67 046
Income from investment properties	54 412	29 681	71 898	-15 710	-1 450
Interest income and dividends, etc.	1 208 152	1 342 138	1 525 643	1 567 580	1 544 840
Value adjustments	-393 736	-596 739	-362 826	1 001 368	-252 139
Interest expenses	-42 186	-17 011	-33 600	-10 911	-28 395
Investment management expenses	-35 090	-34 479	-29 317	-37 119	-49 333
Total investment return	**824 319**	**885 033**	**1 269 407**	**2 578 163**	**1 280 569**

By analyzing the investment returns, we notice a positive development in income. Still, the total investment return varies a lot. In 2008, Trygg-Hansa contributed to value adjustments with an extraordinary increase of about DKK 895 million. This created a much higher total investment return than one could expect in a normal investment year.

The table 12 shows that interest income and dividends, etc., primarily bonds and shares create most of the investment income. This is as expected from analyzing the investment assets where bonds are the majority of the assets. The average investment return is about DKK 1.37 billion, considering the period from 2005-2009.

By assessing the insurance technical provisions and its corresponding actual return, we can find the actual return in percent. This can be useful in order to forecast the future insurance technical interest.

Table 13

In '000 DKK	2005	2006	2007	2008	2009	Average
Total insurance technical provisions	28 747 236	31 491 535	32 973 835	29 898 473	31 500 859	30 922 388
Growth in total insurance technical provisions		10 %	5 %	-9 %	5 %	2,6 %
Insurance technical interest	616 235	756 299	969 221	930 209	610 912	776 575
Return	2,1 %	2,4 %	2,9 %	3,1 %	1,9 %	2,5 %

The table above gives several answers. The total insurance technical provisions vary some. From 2005 the level has clearly gone up. Still, the provisions have not increased every year. Its average in the period is DKK 30.922 million, with an average growth of 2.6%.

The actual insurance technical interest varies even more, and the result is an increase in return from 2005-2008. In 2009 the return is clearly affected by the financial situation. Bonds gave in 2009 much lower interest returns than in the years before. The result is an average return of 2.5% in the given time period.

6.3.5 Capitalization

The purpose of looking at the capitalization for Codan is to assess how the solvency requirements are fulfilled in relation to capital demands. This can tell us something about the future, looking forward to higher demands in Solvency II.

The solvency percentage for Codan A/S is 39% including dividends from Codan A/S subsidiaries.[89] This is clearly above the required 8%. Still, in previously years the percentage has been over 50%. Codan A/S is preparing for the new requirements coming from Solvency II. Going forward the solvency percentage should be kept high, on at least the current level from our assumptions. Today, the basis capital in Codan is evaluated running through the year by an internal capital model from RSA.

[89] Annual Report Codan A/S 2009, p. 43

6.4 Conclusion of the Financial Analysis

To sum up, Codan's operating profitability over the five-year period can be described as very good. This is shown through the ratios profit margin and the combined ratio. It is mainly here the company's value is created. The profit margin has increased with 5.92% while the combined ratio has decreased with 6.6%. Compared to the other Nordic insurance companies, Codan's average combined ratio is slightly above the total average. However, in 2009 the combined ratio in Codan is the lowest of the four companies.

Its decrease in the combined ratio is mainly due to a decreasing net claims ratio over the five-year period. Compared to the three other Nordic insurance companies, Codan has had a better development in its net claims ratio.

The relatively low expense ratio is also a part of the value creation in the company. This is because it contributes to a good combined ratio and a good technical result. However, when comparing to the other Nordic insurance companies, it is clear that Codan has not performed particularly better. Codan can, by becoming even more cost-effective, gain a competitive advantage compared to less cost-effective insurance companies.

Codan's efficiency, as expressed through the ratio asset turnover, is quite good over the five-year period. However, we have argued that it can be improved by increasing the turnover on total receivables. This again, may lead to an improved technical result.

The return on net operating assets, which are driven by the profit margin and the asset turnover, sums up the operating profitability. It shows an increase of 26.07% over the five-year period, and is measured at 45.53% in 2009.

The return on equity measures the profitability of Codan's overall business, and in 2009 it was 18.11%. The great difference between RNOA and ROE is mainly because we include net financial assets in the calculation of ROE. In the analysis we saw that ROE has varied over the last three years, and this is mainly due to fluctuations in the investment return, which affects the profit for the year.

Over the five years, both net premiums and net claims paid have had a positive growth. This is a normal trend, as claims tend to increase when premium income increases. Provisions usually follow the same trend, as a greater reserve is needed when income and claims increases.

When analyzing Codan's provisions, we found that they have not increased significantly. Instead, they have been on a consistently high level, strengthening Codan's risk profile.

In the last part of the financial analysis we looked at the investment mixture and Codan's capitalization. We have argued that the investments could have a great impact on the company's profit for the year. Codan's investments are considered to be quite profitable with an average return of DKK 1.37 billion over the five-year period. We also found that the majority of Codan's investments were in bonds, which are in line with the company's risk profile.

Regarding Codan's capitalization we wanted to see to which degree the solvency requirements were met. The solvency percentage in 2009 was 39%, and clearly above the minimum requirement of 8%. Codan has over the five years had a good margin. We therefore don't see any issues regarding the future capital requirements.

7 Prognosis

In this chapter we will forecast the expected future performance of Codan. The objective is to make a prognosis that is realistic and valid to use in the valuation of the company. In order to accomplish this we will use the outcome of both our strategic and financial analysis. Especially the value drivers discussed in the financial analysis will be of great importance. By looking at the historical development of these drivers, it is easier to forecast the future performance of the company. However, these drivers are affected by macro economical factors discussed in the strategic analysis. Therefore, it is necessary to take both chapters into consideration when preparing the forecast.

The key value drivers we will take into consideration in the forecasting process are:

1. Net premiums
2. Net claims paid
3. Net operating expenses
4. Asset turnover

In addition, in order to complete the forecast, we will also look on reinsurance, provisions and the insurance technical interest.

We have set our forecast horizon to six years, from 2010 until 2015. It is essential that the forecast is realistic, but also that the forecasting length is at a certain length. By increasing the forecast horizon one also increase the uncertainty of the outcome. Therefore, we believe that six years are sufficient in order to perform a realistic and valid valuation of Codan.

7.1 Estimation of Net Premiums

We will start to estimate the net premium growth. There are quite many factors that affect the net premiums. We will consider the gross domestic product (GDP), Codan's strategy and growth opportunities and their historical financial performance when estimating the future net premiums.

In the PESTEL analysis we saw that there is correlation between net premiums and GDP. The development of GDP is therefore a good measure of how much we can expect the net premiums to grow in the future.

By using the nominal GDP growth in current prices we account for the inflation, as it is included in this GDP rate. Our estimation of the future GDP growth rate is summed up in the table below.

Table 14

	2009A	2010A	2011E	2012E	2013E	2014E	2015E
Nordic GDP Growth	-5,7 %	6,2 %	5,4 %	4,2 %	3,9 %	3,9 %	3,9 %

The rate from 2009 and 2010 is known, and the expected rates in 2011 and 2012 are calculated by Eurostat.[90] From 2013, we expect the GDP growth to be equal to the average Nordic GDP rate over the last ten years.

In chart 1 we discovered that from 2001 and beyond the GDP growth was quite high until the financial crisis occurred in 2008. Today the world economy is still recovering, and we therefore expect that the GDP growth rate will establish itself on a lower level than in the years before the crisis.

Regarding Codan's growth opportunities they are determined by the firm's strategy and by the market conditions. Codan states that their strategy is to accomplish profitable growth. However, they have no desire to grow through mergers or acquisitions. We have previously discussed that the Nordic insurance market is a mature market with limited growth opportunities. We therefore believe that it will be difficult for Codan to achieve their goal.

A consideration of the Nordic market conditions also supports this. We expect an increased population and an increased education level, and we argue that this will increase the demand for insurance products. However, due to the attractiveness and the profitability of the Nordic insurance market, the competition will get tougher. We expect an increase of mergers and acquisitions, making it harder for Codan to accomplish profitable growth.

Taking all this into consideration, we expect Codan's market growth in the future to be slightly negative. Our estimation is shown in the table below.

Table 15

	2009A	2010A	2011E	2012E	2013E	2014E	2015E
Codan's Market Growth	0,0 %	0,0 %	-0,1 %	-0,1 %	-0,1 %	0,1 %	0,1 %
Market Share	10,0 %	10,0 %	9,9 %	9,8 %	9,7 %	9,8 %	9,9 %

[90] http://epp.eurostat.ec.europa.eu/

The expected negative growth until 2013 is estimated because of expected loss of market shares due to the focus on profitability. As we expect Codan to try to retain its market share, the overall decrease is low.

After 2014 we expect the company to grow again. After years where profitability is the main focus, we expect growth opportunities through mergers and acquisitions. The growth has therefore turned positive. By recognizing the growth in GDP and market share, we can now show the expected future net premium growth.

Table 16

In '000 DKK	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Total Market Premiums	147 791 963	156 972 463	165 398 810	172 345 560	179 067 037	186 050 652	193 306 627
Gross Premiums	14 779 196	15 697 246	16 374 482	16 889 865	17 369 503	18 046 913	18 750 743
Premium Growth		**6,21 %**	**4,31 %**	**3,15 %**	**2,84 %**	**3,90 %**	**3,90 %**

First, we have calculated the total market premiums by looking at today's level and increasing it by the expected GDP growth. We argue that the best estimate for future gross premiums is the GDP growth. This is due to the correlation between the two.

Codan's gross premiums are thereby calculated with regard to their market share. As we have estimated their expected future market share, we multiply this to the expected total market premiums. By doing so, we can show the yearly gross premiums written growth in percent and real value.

We argue that this growth is the best measure to the net premiums also. When this rate is applied to the net premiums we get the following development:

Table 17

In '000 DKK	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Net Premiums	14 926 387	15 853 580	16 537 561	17 058 076	17 542 491	18 226 648	18 937 487

In the financial analysis we found that Codan's average net premium growth was 2.8% from 2005 until 2009. In the same period, the Nordic peer average was 2.9%. It is important to notice that these averages are estimated during a period where we have had a financial crisis. When comparing our estimated net premium growth with the average premium growth rate from the financial analysis, we assess the estimated growth to be realistic.

7.2 Estimation of Net Claims Paid

Over the five-year period Codan's net claims paid have decreased with about 2%. The Nordic peers have had an average increase of about 2% in the same period. We believe that claims will increase going forward. This can be explained by some of the factors we discussed in the strategic analysis and the financial analysis.

Considering the changes in the environment, we have discussed that climate and weather changes have increased the claims costs over the last ten years. It is therefore fair to assume that the continuing changes in weather patterns will increase weather related claims in the future.

We have argued that the market concentration is high and more companies are focusing on profitable customers. Going forward we expect tougher competition, especially regarding attracting new and profitable customers. This may increase the risk taking, which again increases the claims. In the financial analysis we saw that claims paid are affected by changes in premium income. We have already argued that we expect the premiums to grow in the future. It is therefore natural to assume an increase in claims paid.

Codan's net claims ratio has been above the Nordic peer average for three of the five years. The last two years it has decreased, ending at 70.5%. Over the five-year period it decreased from 75.9% to 70.5%. Codan's average net claims ratio for the same period was 74.3% compared to the Nordic peer average of 73.4%. Going forward, we expect the claims ratio to increase from the 2009 level.

Based on the argumentation above, we believe that the claims ratio will be equal to Codan's average. In the table below we have shown our forecast of the claims ratio and net claims paid.

Table 18

	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Net Claims Ratio	70,46 %	74,30 %	74,30 %	74,30 %	74,30 %	74,30 %	74,30 %
Net Claims Paid	10 033 063	11 644 455	12 146 838	12 529 157	12 884 960	13 387 473	13 909 585

We have calculated net claims paid by using the net claims ratio formula[91]. We have adjusted for net reinsurance and estimated the future net claims ratios in order to find net claims paid.

[91] Net Claims Ratio = (Net Claims paid + Net reinsurance) / Net Premiums

7.3 Estimation of Net Result of Reinsurance

In the financial analysis we saw that the reinsurance ratio had varied quite a lot. For three of the five years Codan bought more reinsurance than it received, affecting the claims ratio negatively. Going forward, as net premiums will increase we expect net reinsurance to increase.

Codan's average reinsurance ratio for the five years was 0.85%. The calculation is based on the reinsurance ratio formula[92]. We have chosen to keep the reinsurance ratio constant at 0.85%, indicating that net reinsurance each year increases with 0.85% of net premiums.

Table 19

	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Reinsurance Ratio	3,25 %	0,85 %	0,85 %	0,85 %	0,85 %	0,85 %	0,85 %
Net Reinsurance	484 526	134 755	140 569	144 994	149 111	154 927	160 969

7.4 Estimation of Net Expenses

The estimation of the future net expenses will be based on the development in the expense ratio. In the financial statement analysis the development shows a clear picture of what to expect. After 2005 the expense ratio has been very stabile. The difference between expenses and premiums follow a pattern, almost correlating perfectly.

In the period from 2005-2009 the expenses seem to follow the growth in premiums nearly perfectly. These results clearly indicate that the level for the expense ratio should be between 17%-18%. This shows that it is very difficult to reduce the expense ratio, meaning that the expenses should increase less than the premiums.

The expense ratio is probably the only measure to use when comparing the cost efficiency between insurance companies. The goal to minimize this ratio is therefore clearly an important one. Codan's profitability focus may affect the level of expenses to some extent. Reducing the expense ratio dramatically seems unrealistic. Codan's average expense ratio during the period was 17.7%, which we reckon is a fair estimate to use in our prognosis.

[92] Reinsurance Ratio = Net reinsurance / Net Premiums

We will keep the expense ratio constant through our forecasting period. The estimation of gross premiums written and the level of the expense ratio therefore make it possible to estimate the expenses in real value. By setting the expense ratio equal to 17.7% and premiums to what we earlier estimated, we treat the net operating expenses as unknown.

The estimated net operating expenses are calculated below.

Table 20

In '000 DKK	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Expense Ratio	17,6 %	17,7 %	17,7 %	17,7 %	17,7 %	17,7 %	17,7 %
Net Operating Expenses	2 620 035	2 806 084	2 927 148	3 019 280	3 105 021	3 226 117	3 351 935

7.5 Estimation of Insurance Technical Interest

The insurance technical interest is mainly affected by the size of the insurance technical provisions and the return on bonds. In order to limit this comprehensive calculation, we will base the prognosis on the historical development in Codan.

From the financial analysis we found an average return of 2.5% on the insurance technical provisions from 2005-2009. The last year gave the poorest return of only 1.9%. It is expected that this is due to low bond yield as a result of the financial situation.

Our expectation is that this return will increase from the 2009 level, as the economy is recovering. A fair estimate will be that the return is increasing from 2009 and until 2012. Thereafter we will use the average return of 2.5%, found from our sample period from 2005-2009.

The actual size of the insurance technical provisions varies some. Still, we expect it to follow the trend showed in the financial analysis. Here, the insurance technical provisions increased yearly by an average of 2.6%. The combination of our expectations gives the following result.

Table 21

In '000 DKK	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Total insurance technical provi	31 500 859	32 310 907	33 141 784	33 994 028	34 868 188	35 764 826	36 684 522
Return	1,94 %	2,08 %	2,22 %	2,5 %	2,5 %	2,5 %	2,5 %
Insurance technical interest	610 912	672 664	737 189	852 242	874 157	896 636	919 693

7.6 Forecasting the Balance

In this section we will estimate the forecasted total equity, net operating assets and net financial assets. All of these components are needed in the valuation of Codan.

The proposed dividends are paid in two of our five years from 2005-2009. The dividend policy in Codan is not clear or publicly stated in any form. We will therefore not use any proposed dividends in the following forecasted years.

The total equity for 2010 is calculated by using the total equity in year 2009, and adding the net operating profit after tax for 2010. The same method is used on the next years. This approach assumes that nothing is paid out in dividends, meaning everything is transferred to the equity.

Codan has over the five-year period improved their effectiveness regarding the net operating assets. This was shown in the financial analysis through the rate asset turnover, which increased from 1.92 to 2.83. As asset turnover is a measure of the ability of NOA to generate sales, it is a rate that the company always wants to improve.

However, we have argued that we expect tougher competition in the Nordic insurance market going forward. This may lead to increased investments in operating assets in an attempt to increase sales. Overall, the tougher competition makes it difficult to increase the asset turnover. In fact, we expect the asset turnover to decrease from the 2009 level due to the increased competition.

We therefore believe it is fair to use the historical average of asset turnover from 2005 to 2009 when estimating the future net operating assets. In the table below we have shown the estimated figures for NOA.

Table 22

	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Net Premiums	14 926 387	15 853 580	16 537 561	17 065 763	17 557 889	18 430 983	19 345 558
Asset Turnover	2,83	2,37	2,37	2,37	2,37	2,37	2,37
Net Operating Assets	5 270 080	6 698 767	6 987 776	7 210 963	7 418 905	7 787 822	8 174 267

We have calculated NOA by reformulating the formula for asset turnover[93]. NOA is therefore calculated based on the future net premiums and the historical average of the asset turnover.

[93] ATO = Sales / NOA ←→ NOA = Sales / ATO

7.7 The Prognosis for Codan

The table below shows our prognosis for Codan for the years 2010 until 2015. The estimations are based on our strategic analysis and financial analysis. They reflect our economical expectations for Codan in the years to come, and we consider this economical scenario to be realistic.

Table 23

In '000 DKK	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Net Premiums	14 926 387	15 853 580	16 537 561	17 058 076	17 542 491	18 226 648	18 937 487
Net Claims Paid	10 033 063	11 644 455	12 146 838	12 529 157	12 884 960	13 387 473	13 909 585
Net Reinsurance	484 526	134 755	140 569	144 994	149 111	154 927	160 969
Gross Result	**4 408 798**	**4 074 370**	**4 250 153**	**4 383 926**	**4 508 420**	**4 684 249**	**4 866 934**
Expenses	2 620 035	2 806 084	2 927 148	3 019 280	3 105 021	3 226 117	3 351 935
Insurance technical interest	610 912	672 664	737 189	852 242	874 157	896 636	919 693
Technical Result	**2 399 675**	**1 940 951**	**2 060 194**	**2 216 888**	**2 277 557**	**2 354 768**	**2 434 692**
Tax	599 919	485 238	515 048	554 222	569 389	588 692	608 673
NOPAT	**1 799 756**	**1 455 713**	**1 545 145**	**1 662 666**	**1 708 167**	**1 766 076**	**1 826 019**
Dividends	290 000	-	-	-	-	-	-
Transfers to Equity	**1 509 756**	**1 455 713**	**1 545 145**	**1 662 666**	**1 708 167**	**1 766 076**	**1 826 019**

In '000 DKK	2009A	2010E	2011E	2012E	2013E	2014E	2015E
Total Equity	**10 943 923**	**12 399 636**	**13 944 781**	**15 607 447**	**17 315 614**	**19 081 690**	**20 907 710**
Net Operating Assets (NOA)	**4 592 146**	**6 698 767**	**6 987 776**	**7 207 715**	**7 412 399**	**7 701 483**	**8 001 841**
Net Financial Assets (NFA)	**6 351 776**	**5 700 868**	**6 957 005**	**8 399 732**	**9 903 215**	**11 380 208**	**12 905 869**

8 Valuation of Codan

In this chapter we will use the outcome of our prognosis to valuate Codan. The objective is to find a valid enterprise value of the company that can be used to consider whether or not Codan is a realistic target for Gjensidige.

In order to find the enterprise value of Codan we will use the valuation model called the residual income model (RI model). An essential part of this chapter will be to calculate the required return on equity, which is a component of the RI model. Here we will apply the capital asset pricing model (CAPM).

At the end of this chapter we will perform a sensitivity analysis in order to see how the value of Codan changes with changes in some of the factors used in the prognosis.

8.1 The Residual Income Model

In order to valuate Codan we have chosen to use the RI model, also known as the economic value added model.[94] We believe this is a good valuation model because it focuses on profitability of investment and growth in investments, which drive value. Residual income is the measure that captures the value added to book value, and the RI model is therefore a measure of value added from forecasts of residual income.[95]

The model is based on the book value, in our case invested equity$_{NOA}$, which is recognized in the balance sheet. Then it proceeds to assess the value that is not recognized, which is the forecasted residual income.

The first step is to calculate RI[96]:

$$RI_t = NOPAT_t - (R_E * Invested\ Equity_{NOA_{t-1}})$$

NOPAT$_t$ is current net operating profit after tax, while invested equity$_{NOA\ t\text{-}1}$ is the value at the beginning of the period. The formula for RI states that value is added when NOPAT is greater than the required return on invested equity$_{NOA}$.

[94] R.Brealey, S.Myers and F.Allen, 2008,Principles of Corporate Finance, page 335
[95] S.Penman, 2010,Financial Statement Analysis and Security Valuation , page 151
[96] S.Penman, 2010,Financial Statement Analysis and Security Valuation, page 153

From the illustration below we see that in order to complete the calculation of Codan's value it is necessary to calculate the terminal value. However, the terminal value is estimated based on the outcome of forecasted residual income. Therefore it will be calculated later in this chapter.

Illustration 8: The Residual Income Model[97]

$$Value\ of\ Codan = \ Invested\ Equity_{NOA_0} + \sum_{t=1}^{n} \frac{RI_t}{(1+r_e)^t} + Terminal\ Value$$

In order to take use of the RI model it is necessary to calculate the required return on equity. We will do that by applying the CAPM model. The components of CAPM and the calculation of required return on equity will be discussed in the next section.

8.2 The Capital Asset Pricing Model

An investor requires a return on an investment in relation to the risk involved. This return is known as the required return on equity. The capital asset pricing model[98] is the most commonly used model to estimate the required return on equity.

The model is more precisely used to estimate the required return on equity by adding the risk free rate (r_f) to the risk measure Beta (β), which is multiplied by the market risk premium.

CAPM:

$$r_e = r_f + \beta(r_m - r_f)$$

Before we can calculate the required return on equity, we have to find the unknown parameters above. In the following sections of this chapter, we need to take some realistic assumptions regarding the parameters in order to perform a useful estimation.

8.2.1 The Risk Free Rate

The assumption about the risk free rate is that we use a flat rate structure. This assumption would not be correct under normal circumstances. As we operate with an infinite lifetime for Codan, calculating a correct risk free rate would contain a lot of uncertainty. We therefore want to use government bonds as the best alternative to a realistic rate measure.

[97] S.Penman, 2010, Financial Statement Analysis and Security Valuation, page 154
[98] Brealey et al, 9th Edition, Principles of Corporate Finance, p. 214

As business in Codan primarily includes Sweden and Denmark, we want to use an average rate in our estimation of the required return on equity. The duration of the bonds used is 10 years, standing in ultimo 2010. The 10-year bond rates for the Danish and Swedish government is respectively 2.9810% and 3.2740%.[99] We then calculate the average rate to be 3.1275% and this rate will be used as the value for the risk free rate.

8.2.2 The Risk Premium

The risk premium is the return that the investor demands in order to accept the risk difference between the specific investment and the market portfolio. This means that the required return on equity will correlate with the risk in form of the value of the beta. The CAPM shows this value as the difference between the market return (r_m) and the risk free rate (r_e).

The risk premium used in our CAPM is taken from estimations done by the publicly known Damodaran from NYU. The problem around distinguishing between Denmark and Sweden is not present as the risk premium for both countries are calculated to be the same. It is 5%[100] with long-term ratings of AAA.

8.2.3 The Beta Value

Beta is a measure of how sensitive an asset is to market movements. Thus, the beta is known as the systematic risk.[101] It is normally estimated by running a regression of a company's historical stock returns against the historical returns of a market index, for example the S&P 500. However, historical information about the returns is naturally not available for an unlisted company. Therefore, we will use a method called the peer-group beta in order to find a proper beta for Codan.

The peer-group beta method is one of the most commonly used techniques for estimating beta for a non-traded firm. Research has shown that the method gives a reasonable estimate of beta.[102] It is estimated by using the average of the betas of comparable publicly listed companies.[103]

In the article "Using Comparable Companies to Estimate the Betas of Private Companies" the authors emphasize the importance of choosing a relevant peer-group. The chosen number of companies should be carefully considered.

[99] http://nationalbanken.statistikbank.dk/nbf/121437
[100] http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html
[101] R. Brealey, S. Myers & F. Allen, 2008,Principles of Corporate Finance, page 193
[102] R. Bowman & S. Bush, 2006, Using Comparable Companies to estimate the betas of Private Companies
[103] S. Pratt and R. Grabowski, 2008, Cost of Capital – Applications and Examples, page 135

As more companies are added, the statistical properties of the estimates improve. On the other hand, as more companies are included, the risk of choosing companies that is not identical increases. Therefore, the optimal would be to choose as many companies as possible that operate within the same economical framework.

Another important variable that should be taken into consideration is the size of the comparable companies.[104] With this in mind, we have chosen to include companies based on these assumptions:

- The majority of the companies' turnover should result from general insurance business.
- The geographical position of the insurance companies should be within the Nordic region.

Table 24 shows the 5 years historical betas for the respective companies.[105] Based on our peer-group we have calculated the average historical beta to be 0.763.

Table 24: Beta

	Tryg	Sampo	Topdanmark	Pohjola	Alm. Brand	Sparebank1	**Average**
Beta Value	0,464	0,837	0,607	0,874	1,217	0,580	**0,763**

This beta is the unadjusted beta. It is important to bear in mind that a beta that is calculated based on historical data may not be completely representative with regard to the future.

In order to remove some of this uncertainty one could use a method that adjusts between the historical beta and future beta. This method is called Blume's technique[106]. Blume's analysis of the behaviour of betas over time shows that the future betas move closer to one. Based on time regression Blume showed that the relationship between the historical and the future average beta could be described with the following formula:

$$\beta_{Adjusted} = 0{,}343 + 0{,}677\beta_{Unadjusted}$$

By using Blume's technique we calculate Codan's adjusted beta to be 0.860. It is important to stress that this is an adjusted method.

[104] Fama and French, 1996
[105] The historical betas for the respective companies are calculated by using the program DataStream. The program derives the beta factor by performing a least squares regression between adjusted prices of the stock and the corresponding DataStream market index.
[106] Elton, Gruber et.al, 2007, Modern Portfolio Theory and Investment Analysis, p.143

Optimally one should perform a more comprehensive analysis regarding the company's risk development in order to achieve a more precise estimate. However, as this is outside the subject and the problem statement of this thesis, we will not elaborate more on this.

8.3 The Required Return on Equity

The previous sections have described all the components in the CAPM model. On the basis of the analysis and the argumentation described in these sections, we can now calculate the required return on equity.

$$r_e = 3.1275\% + 0.86(5\%)$$

From the CAPM formula we derive that the required return on equity (r_e) is 7.4275%. We can now take use of the RI model and find the value of Codan.

8.4 The Terminal Value

In order to complete the RI model and the valuation of Codan, we have to calculate the terminal value. Firms are considered to be going concerns, which mean that they are considered to go on indefinitely. The terminal value represents this future value, and it is therefore an essential part of the valuation.[107] We will use the Gordon growth model[108] to estimate the terminal value.

$$Terminal\ Value = \frac{RI_t * g}{r_e - g}$$

The model is often referred to as the constant growth model, and it indicates a constant growth in residual income in the years to come. From analyzing the development in the residual income in table 25 below, we get an average growth rate of 2.5%. This rate will be applied in the calculation of the terminal value.

The terminal value is then calculated to be:

$$Residual\ Income\ Terminal\ Value = DKK\ 26.135\ million$$

By discounting this value back to the present value, 2009, we get:

$$PV\ of\ Residual\ Income\ Terminal\ Value = DKK\ 17.007\ million$$

[107] Penman, 2010, *Financial Statement Analysis and Security Valuation,* p. 116
[108] Penman, 2010, *Financial Statement Analysis and Security Valuation,* p. 117

8.5 The Valuation of Codan

All the components of the RI model are now accounted for. The complete valuation of Codan is summarized in the table below.

Table 25

In '000 DKK	2009A	2010E	2011E	2012E	2013E	2014E	2015E
NOA	4 592 146	6 698 767	6 987 776	7 207 715	7 412 399	7 701 483	8 001 841
NOPAT		1 455 713	1 545 145	1 662 666	1 708 167	1 766 076	1 826 019
Cost of Equity		340 890	497 271	518 725	535 052	550 246	571 706
Residual Income		1 114 823	1 047 875	1 143 941	1 173 116	1 215 830	1 254 314
Discount Factor		93,09 %	86,66 %	80,67 %	75,09 %	69,90 %	65,07 %
PV of RI		1 037 785	908 055	922 801	880 941	849 924	816 234
Total PV of RI	5 415 740						
RI Terminal Value	26 135 153						
Present Value of Terminal Value	17 007 232						
Enterprise Value	27 015 118						
NFA	6 351 776						
Value of Equity	**33 366 894**						

By using the RI model we calculate the value of equity to be DKK 33.367 billion.

8.6 Sensitivity Analysis

The valuation of Codan is a combination of several components and assumptions. In order to evaluate the sensitivity for the value of equity in relation to our components, we will perform a sensitivity analysis.[109]

The terminal value accounts for about 50% of the total value of equity. It is a calculation of much uncertainty, including assumptions related to the prognosis, the required return on equity and a future growth estimate. We have therefore chosen to analyze the sensitivity of the value of equity in respect to changes in key parameters in the terminal value. The only drawback with this sensitivity analysis is that the parameters changed are constant amounts in the future.

[109] Penman, 2010, Financial Statement Analysis and Security Valuation, p. 505

The first parameters that are analyzed are the growth and the required return on equity.

Table 26

Growth \ Re	5,92 %	6,42 %	6,92 %	7,42 %	7,92 %	8,42 %	8,92 %
1,0 %	37 031 559	33 936 192	31 367 454	29 202 210	27 352 915	25 755 626	24 362 551
1,5 %	39 394 137	35 765 095	32 809 243	30 355 920	28 287 635	26 520 859	24 994 580
2,0 %	42 359 491	38 007 824	34 544 109	31 722 512	29 380 261	27 405 296	25 717 950
2,5 %	46 192 033	40 822 750	36 671 522	**33 366 894**	30 674 497	28 439 144	26 554 003
3,0 %	51 337 313	44 460 874	39 341 711	35 383 351	32 231 815	29 663 757	27 531 292
3,5 %	58 609 180	49 345 144	42 792 771	37 914 275	34 141 507	31 137 300	28 688 911
4,0 %	69 669 460	56 248 122	47 425 903	41 185 343	36 538 428	32 944 260	30 081 841

In the table above we have constructed a valuation grid[110]. The value in the middle of the grey area shows our calculated value of Codan. The values surrounding it are where we expect Codan to be if the parameters change.

The valuation grid shows how sensitive the value of equity is to changes in the growth and/or the required return on equity. If the growth changes one percentage point from 2%-3% the value of equity changes with almost DKK 4 billion. At the same time, a change in the required return on equity of 1% means a change of about DKK 5 billion in the value of equity.

We also want to investigate changes in the key value drivers like the combined ratio and the gross domestic product growth. The year where the changes are done is in 2015, which is the last year of forecast.

Table 27

GDP \ CR	89,00 %	90,00 %	91,00 %	92,00 %	93,00 %	94,00 %	95,00 %
2,4 %	39 101 063	37 111 975	35 122 886	33 133 798	31 144 710	29 155 621	27 166 533
2,9 %	39 207 899	37 209 098	35 210 297	33 211 497	31 212 696	29 213 895	27 215 095
3,4 %	39 314 735	37 306 222	35 297 709	33 289 196	31 280 683	29 272 170	27 263 657
3,9 %	39 421 570	37 403 345	35 385 120	**33 366 894**	31 348 669	29 330 444	27 312 218
4,4 %	39 528 406	37 500 468	35 472 531	33 444 593	31 416 655	29 388 718	27 360 780
4,9 %	39 635 242	37 597 592	35 559 942	33 522 292	31 484 642	29 446 992	27 409 342
5,4 %	39 742 078	37 694 715	35 647 353	33 599 991	31 552 628	29 505 266	27 457 903

The change in GDP and CR do also affect our growth rate, in relation to decrease and increase in residual income. However, in the valuation grid above the future residual income growth are kept constant at 2.5%.

The sensitivity analysis shows that the value of equity is especially sensitive to changes in the combined ratio. This is not too surprising as the combined ratio is a measure of performance. Our analysis shows that the value of equity is not very sensitive to changes in the growth rate of GDP.

[110] S. Penman, 2010, Financial Statement Analysis and Security Valuation, p. 506

To sum up, the investor should carefully study the changes in residual income growth and the required return on equity in Codan. Changes in these factors directly influence the terminal value, and changes of one percentage point can either increase or decrease the value of equity with several billion Danish Kroner. Our valuation model is very sensitive to changes in these parameters.

Our last valuation grid shows that a change in GDP growth is not a crucial factor to the value of equity. However, the value of equity is very sensitive to changes in the combined ratio. The investors therefore need to carefully evaluate the development of this performance measure.

9 Synergies

In this chapter the possible synergy effects from a consolidation between Codan and Gjensidige will be analysed. The objective with this analysis is to uncover the most important synergies related to the consolidation and to estimate the synergy effects. Furthermore, it should give an overview in order to evaluate if the consolidation makes sense from an economical perspective.

9.1 Synergy Effects

Synergy effects can be described as gains achieved when two or more companies join forces in form of a merger or an acquisition.[111] In other words it means that the combined effect of two or more companies operating together is greater than the sum of the separate effects of the respective companies.

The synergy effects could be measured in many ways. For Gjensidige and Codan it could be in form of reduced costs and/or increased revenue, it could be in form of increased capital and increased market shares in existing markets or it could be in form of improved accessibility to information and highly competent labour.

The synergies have different effect over time. Therefore the synergy effects will be divided into short-term, medium term and long-term synergies.

9.1.1 Short Term Synergies

By consolidating Codan and Gjensidige there are some common costs that could be reduced significantly. One of the greatest one is the cost related to executives. The assumption is that a merger creates the possibility to cut halve of the top executives. It can be fair to estimate that the executive stab of Codan is reduced by 80% if consolidated with Gjensidige.

Reinsurance costs and investment expenses are also a part of common costs involved in the insurance business. Reinsurance is purchased to spread the risk and to protect the company's capital position. It therefore works as a capital management tool.

[111] Sudarsanam, 1995, The Essence of Mergers and Acquisitions

In Gjensidige's prospectus from 2010 it is stated that their reinsurance program consists exclusively of non-proportional reinsurance, which means that the company is only protected if the loss suffered exceeds a certain retention level.[112] According to Codan's annual report from 2010, they have the same reinsurance policy.

This approach is possible because of both companies' increase in business volume and solvency capital, which reduces the impact of individual claims on their financial standing and results. A merger between Gjensidige and Codan will increase the business volume and solvency capital even more, which makes it possible to increase the retention level. This means that the losses have to be quite comprehensive before reinsurance is necessary. Hence, the reinsurance costs could be reduced. Savings can be assumed to be about 20%.

Regarding the investments, both companies have a diversified portfolio with investments in bonds, stocks, assets and group entities.[113] Costs related to the investments are personnel costs and commission to brokers and other related fees to investment banks for managing the portfolio. Through a merger or an acquisition these portfolios could be combined. This may lead to cost savings as both the fees and the personnel costs could be reduced. We assume that the total investment expenses can be reduced by about 25%.

Increased capital and increased market shares in existing markets are possible synergy effects that will be of great importance. Increased capital will help the company to better meet the new capital requirements in Solvency II. Furthermore, as the merged company would not need to hold as much capital as two separate companies would, it could use the extra capital for investments or to pay out dividend.

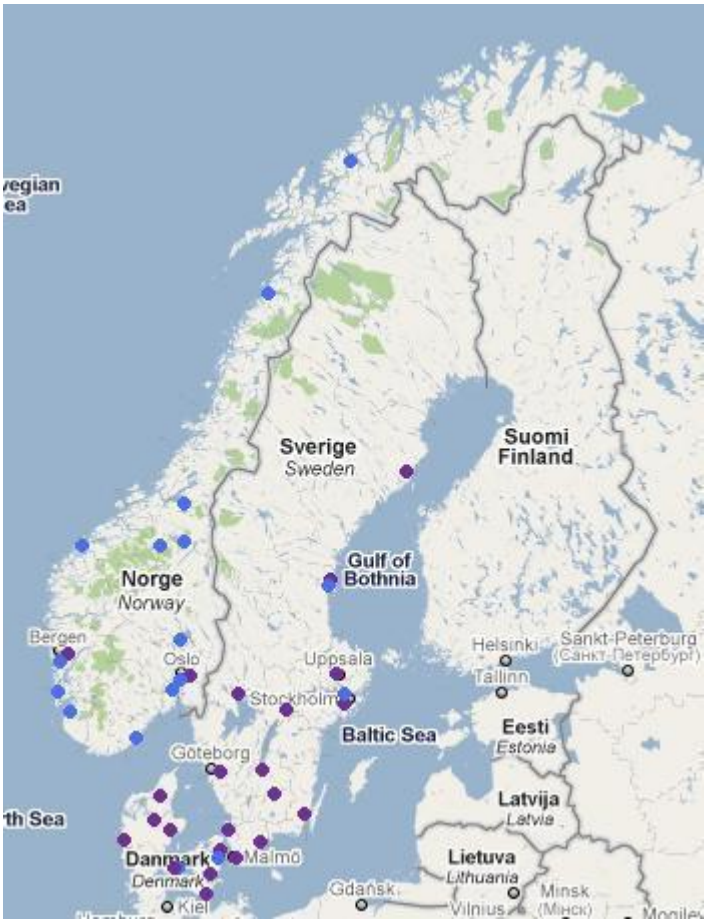
There is also one larger cost created by a consolidation and that is restructuring of the company. As the new organisation takes form to become one company, a lot of changes would have to be done. An estimated cost of this is especially difficult to estimate. This process could be time consuming and would certainly demand a lot of resources. Our estimated cost for Codan and Gjensidige is DKK 100 million.

9.1.2 Medium Term Synergies

When considering the medium term synergies, one of the greatest cost savings could be to merge the offices. Leasing or owning office buildings are one of the largest fixed costs an insurance company has. By merging offices economies of scale can be reached.

[112] Prospectus 2010 Gjensidige Forsikring, p. 140
[113] Prospectus 2010 Gjensidige Forsikring & Annual Report 2009 Codan A/S

In the evaluation of Codan's and Gjensidige's offices, the map below shows where the largest branches and offices are located. Codan is represented by the purple dots and Gjensidige by the blue dots.



Own creation. Source: google maps, codan.dk/se/no & gjensidige.no/se/dk

Codan and Gjensidige have their core customers and local offices in different regions. Still, in the larger cities; Oslo, Bergen, Stockholm and Copenhagen, both companies have larger headquarters that is possible to merge. The size and location of these offices can be assumed to create one of the greatest operating expenses, and therefore the cost benefits of merging these offices can be significant.

The greatest cost benefits in regard to merging headquarter offices involves the departments and resources of marketing, finance, IT and human resources functions. The local offices used for distribution are in some extent not that relevant for mergers due to the location. Gjensidige has about 70 distribution offices in Norway. Codan and Trygg-Hansa are built in the same way with several distribution offices in Denmark and Sweden.

These distribution offices are not located in the same cities or regions, and the possibilities for merging some of these offices are therefore small. Still, the spread of these offices gives connection to a lot of local customers, and a network of local distribution in Norway, Sweden and Denmark lie as a foundation in the merger of Codan and Gjensidige.

It is fair to assume that the merger would create a possibility to cut Gjensidige's offices in Copenhagen and Stockholm and Codan's office in Oslo. Total savings of rent can be assumed to be DKK 80 million per year.

Insurance is a labour intensive industry. Therefore, typical costs involved in the business are agency costs in form of commission and personnel costs related to claims settlement services, salary and other administrative labour. Both agency costs and personnel and administrative costs can be reduced when offices are merged.

The probably largest cost savings from labour can be found in the sales departments. Employees related to this department can be reduced in numbers. As an estimate, Codan can reduce about all of its sales employees in Norway, and Gjensidige can reduce all of its sales employees in Sweden and Danmark. The total savings can be estimated to be about 10% of the total salaries considering all employee reductions.

Another synergy effect created by economies of scale by this kind of consolidation is discount related to outsourcing. Insurance companies of this size are in need of IT companies to operate and create systems. By having a Nordic firm, it is fair to assume that this can create some discount on the total IT expenses. Codan does not report IT expenses in their annual report, so we assume that their IT expenses are equal to Gjensidige's. Based on this we assume that a consolidation would create cost savings of about 30% of today's total IT expenses.

9.1.3 Long Term Synergies

The HI-13-value in the Nordic market would increase from 7.57% to 9.17% if Gjensidige and Codan consolidate and manage to maintain its market shares. The four largest competitors would reduce to three, and the company would be the largest company together with If. Increased market shares in existing markets will give the merged company increased market power. Greater market power and less competition create possibilities to make larger profits.

It is reasonable to assume that insurance companies of greater size could attract new customers.

An insurance company of this size has the possibility to contain a large portion of provisioning and equity, and are therefore less exposed to bankruptcy. This makes the company more attractive and can increase customer loyalty. At the same time it may lead to increased sales, higher customer retention and larger revenue.

Today, Codan and Gjensidige operate mainly in their respective national markets. The consolidation would more clearly create a Nordic insurance company. This effect can open up for new customers for the consolidated company. Especially the customer segments concerning larger Nordic commercial and corporate companies could be attractive. It is assumed that these companies are more interested in being customers in international insurance companies.

When companies create large volume, being market leaders, some customers will prefer this type of company and other customers will not. In the evaluation of our scenario, we argue that the net effect of larger volume will create more income. This synergy effect is especially difficult to estimate with accuracy, because it will be created over a longer period of time.

Table 28

Gross premium in DKK 000'	2005	2006	2007	2008	2009	4-year average
Codan (DKK)	13 415 244	14 195 945	14 827 940	14 229 619	14 779 196	14 289 589
Gjensidige (NOK)	13 640 300	13 188 600	14 848 000	15 481 900	15 660 400	14 563 840

Premium Growth in %	2006	2007	2008	2009	4-year average
Codan	5,82 %	4,45 %	-4,04 %	3,86 %	2,52 %
Gjensidige	-3,31 %	12,58 %	4,27 %	1,15 %	3,67 %
Souce: 2005-2009 Annual Reports for Codan & Gjensidige				Average	3,10 %

Therefore, a fair estimate is that revenues will increase by a larger average growth rate than the two companies had previously. A fair average growth rate with the consolidation is 5%, resulting in an extra growth synergy effect of about DKK 578 million per year in premiums.

The last synergy effect that Gjensidige and Codan may achieve is improved accessibility to information and highly competent labour. Both companies have great business knowledge. Codan has today a great know how in the Danish market while Gjensidige has know how in the Norwegian market. This knowledge can be used to increase the understanding of the different markets and furthermore increase sales.

In addition the two companies can share best practices and technology. This could help improve efficiency and optimize internal processes. We argue that these synergy effects will be possible to discover directly in a lower combined ratio on long term.

9.2 Overview of Synergies

Table 29

	Synergy	Estimated Effect	
Short Term Synergies	Executive Salaries	kr	35 255 200
	Reinsurance	kr	179 647 800
	Investments	kr	45 613 250
	Restructuring	kr	-100 000 000
Sum of Estimated Effect on Short Term Synergies		**kr**	**160 516 250**
Medium Term Synergies	Offices	kr	80 000 000
	Reduction in total Salaries	kr	386 005 100
	IT	kr	179 424 000
Sum of Estimated Effect on Medium Term Synergies		**kr**	**645 429 100**
Long Term Synergies	Extra Growth in Premiums	kr	578 681 528
Sum of Estimated Effect on Long Term Synergies		**kr**	**578 681 528**

It is important to notice that even though synergy effects exist in theory, it could often be difficult to actually realize the particular gains. For a merger or an acquisition to be successful in terms of synergy effects, both implementation and integration need to be perfectly handled.

10 Gjensidige's Buying Power

After estimating the synergy effect involved in a consolidation and valuating Codan, we want to look at the possibility for Gjensidige to actually buy Codan. In order to evaluate this we have to analyze Gjensidige's excess cash that is available to use for an acquisition, and the likeliness of retrieving enough external capital in the market.

Standard & Poor's rating report from August 2010 stated that Gjensidige is extremely strong capitalized.[114] This suggests that Gjensidige should be equipped for acquisitions. In order to find Gjensidige's excess cash, its balance sheet and risk components have to be evaluated.

Table 30

Excess Cash Gjensidige	**NOK Billion**
Total Equity	22
Balance sheets	4,8
Intangible, dividends	-4,1
Own Funds	**22,7**
Market risk	4,6
UW risk	10,3
Operational risk	0,9
Cap.req.subsidiaries (non-insurance)	0,6
Diversification	-0,5
SCR Group	**11,4**
Excess Capital	**11,3**
Nykredit utilises	2,4
Adjusted Excess Cash	**8,9**

Gjensidige has about NOK 22.7 billion in own funds.[115] Its risk components requires about NOK 11.4 billion according to Gjensidige's calculations. This calculates the excess capital to be NOK 11.3 billion. The acquisition of Nykredit do utilizes about NOK 2.4 billion. This creates an adjusted excess cash of NOK 8.9 billion. We argue that these NOK 8.9 billion, about DKK 7.9 billion, is excess cash that is available for new acquisitions.

On the 10th of December 2010 Gjensidige was listed at Oslo Stock Exchange.[116] Gjensidigestiftelsen who is the majority owner of Gjensidige, sold about 40% of its shares.[117]

[114] 2010 August 23rd, Standard & Poor's Rating Report, p. 11
[115] Presentation Solvency II, Tor Magne Lønnum, 2010 june 11th
[116] http://www.oslobors.no/Oslo-Boers/Om-oss/Presserom/Pressemeldinger/Gjensidige-aksjer-og-derivater-noteres-paa-Oslo-Boers
[117] http://gjensidige.com/web/Forsiden/Om+konsernet/Historien

We expect that a larger acquisition of Codan would directly involve Gjensidgestiftelsen more so than just being owners. We expect the external financing to involve financing from Gjensidigestiftelsen as they have the possibility and will to be a part of this. Gjensidigestiftelsen has cash and cash equivalents of about NOK 9.6 billion at the end of 2010.[118]

The need of external financing to realize larger mergers is not something that is new in today's markets. The combination of excess cash in Gjensidige of about NOK 8.9 billion and the great possibility of financing from Gjensidigestiftelsen creates a good foundation for Gjensidige when looking for financing opportunities in the market.

For comparison, RSA bought the last 28% of Codan in 2007 where over 50% of the total sum being financed through external financing.[119] Another comparison is Cisco who completed its $6.9 billion acquisition of Scientific-Atlanta, where $6.5 billion came from external financing.[120] Both these examples prove that investments are possible to complete through great use of external financing.

[118] 2010, Annual Report Gjensidigestiftelsen p. 79
[119] http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article1833854.ece
[120] http://www.wikinvest.com/stock/Cisco_Systems_%28CSCO%29/Acquisition_Scientific-atlanta_Inc

11 Should Gjensidige and Codan Merge?

The strategic analysis assessed the attractiveness and the competition level in the Nordic insurance market. We argued that it is an attractive market with moderate competition level. However, the analysis also showed that the Nordic market is a concentrated market with limited organic growth opportunities. The best opportunity to expand is therefore through consolidation.

In the consolidation analysis we assessed the companies' market shares and strategies. From this evaluation we found a good fit between Gjensidige and Codan. Gjensidige would by acquiring Codan fulfil its goal to grow and establish business outside Norway. Furthermore, the analysis showed that the combination of Gjensidige and Codan would give great market shares in Denmark, Sweden and Norway.

If we exclusively look on the strategic analysis and the consolidation analysis, we can therefore argue that Gjensidige and Codan should merge. However, we also need to evaluate if the consolidation is financially profitable and possible.

In the financial analysis we evaluated the profitability of Codan by calculating different key performance indicators. We analyzed Codan during a five year period, and recognized improved profitability. The profit margin in 2009 was 16.08%, the combined ratio was 88%, and the return on equity was 18.11%. Based on the financial analysis we forecast the profitability to continue to be high. Our value of Codan is calculated to be about DKK 33.3 billions.

A merger only adds value if the two companies are worth more together than apart. The analysis of the synergies involved in this consolidation showed that the short-term and medium-term synergy effects could be worth over DKK 806 millions. This is mainly due to cost reductions in salaries and reinsurance.

In our long term assumptions about synergies we argue that Gjensidige and Codan are able to grow more together than apart. This will create higher income to the consolidated company each year, meaning higher profits for the future. This additional profit that can be created on long-term is more uncertain than the short-term and medium-term synergy effects. We therefore do not include these long-term synergy effects in the calculation of the total synergy gain.

We consider the synergy effects to create large possibilities for improvement from today's situation for both Gjensidige and Codan. Not only will the combination create higher volume, but we argue that the profitability level seen in the combined ratio will become better due to the synergy effects from the consolidation.

In order to evaluate if the merger is profitable we need to include both the value of Codan and the synergy effects involved. If we combine these we find the maximum price that we recommend Gjensidige to pay for Codan in order to profit on the merger.

$$Value\ of\ Codan + Total\ Synergy\ Effects = Gjensidige's\ Resistance\ Point^{121}$$

$$DKK\ 33.367\ billion + DKK\ 0.806\ billion = DKK\ 34.173\ billion$$

If the actual price exceeds DKK 34.173 billion we believe that the consolidation will not turn out to be profitable. However, any price below indicates a profitable consolidation where Gjensidige should complete a merger with Codan.

The last factor to consider is the aspect of Gjensidige being able to finance a merger of this magnitude. This merger scenario will double Gjensidige's size and market share, and also require a significant transaction. Gjensidige's adjusted excess cash is calculated to be about DKK 7.9 billion, meaning that Gjensidige would need external financing to complete a merger with Codan. Other examples of acquisitions with greater external financing in the market make us believe that this merger is possible with Gjensidige as the buyer, if the price for Codan is less than DKK 34.173 billion.

[121] Roy J. Lewicki et al, 2011, Essentials of Negotiation, p. 29

12 Conclusion

In this thesis we have looked closer at the four largest insurance companies in the Nordic general insurance market. In the introduction to the Nordic insurance market we learned that for all the four market leaders, consolidations have been a part of their history, and a common factor to how they and the Nordic insurance market have been shaped.

Mergers and acquisitions over the last twenty years combined with the growth situation in the market today, make us believe that consolidation is as relevant today as it has been for the last century. A consolidation between two of the four companies could completely change the competition in the market.

In the strategic analysis we assessed the attractiveness of the Nordic insurance market. We started with the PESTEL analysis, which gives a good overview of the political, economical, social, technological, environmental and legal factors that are influencing the earnings of the Nordic insurance industry.

The political situation in the Nordic countries is quite similar making it easier for the insurance companies to operate between boarders. This is also recognized in the similarities in the legislation.

The economical situation shows a market with high buying power. The Nordic region has managed the recent financial crisis well compared to other countries in Europe. We found that the growth in gross domestic product correlated with the growth in premiums. Increased consumption is related to the demand of insurance products, and therefore an increasing GDP increases the premium income for insurance companies.

The level of the interest rate and inflation has a great impact on the economical situation and is often used as a tool to stimulate the economy. These rates therefore influence the demand for insurance products in the same manner as the GDP rate does. The interest rate does also directly influence the business operations. This is because the provisions are invested in bonds and the higher the interest rates are, the more an insurance company can discount its provisions and create a higher investment return.

The social factors we have considered to be most relevant for the insurance companies are population growth, life expectancy and development in education.

A forecast for 2035 indicates a population growth of 24% in Norway, 9% in Denmark, 16% in Sweden and 13% in Finland. The growth will therefore create a larger market for the insurance companies.

We are also positive in regard to the life expectancy of men and women in the Nordic region. We expect people to hold insurance products as long as they live and with an increasing life expectancy, income for insurance companies will increase.

The number of highly educated people in the Nordic region will also contribute to an increasing premium income to insurance companies. We argue that more educated people leads to increased welfare among the population and has a positive effect on the demand for insurance products.

Regarding the technological factors we argue that the Internet will play a major part in reducing the companies' costs in the years to come, as it may become the main sales channel. The development of effective IT systems may also decrease expenses as accounting systems, booking systems, claims handling and storage of data becomes more effective.

Considering the environmental factors we emphasize the impact of climate changes. A natural phenomenon is difficult to predict and makes it challenging to account for in provisions. The changing climate is therefore something we stress to be relevant. We argue that it might be necessary to set new standards for extraordinary weather related claims, as statistically data may change in the years to come.

The legal factors are a vital part of the everyday business for insurance companies. We consider that the implementation of Solvency II will have the greatest impact on the Nordic insurance business. The new capital requirements could result in a reduction of profit for the insurance companies. However, we argue that the larger insurance companies like the ones involved in this thesis, are well prepared to meet the new capital requirements and the legal changes.

In order to fully evaluate the expected future income and cost level in the industry, we had to establish the parameters for the competition intensity. This was done through the Porter's Five Forces analysis.

Here we found that the Herfindahl Index 13-value was 7.57%. The value indicates low concentration, but it is not far from moderate concentration. The market consists of a few large dominant players and several minor national players.

Furthermore, we recognized that there are high barriers of entry. The insurance products are standardized, and it is difficult to differentiate or to create substitute products in order to win market shares or to enter the market. The legislation and the maturity of the market have made the products transparent to customers.

The current market situation, considering the high income level, indicates that it is an attractive market for insurance companies. However, the growth opportunities in the market seem to be limited. The dominant players' market shares have been quite stable for the last years. We have found that there are relatively low organic growth possibilities, especially when the respective companies all have a common focus on profitability.

Today's most powerful market players are on one hand protected against new competitors, but on the other hand they are held back due to the limited organic growth opportunities. We argue that these companies' high level of profit over the years have increased their equity. This increases the possibilities for consolidation. Therefore, on the basis of the micro economical factors we argue that consolidation is highly relevant today.

In order to find the two companies that are best suited to consolidate, we created a consolidation analysis. This analysis was based on the output from the description of the companies and the strategic analysis.

By analyzing the four companies' market shares in the Nordic countries we found out that most of the combinations would create a dominant player in one of the countries. This would weaken the competition and we emphasized that the European Commission could prohibit these consolidations.

The result from the analysis of the market shares showed that Gjensidige and Codan would be best suited for a consolidation. A consolidation would make them the largest general insurance company in Norway, and one of the largest in both Denmark and Sweden. We assume that this consolidation won't impede the competition in the market, and the European Commission would therefore accept it.

The analysis of the companies' strategies also indicated that Gjensidige and Codan would be the best fit. Gjensidige and Codan both have an expansion strategy, while the two other companies have a greater focus on profitability within their current business areas. Through a consolidation Gjensidige would be less dependent on its business in Norway, and the two companies could take advantage of their business knowledge in the different markets.

By analyzing the annual reports of the two companies, we were able to decide their roles in the possible consolidation. We found that Gjensidige has a much clearer expansion strategy, and its ownership structure is more suitable for an acquisition compared to Codan's ownership structure. Based on this we decided that Gjensidige would be the buyer and Codan would be the target firm.

In order to determine if a scenario with Gjensidige as the buyer of Codan is possible and profitable, we performed a financial analysis and a valuation of Codan.

In the financial analysis we assessed Codan's operating profitability. Our objective was to identify if and where value was created. The Du Pont analysis proved that the profit margin, asset turnover and the return on net operating assets have had a positive development over the five-year period. In 2009 the respective ratios was 16.08%, 2.83 and 45.53%.

Breaking down the development in Codan's combined ratio, we found that the expense ratio has decreased in the analyzed period, ending in 2009 at 17.6%. The net claims ratio shows no clear trend, but has been on an average of 74.3%. This leads to a combined ratio, which has been on an average of 91.7% from 2005 to 2009.

Codan's operating profitability over the five-year period can therefore be described as very good. Its high profit margin and good combined ratio shows that it is here value is created. With the financial analysis as the foundation, our prognosis for Codan's future performance is positive. We expect the company to continue to be profitable.

By performing a valuation of Codan, using the residual income model, we calculate the value of equity to be DKK 33.367 billion.

In order to evaluate if the consolidation makes sense from an economical perspective, we uncovered and estimated the synergy effects involved. We divided the synergies into short-term, medium-term and long-term. The greatest short-term synergies are cost reductions related to investments and reinsurance.

On the medium-term the greatest synergy is savings in salary payments. In addition, we discovered costs savings by merging offices located in the big cities. Since the consolidated company will increase its market shares in the Nordic region, we believe that on the long-term that will lead to increased premium income.

We argued that the short-term and medium-term synergies could be estimated with more certainty, compared to the long-term synergies. We therefore only use the short-term and medium-term synergies in our estimation of total synergy effects, and these add up to be about DKK 806 million.

In order to see if the consolidation is possible we assessed Gjensidige's buying power. We found that Gjensidige's excess cash is about NOK 8.9 billion. The company's largest owner, Gjensidigestiftelsen, has cash and cash equivalents of about NOK 9.6 billion, and we expect them to take part in the financing of a large acquisition if needed. Both these factors create a good foundation when looking for external financing in the market.

A merger only adds value if the two companies are worth more together than apart. We have recognized that there is possible to gain at least DKK 806 million in synergy effects. When this sum is added to the value of Codan, we find the maximum price that we recommend Gjensidige to pay for Codan in order to profit on the merger. We call this Gjensidige's resistance point, and this value is DKK 34.173 billion.

On the basis of our evaluation of Gjensidige's buying power we believe that the merger is financially possible. If the actual price of Codan is below Gjensidige's resistance point, we believe that this consolidation adds value and that it therefore is profitable.

13 Perspective

In the conclusion of the thesis we state that a consolidation between Gjensidige and Codan is both financially possible and profitable. In this chapter we will discuss the importance and relevance of our result and we will put it in a greater context.

We firmly believe that the result of this thesis has relevance considering the current situation in the Nordic general insurance market. If we take into account the new solvency II requirements and the companies' consolidation history, we expect that there will be some consolidations in the Nordic market in the near future.

With this in mind, it is of course not only between two of the four biggest companies that a consolidation is relevant. There are also other possibilities. One of the companies could for example consolidate with smaller companies that operate in one of the Nordic countries. However, a consolidation between two of the four largest insurance companies will change the market completely, and that is our motivation for this thesis.

Even though we conclude that a consolidation is financially possible and profitable, there are also other factors to consider. Many mergers that seem to make economic sense fail because managers cannot handle the complex task of integrating the two firms. This has to be taken into consideration regarding Gjensidige and Codan.

In this case the culture and the way of doing business should be very similar, and as they both operate within the Nordic region we do expect the integration part to go smoothly. However, it is always a danger that people in Codan oppose the consolidation and creates difficulties.

Finally, there are other aspects related to a consolidation that we have not elaborated on in this thesis. It could be interesting to analyze more precisely how a consolidation between Gjensidige and Codan should be carried out. Furthermore, one could evaluate the pitfalls involved and discuss what the best strategy would be in order for the consolidated company to be a success.

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15 Appendix

15.1 Codan Forsikring A/S – Income Statement

Income Statement Codan Forsikring A/S

in '000 DKK	2005	2006	2007	2008	2009
General Insurance					
Gross premiums written	5 343 655	5 525 086	6 211 389	7 055 211	6 919 887
Premiums ceded to reinsurers	-309 358	-377 698	-330 527	-364 459	-395 039
Change in the provision for unearned premium	-125 351	-88 899	-177 919	-227 495	12 214
Change in the provision for unearned premium, reinsurers'	-23 425	-4 237	-27 875	-7 326	18 242
Earned premiums, net of reinsurance	**4 885 521**	**5 054 252**	**5 675 068**	**6 455 931**	**6 555 304**
Insurance technical interest	**120 733**	**143 143**	**268 403**	**192 137**	**64 433**
Claims paid, gross	-3 412 651	-3 314 787	-3 708 277	-4 908 784	-5 166 169
Claims paid, reinsurers' share	472 319	284 212	194 439	451 009	196 855
Change in the provision for claims	-595 022	873 851	-776 654	-145 344	17 941
Change in the provision for claims, reinsurers' share	-22 453	-246 463	284 090	-327 300	-132 984
Claims incurred, net of reinsurance	**-3 557 807**	**-2 403 187**	**-4 006 402**	**-4 930 419**	**-5 084 357**
Bonuses and rebates	**-67 685**	**-73 068**	**-86 756**	**-55 921**	**-83 769**
Acquisition costs	-585 717	-633 745	-799 811	-946 952	-981 589
Administrative expenses	-440 339	-410 587	-441 868	-407 778	-414 695
Reinsurance commissions and profit participation	6 796	9 165	12 064	10 974	16 661
Other operating expenses	0	0	0	0	0
Net operating expenses	**-1 019 260**	**-1 035 167**	**-1 229 615**	**-1 343 756**	**-1 379 623**
Technical result, general insurance	**361 502**	**1 685 973**	**620 698**	**317 972**	**71 988**
Investments					
Income from Group entities	32 767	161 444	97 609	72 956	67 046
Income from investment properties	495	-5	26	-38	0
Interest income and dividends, etc.	506 002	535 484	573 231	557 934	578 020
Value adjustments	-278 711	-182 432	-100 108	104 002	150 062
Interest expenses	-42 148	-13 713	-28 907	-7 577	-6 887
Investment management expenses	-25 807	-24 074	-19 175	-24 351	-25 036
Total investment return	**192 598**	**476 704**	**522 676**	**702 926**	**763 205**
Technical interest transferred to general insurance	-191 320	-296 607	-368 066	-462 927	-288 112
Other income	0	0	7 391	11 290	0
Sale of life and pension	0	0	0	0	0
Other expenses	0	0	0	-119 240	-12 922
Profit/Loss from discontinued operations	-4 952	9 182	0	3 839	0
Profit before tax	**357 828**	**1 875 252**	**782 699**	**453 860**	**534 159**
Tax	-99 020	-488 000	-190 631	-98 723	-101 060
Profit for the year	**258 808**	**1 387 252**	**592 068**	**355 137**	**433 099**

15.2 Trygg-Hansa – Income Statement

Income Statement Trygg Hansa						Currency	Rate:	Rate:	Rate:	Rate:	Rate:
						DKK/SEK	0,7929	0,8246	0,7898	0,6814	0,7249
in '000 DKK	**2005**	**2006**	**2007**	**2008**	**2009**	In '000 SEK	**2005**	**2006**	**2007**	**2008**	**2009**
General Insurance											
Gross premiums written	7 514 313	8 013 463	7 877 465	6 379 948	7 007 608		9 477 000	9 718 000	9 974 000	9 363 000	9 667 000
Premiums ceded to reinsurers	-167 302	-170 692	-195 081	-144 457	-176 876		-211 000	-207 000	-247 000	-212 000	-244 000
Change in the provision for unearned premium	-139 550	-124 515	-86 878	128 103	232 693		-176 000	-151 000	-110 000	188 000	321 000
Change in the provision for unearned premium, reinsurers'	-13 479	-2 474	-3 159	-681	7 249		-17 000	-3 000	-4 000	-1 000	10 000
Earned premiums, net of reinsurance	**7 193 982**	**7 715 782**	**7 592 347**	**6 362 913**	**7 070 675**		**9 073 000**	**9 357 000**	**9 613 000**	**9 338 000**	**9 754 000**
Insurance technical interest	**485 255**	**605 256**	**677 648**	**722 965**	**538 601**		**612 000**	**734 000**	**858 000**	**1 061 000**	**743 000**
Claims paid, gross	-4 559 968	-4 571 582	-4 875 435	-4 645 785	-5 187 384		-5 751 000	-5 544 000	-6 173 000	-6 818 000	-7 156 000
Claims paid, reinsurers' share	462 261	121 216	125 578	293 683	267 488		583 000	147 000	159 000	431 000	369 000
Change in the provision for claims	-1 237 717	-2 895 171	-1 177 592	260 976	947 444		-1 561 000	-3 511 000	-1 491 000	383 000	1 307 000
Change in the provision for claims, reinsurers' share	-97 527	-70 091	107 413	-104 936	-279 087		-123 000	-85 000	136 000	-154 000	-385 000
Claims incurred, net of reinsurance	**-5 432 951**	**-7 415 628**	**-5 820 036**	**-4 196 061**	**-4 251 539**		**-6 852 000**	**-8 993 000**	**-7 369 000**	**-6 158 000**	**-5 865 000**
Bonuses and rebates	**-10 308**	**-9 071**	**-7 898**	**-6 814**	**-5 799**		**-13 000**	**-11 000**	**-10 000**	**-10 000**	**-8 000**
Acquisition costs	0	0	0	0	0		0	0	0	0	0
Administrative expenses	-1 253 575	-1 197 319	-1 130 994	-941 695	-1 050 380		-1 581 000	-1 452 000	-1 432 000	-1 382 000	-1 449 000
Reinsurance commissions and profit participation	0	0	0	0	0		0	0	0	0	0
Other operating expenses	-10 308	0	-6 318	-1 363	-10 874		-13 000	0	-8000	-2 000	-15 000
Net operating expenses	**-1 263 883**	**-1 197 319**	**-1 137 312**	**-943 058**	**-1 061 254**		**-1 594 000**	**-1 452 000**	**-1 440 000**	**-1 384 000**	**-1 464 000**
Technical result, general insurance	**972 095**	**-300 979**	**1 304 750**	**1 939 946**	**2 290 684**		**1 226 000**	**-365 000**	**1 652 000**	**2 847 000**	**3 160 000**
Investments											
Income from Group entities	0	0	0	0	0		0	0	0	0	0
Income from investment properties	53 917	29 686	71 872	-15 672	-1 450		68 000	36 000	91 000	-23 000	-2 000
Interest income and dividends, etc.	668 415	763 580	899 582	948 509	900 326		843 000	926 000	1 139 000	1 392 000	1 242 000
Value adjustments	-98 320	-394 159	-247 997	895 360	-403 769		-124 000	-478 000	-314 000	1 314 000	-557 000
Interest expenses	0	-3 298	-3 159	-2 726	-21 022		0	-4 000	-4 000	-4 000	-29 000
Investment management expenses	-8 722	-9 895	-9 478	-8 858	-21 747		-11 000	-12 000	-12 000	-13 000	-30 000
Total investment return	**615 290**	**385 913**	**710 820**	**1 816 612**	**452 338**		**776 000**	**468 000**	**900 000**	**2 666 000**	**624 000**
Technical interest transferred to general insurance	-484 462	-603 607	-676 859	-722 965	-537 876		-611 000	-732 000	-857 000	-1 061 000	-742 000
Other income	0	0	9 478	34 070	1 450		0	0	12 000	50 000	2 000
Sale of life and pension	0	0	0	0	0		0	0	0	0	0
Other expenses	-37 266	-37 932	-52 127	-30 663	-64 516		-47 000	-46 000	-66 000	-45 000	-89 000
Profit from discontinued operations	0	0	0	0	0		0	0	0	0	0
Profit before tax	**1 065 658**	**-556 605**	**1 296 062**	**3 037 000**	**2 142 080**		**1 344 000**	**-675 000**	**1 641 000**	**4 457 000**	**2 955 000**
Provision for reserves	-1 101 338	0	-809 545	-765 894	0		-1 389 000	0	-1 025 000	-1 124 000	0
Tax	-2 379	153 376	-139 005	-668 453	-591 518		-3 000	186 000	-176 000	-981 000	-816 000
Profit for the year	**-38 059**	**-403 229**	**347 512**	**1 602 653**	**1 550 561**		**-48 000**	**-489 000**	**440 000**	**2 352 000**	**2 139 000**

15.3 Privatsikring – Income Statement

Income Statement Privatsikring

in '000 DKK	2005	2006	2007	2008	2009
General Insurance					
Gross premiums written	237 805	278 450	331 933	366 532	404 634
Premiums ceded to reinsurers	-1 666	-2 853	-1 938	-1 586	-3 740
Change in the provision for unearned premium	-6 205	-4 467	-5 622	-1 001	1 628
Change in the provision for unearned premium, reinsurers'	-14	0	0	0	0
Earned premiums, net of reinsurance	**229 920**	**271 130**	**324 373**	**363 945**	**402 522**
Insurance technical interest	**4 673**	**3 896**	**10 359**	**6 363**	**3 315**
Claims paid, gross	-142 311	-154 172	-198 411	-231 674	-249 445
Claims paid, reinsurers' share	13 235	2 099	1 265	363	62
Change in the provision for claims	-54 880	14 768	-24 220	12 121	-13 789
Change in the provision for claims, reinsurers' share	6 474	-4 489	-1 431	-427	-69
Claims incurred, net of reinsurance	**-177 482**	**-141 794**	**-222 797**	**-219 617**	**-263 241**
Bonuses and rebates	**0**	**0**	**0**	**0**	**0**
Acquisition costs	-31 064	-43 151	-49 083	-58 138	-59 469
Administrative expenses	-4 954	-5 422	-7 164	-6 947	-14 269
Reinsurance commissions and profit participation	-88	-185	-59	-41	-112
Other operating expenses	0	0	0	0	0
Net operating expenses	**-36 106**	**-48 758**	**-56 306**	**-65 126**	**-73 850**
Technical result, general insurance	**21 005**	**84 474**	**55 629**	**85 565**	**68 746**
Investments					
Income from Group entities	0	0	0	0	0
Income from investment properties	0	0	0	0	0
Interest income and dividends, etc.	14 531	20 188	23 626	29 280	31 956
Value adjustments	-6 438	-11 691	-8 268	1 124	1 949
Interest expenses	-38	0	-351	-341	-329
Investment management expenses	-255	-161	-249	-1 753	-857
Total investment return	**7 800**	**8 336**	**14 758**	**28 310**	**32 719**
Technical interest transferred to general insurance	-6 071	-9 620	-13 568	-16 684	-9 241
Other income	0	0	0	0	0
Sale of life and pension	0	0	0	0	0
Other expenses	0	0	0	0	0
Profit from discontinued operations	0	0	0	0	0
Profit before tax	**22 734**	**83 190**	**56 819**	**97 191**	**92 224**
Tax	-6 374	-23 008	-14 670	-24 431	-23 097
Profit for the year	**16 360**	**60 182**	**42 149**	**72 760**	**69 127**

15.4 Trekroner – Income Statement

Income Statement Trekroner

in '000 DKK	2005	2006	2007	2008	2009
General Insurance					
Gross premiums written	319 471	378 946	407 153	427 928	447 067
Premiums ceded to reinsurers	-2 053	-3 946	-2 679	-2 155	-2 664
Change in the provision for unearned premium	-22 371	-26 894	-12 311	-9 285	-9 669
Change in the provision for unearned premium, reinsurers'	-21	0	0	0	0
Earned premiums, net of reinsurance	**295 026**	**348 106**	**392 163**	**416 488**	**434 734**
Insurance technical interest	**5 574**	**4 004**	**12 811**	**8 744**	**4 563**
Claims paid, gross	-216 060	-238 207	-257 022	-304 230	-380 722
Claims paid, reinsurers' share	27 369	8 854	5 025	844	1 006
Change in the provision for claims	-34 342	61 263	-17 638	-29 533	-939
Change in the provision for claims, reinsurers' share	-781	-13 964	-4 523	-719	-1 433
Claims incurred, net of reinsurance	**-223 814**	**-182 054**	**-274 158**	**-333 638**	**-382 088**
Bonuses and rebates	**0**	**0**	**0**	**-394**	**-107**
Acquisition costs	-80 221	-60 055	-65 155	-66 903	-63 327
Administrative expenses	-26 327	-26 030	-30 254	-30 099	-25 432
Reinsurance commissions and profit participation	-124	-271	-92	-65	-86
Other operating expenses	0	0	0	0	0
Net operating expenses	**-106 672**	**-86 356**	**-95 501**	**-97 067**	**-88 845**
Technical result, general insurance	**-29 886**	**83 700**	**35 315**	**-5 867**	**-31 743**
Investments					
Income from Group entities	0	0	0	0	0
Income from investment properties	0	0	0	0	0
Interest income and dividends, etc.	19 204	22 886	29 204	31 857	34 538
Value adjustments	-10 267	-8 457	-6 453	882	-381
Interest expenses	0	0	-1 183	-267	-157
Investment management expenses	-306	-349	-415	-2 157	-1 693
Total investment return	**8 631**	**14 080**	**21 153**	**30 315**	**32 307**
Technical interest transferred to general insurance	-8 339	-12 803	-16 202	-19 874	-11 039
Other income	0	0	0	0	0
Sale of life and pension	0	0	0	0	0
Other expenses	0	0	0	0	0
Profit from discontinued operations	0	0	0	0	0
Profit before tax	**-29 594**	**84 977**	**40 266**	**4 574**	**-10 475**
Tax	8 297	-23 021	-10 840	-2 155	2 637
Profit for the year	**-21 297**	**61 956**	**29 426**	**2 419**	**-7 838**

15.5 Codan – Income Statement

Income Statement Codan

in '000 DKK	2005	2006	2007	2008	2009
General Insurance					
Gross premiums written	13 415 244	14 195 945	14 827 940	14 229 619	14 779 196
Premiums ceded to reinsurers	-480 379	-555 189	-530 225	-512 657	-578 319
Change in the provision for unearned premium	-293 477	-244 775	-282 730	-109 678	236 866
Change in the provision for unearned premium, reins	-36 939	-6 711	-31 034	-8 007	25 491
Earned premiums, net of reinsurance	**12 604 449**	**13 389 270**	**13 983 951**	**13 599 277**	**14 463 235**
Insurance technical interest	**616 235**	**756 299**	**969 221**	**930 209**	**610 912**
Claims paid, gross	-8 330 990	-8 297 563	-9 039 145	-10 090 473	-10 983 720
Claims paid, reinsurers' share	975 184	416 381	326 307	745 899	465 411
Change in the provision for claims	-1 921 961	-1 945 289	-1 996 104	98 220	950 657
Change in the provision for claims, reinsurers' share	-114 287	-335 007	385 549	-433 382	-413 573
Claims incurred, net of reinsurance	**-9 392 054**	**-10 161 478**	**-10 323 393**	**-9 679 735**	**-9 981 225**
Bonuses and rebates	**-77 993**	**-82 139**	**-94 654**	**-63 129**	**-89 675**
Acquisition costs	-697 002	-736 951	-914 049	-1 071 993	-1 104 385
Administrative expenses	-1 725 195	-1 639 358	-1 610 280	-1 386 519	-1 504 776
Reinsurance commissions and profit participation	6 584	8 709	11 913	10 868	16 463
Other operating expenses	-10 308	0	-6 318	-1 363	-10 874
Net operating expenses	**-2 425 921**	**-2 367 600**	**-2 518 734**	**-2 449 007**	**-2 603 572**
	-0,93760344	-0,935755109	-0,918347528	-0,89186665	-0,87012321
Technical result, general insurance	**1 324 716**	**1 534 353**	**2 016 392**	**2 337 616**	**2 399 675**

in '000 DKK	2005	2006	2007	2008	2009
Investments					
Income from Group entities	32 767	161 444	97 609	72 956	67 046
Income from investment properties	54 412	29 681	71 898	-15 710	-1 450
Interest income and dividends, etc.	1 208 152	1 342 138	1 525 643	1 567 580	1 544 840
Value adjustments	-393 736	-596 739	-362 826	1 001 368	-252 139
Interest expenses	-42 186	-17 011	-33 600	-10 911	-28 395
Investment management expenses	-35 090	-34 479	-29 317	-37 119	-49 333
Total investment return	**824 319**	**885 033**	**1 269 407**	**2 578 163**	**1 280 569**
Technical interest transferred to general insurance	-690 192	-922 637	-1 074 695	-1 222 450	-846 268
Other income	0	0	16 869	45 360	1 450
Sale of life and pension	0	0	0	0	0
Other expenses	-37 266	-37 932	-52 127	-149 903	-77 438
Profit/Loss from discontinued operations	-4 952	9 182	0	3 839	0
Profit before tax	**1 416 626**	**1 467 999**	**2 175 846**	**3 592 625**	**2 757 988**
Provision for reserves	-1 101 338	0	-809 545	-765 894	0
Tax	-99 476	-380 653	-355 146	-793 762	-713 038
Profit for the year	**215 812**	**1 087 346**	**1 011 155**	**2 032 969**	**2 044 949**

15.6 Codan – Corrected Income Statement

Corrected Income Statement Codan

in '000 DKK	2005	2006	2007	2008	2009
General Insurance					
Premiums					
Gross premiums written	13 415 244	14 195 945	14 827 940	14 229 619	14 779 196
Bonuses and rebates	-77 993	-82 139	-94 654	-63 129	-89 675
Change in the provision for unearned premium	-293 477	-244 775	-282 730	-109 678	236 866
Premiums ceded to reinsurers	-480 379	-555 189	-530 225	-512 657	-578 319
Change in the provision for unearned premium, reinsurers'	-36 939	-6 711	-31 034	-8 007	25 491
Net premiums	**12 526 456**	**13 307 132**	**13 889 297**	**13 536 148**	**14 373 559**
Insurance technical interest	**616 235**	**756 299**	**969 221**	**930 209**	**610 912**
Claims					
Claims paid, gross	-8 330 990	-8 297 563	-9 039 145	-10 090 473	-10 983 720
Change in the provision for claims	-1 921 961	-1 945 289	-1 996 104	98 220	950 657
Claims paid, reinsurers' share	975 184	416 381	326 307	745 899	465 411
Change in the provision for claims, reinsurers' share	-114 287	-335 007	385 549	-433 382	-413 573
Net claims paid	**-9 392 054**	**-10 161 478**	**-10 323 393**	**-9 679 735**	**-9 981 225**
Change in other insurance related provision	0				
Operating Expenses					
Administrative expenses	-1 725 195	-1 639 358	-1 610 280	-1 386 519	-1 504 776
Acquisition costs	-697 002	-736 951	-914 049	-1 071 993	-1 104 385
Reinsurance commissions and profit participation	6 584	8 709	11 913	10 868	16 463
Other operating expenses	-10 308	0	-6 318	-1 363	-10 874
Net operating expenses	**-2 425 921**	**-2 367 600**	**-2 518 734**	**-2 449 007**	**-2 603 572**
Technical result, general insurance	**1 324 716**	**1 534 353**	**2 016 392**	**2 337 616**	**2 399 675**
Investments					
Investment income					
Income from Group entities	32 767	161 444	97 609	72 956	67 046
Income from investment properties	54 412	29 681	71 898	-15 710	-1 450
Interest income and dividends, etc.	1 208 152	1 342 138	1 525 643	1 567 580	1 544 840
Net investment income	**1 295 331**	**1 533 262**	**1 695 150**	**1 624 826**	**1 610 436**
Investment expenses					
Interest expenses	-42 186	-17 011	-33 600	-10 911	-28 395
Investment management expenses	-35 090	-34 479	-29 317	-37 119	-49 333
Net investment expenses	**-77 276**	**-51 491**	**-62 917**	**-48 030**	**-77 728**
Value adjustments	-393 736	-596 739	-362 826	1 001 368	-252 139
Total investment return	**824 319**	**885 033**	**1 269 407**	**2 578 163**	**1 280 569**
Technical interest	-690 192	-922 637	-1 074 695	-1 222 450	-846 268
Other expenses	-37 266	-37 932	-52 127	-149 903	-77 438
Other income	0	0	16 869	45 360	1 450
Ordinary result before tax	**1 421 578**	**1 458 817**	**2 175 846**	**3 588 786**	**2 757 988**
Profit/Loss from discontinued operations	-4 952	9 182	0	3 839	0
Profit before tax	**1 416 626**	**1 467 999**	**2 175 846**	**3 592 625**	**2 757 988**
Provision for reserves	-1 101 338	0	-809 545	-765 894	0
Tax	-99 476	-380 653	-355 146	-793 762	-713 038
Profit for the year	**215 812**	**1 087 346**	**1 011 155**	**2 032 969**	**2 044 949**

15.7 Codan Forsikring A/S – Balance Sheet

Balance sheet Codan Forsikring A/S

in '000 DKK	2005	2006	2007	2008	2009
Assets					
Goodwill					
Other intangible assets					
Intangible assets	**171 352**	**177 413**	**257 829**	**310 454**	**364 981**
Equipment	100 430	92 822	83 456	87 896	97 924
Group occupied properties	31 147	41 120	5 821	6 337	1 967
Total property and equipment	**131 577**	**133 942**	**89 277**	**94 233**	**99 891**
Investments in properties	4 943	0	0	0	0
Investments in Group entities	261 757	472 921	570 531	510 308	577 354
Investments in associated companies	0	0	0	0	0
Loans to Group entities	310 000	310 000	310 000	1 000 000	1 005 365
Total investments in Group entities	**576 700**	**782 921**	**880 531**	**1 510 308**	**1 582 719**
Equity investments	4 026	4 045	3 762	4 140	5 205
Bonds	9 484 248	10 910 965	10 449 284	10 702 681	10 817 453
Other loans	129 365	137 872	144 304	145 231	166 710
Other	0	0	0	0	0
Total other financial assets	**9 617 639**	**11 052 882**	**10 597 350**	**10 852 052**	**10 989 368**
Deposits with ceding undertakings	**18 230**	**7 130**	**6 201**	**1 498**	**992**
Total investments	**10 212 569**	**11 842 933**	**11 484 082**	**12 363 858**	**12 573 079**
Reinsurers' share of provision for unearned premiums	60 598	53 817	35 169	28 376	46 858
Reinsurers' share of provision for claims	1 364 762	962 775	1 247 120	865 456	793 721
Total reinsurers' share of insurance contract provisi	**1 425 360**	**1 016 592**	**1 282 289**	**893 832**	**840 579**
Receivables from policyholders	355 064	411 087	519 124	758 090	679 080
Receivables from brokers	18 378	30 440	8 206	10 756	5 281
Total receivables arising from direct insurance cont	**373 442**	**441 527**	**527 330**	**768 846**	**684 361**
Receivables from insurance companies	195 977	56 975	68 082	137 410	102 857
Receivables from Group entities	445 172	509 322	530 720	76 246	178 309
Other receivables	77 006	392 657	158 410	63 810	58 178
Total other receivables	**718 155**	**958 954**	**757 212**	**277 466**	**339 344**
Assets held for sale	370	454	38	619	72 480
Current tax assets	0	0	20 575	38 199	126 902
Deferred tax assets	61 758	52 807	33 597	45 083	101 755
Cash and cash equivalents	348 109	309 186	557 851	505 304	257 552
Total other assets	**410 237**	**362 447**	**612 061**	**589 205**	**558 689**
Accrued interest and rent	153 768	168 094	154 240	182 549	196 050
Other prepayments	9 144	6 398	11 856	9 870	16 043
Total prepayments and accrued income	**162 912**	**174 492**	**166 096**	**192 419**	**212 093**
Total assets	**13 605 604**	**15 108 300**	**15 176 176**	**15 490 313**	**15 673 017**
Equity and liabilities					
Share capital	**15 000**	**15 000**	**15 000**	**15 000**	**15 000**
Share premium account	**1 732**	**1 732**	**1 732**	**1 732**	**1 732**
Reserve for net revaluation according to the equity metl	0	0	0	224 367	277 112
Revaluation reserve	4 106	11 382	955	2 034	963
Total revaluation reserve	**4 106**	**11 382**	**955**	**226 401**	**278 075**
Contingency funds	2 082 106	2 082 106	2 082 106	2 082 106	2 082 106
Translation reserve	0	0	190	59 278	7 955
Equalisation reserve	46 243	52 723	60 135	67 006	70 712
Total reserves	**2 128 349**	**2 134 829**	**2 142 431**	**2 208 390**	**2 160 773**
Retained earnings	**902 772**	**2 283 544**	**1 680 123**	**989 861**	**1 265 023**
Proposed dividend	**0**	**0**	**0**	**850 000**	**140 000**
Total equity	**3 051 959**	**4 446 487**	**3 840 241**	**4 291 384**	**3 860 603**
Provision for unearned premiums	1 682 670	1 764 577	2 026 263	2 302 340	2 345 604
Provision for outstanding claims	7 715 763	6 769 335	7 614 110	7 979 124	8 368 466
Provision for bonuses and rebates	46 412	44 875	51 591	41 616	43 311
Other insurance contract provision	0	0	0	0	0
Total insurance technical provisions	**9 444 845**	**8 578 787**	**9 691 964**	**10 323 080**	**10 757 381**
Pension obligations	3 889	4 920	3 556	3 368	871
Deferred tax liabilities	0	0	0	2 543	41 211
Other provisions	31 972	0	931	0	67 200
Total other provisions	**35 861**	**4 920**	**4 487**	**5 911**	**109 282**
Deposits received from reinsurers	**2 120**	**1 843**	**544**	**469**	**0**
Payables arising from direct insurance contracts	20 219	14 709	21 917	63 329	19 505
Payables arising from reinsurance contracts	141 724	130 171	147 338	43 984	48 150
Debt to credit institutes	0	0	0	0	0
Debt to group entities	263 594	232 220	192 255	87 622	86 345
Current tax liabilities	5 288	304 988	2 334	0	0
Derivatives	0	0	0	0	0
Trade accounts payable	0	0	0	0	0
Lease obligations	15 349	14 778	12 950	14 006	20 793
Other payables	579 808	1 314 841	1 222 197	516 409	528 214
Total payables	**1 025 982**	**2 011 707**	**1 598 991**	**725 350**	**703 007**
Accruals and deferred income	**44 837**	**64 556**	**39 949**	**144 119**	**242 744**
Total equity and liabilities	**13 605 604**	**15 108 300**	**15 176 176**	**15 490 313**	**15 673 017**

15.8 Trygg-Hansa – Balance Sheet

Balance sheet Trygg Hansa

in '000 DKK	2005	2006	2007	2008	2009
Assets					
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Intangible assets	**208 533**	**178 938**	**183 234**	**124 015**	**148 605**
Equipment	**81 669**	**69 266**	**62 394**	**51 786**	**48 568**
Group occupied properties	**0**	**0**	**0**	**0**	**0**
Total property and equipment	**81 669**	**69 266**	**62 394**	**51 786**	**48 568**
Investments in properties	999 847	1 068 682	1 130 204	746 133	642 261
Investments in Group entities	643 042	719 876	777 163	731 824	368 974
Investments in associated companies	16 651	17 317	15 796	13 628	13 773
Loans to Group entities	0	0	0	0	69 590
Total investments in Group entities	**1 659 540**	**1 805 874**	**1 923 163**	**1 491 585**	**1 094 599**
Equity investments	0	0	188 762	96 759	287 785
Bonds	17 510 404	20 407 201	21 907 472	20 834 486	23 048 920
Other loans	29 337	0	0	0	0
Other	793	0	0	0	0
Total other financial assets	**17 540 534**	**20 407 201**	**22 096 235**	**20 931 245**	**23 336 706**
Deposits with ceding undertakings	**13 479**	**12 369**	**11 847**	**10 221**	**8 699**
Total investments	**19 213 553**	**22 225 444**	**24 031 245**	**22 433 051**	**24 440 004**
Reinsurers' share of provision for unearned premiums	44 402	39 581	34 751	34 751	41 319
Reinsurers' share of provision for claims	1 447 835	1 342 449	1 365 564	1 151 566	910 474
Total reinsurers' share of insurance contract provisi	**1 492 238**	**1 382 030**	**1 400 315**	**1 186 317**	**951 794**
Receivables from policyholders	1 514 439	1 632 708	1 796 005	1 476 594	1 562 884
Receivables from brokers	2 379	0	-2 369	2 044	26 821
Total receivables arising from direct insurance cont	**1 516 818**	**1 632 708**	**1 793 636**	**1 478 638**	**1 589 706**
Receivables from insurance companies	325 089	280 364	168 227	115 838	110 185
Receivables from Group entities	191 089	117 093	90 827	79 724	97 862
Other receivables	78 497	382 614	350 671	383 628	18 123
Total other receivables	**594 675**	**780 072**	**609 726**	**579 190**	**226 169**
Assets held for sale	0	0	0	0	0
Current tax assets	0	0	0	0	0
Deferred tax assets	0	0	0	0	0
Cash and cash equivalents	513 799	425 494	456 504	1 246 281	237 042
Total other assets	**513 799**	**425 494**	**456 504**	**1 246 281**	**237 042**
Accrued interest and rent	229 148	298 505	360 939	389 761	477 709
Other prepayments	247 385	198 729	169 017	140 368	198 623
Total prepayments and accrued income	**476 533**	**497 234**	**529 956**	**530 129**	**676 332**
Total assets	**24 097 817**	**27 191 185**	**29 067 009**	**27 629 407**	**28 318 219**
Equity and liabilities					
Share capital	**134 793**	**140 182**	**134 266**	**115 838**	**123 233**
Share premium account	**1 117 989**	**1 162 686**	**1 113 618**	**960 774**	**0**
Reserve for net revaluation according to the equity metl	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Total revaluation reserve	**0**	**0**	**0**	**0**	**0**
Contingency funds	2 512 700	2 613 157	3 312 421	3 623 685	3 855 018
Translation reserve	260 071	97 303	0	0	0
Equalisation reserve	0	0	0	0	0
Total reserves	**2 772 771**	**2 710 460**	**3 312 421**	**3 623 685**	**3 855 018**
Retained earnings	**348 876**	**-80 811**	**485 727**	**2 156 631**	**2 549 473**
Proposed dividend	**0**	**0**	**0**	**0**	**0**
Total equity	**4 374 429**	**3 932 517**	**5 046 032**	**6 856 928**	**6 527 725**
Provision for unearned premiums	3 041 564	3 278 610	3 232 651	2 560 701	2 734 323
Provision for outstanding claims	15 676 426	19 083 718	19 434 609	16 342 698	17 292 490
Provision for bonuses and rebates	0	0	0	0	0
Other insurance contract provision	0	0	0	0	0
Total insurance technical provisions	**18 717 990**	**22 362 327**	**22 667 260**	**18 903 399**	**20 026 812**
Pension obligations	0	136 884	122 419	87 901	86 263
Deferred tax liabilities	109 420	4 948	45 019	0	0
Other provisions	6 343	5 772	7 898	4 088	6 524
Total other provisions	**115 763**	**147 603**	**175 336**	**91 989**	**92 787**
Deposits received from reinsurers	**24 580**	**25 563**	**17 376**	**12 947**	**14 498**
Payables arising from direct insurance contracts	167 302	127 813	175 336	171 713	102 936
Payables arising from reinsurance contracts	128 450	103 900	116 101	91 308	84 813
Debt to credit institutes	0	0	0	0	0
Debt to group entities	268 000	37 932	257 475	214 641	250 815
Current tax liabilities	0	0	5 529	759 080	693 729
Derivatives	0	0	0	0	1 450
Trade accounts payable	33 302	29 686	23 694	30 663	31 896
Lease obligations	0	0	0	0	0
Other payables	19 823	78 337	266 163	258 251	252 990
Total payables	**616 876**	**377 667**	**844 296**	**1 525 655**	**1 418 629**
Accruals and deferred income	**248 178**	**345 507**	**316 710**	**238 490**	**237 767**
Total equity and liabilities	**24 097 817**	**27 191 185**	**29 067 009**	**27 629 407**	**28 318 219**

Currency	Rate:				
DKK/SEK	0,7929	0,8246	0,7898	0,6814	0,7249
in '000 SEK	**2005**	**2006**	**2007**	**2008**	**2009**
	263 000	**217 000**	**232 000**	**182 000**	**205 000**
	103 000	84 000	79 000	76 000	67 000
	0	0	0	0	0
	103 000	**84 000**	**79 000**	**76 000**	**67 000**
	1 261 000	1 296 000	1 431 000	1 095 000	886 000
	811 000	873 000	984 000	1 074 000	509 000
	21 000	21 000	20 000	20 000	19 000
	0	0	0	0	96 000
	2 093 000	**2 190 000**	**2 435 000**	**2 189 000**	**1 510 000**
	0	0	239 000	142 000	397 000
	22 084 000	24 748 000	27 738 000	30 576 000	31 796 000
	37 000	0	0	0	0
	1 000	0	0	0	0
	22 122 000	**24 748 000**	**27 977 000**	**30 718 000**	**32 193 000**
	17 000	**15 000**	**15 000**	**15 000**	**12 000**
	24 232 000	**26 953 000**	**30 427 000**	**32 922 000**	**33 715 000**
	56 000	48 000	44 000	51 000	57 000
	1 826 000	1 628 000	1 729 000	1 690 000	1 256 000
	1 882 000	**1 676 000**	**1 773 000**	**1 741 000**	**1 313 000**
	1 910 000	1 980 000	2 274 000	2 167 000	2 156 000
	3 000	0	-3 000	3 000	37 000
	1 913 000	**1 980 000**	**2 271 000**	**2 170 000**	**2 193 000**
	410 000	340 000	213 000	170 000	152 000
	241 000	142 000	115 000	117 000	135 000
	99 000	464 000	444 000	563 000	25 000
	750 000	**946 000**	**772 000**	**850 000**	**312 000**
	0	0	0	0	0
	0	0	0	0	0
	0	0	0	0	0
	648 000	516 000	578 000	1 829 000	327 000
	648 000	**516 000**	**578 000**	**1 829 000**	**327 000**
	289 000	362 000	457 000	572 000	659 000
	312 000	241 000	214 000	206 000	274 000
	601 000	**603 000**	**671 000**	**778 000**	**933 000**
	30 392 000	**32 975 000**	**36 803 000**	**40 548 000**	**39 065 000**
	170 000	**170 000**	**170 000**	**170 000**	**170 000**
	1 410 000	**1 410 000**	**1 410 000**	**1 410 000**	**0**
	0	0	0	0	0
	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
	3 169 000	3 169 000	4 194 000	5 318 000	5 318 000
	328 000	118 000	0	0	0
	0	0	0	0	0
	3 497 000	**3 287 000**	**4 194 000**	**5 318 000**	**5 318 000**
	440 000	**-98 000**	**615 000**	**3 165 000**	**3 517 000**
	0	**0**	**0**	**0**	**0**
	5 517 000	**4 769 000**	**6 389 000**	**10 063 000**	**9 005 000**
	3 836 000	3 976 000	4 093 000	3 758 000	3 772 000
	19 771 000	23 143 000	24 607 000	23 984 000	23 855 000
	0	0	0	0	0
	0	0	0	0	0
	23 607 000	**27 119 000**	**28 700 000**	**27 742 000**	**27 627 000**
	0	166 000	155 000	129 000	119 000
	138 000	6 000	57 000	0	0
	8 000	7 000	10 000	6 000	9 000
	146 000	**179 000**	**222 000**	**135 000**	**128 000**
	31 000	**31 000**	**22 000**	**19 000**	**20 000**
	211 000	155 000	222 000	252 000	142 000
	162 000	126 000	147 000	134 000	117 000
	0	0	0	0	0
	338 000	46 000	326 000	315 000	346 000
	0	0	7 000	1 114 000	957 000
	0	0	0	0	2 000
	42 000	36 000	30 000	45 000	44 000
	0	0	0	0	0
	25 000	95 000	337 000	379 000	349 000
	778 000	**458 000**	**1 069 000**	**2 239 000**	**1 957 000**
	313 000	**419 000**	**401 000**	**350 000**	**328 000**
	30 392 000	**32 975 000**	**36 803 000**	**40 548 000**	**39 065 000**

15.9 Privatsikring – Balance Sheet

Balance Sheet Privatsikring

in '000 DKK	2005	2006	2007	2008	2009
Assets					
Goodwill					
Other intangible assets					
Intangible assets	**0**	**0**	**0**	**0**	**0**
Equipment	0	0	0	0	0
Group occupied properties	0	0	0	0	0
Total property and equipment	**0**	**0**	**0**	**0**	**0**
Investments in properties	0	0	0	0	0
Investments in Group entities	0	0	0	0	0
Investments in associated companies	0	0	0	0	0
Loans to Group entities	0	0	0	0	0
Total investments in Group entities	**0**	**0**	**0**	**0**	**0**
Equity investments	0	0	0	0	0
Bonds	284 611	623 002	412 288	508 921	641 866
Other loans	0	0	0	0	0
Other	0	0	0	0	0
Total other financial assets	**284 611**	**623 002**	**412 288**	**508 921**	**641 866**
Deposits with ceding undertakings	**0**	**0**	**0**	**0**	**0**
Total investments	**284 611**	**623 002**	**412 288**	**508 921**	**641 866**
Reinsurers' share of provision for unearned premiums	-14	0	0	0	0
Reinsurers' share of provision for claims	6 001	1 996	538	56	0
Total reinsurers' share of insurance contract provisi	**5 987**	**1 996**	**538**	**56**	**0**
Receivables from policyholders	2 817	3 812	3 326	3 610	4 103
Receivables from brokers	0	0	1 366	219	282
Total receivables arising from direct insurance cont	**2 817**	**3 812**	**4 692**	**3 829**	**4 385**
Receivables from insurance companies	0	0	0	0	0
Receivables from Group entities	0	0	69	0	0
Other receivables	8	0	4	0	61
Total other receivables	**8**	**0**	**73**	**0**	**61**
Assets held for sale	0	0	0	0	0
Current tax assets	690	0	0	0	436
Deferred tax assets	1 128	3 653	2 632	420	0
Cash and cash equivalents	1 943	19 342	10 921	4 099	3 715
Total other assets	**3 761**	**22 995**	**13 553**	**4 519**	**4 151**
Accrued interest and rent	4 822	8 707	5 783	6 762	9 504
Other prepayments	0	0	0	0	0
Total prepayments and accrued income	**4 822**	**8 707**	**5 783**	**6 762**	**9 504**
Total assets	**302 006**	**660 512**	**436 927**	**524 087**	**659 967**
Equity and liabilities					
Share capital	**1 000**	**1 000**	**1 000**	**1 000**	**1 000**
Share premium account	**0**	**0**	**0**	**0**	**0**
Reserve for net revaluation according to the equity metl	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Total revaluation reserve	**0**	**0**	**0**	**0**	**0**
Contingency funds	0	0	0	0	0
Translation reserve	0	0	0	0	0
Equalisation reserve	0	0	0	0	0
Total reserves	**0**	**0**	**0**	**0**	**0**
Retained earnings	**84 236**	**144 418**	**186 567**	**259 327**	**178 454**
Proposed dividend	**0**	**0**	**0**	**0**	**150 000**
Total equity	**85 236**	**145 418**	**187 567**	**260 327**	**329 454**
Provision for unearned premiums	25 702	30 169	35 792	36 792	35 164
Provision for outstanding claims	182 427	171 919	198 280	198 710	222 921
Provision for bonuses and rebates	0	0	0	0	0
Other insurance contract provision	0	0	0	0	0
Total insurance technical provisions	**208 129**	**202 088**	**234 072**	**235 502**	**258 085**
Pension obligations	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	1 263
Other provisions	0	0	0	0	0
Total other provisions	**0**	**0**	**0**	**0**	**1 263**
Deposits received from reinsurers	**0**	**0**	**0**	**0**	**0**
Payables arising from direct insurance contracts	1 018	1 001	1 152	1 580	1 098
Payables arising from reinsurance contracts	0	0	0	0	0
Debt to credit institutes	449	220	0	0	0
Debt to group entities	2 195	12 687	4 015	5 163	57 512
Current tax liabilities	0	4 124	28	279	0
Derivatives	0	0	0	0	0
Trade accounts payable	0	0	0	0	0
Lease obligations	0	0	0	0	0
Other payables	3 707	293 641	9 271	20 280	11 606
Total payables	**7 369**	**311 673**	**14 466**	**27 302**	**70 216**
Accruals and deferred income	**1 272**	**1 333**	**822**	**956**	**949**
Total equity and liabilities	**302 006**	**660 512**	**436 927**	**524 087**	**659 967**

15.10 Trekroner – Balance Sheet

Balance Sheet TreKroner

in '000 DKK	2005	2006	2007	2008	2009
Assets					
Goodwill					
Other intangible assets					
Intangible assets	**0**	**0**	**0**	**0**	**0**
Equipment	0	0	0	0	0
Group occupied properties	0	0	0	0	0
Total property and equipment	**0**	**0**	**0**	**0**	**0**
Investments in properties	0	0	0	0	0
Investments in Group entities	0	0	0	0	0
Investments in associated companies	0	0	0	0	0
Loans to Group entities	0	0	0	0	0
Total investments in Group entities	**0**	**0**	**0**	**0**	**0**
Equity investments	0	0	0	0	0
Bonds	411 165	553 351	606 115	659 418	675 937
Other loans	0	0	0	0	0
Other	0	0	0	0	0
Total other financial assets	**411 165**	**553 351**	**606 115**	**659 418**	**675 937**
Deposits with ceding undertakings	**1 185**	**927**	**2 947**	**0**	**0**
Total investments	**412 350**	**554 278**	**609 062**	**659 418**	**675 937**
Reinsurers' share of provision for unearned premiums	-21	0	0	0	0
Reinsurers' share of provision for claims	20 780	7 124	2 665	2 043	679
Total reinsurers' share of insurance contract provisi	**20 759**	**7 124**	**2 665**	**2 043**	**679**
Receivables from policyholders	18 670	17 572	17 487	17 641	18 400
Receivables from brokers	0	0	442	93	410
Total receivables arising from direct insurance cont	**18 670**	**17 572**	**17 929**	**17 734**	**18 810**
Receivables from insurance companies	0	0	0	269	1 005
Receivables from Group entities	15 030	95	0	93	193
Other receivables	20	17	4	0	0
Total other receivables	**15 050**	**112**	**4**	**362**	**1 198**
Assets held for sale	0	0	0	0	0
Current tax assets	8 103	0	78	2 965	4 038
Deferred tax assets	2 430	1 685	1 309	441	332
Cash and cash equivalents	1 473	8 445	18 890	12 885	16 360
Total other assets	**12 006**	**10 130**	**20 277**	**16 291**	**20 730**
Accrued interest and rent	5 259	6 777	7 780	7 900	10 766
Other prepayments	0	0	0	0	0
Total prepayments and accrued income	**5 259**	**6 777**	**7 780**	**7 900**	**10 766**
Total assets	**484 094**	**595 993**	**657 717**	**703 748**	**728 120**
Equity and liabilities					
Share capital	**60 000**	**65 000**	**65 000**	**65 000**	**65 000**
Share premium account	**0**	**0**	**0**	**0**	**0**
Reserve for net revaluation according to the equity metl	0	0	0	0	0
Revaluation reserve	0	0	0	0	0
Total revaluation reserve	**0**	**0**	**0**	**0**	**0**
Contingency funds	0	0	0	0	0
Translation reserve	0	0	0	0	0
Equalisation reserve	0	0	0	0	0
Total reserves	**0**	**0**	**0**	**0**	**0**
Retained earnings	**30 178**	**137 134**	**166 560**	**168 979**	**161 141**
Proposed dividend	**0**	**0**	**0**	**0**	**0**
Total equity	**90 178**	**202 134**	**231 560**	**233 979**	**226 141**
Provision for unearned premiums	133 492	160 386	172 696	181 981	191 651
Provision for outstanding claims	242 780	187 947	207 843	254 312	266 698
Provision for bonuses and rebates	0	0	0	199	232
Other insurance contract provision	0	0	0	0	0
Total insurance technical provisions	**376 272**	**348 333**	**380 539**	**436 492**	**458 581**
Pension obligations	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0
Other provisions	0	0	0	0	110
Total other provisions	**0**	**0**	**0**	**0**	**110**
Deposits received from reinsurers	**0**	**0**	**0**	**0**	**0**
Payables arising from direct insurance contracts	2 056	1 900	1 825	1 402	2 395
Payables arising from reinsurance contracts	0	0	0	211	0
Debt to credit institutes	0	0	0	0	0
Debt to group entities	0	14 568	33 527	20 075	29 439
Current tax liabilities	0	18 889	0	0	0
Derivatives	0	0	0	0	0
Trade accounts payable	0	0	0	0	0
Lease obligations	0	0	0	0	0
Other payables	13 592	8 024	9 084	10 378	8 637
Total payables	**15 648**	**43 381**	**44 436**	**32 066**	**40 471**
Accruals and deferred income	**1 996**	**2 145**	**1 182**	**1 211**	**2 817**
Total equity and liabilities	**484 094**	**595 993**	**657 717**	**703 748**	**728 120**

15.11 Codan – Balance Sheet

Balance Sheet Codan

in '000 DKK	2005	2006	2007	2008	2009
Assets					
Goodwill					
Other intangible assets					
Intangible assets	**379 885**	**356 351**	**441 063**	**434 469**	**513 586**
Equipment	182 099	162 088	145 850	139 682	146 492
Group occupied properties	31 147	41 120	5 821	6 337	1 967
Total property and equipment	**213 246**	**203 208**	**151 671**	**146 019**	**148 459**
Investments in properties	1 004 790	1 068 682	1 130 204	746 133	642 261
Investments in Group entities	904 799	1 192 797	1 347 694	1 242 132	946 328
Investments in associated companies	16 651	17 317	15 796	13 628	13 773
Loans to Group entities	310 000	310 000	310 000	1 000 000	1 074 955
Total investments in Group entities	**2 236 240**	**2 588 795**	**2 803 694**	**3 001 893**	**2 677 318**
Equity investments	4 026	4 045	192 524	100 899	292 990
Bonds	27 690 428	32 494 519	33 375 159	32 705 506	35 184 176
Other loans	158 702	137 872	144 304	145 231	166 710
Other	793	0	0	0	0
Total other financial assets	**27 853 949**	**32 636 436**	**33 711 988**	**32 951 636**	**35 643 877**
Deposits with ceding undertakings	**32 894**	**20 426**	**20 995**	**11 719**	**9 691**
Total investments	**30 123 083**	**35 245 657**	**36 536 677**	**35 965 248**	**38 330 886**
Reinsurers' share of provision for unearned premiums	104 965	93 398	69 920	63 127	88 177
Reinsurers' share of provision for claims	2 839 378	2 314 344	2 615 887	2 019 121	1 704 874
Total reinsurers' share of insurance contract provisi	**2 944 344**	**2 407 742**	**2 685 807**	**2 082 248**	**1 793 052**
Receivables from policyholders	1 890 990	2 065 179	2 335 942	2 255 935	2 264 467
Receivables from brokers	20 757	30 440	7 645	13 112	32 794
Total receivables arising from direct insurance cont	**1 911 747**	**2 095 619**	**2 343 587**	**2 269 047**	**2 297 262**
Receivables from insurance companies	521 066	337 339	236 309	253 517	214 047
Receivables from Group entities	651 291	626 510	621 616	156 063	276 364
Other receivables	155 531	775 288	509 089	447 438	76 362
Total other receivables	**1 327 888**	**1 739 138**	**1 367 015**	**857 018**	**566 772**
Assets held for sale	370	454	38	619	72 480
Current tax assets	8 793	0	20 653	41 164	131 376
Deferred tax assets	65 316	58 145	37 538	45 944	102 087
Cash and cash equivalents	865 324	762 467	1 044 166	1 768 569	514 669
Total other assets	**939 803**	**821 066**	**1 102 395**	**1 856 296**	**820 612**
Accrued interest and rent	392 997	482 083	528 742	586 972	694 029
Other prepayments	256 529	205 127	180 873	150 238	214 666
Total prepayments and accrued income	**649 526**	**687 210**	**709 615**	**737 210**	**908 695**
Total assets	**38 489 521**	**43 555 990**	**45 337 829**	**44 347 555**	**45 379 323**
Equity and liabilities					
Share capital	**210 793**	**221 182**	**215 266**	**196 838**	**204 233**
Share premium account	**1 119 721**	**1 164 418**	**1 115 350**	**962 506**	**1 732**
Reserve for net revaluation according to the equity metl	0	0	0	224 367	277 112
Revaluation reserve	4 106	11 382	955	2 034	963
Total revaluation reserve	**4 106**	**11 382**	**955**	**226 401**	**278 075**
Contingency funds	4 594 806	4 695 263	5 394 527	5 705 791	5 937 124
Translation reserve	260 071	97 303	190	59 278	7 955
Equalisation reserve	46 243	52 723	60 135	67 006	70 712
Total reserves	**4 901 120**	**4 845 289**	**5 454 852**	**5 832 075**	**6 015 791**
Retained earnings	**1 366 062**	**2 484 285**	**2 518 977**	**3 574 798**	**4 154 091**
Proposed dividend	**0**	**0**	**0**	**850 000**	**290 000**
Total equity	**7 601 802**	**8 726 556**	**9 305 400**	**11 642 618**	**10 943 923**
Provision for unearned premiums	4 883 428	5 233 742	5 467 402	5 081 814	5 306 742
Provision for outstanding claims	23 817 396	26 212 919	27 454 842	24 774 844	26 150 575
Provision for bonuses and rebates	46 412	44 875	51 591	41 815	43 543
Other insurance contract provision	0	0	0	0	0
Total insurance technical provisions	**28 747 236**	**31 491 535**	**32 973 835**	**29 898 473**	**31 500 859**
Pension obligations	3 889	141 804	125 975	91 269	87 134
Deferred tax liabilities	109 420	4 948	45 019	2 543	42 474
Other provisions	38 315	5 772	8 829	4 088	73 834
Total other provisions	**151 624**	**152 523**	**179 823**	**97 900**	**203 442**
Deposits received from reinsurers	**26 700**	**27 406**	**17 920**	**13 416**	**14 498**
Payables arising from direct insurance contracts	190 595	145 423	200 230	238 024	125 934
Payables arising from reinsurance contracts	270 174	234 071	263 439	135 503	132 963
Debt to credit institutes	449	220	0	0	0
Debt to group entities	533 789	297 407	487 272	327 501	424 111
Current tax liabilities	5 288	328 001	7 891	759 359	693 729
Derivatives	0	0	0	0	1 450
Trade accounts payable	33 302	29 686	23 694	30 663	31 896
Lease obligations	15 349	14 778	12 950	14 006	20 793
Other payables	616 930	1 694 843	1 506 715	805 318	801 447
Total payables	**1 665 875**	**2 744 428**	**2 502 189**	**2 310 373**	**2 232 323**
Accruals and deferred income	**296 283**	**413 541**	**358 663**	**384 776**	**484 277**
Total equity and liabilities	**38 489 521**	**43 555 990**	**45 337 829**	**44 347 555**	**45 379 323**

15.12 Codan – Corrected Balance Sheet

Corrected Balance Sheet Codan

in '000 DKK	2005	2006	2007	2008	2009
Assets					
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Intangible assets	**379 885**	**356 351**	**441 063**	**434 469**	**513 586**
Investment assets					
Investments in properties	1 004 790	1 068 682	1 130 204	746 133	642 261
Investments in Group entities	904 799	1 192 797	1 347 694	1 242 132	946 328
Investments in associated companies	16 651	17 317	15 796	13 628	13 773
Loans to Group entities	310 000	310 000	310 000	1 000 000	1 074 955
Other financial investment assets					
Equity investments	4 026	4 045	192 524	100 899	292 990
Bonds	27 690 428	32 494 519	33 375 159	32 705 506	35 184 176
Other loans	158 702	137 872	144 304	145 231	166 710
Other	793	0	0	0	0
Total financial investment assets	**30 090 189**	**35 225 231**	**36 515 682**	**35 953 529**	**38 321 195**
Deposits with ceding undertakings	**32 894**	**20 426**	**20 995**	**11 719**	**9 691**
Total investment assets	**30 123 083**	**35 245 657**	**36 536 677**	**35 965 248**	**38 330 886**
Receivables					
Receivables from policyholders	1 890 990	2 065 179	2 335 942	2 255 935	2 264 467
Receivables from brokers	20 757	30 440	7 645	13 112	32 794
Total receivables arising from direct insurance contracts	**1 911 747**	**2 095 619**	**2 343 587**	**2 269 047**	**2 297 262**
Receivables from insurance companies	521 066	337 339	236 309	253 517	214 047
Receivables from Group entities	651 291	626 510	621 616	156 063	276 364
Other receivables	155 531	775 288	509 089	447 438	76 362
Total receivables	**3 239 635**	**3 834 757**	**3 710 601**	**3 126 065**	**2 864 034**
Other assets					
Equipment	182 099	162 088	145 850	139 682	146 492
Group occupied properties	31 147	41 120	5 821	6 337	1 967
Reinsurers' share of provision for unearned premiums	104 965	93 398	69 920	63 127	88 177
Reinsurers' share of provision for claims	2 839 378	2 314 344	2 615 887	2 019 121	1 704 874
Assets held for sale	370	454	38	619	72 480
Current tax assets	8 793	0	20 653	41 164	131 376
Deferred tax assets	65 316	58 145	37 538	45 944	102 087
Cash and cash equivalents	865 324	762 467	1 044 166	1 768 569	514 669
Total other assets	**4 097 393**	**3 432 016**	**3 939 874**	**4 084 563**	**2 762 123**
Prepayments and accrued income					
Accrued interest and rent	392 997	482 083	528 742	586 972	694 029
Other prepayments	256 529	205 127	180 873	150 238	214 666
Total prepayments and accrued income	**649 526**	**687 210**	**709 615**	**737 210**	**908 695**
Total assets	**38 489 521**	**43 555 990**	**45 337 829**	**44 347 555**	**45 379 323**
Equity and liabilities					
Share capital	**210 793**	**221 182**	**215 266**	**196 838**	**204 233**
Share premium account	**1 119 721**	**1 164 418**	**1 115 350**	**962 506**	**1 732**
Reserve for net revaluation according to the equity method	0	0	0	224 367	277 112
Revaluation reserve	4 106	11 382	955	2 034	963
Total revaluation reserve	**4 106**	**11 382**	**955**	**226 401**	**278 075**
Contingency funds	4 594 806	4 695 263	5 394 527	5 705 791	5 937 124
Translation reserve	260 071	97 303	190	59 278	7 955
Equalisation reserve	46 243	52 723	60 135	67 006	70 712
Total reserves	**4 901 120**	**4 845 289**	**5 454 852**	**5 832 075**	**6 015 791**
Corrected equity	**6 235 740**	**6 242 271**	**6 786 423**	**7 217 820**	**6 499 831**
Retained earnings	**1 366 062**	**2 484 285**	**2 518 977**	**3 574 798**	**4 154 091**
Proposed dividend	**0**	**0**	**0**	**850 000**	**290 000**
Total equity	**7 601 802**	**8 726 556**	**9 305 400**	**11 642 618**	**10 943 923**
Provision for unearned premiums	4 883 428	5 233 742	5 467 402	5 081 814	5 306 742
Provision for outstanding claims	23 817 396	26 212 919	27 454 842	24 774 844	26 150 575
Provision for bonuses and rebates	46 412	44 875	51 591	41 815	43 543
Other insurance contract provisions	0	0	0	0	0
Total insurance technical provisions	**28 747 236**	**31 491 535**	**32 973 835**	**29 898 473**	**31 500 859**
Pension obligations	3 889	141 804	125 975	91 269	87 134
Deferred tax liabilities	109 420	4 948	45 019	2 543	42 474
Other provisions	38 315	5 772	8 829	4 088	73 834
Total other provisions	**151 624**	**152 523**	**179 823**	**97 900**	**203 442**
Deposits received from reinsurers	**26 700**	**27 406**	**17 920**	**13 416**	**14 498**
Payables arising from direct insurance contracts	190 595	145 423	200 230	238 024	125 934
Payables arising from reinsurance contracts	270 174	234 071	263 439	135 503	132 963
Debt to credit institutes	449	220	0	0	0
Debt to group entities	533 789	297 407	487 272	327 501	424 111
Current tax liabilities	5 288	328 001	7 891	759 359	693 729
Derivatives	0	0	0	0	1 450
Trade accounts payable	33 302	29 686	23 694	30 663	31 896
Lease obligations	15 349	14 778	12 950	14 006	20 793
Other payables	616 930	1 694 843	1 506 715	805 318	801 447
Total payables	**1 665 875**	**2 744 428**	**2 502 189**	**2 310 373**	**2 232 323**
Accruals and deferred income	**296 283**	**413 541**	**358 663**	**384 776**	**484 277**
Total equity and liabilities	**38 489 521**	**43 555 990**	**45 337 829**	**44 347 555**	**45 379 323**

15.13 Estimation of Synergy Effects – Codan & Gjensidige

Executive Salaries:

				In DKK 31.12.2009
Codan Forsikring	kr	10 229 000	DKK	
Trygg-Hansa	kr	47 000 000	SEK	0,72
Sum to reinsurers	kr	44 069 000	DKK	

Source: Codan p. 45
Source: Trygg-Hansa p. 51

Source to forex exchange: http://www.oanda.com/currency/historical-rates/

Premiums ceded to reinsurers:

				In DKK 31.12.2009
Codan Forsikring	kr	395 039 000	DKK	
Trygg-Hansa	kr	244 000 000	SEK	0,72
Gjensidige	kr	368 000 000	NOK	0,89
Sum to reinsurers	kr	898 239 000	DKK	

Source: Codan p. 18
Source: Trygg-Hansa p. 14
Source: Gjensidige p. 166

Source to forex exchange: http://www.oanda.com/currency/historical-rates/

Premiums ceded to reinsurers:

				In DKK 31.12.2009
Codan Forsikring	kr	25 036 000	DKK	
Trygg-Hansa	kr	86 000 000	SEK	0,72
Gjensidige	kr	107 300 000	NOK	0,89
Sum to reinsurers	kr	182 453 000	DKK	

Source: Codan p. 18
Source: Trygg-Hansa p. 14
Source: Gjensidige p. 100 + 155

Source to forex exchange: http://www.oanda.com/currency/historical-rates/

Salaries

				In DKK 31.12.2009
Codan Forsikring	kr	1 211 611 000	DKK	
Trygg-Hansa	kr	1 488 000 000	SEK	0,72
Gjensidige	kr	1 772 000 000	NOK	0,89
Total Salaries in Codan	kr	3 860 051 000	DKK	

Source: Codan p. 45
Source: Trygg-Hansa p. 40
Source: Gjensidige p. 155

Source to forex exchange: http://www.oanda.com/currency/historical-rates/

Information- and Communication Technology Expenses

				In DKK 31.12.2009
Codan	kr	299 040 000	DKK	(Not reported)
Gjensidige	kr	336 000 000	NOK	0,89
Total Salaries in Codan	kr	598 080 000	DKK	

Source: Codan (used Gjensidige's estimate calculated into DKK)
Source: Gjensidige p. 155

Source to forex exchange: http://www.oanda.com/currency/historical-rates/