Solvency Report 2017

Extract of:
Solvency and Financial Condition Report
Forsikringsselskabet Danica

Danica Pension

Extract

In 2016, new pan-European rules were introduced on how insurance companies in Europe are to ensure adequate capital for pensions and payments in connection with illness, injuries and accidents – also known as adequate solvency capital. In this connection, it also became a requirement that all insurance companies must publish an annual solvency report disclosing how they have each complied with the rules.

The focus of the rules and the solvency report is on how the companies measure and manage their risks.

A joint group report

The report is based on the Group as a whole. Special matters relating to individual group companies are only mentioned if they deviate significantly from those of the Group.

In the interest of Danica's customers in Sweden and Norway, this report is also published in these countries. Certain matters that are not significant from a group perspective are mentioned in the report to provide transparency for the Group's Nordic customers.

The requirements are met

As stated in the report, the Danica Group meets the statutory solvency requirement, and the Boards of Directors of the Danica companies have implemented a governance and management system which ensures that they have sufficient capital to operate the business on an adequate basis.

The table below shows an overview of total capital and capital requirements for 2016 and 2017:

Solvency (DKKm)	31-dec-17					31-dec-16				
	Danica Group	Forsikrings-selskabet Danica	Danica Pension	Danica Sweden	Danica Norway	Danica Group	Forsikrings-selskabet Danica	Danica Pension	Danica Sweden	Danica Norway
Total Capital	23,975	20,175	25,093	1,521	502	23,679	19,897	24,799	1,311	379
SCR	10,695	3,904	10,264	1,239	386	9,605	3,876	9,483	1,066	313
Excess Capital base	13,280	16,272	14,829	282	116	14,074	16,020	15,316	245	66
Solvency coverage ratio	224%	517%	244%	123%	130%	247%	513%	262%	123%	121%
MCR	6,110	976	4,619	373	142	6,075	972	4,663	309	131

Introduction to Danica Pension's strategy

Danica Pension's strategy is based on our vision of being the best among our peers at providing financial security for customers, and thus being the most trusted pension provider.

In 2017, Danica Pension enhanced the focus on proactively working to ensure that both personal and business customers have pension and insurance solutions that are suited to their current life situation. Danica Pension contacts customers whenever they encounter life changes that may affect their pension scheme or insurance covers.

By giving clear recommendations of how to achieve the best possible cover, we enable customers to concentrate on their business, work and life in general instead of worrying about whether their pension and insurance provide the right covers.

Acquisition of SEB Pension

Towards the end of 2017, Danske Bank announced Danica Pension's acquisition of SEB Pension in Denmark. Through economies of scale, the acquisition will make Danica Pension more competitive and strengthen our innovation capacity, giving us an even better foundation for developing new and relevant pension and insurance solutions for our customers.

With the acquisition of SEB Pension in Denmark, Danica Pension will be welcoming 200,000 new pension customers and increase investment assets under management by approx. DKK 100 billion.

The acquisition has been referred to the relevant authorities for approval, and final approval is expected some time during the first half of 2018.

Danica has entered into a partnership with ATP

In November 2017, ATP and Danica entered into a partnership on the part of Danica's property portfolio that concerns 16 of the largest shopping centres in Denmark. ATP will take over half of Danica's portfolio of shopping centres, which has a total value of DKK 13.7 billion. The partnership will increase the probability of the centres continuing to meet the expectations of shoppers, and thus of being a good investment for Danica's customers. The sale will also enable Danica to achieve greater diversity in its property investments. The investment was finalised in early 2018.

Property investments are among Danica's alternative investments and contribute to generating stable returns.

2017 performance

In 2017, the Danica Group realised a profit before tax of DKK 1,917 million, against DKK 2,220 million in 2016. The net profit after tax amounted to DKK 1,609 million, against DKK 1,787 million in 2016.

Danica Group, profit before tax (DKKm)	2017	2016
Technical result, Traditionel	1,131	1,2360
Technical result, unit linked products	835	621
Health & accident result(before investment return)	-167	-187
Result of insurance business	1,799	1,670
Investment return	263	611
Transfered from shadow account	44	279
Cost and risk group outlays	41	0
Special allotments	-230	-340
Profit before tax	1,917	2,220

The result of insurance business was in line with the guidance in the annual report for 2016 and the interim report for the first six months of 2017. Profit before tax was impacted by a lower investment return and transfer from the shadow account and by an improved result of insurance business. The Board of Directors proposed to the annual general meeting that an amount of DKK 1,609 million be distributed in 2018 as dividends in respect of 2017, corresponding to the profit after tax of the parent company, Forsikringsselskabet Danica.

The technical result of the conventional business amounted to DKK 1,131 million, against DKK 1,236 million for 2016. The declining income in the conventional business was expected and was due to the fact that new business is primarily written in unit-linked products as well as to the general run-off profile of the portfolio. In 2017, Danica was able to book the full risk allowance for the four interest rate groups. Danica was also able to book DKK 44 million from the shadow account in the risk groups as well as DKK 41 million in outlays from the cost and risk groups relating to 2016, after which there is no shadow account.

The technical result of unit-linked products was DKK 835 million in 2017, against DKK 621 million in 2016. The result was favourably influenced by increased business volume.

The result of health and accident insurance before investment return was a loss of DKK 167 million, against a loss of DKK 187 million in 2016. The claims ratio for the health and accident business was 113%, against 105% in 2016.

The return on investment relating to the risk exposure of shareholders' equity fell from DKK 611 million to DKK 263 million. The decrease was mainly affected by extraordinary income in 2016 of DKK 99 million from the adjustment of the discount curve for the health and accident business and DKK 175 million from the transfer of a policy portfolio to a new group outside contribution.

Special allotments amounted to an expense of DKK 230 million, against DKK 340 million in 2016. See the section on contribution in the significant accounting policies note. The amount will be deposited in the accounts of customers of the former Statsanstalten for Livsforsikring in March 2018.

Standard – with one exception

The Danica Group assesses that the standard formula for calculating solvency requirement set out in the rules is suitable for the business, with a single exception.

In terms of calculating longevity risk, the standard model does not quite match the accounting treatment of this risk in the technical provisions. The Group has therefore chosen to develop an internal model for this calculation in the Danish life insurance and pension company, Danica Pension. The internal model ensures that, overall, the longevity risk recognised corresponds to the standard model.

The Danish FSA has decided that, as from 2018, expected future longevity improvements are to be based on observed improvements over the past 20 years, rather than over the past 30 years. The reason for this change is that, in the opinion of the Danish FSA, recent years' updates of the benchmark indicate that the longevity benchmark does not adequately reflect the actual development.

All other things being equal, a change in the benchmark at the current level of interest rates will increase Danica's provisions for guaranteed benefits by DKK 0.9 billion and reduce shareholders' equity by approximately DKK 90 million. The solvency capital requirement will increase by DKK 0.8 billion and excess solvency be reduced accordingly. Danica is implementing the updated longevity benchmark as from 2018.

Values according to recognised methods

The formula for calculating the solvency requirement is modular in structure and incorporates all aspects of the Group's activities. As for parts of the calculations, the values cannot be determined on a market basis. Where this is the case, the values are determined either on the basis of rules laid down by the supervisory authorities or according to internationally accepted financial and insurance technical methods.

Publication of reports

With the new pan-European rules, extended disclosure requirements to the supervisory authorities have been imposed. A part of these disclosures must be made available to the public together with this report. An overview of these disclosures with links is set out in appendix 1.

An overview of terms and definitions used in this report is set out in appendix 2.