Tryg – Q4 2016 results

Audio cast and Q&A 20 January 2016

Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published our full-year results earlier on this morning; and I have here with me Group CEO Morten Hubbe and Group CFO Christian Baltzer to discuss the figures.

So after a few words, over to you, Morten.

Morten Hübbe, CEO

Thank you, Gian, and good morning to all of you.

We will start with slide 3 with the full-year dividend per share of DKK6.2, which is in line with our aim of slightly growing the dividend per share annually. And, of course, new this quarter is an extraordinary dividend of DKK1 billion, or some DKK3.50 per share, which corresponds to roughly 7.6% total yield.

New this quarter is also that we expect to start a quarterly dividend process from first quarter 2017 really to reinforce our focus on dividend.

Our solvency margin is 194%, which is after deducting the H2 dividends and also after deducting the extraordinary dividend.

If we look at the results, we think they are overall satisfactory. Actually, as a curiosity, I think the earnings per share is the highest we've ever had; but, of course, substantially impacted by the one-offs in Q4, and also by a very high investment income.

If we look at the technical result at DKK2.64 billion, that is an increase of slightly below 4%, adjusting for one-offs, compared to the DKK2.5 billion last year. What we see is

that there are areas still causing claims inflation, and we expect for 2017 average price increases of around 3%.
For the year, we have an ROE in excess of 26%; and, of course, impacted by the unusually high investment income and the one-offs.

If we turn to slide 4, we show a satisfactory technical result of DKK564 million compared to last year, adjusted for one-offs. We saw in the quarter in isolation a very high amount of large claims; DKK197 million compared to the normal DKK137 million quarterly run rate. We also had the storm, Urd, which cost DKK60 million in the quarter. On the other hand, we also saw one-off gains impacting some 6.7% to the combined ratio.

I think more importantly, we're seeing a gradual improvement in the underlying claims ratio trend, although still slightly negative. It needs to further improve in 2017. That goes both for the Group and for private. And then we see a slight improvement in the pricing trends for car and house, both in Denmark and Norway. And then bear in mind that investment income in the quarter is boosted by this one-off property gain of DKK500 million.

If we turn to slide 5, we see pretty stable development in NPS and retention. In NPS, we've seen a strong improvement in private lines while we've seen a reduction in commercial lines. When we look at three plus products, we've seen a slight improvement, with an underlying strong improvement in the Danish market and a slightly weaker development in the Norwegian market. And, of course, the stability of the retention rate remains a very important part of our business model.

If we look at slide 6, we tried to show an overview of these moving parts and a comparison on adjusted numbers. And, of course, the moving one-off parts are both the DKK500 million positive on investment properties, the DKK100 million negative on goodwill write-down, and the DKK250 million negative on intangibles. So net-net DKK150 million positive.

And then we show also that in 2015 there was a negative one-off of DKK120 million related to savings plans, so they should really be added to the technical result in 2015.

And that's how we come to an adjusted year-on-year comparison where the pre-tax increases from DKK2.4 billion to slightly above DKK3 billion and the technical result from roughly DKK2.5 billion to a bit more than DKK2.6 billion.

If we move to slide 8, we see a very positive trend on our top-line development in Q4. Q4 in isolation increases 1.7% in local currencies and the full year 0.1% in local currencies. For the quarter, it's clearly private lines; and, of course, the first quarterly inclusion of the Skandia portfolio helps the equation. And then corporate Denmark has a positive trend.

As I mentioned, very positive in private lines with 1.3% growth in Q4, and particularly Denmark with a 2.7% growth in Q4 and a 1.8% growth in the full year. I think Norway is more challenged due to oil pricing and macro, but I think we see a number of structural initiatives with a number of new products, new add-ons and new cross-sales solutions, both in Denmark and Norway, which will further improve our distribution and top line in the coming year.

If we look at slide 9, we show an improved technical result in general in Q4; and Sweden, bear in mind the 2015 Q4 was impacted by a changed discounting model with a net impact of around DKK70 million.

If we look at slide 10, there is no doubt that generally we see a longer-term trend where prices on car insurance have been going down due to lower risks. The position will revert to there are new trends on claims inflation in car, and we see here now an improved trend in our Danish motor pricing compared to previous quarters; and also, we see a slightly positive development in house.

So an improved trend from Q3 to Q3 -- to Q4 on both products, and clearly, we see that as helpful going forward, impacted by conversion of products, but also that in some places customers buy more add-on covers.

If we look at slide 11, we see a very stable development in our retention rates that are unchanged, high. We see that there's a slight, slight drop in private Denmark, and that was actually expected as a result of the conversion where we change a very high number of products.

And over to you, Christian.

Christian Baltzer, CFO

Thank you Morten, and we're turning to slide 13 where we have explained the underlying claims development for 2016 and the fourth quarter.

We're happy to see that our underlying development is moving along as expected. We see our private line having the slowdown in deterioration, and we expect private lines in 2017 to start showing improvement on the underlying claims ratio.

On Group level, we have also seen a slowdown in the deterioration coming from about a 200 basis point the previous quarter now down to a 70 basis point.

We expect that 2017 will show underlying improvements. And as Morten mentioned, the 3% price increases and our saving plans will reinforce that improvement in our underlying development for 2017.

Turning to slide 14. As mentioned, as Morten alluded to, our motor insurance is, however, a very, very profitable line of business. We are starting to see a trend that is somewhat new the last couple of years.

We have mentioned it the previous quarters that the cost of repairing some of the parts has been increasing. We've been mentioning the frequency coming up. And now, we are showing that on our own numbers where we are having a full-year 2016 comparing 2016 to 2014 on motor comprehensive, we're actually seeing a pickup of about 10% on the average cost per car, and this is for Denmark.

I think it's important to keep in mind that we're still seeing motor MTPL, our liability part being slowing down, and actually still seeing improvement in that. But the comprehensive is the reversal of that and actually will give us an overall claims inflation in auto that we need to be aware of and need to mitigate by price increases and better procurement.

We have now shown the car sales for 2016, and basically, we're trying to show here that as we don't see the micro cars being on top, we are still seeing it being the small cars being sold in Denmark. However, the portfolios of cars in Denmark are starting to show the same similarities as there was last year, so the average prices will not going forward be as affected of this mix of cars as we have seen the previous years.

I think one of the things we are trying to illustrate here is that consumer price index and inflation is not -- inflation on insurance is not the same. And if you turn to page 15, we have tried to also allude to the fact that when you look at home insurance, then the construction cost in home insurance does not tailor with the consumer price index.

Actually, we in Denmark have seen for the last two years that the wages on construction has been around 4% to 5% increase annually; however, the total cost has been kept down by lower material cost. It's a little bit the reversal in Norway where the material cost has been higher and the wages has been lower. This has predominantly being driven by an FX rate in Norway.

I think what we are trying to illustrate here, as we do our prognosis and you do your prognosis, it's important to understand that the consumer price index and the average inflation for an insurance portfolio is different from the overall inflation that you have in the market. And we have tried to illustrate on the top curve that the average cost in Denmark has been increasing over the last couple of years. Not necessarily the one-to-one comparison with the consumer price index; however, it does illustrate a continued growth in expenses in the insurance market.

Turning to page 16, Morten has already mentioned some of the large claims and weather claims. Say that the fourth quarter has a higher level of large losses. However, 2016 is at a low level.

Weather claims. Morten mentioned Urd. Still coming in with a low level of weather claims. So in total with the run-off, we are seeing a somewhat comparable level as in 2015 with the run-off.

If we're turning to page 17 with our efficiency program, I think for us, efficiency and the cost is our first line of defence, and will remain and continue to remain our strong focus to run a very profitable and very low -- or high-efficiency operation. And 2016 has been a year where we have been putting in a lot of initiatives to -- invested a long in initiatives to get our 2017 target of 14% or below.

We do reiterate that our DKK750 million targets for 2017 are in force, and it's remember DKK500 million on the claims side and DKK250 million on the cost.

I think that one thing to comment on this one is also that a lot of our claims initiatives actually are hitting prior year's claims cost. So as you might not see them in the underlying claims development at once, we're seeing it when we do our analysis on our prior-year reserves, that we're seeing a dropdown, which is also why we are able to have this higher level of run-offs that we are seeing this year.

Page 18. We continue to show that our initiatives are bearing fruit, both on the FTE side and on -- if you adjust on our expenses, it is having the traction that we need to get our 2017 target of 14 or below.

The cost on the business areas are, however, a little bit higher in this quarter, but it's affected by a lot of the initiatives that has been forth in the business areas.

Turning to page 20 with the investment return, as Morten mentioned, the investment return in the fourth quarter is highly affected by the DKK500 million property sales. In overall, it's been a decent quarter for investments. We have seen the bond side reverse a little bit from the prior quarter's high gains, and we remain having a low risk as a key factor in our investment portfolio going forward.

The next slide I will not comment to but it's a detailing of some of our components in the investment side, and I will turn to page 22, where we display our solvency position.

We're posting a solid 194 solvency ratio. As Morten mentioned, this is after deducting the extraordinary dividend of DKK1 billion and the second half-year 2016 dividend.

We believe that our fourth quarter -- our quarterly dividend will actually stabilize our solvency ratio somewhat since we will be gaining net results and paying out on our own funds more continuously; and, therefore, have a more stable progression in our solvency ratio.

On the capital side, the only thing to highlight here is that we still have the DKK207 million of Tier 2 debt that is not included in own funds. Other than that, there is not much change to this compared to previous quarters.

And on page 24 there is a little bit of a detailing, a diving into the Tier 2, which is more from an information perspective on what our Tier 2 components are made up of.

And again, on our solvency ratio sensitivity which is on page 25, we remain having a very low sensitivity. The main sensitivity area is on our spread risk.

Back to you, Morten, for final remarks.

Morten Hubbe, CEO
Yes. Just one final remark on slide 26 where we reiterate our financial targets for 2017, which is an ROE at or above 21% pro tax; combined ratio at or below 87%; and actually, an expense ratio at or below 14%.

As you know, we have initiated general price changes of around 3%. And specifically for property and travel initiated both claims initiatives and price changes to manage and mitigate the higher claims inflation. It takes some time before that is fully implemented. We have seen the improved trend during 2016 and we expect some quarters before that turns into an actually positive underlying year-on-year development. But we do expect to see a net underlying improvement in the full year 2017.

We continue to expect the top-line growth between 0% and 2% in 2017, which is both due to the price changes I mentioned, the inclusion of the Skandia child insurance portfolio. But also, we see that we have an improved trend in our sales development, particularly in our Danish business, as the membership bonus is starting to slightly help the Danish business.

So in general, we think that for 2017, Denmark will pull up the growth and Norway will slightly pull down the growth.

And with that, I think we should revert to your questions.

Questions and answers

Ida Gjosund – Carnegie Investment Bank AB
Three questions from my side.

Firstly, you expect a growth in gross premium income of 0% to 2% in local currencies in 2017. As you today announced further price increases for 2017, I was wondering if you could specify what the other components of your growth expectations are and if there are any negatives embedded in the guidance.

You mentioned Norway. Could you please specify this a bit more? And especially compared to your old guidance of growing in line with the GDP.

Furthermore, in relation to my first question, how does the acquisition of FDM affect growth expectations? And what assumption do you have? Have you put it in here for cross selling?

And third, it's about the solvency ratio. Yesterday, you announced that you acquired the FDM insurance portfolio. What will the impact be on the solvency ratio?

Thank you.

Morten Hubbe, CEO

Morning to you.

And if I take the first two questions, I think first of all that with respect to the 0% to 2% local currency growth expectation versus the price changes, we do see a negative impact in Norway that as we've seen the lower oil price, we've seen lower economic activity, which results in particularly a number of commercial and corporate customers having fewer employees, having fewer lorries and vans, and having lower production. And that pulls a volume-wise negative development on the Norwegian numbers.

And I think if you look at 2016, you can clearly see a trend where all three Danish business areas are improving their top-line growth whereas all three Norwegian business areas are doing the opposite. And that is a trend that is likely to continue in 2017, and that is the main logic impacting. Our longer-term view of GDP-type growth levels are unchanged.

And when it comes to FDM, please bear in mind, 1, that it's a very positive opportunity for us to work with the strongest motor association entity in the Danish market, and together we can do a number of positive new solutions in motor and related areas. I think that is long term very positive.

I think bear in mind that the agreement starts January 1, 2018, and not 2017, so it will not impact the 2017 growth areas. And to be honest, I think it's too early to communicate how it will impact 2018 growth. I think we should take that dialog as we come further into 2017.

Christian Baltzer, CFO

And similar to the solvency ratio, I think let's come back to that when we come closer to the actual takeover date. Bear in mind that we do have our Tier 2 capital where we haven't fully used. So let's get closer to the takeover date and we'll revert and tell you the full impact on our numbers.

Ida Gjosund – Carnegie Investment Bank AB

Okay. Thank you.

In-Yong Hwang - Goldman Sachs & Co.

Just two from me, firstly, on the 3% price increases that you're putting through in 2017. The impression that I got was that your competitors don't have the same view in terms of price increases, or they're not increasing prices as much as you. Is that still the case when you look at the markets? And just how easy would that be to do for you in a market where your competitors are seemingly quite happy with the profitability, even with slightly rising claims inflation?

And second question is on reserve releases. I think, Christian, you mentioned that some of the higher reserve releases that we're seeing at the moment is as a result of the efficiency initiatives. Is there any quantification or numbers you can give around that, or just a feel of how much of the excess of 2.5% to 3% on a normalized level is from those initiatives?

Thank you very much.

Morten Hubbe, CEO

Good morning to you as well, In-Yong.

I think when it comes to the 3% price increase for 2017, you're posing the right question. I think when it comes to Norway, we're doing roughly the same as the market, and I think the general competition is doing the same. And to many extents, Gjensidige is driving the development in Norway more than us. So I don't think that's a worry point.

I think in Denmark, you can argue that the transparency of the motor claims trend, i.e., the higher frequency of claims, i.e., the higher repair costs, I don't think that has been generally seen and understood by the Danish players yet. So I think to some extent we are perhaps an early mover there. But I think on the other hand, these are trends that the industry will end up seeing, and sometimes the biggest player needs to see it first.

I think if you follow the quarterly announcements also of our Danish competitors, there has been more voicing about challenges with frequency in claims trends in travel and house insurance and property towards the autumn of 2016 by our Danish peers. So there, we seem to be experiencing the same trends, and I think that is comforting for us to know that our peers are seeing the same challenge in Denmark.

So all in all, I think we should be okay in that area, and I think the development in customer retention and in top line in Denmark confirms that this is moving in the right direction.

Christian Baltzer, CFO
I'll take the other question.

With respect to how much our efficiency program helps the previous year's claims, we're not that specific. However, if you look at some of the initiatives we have, for example, focusing and helping injured policyholders back to work, that's very often policyholders or injured people that has been injured for a couple of years where we try to get them back, and this will definitely affect our workers comp reserves as we see and get benefit of that to a larger extent.

But an actual number of how much of it is goes to one or the other is not really something we disclose, but we just see that our initiatives are affecting our reserves and, therefore, also giving us the opportunity to release more this year.

Paul De'Ath - RBC Capital Markets
A couple of things from me as well, firstly on the dividend changes, so the change to the special rather than buyback and also quarterly dividends.

Can you give any more feeling as to why you've made those changes and why now, I guess; why shift from the buyback to a special at this point? That would be interesting. And then the second thing was just on the M&A strategy. So obviously, there was the FDM transaction that you announced yesterday. Just would be good to hear your current thinking on where you are in terms of M&A. Are you looking at other things? Is there any particular regions where you feel like you would want to add to the business going forward?

That would be great. Thanks.

Morten Hubbe, CEO
Good morning to you as well.

I think on the matter of dividends and the changes there, I guess in many ways we're taking the next natural steps on a road that we've already been embarking upon.

I think for us as a management team, the fact that we have a high payout and high transparency on the payout is the most important. The mix between the methodology is perhaps less important for us. But what we've seen is that when we changed last year from annual dividends to semi-annual dividends, we saw a lot of our investors being very positive towards that; and we see that a lot of income investors, both by the large institutional but also by private investors, has a very, very high focus on dividends in an interest rate environment where we are at depressingly low levels. So I think to move from half-year dividends to quarterly dividends was a natural next progression.

When it comes to whether we use buybacks or special dividends, we've had dialogs with investors to try to grasp whether the preference has changed. I don't think you will ever get a uniform answer, but we are sensing that more of our investors are leaning more towards special dividends; and we also see that with the current share price, we're buying back shares at high multiples; and that with a preference for our shareholders to get dividends instead, we're seeing that as a natural next step.

The 60% shareholder is indifferent, so they have no view or no influence at all. So we've generally been asking the other minority shareholders, and that is the preference they have signaled.

I think when we look at the M&A strategy, it's clear for us that with an ROE target of 21% pro tax and with the combined ratio target we have, we don't really have room to make the wrong M&A acquisitions, and that gives us the discipline we should have.

I think if you look at the recent acquisitions, there's a link between the financials and hidden returns that supports the Group returns, and also to the future of developing our products and our business.

We purchased the children's portfolio in Sweden which allowed us to make a strong profit in Sweden, which will help 2017 and also at the same time take the children's portfolio to the Danish market. We introduced that two months ago. We've already sold 5,000 new policies. That will continue in 2017. So in a way, we've purchased both portfolio and earnings, but also an R&D pickup, if you will, and an opportunity to bring that to our largest market.

When it comes to the FDM, there's no doubt that motor is undergoing tremendous change in the coming years, and for us to work with the largest and most competent institution on motor makes a lot of sense; and to bring changes to the market while at the same time taking over a portfolio with strong profitability and stability.

I think when we look into the future, there is not a lot for sale in the Nordic region so I would not expect any high number of M&A transactions. But we are scanning the market continuously, and item number 1, looking for opportunities to support our Group earnings and returns; and to seeing other areas where we can add to our product competence and bring new products to our existing portfolio and strengthen the business through that.

Paul De'Ath - RBC Capital Markets
Excellent. Thanks very much.

Per Gronborg - SEB Equities
Also a couple of questions from my side, first related to your country result for Norway.

Excluding prior-year gains, we are now passed 100 in combined ratio. I know it's Q4, but seems like you are seeing a continuous strong deterioration of your profitability in Norway. Can you put some words on what's happening in Norway and what potentially can be done going forward in Norway?

That was my first question.

Morten Hubbe, CEO
And the second question?

Per Gronborg - SEB Equities
Yes. We can take the two more questions.
The next one, the solvency ratio at 194. You say that your capital structure forces you to be disciplined on capital. Is this the level we should expect going forward that you want your solvency rate to be close to 200, or? Or is it the FDM deal that absorbs capital that you basically are taking into account already now?

And my final question is you used to talk about a 7% margin on your claims reserves. Is that still the reserving level you are doing in margin when you're doing your reserves?

That was my three questions.

Morten Hubbe, CEO
Good morning to you as well, Per.

If I take the first question, I think that you're right that the pre-run off combined ratio in Norway in Q4 is unusually high. We've seen an unusually high number of large claims in Norway in Q4. We saw 128 million in corporate Norway; we saw 32 million in commercial SME Norway. And put together, that is a very unusually higher combination in one quarter in Norway alone in these two business segments.

So I think it's more fluctuation and volatility than structural, but having said that, we do see that the combined ratios, particularly in corporate Norway, seem to generally be too high. We've had challenges with the bigger commercial lorry, in particular the bus segment where we have reduced our exposure significantly January 1 and let go of a number of customers. And then we see that the property segment needs higher rates and higher prices to make sure that there's enough to capture the larger claims. And then we need to make sure that there's nothing structural in these larger claims.

But it seems to be a more a stochastic thing than a structural thing. I think letting go of these, all these bus customers for instance, that is where we see a structural issue; and property is where we have been pushing slightly higher rates January 1.

Christian Baltzer, CFO
Under solvency ratio question you had, you're absolutely right. 194 is a very comfortable level for a company to run their insurance business at, and we're really happy to have that kind of comfortability (sic) in our future earning potentials also.

I think we have not commented on a long-term target. I think we have commented that we see this at a high level and it will be coming down, highly likely, over the coming years, but not to what level it will come to.

With respect to your claims reserves and the 7% that you are mentioning, I believe that previously been communicated that when we look at the end of the year we see how much of reserves we have and we multiply that with a 7%.

Bear in mind that of our posting of claims at the end of year, one-half of it is reserves and one-half of it is paid claims. So that gets a little bit complicated, and if you zoom out a little bit, it means that on an annual basis, about 2.5 to 3 percentage points of our current year combined ratio is for future run-offs.

So it's a more 2.5% to 3% that we've set aside annually for future run-offs, so the long-term run-off target is still at the 2.5% to 3%.

Per Gronborg - SEB Equities

Back to Norway, when I look at your performance versus the largest player in the market, measuring on a 12-month rolling basis, already ahead of this Q4 report your combined ratio ex prior-year gains is now some 30.5 percentage points worse than Gjensidige. This does not seem to me like being stochastic as being a single quarter. This seems to be significant deterioration we have seen over especially the last two years. If we go three years back, you were largely aligned with Gjensidige, both on headline combined ratio and combined ratio ex prior-year gains?

Morten Hubbe, CEO

I wasn't aware that your question was a Gjensidige comparison, but if we make that comparison, which I think makes perfect sense, Per, there's no doubt that if you look at the Norwegian market for the past three years or so, Gjensidige has been pushing out significantly higher price increases than everyone else. If the market has been doing 3%, they seem to have been doing 5%, etc., and it seems that their customer bonus is now so well built into the market that it allows them to do that.

So I think clearly that in Norway, Gjensidige is in a league of their own when it comes to ability to price and ability to help the year-on-year underlying development, and I think we can only hope that we can have similar advantages in our Danish bonus scheme.

And I think if you look at the combination of Norwegian macro and the current claims trends, I think that our expectations for the coming years is that we will see stronger improvement both top line and bottom line in the Danish market, and then we will have to work a lot harder for that in the Norwegian market.

I think 160 million] large claims in commercial and corporate Norway in one quarter is stochasticly unusual, but that's another story. That's the quarterly story.

Per Gronborg - SEB Equities

Okay. Thank You.

Asbjørn Mørk - Danske Markets
Four questions from my side, the first, getting back to the run-off gains. The 7% level now, the 2.5% to 3% level that you're guiding for.

I know that there's a lot of uncertainties and unknowns relating to workers' compensation, but could you just maybe give us a little bit on how you see the impact going forward on an annual basis? When will this normalize?

That was my first question.

Second question on your motor insurance. If I understood you correctly, Morten, you said that the price hikes for next year -- of this year, sorry -- will be mainly within travel and property. If I look at your combined ratios, we see a deterioration in TPL in 2016 versus 2015, but largely unchanged on the comprehensive.

And I'm thinking if we look at slide 14, it seems like both claims and the price -- so frequency and the price per claim is increasing. So is this a negative spillover into 2017 all things equal, or do you think that we should expect this to be largely unchanged?

Then on your retention, Morten, you said that the customer dividend is starting to show an improving effect, but if we look at slide number 11, it doesn't really seem like your retention rate is improving, at least not in the retail segment. So is this just too early to really see this in the numbers, or how should we look at this?

And then my final question on weather-related claims from Urd, the DKK60 million. How much of this is -- how much is the impact from the Storm Council? How much have they covered here, or how much is taken by your sideways reinsurance?

Thank you.

Morten Hubbe, CEO
If Christian takes the first and the last question, I can take the two middle ones.

Christian Baltzer, CFO

Yes. Thank you, Morten.

The run-off being at 7% and the journey towards the 2.5% to 3% is not something we have communicated very clearly. I think you will see a gradual slowdown of the run-off over the next coming years. I think what we have internally thought would be a good communication would be when we have our Capital Markets Day at the end of 2017. We will show more clarity to the future run-off, but it will not be a cliff to dive off. And our biggest goal is to make sure that we actually keep up our earnings to subsidize for potential drop off in run-offs.

If I just take the last one as a second question, the weather claim of the DKK60 million from Urd is our cost. The Storm Council's claims are not included in these numbers whatsoever. They go on a separate account, so to speak.

So there is no reinsurance coverage or sideways coverage on this, and it's actually more or less our gross effect of the storm that hit both Denmark/Norway and a little bit of Sweden also.

Morten Hubbe, CEO
And to your second question on motor and pricing and travel and property, I perhaps could be more precise on my wording there.

Bear in mind that there is a two-year time gap from when we initiate a price change until we hit all customers, which takes a year; and then we get the full earning impact of that which hits the P&L which takes another year.

So my comment on travel and property was mainly that we did a large number of price changes in 2016 on travel and property, but then it takes the full circle of time before that impacts. So that will be a significant driver on the P&L in 2017.

When it comes to the rest of the price changes, the 3% is an average number. And we did price changes to motor in 2016, and we are doing price changes also in 2017. And that is also why you saw in the graph of average pricing in motor that the trend improved from Q3 to Q4.

So we cannot afford only to do price changes in a few products. We're actually doing it more broadly to the portfolio. And then on top of that, we are doing a number of claims-handling initiatives to massage down the claims and to try to avoid them happening altogether.

So we've been working during the autumn with the specialized teams on sewerage and site pipes claims. We've been working with a specialized team on jewellery claims. We are testing new methodology in Sweden on bringing down the frequency of motor claims, etc. So broad 3% on the general products, the time gap and the two-year process, and then a lot of processes to bring down the claims frequency.

When it comes to the retention and the question of the Danish membership bonus, I think it's fair to say that the Danish corporate customers are starting to be aware of it. We've seen a good growth in Q4 in corporate Denmark. I think it's too early days for private and commercial.

But I think we're looking at two opposite movements here, because in the retail segment Denmark, we've now been doing 500,000 to 600,000 policy conversions, and every time we convert old products to new products for existing customers, some of them end up leaving us, and despite that, we've seen a stable retention rate.

So I think in isolation, the conversion should have reduced the retention rate, but we are only seeing a very, very, very marginal reduction or very stable scenario, and we can only speculate that that is the early helping hand from the bonus scheme.
But I think we should repeat that the majority of the awareness and the advantage of that is ahead of us. It took Gjensidige three/four years to start to get the positive improvement from that, and we are still only less than a year into the program.

Christian Baltzer, CFO

And just to give you a little add-on, Asbjorn. You asked a little bit to the notes where show comprehensive, auto and MTPL development. Bear in mind that the numbers that are back there is more aggregated and is also on both Denmark, Norway and Sweden; and the numbers that we display on page 14 is where we have actually zoomed down and tried to take all variations apart and see what is the true comprehensive development on the last three years.

So analytically, the numbers on page 14 is accurate; and from an accounting perspective, you will see that there's a little bit of fluctuation back and forth on the notes back in the annual report.

Asbjørn Mørk - Danske Markets

Okay. If I can just follow up then.

If the frequencies continue, if they don't improve with the mitigations that you're taking now, would that all things equal lead to higher combined ratios? Or would the price hikes that you have done now and have in the pipeline, will they be enough to offset the current state?

Christian Baltzer, CFO

The frequency that we are alluding to is mostly also on the auto side. So if we talk about auto and frequency, I'd say if the frequency continues to increase 10 percentage points over the next two years -- I hope not because a lot of people will then get their cars hit -- but if so, then we'll have to take mitigation on the pricing side.

We don't expect that to happen, but as more cars do come out on the road, it is a natural event that more people bump into each other. Just I think for the last two years, about 6.3% more cars are on the Danish roads, so that is where some of this frequency is coming from.

Now on the homeowners side, I think that -- I would say that the claims is more under control there; and I think also on the frequency side we're seeing a tailing off on some of that risk. So it's more stability and it's more something that we have a better handle and control of than how many cars are on the road and bumping into each other, where that frequency is a little bit more out of our hands, I would say.

Morten Hubbe, CEO

And in that case, you're going to argue that longer term, it would be logic if we gradually saw higher earnings in homeowners and contents and travel, and slightly less earnings in motor. So there could be a more longer-term recalibration between those products.

So I guess it's both dependent upon the in isolation continued frequency development in motor and then how much the market allows us to recalibrate earnings split between the products.

Youdish Chicooree – Autonomous

I've got two questions. The first one is on the member bonus.

I was just wondering whether your extraordinary dividend will be treated the same way as an ordinary dividend; i.e., potentially increasing the members' bonus to 15%/16% this year.

And secondly, I was wondering if you think it's realistic to expect an improvement in the underlying combined ratio when commercial lines is still increasing year on year.

Thank you.

Christian Baltzer, CFO

Good morning to you.

I think that with respect to the member bonus, the cash that TryghedsGruppen is getting out of this is the same whether or not we do dividend or buyback. When we did the buyback, the TryghedsGruppen were doing similar buyback program, so they were getting the similar kind of cash in their accounts, so to speak.

On the underlying with commercial, you are right that of the four areas, we do see the underlying on commercial being a more deterioration; however, coming from a very attractive level. I think there are initiatives both structurally and also in our underwriting that are going to improve that underlying development. But we have not seen that tail off as we have seen in private yet.

Morten Hubbe, CEO
I guess we can add, Christian, that structurally our SME portfolio is not as strong as our private lines portfolio. So where that comes to top-line development in the coming years or it comes to underlying development in the claims, I would expect that private lines will develop better than commercial lines, and that in commercial lines we will be more challenged. And really, that making our commercial SME portfolio as strong as possible, that is more of a several year journey. So clearly, private lines will lead the way.

Youdish Chicooree – Autonomous
Okay, fine. So basically, what you're saying is irrespective of the weakness in commercial, you are fairly confident that this year at the Group level we should see this underlying -- this improvement in the underlying combined ratio?

Christian Baltzer, CFO
I think that when we are talking about underlying improvement we are very much talking about the private line, because we feel there it's more non-volatile, so to speak, there's less fluctuation; whereas, as we saw in third quarter, a lot of mid-size claims can all of a sudden give us volatility in one or another direction.

But overall, we would see when we probably look at full year 2017 versus full year 2016 that the underlying development on the Group level would be improvement also. But I think when we reiterate very firmly that we believe underlying improvement, it's especially on the private segment that we want to see this, where the volatility is the least.

Jakob Brink - ABG Sundal Collier
Sorry to come back, but on the -- on Asbjorn's questions on premiums and what you have built in, and also the claims inflation on motor versus price increase, just to make sure.

So basically, what you're -- or basically what are you saying is we're going to see or we are seeing higher inflation on motor, you have increased prices slightly, and we should expect a slight deterioration of the motor combined ratio. Is that correct, or did I misunderstand?

My second question is on the expense ratio. I might be wrong here, but historically, I think it sounded like getting to 14% was quite a task. Since you initiated or gave us that target of 14.0% or lower, you have got this financial tax; you mention it as well in the report. There's also been some lower amortization of intangibles, obviously, but then you have to pay rent of your headquarters. How is all of this going to impact the expense ratio and why is it you can still keep 14%? What has improved?

And then finally on the run-off gains, also coming back to that just to make sure I understand the stuff with this. So basically now you obviously know that your underlying claims should improve due to all the efficiency measures, are you taking that into consideration when you actually set the price, or are you setting the price as if you didn't know those efficiency gains would come and then you get positively surprised at the end of 2017 again?

Those were my questions. Thanks.

Christian Baltzer, CFO

Shall I take most of them, Morten, and you can just chime in?

Morten Hubbe, CEO

Yes.

Christian Baltzer, CFO

I think on the -- I'll take the last one first.

On the run-off gains and prices, I think we've previously said that the efficiency program that we've put in place, one-half of it is going to go to the customers and one-half of it is going to go to our owners.

I think that when we do our prognosis for next year and look at price levels, we do take into consideration how much do we believe we are going to get for current year in efficiency gains, and thereby you can say either increasing prices more or less compared to how much efficiency gains we do get.

But there are some of the efficiency gains or procurement that we have maybe low-balled a little bit in our prognosis, and then if it comes through 100% we get a pleasant surprise, so to speak.

On the 14% expense ratio, you're right that we have to pay more rent, but bear in mind that before we had a 0.2% add-on to our expense ratio that was this accounting rent perspective and the lower intangible write-offs. The sum of those three are actually going to give us a zero more or less. And then you also have the Norwegian tax that you have to put into that equation, and the sum of these four are basically going to give us a zero effect. So those are the initiatives that we have put in place to, so to speak, to make sure that we can meet our 14% target.

Morten Hubbe, CEO

But there's no doubt, Jakob, that we have a million questions from our organization on why should we deliver something higher than 14% because of all these terrible things that are headed our way. But the reality is that when you set a target like that, it is not a linear process where you can predict everything. I think when we initially set that target, we probably also thought that macro in Norway would be better, so top line would be better. So a number of times we've had to install tougher initiatives than planned to reach the 14%.

But what we're basically saying is that our determination to deliver the 14% is so strong that it is beyond question. And also, we think in the future, more digital world, efficiency is the main issue. And I think if you're positioned in a place where you have too high cost ratios, I think you will be struggling with future competition. So it is tough, but we expect to reach it.

Christian Baltzer, CFO

And, Jakob, back to -- your first question was on auto and the expectation of the underlying development or combined ratios from auto.

I think we're pricing now 10 years in a row where the claims ratio in auto has been coming down slowly, and prior year 2016 has been the first year where we've seen a slight tick-up in the auto combined ratio.

So we do believe that the price increases that we have, we do believe that our tariffs are adjusted for the new technology, we do believe that all these things are in line that we will not see that deterioration. But as I mentioned before, we are not in control of how many cars actually are on the road, and if the frequency does increase, that will probably come not necessarily as a surprise but will mean that we will need to reinforce more price increases.

Jakob Brink - ABG Sundal Collier

Okay. Just one follow-up, if I may, on the run-off gains. Sorry.

You used to say a few years ago, you told us -- after ever full-year report, you told us if the reserves were stronger or weaker than the year before. I don't know if you can give us any details on that, please.

Morten Hubbe, CEO
Well, I guess it goes without saying that when we go back a couple of years when we did the Capital Markets Day discussion on run-offs, we were in a position where authorities were saying to us your total margin is so high that we cannot accept that it's higher. So that is why at the Capital Markets Day we very openly communicated a plan to gradually take down our total margin slightly, and as a result of that have higher run-off gains than normal for a number of years and then trend towards something more sustainable long term. So as a natural result of that, we are taking down slightly our -- or gradually our reserving margin completely in line with that communication.

Then having said that, some of the oldest reserves are 20 years old. So this is not a linear exercise. There are tons of moving parts every single quarter. But we are gradually taking down our total reserving margin, as we communicated in 2014 at the CMD.

The trigger question is, of course, when does it hit a more longer-term trend? And as Christian said, we will elaborate on that later during the autumn to give you some more guidance on how to see that in the next three/four/five-year time horizon.

Jakob Brink - ABG Sundal Collier
Okay. Many thanks.

Vinit Malhotra, Mediobanca.
So, please, I'm seeking some clarification -- which IR team has already been helpful about, but just some more thoughts from you, please -- on the rate of the improvement

of the underlying loss ratio we saw in fourth quarter versus the previous quarters in the year.

Now we've also see that there was a restatement upwards for the 4Q 2015 underlying loss ratio, which I understand is due to the EIOPA curve introduction, and is it a fair comment that excluding this restatement, if you like, the rate of change was not very different from 1Q, 2Q and 3Q? And I appreciate that in private lines maybe the EIOPA curve discount would not have had that much of an impact, but if -- any thoughts on this?

And the reason I ask is because is it also a safe assumption that 1Q 2016 onwards the EIOPA curve was already in place so the trends should now be less prone to some restatement like this?

That is the first question.

Second question is that on your comments on the customer dividend model, would you be able to update us if there is any change on -- or what's the views of the Foundation on supporting this propaganda to the customers that there is a customer dividend to be had? Is the Foundation taking any more expenses, or anything?

Thank you very much.

Christian Baltzer, CFO
Good morning, Vinit. We're just laughing at your word propaganda. Sorry about that.

Back to the more serious, the rate of improvement of our underlying. Going back to our private lines, so for Denmark and Norway, this is where we're seeing somewhat of a smoothing of the deterioration and we believe that it's going to be improving somewhat during 2017. We haven't communicated out any rate of improvement, but I think we would like to get back to the levels that we have been at before, so we'll be working gradually to get back to those underlying levels.

With respect to the EIOPA curves and the technicalities, I think in that equation is also some of the Swedish discounting cash flows that was being used in 2015 that has changed for 2016. I think when you add it all up, deterioration on Group level still has had an improvement in the overall deterioration. And as I mentioned, our primary focus is on the private lines in private Denmark and Norway.

And the propaganda Foundation question?

Morten Hubbe, CEO

(laughter) I think you meant communication, Vinit, but for those of you that are closer to Denmark, what has happened during 2016 is that we've started both a clear communication on the customer -- or membership divided model or bonus model. But also towards the end of the year, we've started communication more clearly what we call the family story; i.e., more communication on what does the Tryg Foundation do in terms of saving lives, doing good for the public welfare in Denmark, etc, and how you as a customer in Tryg in Denmark is supporting and driving that.

We have agreed with TryghedsGruppen for a four-year plan where we will both increase communication on membership bonus, hopefully to the positive benefit of both current customers and new customers. And also, we will increase communication and exposure of the family story and, hopefully, the understanding for customers and members of how they support doing good for Danish society.

And I think those are very positive because we see that the customers of ours who understand the bonus link and the family and the Foundation link are more loyal customers who stay longer and they're more satisfied.

So I think I'm very happy that we have now a four-year plan to communicate both to the Danish society and customers on a continuous basis because I think Gjensidige's journey in Norway showed the need to do this over a longer period of time so that customers and society truly understands and appreciates.

Vinit Malhotra, Mediobanca.
All right. Thank you. Sorry for the use of the word propaganda. Just to highlight the intensity needed to reach out to the customers who don't seem to be realizing there's a check coming in every year.

Anyway. Thank you. I appreciate that.

Kim Bergoe, Nordea.
Just a couple of questions from me, one about the FDM deal that you announced yesterday. I know that we're going to get some more details on that later in the year.

But more generally, this kind of affinity of portfolio-type deals, how do they stack up? Is that something that you're going to be pursuing more of? And also, given they're a result of a bidding process and this kind of thing, how should we think about profitability in that kind of deal?

And my second question is just really to just confirm in terms of the large claims in this quarter that it is just volatility. There's no underlying in that; no trend. I understand that most of it is generated in Norway.

Thank you.

Morten Hübbe, CEO
Good morning to you as well.
I think FDM is unusual in the sense that it has both a portfolio element, so a strong starting portfolio with strong earnings and strong loyalty; so that allows us to see strong longer-term profitability to contribute to the Group earnings targets. And then it has the

partnership affinity element. And then it has -- and it's only around 20% of the membership base that is penetrated so far, so there's lots of potential there.

And then it has the very clear third element, which is also difficult to quantify, which is all of the moving parts around motor, because motor is going to change tremendously over a number of years, and for us to have a strong cooperation with a strong institution on motor and creating new solutions together, I think reinforces our ability to have a longer-term strong position in motor.

I think that rather large starting portfolio gives a strong starting point from a profitability point of view. And with our cost ratio levels and our setup, we believe that we can drive a strong profit from that, grow it with a larger penetration of that database, and then bring new solutions on motor to the market.

So all in all, our assessment is that that adds both to the earnings targets of the Group, but also to the longer-term positioning of the Group and our growth as well.

Christian Baltzer, CFO

And the large claims, I think that we will see volatility for large claims. There are no underlying differences in our underwriting or the kind of portfolios that we have. I think you have to think of the large claim as being on average about DKK130 million/DKK140 million every quarter, and some quarters we are around the DKK200 million, and some we are lower.

Large claims need to be looked at an average over a couple of years and just see that there is no picking up trend. And I think when you look at the last four years of the large claims, I think it's clear that there is no upward trend in our large claims on a Group level.

Morten Hübbe, CEO

I think maybe just one final comment on FDM. I think you used the word auctioning or bidding. This was a process with a current supplier and us, and no-one else. It was not a bidding process, just to clarify.

Steven Haywood, HSBC

Just a couple of questions, I think.

Can you just remind me on the gain on the sale of properties, what are you going to be investing the proceeds into? Which asset class are these funds going to go into going forwards?

Secondly, you have a slide in the presentation that says 3% claims inflation in 2015 by the Danish FSA. Could you tell us what the claims inflation for Tryg was in 2016 and what level of claims inflation you're expecting in 2017 as well? I'm assuming it's quite close to the 3% price increases that you're expecting for 2017 as well.

And then just finally, could you let us know whether your average tax rate, the guidance you provide, is still around 22%/23% on an annual basis, please?

Thank you.

Christian Baltzer, CFO

Yes. I think those questions more or less fall and Morten can sit back and relax here. On the investment side, you say the DKK500 million that we gain in our property sales for some of these properties in Copenhagen we're going to reinvest back into our portfolio with the same spread as we have had before.

Right now, when you look at the investment portfolio, it shows 21% in property. That will come down so that we are at the 17% to 19% range, which is where we want to be on property.

The type of property investment that we will be doing is more into property funds where we'll see a little bit more, you can say volatility from that versus just owning the buildings themselves. So we have to get used to maybe a little bit more. But it's again a much more diversified and a much more liquid asset to have compared to previously, which is what we are striving for.

On the claims inflation, I would say there's no real exact science of what claims inflation is or have been because it's everything from frequency to severity that's building into this. I think our guesstimate has been that the claims inflation for 2016 has been a tad lower than the 3% price increases that we have been carrying through.

And in 2017, we are prognosing (sic) a 2%/2.5% inflation, and we will hope or we expect that the 3% price increases are going to give us that extra underlying improvement. But this is not a necessarily exact science on inflation, but it's our best estimates of how our portfolio is moving along.

Then you had -- your last question was on the --?

Steven Haywood, HSBC
On the tax rate.

Christian Baltzer, CFO
On the tax rate. Yes, sorry. So the tax rate going forward is between 22% to 23% is our overall aim, and this 30% tax rate that we had in Q4 is a residual of the first three quarters where we had expected a lower tax rate than what the year ended up being.

Steven Haywood, HSBC
Excellent. Thank you very much.
