Newsletter 2018

Modelling the Alka integration

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Modelling the Alka integration

The acquisition of Alka has been approved as per 5 November 2018, therefore Alka will be consolidated for approximately two months in Tryg's results for Q4 2018. This newsletter aims at explaining the effect of the transaction on Tryg's figure.

In terms of consolidation the entire Alka premiums (both non-life and life) will be booked under the line gross premiums income of Tryg (DKK 17,963m at the end of 2017). This will help in maintaining a simplified reporting format, and it is in line with IFRS accounting rules. Alka reported DKK 2,096m of gross non-life premiums earned and DKK 162m of gross life premiums at the end of 2017.

Alka Life

The Alka life business is covered by a bonus scheme that ensures that the technical result remains very low. The aforementioned life premiums (DKK 162m) are presented net of bonus and premiums discount. In 2017, life claims expenses were approximately DKK 150m and insurance operating expenses approximately DKK 12m, hence the overall Alka life technical result was virtually zero, and it is expected to remain so going forward. Tryg's technical result will therefore not be impacted by the Alka Life business.

Alka non-life

Approximately 85% of Alka's non-life business is Private, hence it will be reported under Tryg's Private segment, while the remaining 15% Commercial business (Commercial Property) will be reported under Tryg's Corporate segment.

Alka customers (non-life customers only) will be entitled to TryghedsGruppen's members bonus from the end of 2018.

Tryg market share in the Danish non-life market will be around 22% post the transaction compared to 18% before the transaction.

Restructuring cost

A one-off charge of approximately DKK 200m will be booked in Q4 2018. Approximately DKK 70m will be booked under the insurance operating expense line, approximately DKK 50m will be booked under the claims line, while the remaining DKK 80m will be booked under the other income and costs line as these are mainly costs related to the transaction.

Impact on the balance sheet and depreciations

The transaction will result in approximately DKK 5.4bn of increased intangibles on Tryg's sheet. This amount is split in DKK 3.9bn of goodwill and a DKK 1.5bn value of customer relationships and brand. The customer relationships component of just above DKK800m is divided between contracts related to the unions and contracts not related to the unions. The overall annual depreciation charge will be DKK 127m, almost evenly split between the two type of contracts. However, the depreciation will be 6 years for the 'not related to the unions' contracts and 7 years for the 'contracts related to the unions'. The overall annual depreciation will be booked under the other income/costs line.

Investment and capital position

The transaction will have a very modest impact on overall future investment income. The free portfolio (DKK 11bn as per Q3 2018) is expected to be slightly reduced (around DKK 0.5bn lower), while the match portfolio will increase by approximately DKK3bn. Tryg's asset mix will be unchanged, as the new 'assets' will mirror Tryg's low-risk investment approach. Overall expectations for the investment income should only be very modestly impacted from the consolidation.

Tryg's solvency ratio is expected to be at approximately 170 per cent after the closing of the transaction, this is in line with previous communication.

Transactions effect on technical result

At the time of the acquisition, Tryg noted that Alka has been producing an average 'stand-alone' technical result of approximately DKK 300m between 2013 and 2017, which Tryg plans to double thanks to the combined synergies of the two entities (Tryg & Alka). Tryg has disclosed zero synergies in 2018, DKK 75m in 2019, DKK 150m in 2020 and DKK 300m in 2021.

The approval of the transaction from the Danish Antitrust Authority came together with selected remedies, which have an estimated annual costs of approximately DKK20m for five years. The remedies include a contribution to Forsikringsguiden (a Danish comparison portal), the elimination of certain existing fees related to early cancellation of policies, and the removal of exclusivity agreements with certain partners.

Tryg firmly maintains its guidance for a DKK 300m synergies related to the Alka acquisition with a full run-rate impact in 2021.

Merger benefits of DKK 300m