Tryg – Q2 results 2014

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Transcript

Presentation

Lars Møller, Head of IR

Good morning everyone. Here is Lars Møller, Head of IR at TRYG. Welcome to this presentation of Tryg's Q2 and first half results 2014. With me today I have our CEO Morten Hübbe and our CFO Tor Lønnum. And with this short introduction I will hand over to you, Morten.

Morten Hübbe, CEO

Thank you, Lars. If you turn to slide 3, we're very pleased to announce for this quarter strong financial results. With pre-tax earnings of DKK 1.15bn and a combined ratio of 80.7%. Now, when accessing the quality of earnings this quarter, and how that may impact the future earnings, it's very important to realise that we've had positive impacts from one-off results. We've seen a positive impact from our pension scheme in Norway and vice versa negative impact from IT costs, and the net of those two is a positive of DKK 135m or an impact of some 2.8 percentage points to the combined ratio and the cost ratio. Also, we've seen in this quarter a significant tailwind from fewer large claims and an unusually strong investment return for the quarter. So actually, the most important is perhaps what is going on in the underlying earnings, where it is very satisfactory to see an improved trend on top-line and customers from a negative top-line of 2.6% in the same quarter last year, to a negative of 1.2% in the second quarter this year, which makes this the best top-line quarter in six quarters. Also, we see a very important continued positive trend in the cost ratio, which drops 0.2% if we disregard the one-off positives. And also, we see a continued positive underlying trend in claims. Now, if we turn to slide 4, we highlight some important news. On the earnings side, I think it's fair to say that the efficiency program continues to play the lead role in improving our results. We're pleased to see almost DKK 100m in the second quarter and still, you may recall, another DKK 260m remaining for our DKK 1bn programme. On our product and customer side, we have launched another three new price differentiated products. We've launched a number of initiatives to enhance the quality of our customer service, and we are progressing well in the integration of Codan's agricultural portfolio in Denmark. We've been pleased to see the FSA report, following their survey of Tryg, with a positive view on capital and risk, and a clear confirmation of our reserving margins strength. On slide 5, we show an improved combined ratio in all four business areas, of course positively impacted by the one-off effects. If we look at the underlying claims, clearly the improvement comes particularly from private in Sweden, which Tor will elaborate on a bit more. Whereas, in corporate we actually report an improved combined ratio, but when you take into account underlying the positive one-off impacts and the positive from fewer large claims, then the underlying development it actually a slight increase. On the cost ratio side, clearly the largest improvement is in Commercial, with an underlying drop of around 1.3%, and bear in mind that we've announced several times that Commercial is one of the areas where we need to improve costs the most. On slide 6, we elaborate a bit on the progress of the efficiency programme. Some DKK 28m in the quarter improvement on expenses, and some DKK 65m improvement on claims, where of course we are very pleased to see that now building and contents is becoming more of a driver, whereas previously this area was trading behind a bit, compared to motor and health insurance, for instance. If we turn to slide 8, we show how the various business areas contribute to growth and technical results. As I mentioned, on the growth side clearly we still have a slightly negative growth, but the best quarter in six quarters. In private and corporate lines we have turned a negative top-line year-on-year into a slightly positive top-line development. In private lines clearly helped by improved sales of the more price differentiated products, both in our own channels but also in our bank assurance with Nordea. On Commercial we still show a negative top-line of 3.9%. If you disregard higher premium discounts the underlying development is – 2.4%, and we do see a positive development both in retention and in sales, although sales are still slightly too low in Commercial. In Sweden, clearly the negative impact is from the laps of the Nordea portfolio, whereas the underlying portfolio has a slight positive top-line development. Clearly on the right hand side, you see that the technical result has been improved in all four business areas, but as I said, bear in mind that you need to normalise for the positive DKK 135m, and with that over to you, Tor.

Tor Magne Lønnum, CFO

Thanks, Morten. If we move on to slide number 9, related to the average premiums, you can see that we have more or less a flattish development in the Danish business lines, and there's a slightly lower growth then last quarter in the Norwegian business lines. There are really three drivers. It's related to a change in the business mix. We see, for instance, in the house product that there is an increased retention level, and we also see to a certain extent that there is some competitive pressure in the market, that you see some level of falling prices. If we move on to slide number 10, you can see on the customer retention it's actually relatively positive, both in the commercial lines and also in the Danish private lines. You see that there is a small decrease in the Norwegian retention, but relatively small difference. I think, from our side we would like to highlight the fact that there is a continued cost development in Commercial, which supports the turn-around in that area, as Morten mentioned. I think, if you look at sort of the private lines in Denmark, despite the portfolio conversion going on, we're glad to see that at least it seems like it's leveling out. If we move on to slide number 11 and look at private Sweden, there is no doubt that there is a continued issue related to the portfolio development in the Swedish portfolio. Morten has mentioned the Nordea portfolio, which continues to have an impact. Although, we see that customer retention is leveling out, but still at a relatively low level, so we feel that as Morten said, there is a stabilised underlying portfolio. There is still issues related to the portfolio, and we see some pressure on the existing contracts in the portfolio, which is why Sweden needs to be a focus area going forward as well. If we move on to slide number 13, there is no doubt an underlying improvement in the underlying claims ratio, which we're pleased to see. Roughly 50% of those underlying stems from one-off effects related to the pension and IT expenses that Morten has explained, which means that the underlying improvement is more or less in line with what we have seen in the previous quarters. If you look at the business segments, there is a flattish development in Corporate and improvement in the other segments. If we move to slide number 14, as Morten mentioned it's significantly lower impact of large claims, both related to Q1 and if you compare it to Q2 last year, an impact of 1.7% this quarter. If you look at weather related claims, it's at a relatively low level, as you can see. And, run-off is perhaps worth mentioning, which is slightly lower than what you saw last year and in Q1, but it brings it more or less in line with what we have seen in previous years, if you look at the year to date. And as Morten said, no doubt confirms that there is a strong reserving level in our reserves. If we move on to slide number 15, and talk a bit more in detail about the expenses, I guess it's important to first and foremost to recognize the fact that we had mentioned that there would be some one-off effects in Q2 related to the IT transition agreement, however we had not mentioned anything related to the pension change in Norway, which is due to the fact that the negotiations were in fact terminated or finished in Q2. I guess it's fair to say that we do recognize that that of course have created some differences in terms of how the one-offs should be interpreted, but I think it's fair to say that first and foremost we are extremely pleased that we are now able to take a significant part of the volatility related to the pension agreement out of the future balance sheet and P&L going forward. I guess the final comment I'll make is that if you look at the nominal, there is a nominal reduction of about DKK 50m in the quarter, and of course it underpins the continued efficiency focus that we have in the company. If we move on to slide number 17, as Morten said strong investment return. Over all gross return of 1.5% or 6% annualised. More than 50% of the result is driven by equities, which I think we have highlighted in the report as well. We have seen beneficial returns on our movements in interest markets as well, which have yielded about DKK 80m. High yield and emerging market debt about DKK 40m, so a lot of positive factors and then I guess, which is probably a bit more of a surprise is that you see that there's about DKK 100m on the match portfolio as well. There are two drivers, one is that there is a technical change related to the benchmark, and the other is that we have a significant exposure on triple a-rated covered bonds which have performed actually better than benchmark in the quarter. Finally, on slide number 18 in terms of capital, you see that there is a capital growth in terms of surplus, about DKK 600m in plus this quarter. Equity is slightly down due to the dividend payment this quarter and buy back. I guess the final comment I'll make is that, I guess you have all seen the recommendation from the Norwegian FSA to the Ministry of Finance that the Natural Perils Pool Fund and the Guarantee Scheme Fund will not be counted as capital on the Solvency II implementation, which in our mind is a relatively big surprise and of course is something that we need to work proactively with going forward. However, we do know that there are some upsides, some positives, related to the Solvency II implementation as well, and one is that we can utilise expected future profits and the other is subordinated capital or full inclusion that it will not have a full mitigating effect but it will to a certain extent mitigate some of the effects, should the Norwegian FSA recommendation be accepted by the Ministry of Finance. Back to you, Morten.

Morten Hübbe, CEO

Yes, thank you. Let's hope that the Ministry of Finance realises that they shouldn't accept it, but clearly it is a risk. If we look at slide 19, I think we should just confirm that we're very pleased to have reported a strong result for the quarter. If we look at the future, it's very important to distinguish between the continued, positive underlying trend in the cost ratio, 0.2% and in the claims ratio as you explained Tor, and that we do not take the one-offs on costs or the tailwind on large claims and investment income into our expectations of future results. We continue to be very committed to our financial targets, to combined ratio at or below 90%, to a ROE of above 20% post tax, also in periods with less helpful investment results, and let's face it – we'll probably face more of the more normal periods than the slightly unusual period we've seen in Q2, and the target of reaching a cost ratio below 15% in 2015, where our efficiency programme of DKK 1bn continues to play a key role. With that, I think we are ready to take some questions.

Questions and answers

Jakob Brink – *ABG*

Good morning. Just two questions, please. The first one is regarding the Norwegian FSA letter. You write and you've just mention that this was a big surprise to you, so how could this impact your 20% ROE guidance? Also, if we look at 2014 I guess you will make 20% but, at least partly driven by the adjustment of the Norwegian pension obligation as well as very strong investment profits, so I guess next year it will be difficult to make it without similar positives. So could you give us some details around that and especially the Norwegian FSA letter, how that could impact you, given that it was a big surprise? And then secondly, could you give us a bit more detail on the Norwegian pension obligation, please? I mean, what exactly is it that is being changed? Thank you.

Tor Magne Lønnum, CFO

Good morning, Jakob. I guess I can start with the letter related to the pension obligation. In principle you can say that there has been an obligation related to the Norwegian defined benefit scheme to adjust the future payments with a so-called Norwegian based amount. That is a relatively heavy, so to speak, interest rate guarantee related to the defined benefit, and that is actually what we have now changed in the Norwegian pension scheme, so it's now reduced to being based on the actual investment return in the pension funds. This is a change which I guess more or less all the other financial companies in Norway already have introduced, so it brings Tryg in line with the other defined benefit schemes in the Norwegian financial sector.

Morten Hübbe, CEO

And I guess on your first question Jacob, on the FSA letter or Norwegian Natural Perils Pool, that the reason why this is a surprise is, that for more than a decade all of the Norwegian insurance companies have been reporting their part of the Norwegian Perils Pool as part of their capital. This was confirmed in 2005, when Tryg was IPO'd. it was confirmed in 2010 when Gjensidige was IPO'd and for the ministry to potentially come to the conclusion that they would now all of a sudden decide that is was not part of capital, would be a very unusual conclusion, borderline an expropriation debate, which I tend to think that hopefully the Norwegian Ministry will not come to that conclusion as it would be very unusual and very surprising. It is something that if carried out would have an impact on 2016, not 2015. As Tor said, there will be mitigating factors in the other drivers that have positive impact, although slightly smaller, but we will participate in the debate with the FSA and the ministry, and hope that they come to the right conclusion and know that there's a period of time until this has an impact. And then I guess, you can add to that if you want Tor, but on your question on the ROE – clearly, we expect for the remaining part of 2014 and for 2015 less of a tailwind from investment income to support our 20% ROE. And we remain of the view that we need to continuously improve our underlying insurance results, in order to deliver more than 20% ROE, also in low-return investment environments.

Tor Magne Lønnum, CFO

Yes. So just to enhance what Morten said related to the ROE, there's no doubt that the over-all target is to deliver and above 20% ROE, and of course that is something that we will have the attention to deliver on that target, no matter what. I mean, in terms of investment return or one-off effects. I would just like to highlight one more issue related to the Natural Perils Pool fund that Morten mentioned, because I guess in our mind at least it's relatively unclear still, what the Norwegian FSA actually means, because if you define the Natural Perils Pool Fund, and the Guarantee Scheme is to be viewed as actually a debt, then of course that may have an impact for the accounting treatment of those funds as well. Because, today they are recognised as equities, so I think in our minds it's a bit unclear and doesn't really seem consistent, the assessment that the FSA has made. So I think, it's still early days for us based on the recommendation that the FSA made.

Morten Hübbe, CEO

And the ministry has the final call.

Jakob Brink – *ABG*

But, I guess the final thing on this is what is the Standard & Poor's will think, I guess if the regulatory won't approve it, isn't it fair then to assume that S&P won't either, or do you have any insights on that?

Tor Magne Lønnum, CFO

No, I guess that it's a very valid point Jakob, so I think that's clearly a risk related to that. But, bear in mind again as Morten said, that we mentioned here the NOK 1.2bbn effect related to these two lines in our equity statement, but bear in mind that there are some positives as well related to implementation of Solvency II, which I'd say that it will have at least a substantial mitigating effect.

Vinit Malhotra – *Goldman Sachs*

Hi there, good morning. Just three topics, please, quickly. The competition issues that you have been raising in the past, in this quarter we saw the private lines also positive trend, small positive trend. Could you just update us on how much those concerns are less or more now, versus maybe six months ago or three months ago. Competition, can you just clarify – you said the positive effects could be substantial. Could you just clarify a bit more, because this future earned profits and more aligned business and usually, and I'm just wondering how that could be a substantial and I think, that's two topics so thank you.

Morten Hübbe, CEO

Well, I guess on your first question clearly you're right that private lines turns a negative top-line second quarter last year to a slight, slight positive this year, and as Tor showed, positive development in customer loyalty and somewhat higher sales. I guess that shows a fairly stabile competitive environment, but with some pressure on particularly car pricing, where you also see a drop of 0.5% in our Danish car average price development. So a combination of a mix change towards the smaller cars with less risk, but also a slightly higher competitive pressure. But I think, with the development of our new products with more and stronger price differentiation, slightly stronger distribution. We're able to show some improvement in the top-line. And to be honest, we're not targeting a dramatic improvement in that area at all, but a slight and patient gradual improvement in line with the development with the better price differentiated product. So, I wouldn't say there's been a big change since 2-3 months ago until now, we're roughly at the same area of market competition.

Tor Magne Lønnum, CFO

In terms of the top-line going forward, we will expect sort of negative development in the top-line for the remaining quarters of 2014 as well, and we do expect at best sort of a flattish development in 2015, because as we have mentioned there are some positives as Morten said, related to the price differentiation etc. But there is competitive pressure in the market, no doubt, and also we do see that there will be a new wave of conversion in 2015, which of course will have an impact, although we do see that the conversion now in 2014 is at least progressing relatively well.

Morten Hübbe, CEO
And while we see the trend shift in private lines and Corporate, we do expect that there will be a substantial period of time before we see a strong improvement in Sweden. So there will still be clearly negative impact from Sweden also in this year and next year.

Tor Magne Lønnum, CFO
And now to the final question about the positive effects. You do know, that there is a part of our subordinated debt that is not eligible for Solvency II purposes, so that will have a positive, as I said, mitigating effect. And then the other is that we will be able to take in parts of the calculated future profits as a capital element. Both those two will have a mitigating effect, it will not mitigate the full effect should the Norwegian FSA recommendation be sort of the final wording, but let's say more than half of it at least will be mitigated.

Vinit Malhotra – *Goldman Sachs*
Thanks. If I can follow up quickly, the competition question is not top-line questions and the market place leading to completily combined ratio it seems that you're still in a stabile position, so. Thanks.

Morten Hübbe, CEO
Well, I think our view is that the way we manage it is by making sure that our efficiency programme continuously drives underlying improvements. Because, clearly as we're not seeing any significant price increases, we need to drive earnings improvements from elsewhere, and that is from the efficiency programme.

Tor Magne Lønnum, CFO

And I think to the latter, as Morten said initially, you can now see that 74% of the DKK 1bn is actually sort of coming through the accounts, and I guess we're relatively pleased with that development.

Vinit Malhotra – *Goldman Sachs*

And is it likely to continue at that rate, or?

Morten Hübbe, CEO

I think we'll have to stick to the fact that we've announced DKK 1bn, we'll deliver DKK 1bn, and then you can do the math and see that we have DKK 260m remaining.

Per Grønborg – *Danske Markets*

Good morning. It's Per from Danske. Starting off in Norway we saw all the announcements for the Norwegian FSA. They addressed the perils pool, but they also addressed the claims reserves. That in their view, Norwegian companies have provisioned too much for claims compared to what they were allowed to under Solvency II. How does that impact you're ration as I guess you are primarily regulated by the Danish FSA, also on your Norwegian businesses? In this context, we of course also had the Danish FSA review I at least read it like the Danish FSA thought that your security margin in your provisions were too high. What are the thoughts on these topics? The second question is your main shareholder, TryghedsGruppen, was out with an announcement in an interview in May, basically saying that they were considering a client dividend. When should we expect any announcements from your main shareholder if you have any insight into that process?

Morten Hübbe, CEO

Good morning to you as well, Per. I think clearly we've had, as you said, announcements both on the Norwegian and Danish FSA. Clearly, we are as a group regulated by the Danish FSA, and as you said the Danish FSA has pointed to the question of our strength in claims reserves. I think the wording was, that they would ask us to reconsider how we see the strength of our claims reserve, as they were pointing to the fact that they saw the strength as being very high. And I'm sure we will have an evaluation of that, and I'm sure we are very comfortable that the assessment is that the strength is high. It's a bit unusual to have the FSA confirming that it is high, but I guess that is a comfort both for us and for you, as analysts and also shareholders. There is no wording in their document saying that it is too high, and that we have to take it down, but they point to it as an area of focus and something that we should continuously evaluate as it is rather high. As we see it, that's probably a positive. On TryghedsGruppen you're right, that our 60% shareholder are considering whether they should pass on dividends from Tryg to Danish policy holders, as part of their future operating model. There is a process on their side where it needs to be debated amongst the group of representatives, so that is some 70 people representing shareholders. To be honest, I don't think that there's any strong link or change to what we do in Tryg, but of course we follow that with interest, and I think that they will debate this first time during the autumn, but it is probably likely to be 2015 before they make any clear decisions. But as I said, this is their task and not ours. But of course, we follow it with interest. And then I guess on the Natural Perils Pool, was there anything new on that?

Tor Magne Lønnum, CFO

No, I guess just to follow up on Morten's comment related to the Danish FSA, I guess they stated relatively clearly actually, that they did not consider our reserves to be too high. They just stated the obvious, that the likelihood is that you'll see a positive reserve release going forward, and in my mind there's nothing new in that message, because as you know we do in principle reserve with an additional margin that should come in through the numbers going forward. So I guess, in our minds it's a relatively clear statement of, as Morten said, that the reserves are strong, but not that they are too high, and that has been relatively explicitly said from the Danish FSA.

Per Grønborg – *Danske Markets*

Tor, can I rephrase my question slightly? The Norwegian FSA is basically saying that Norwegian companies they are provisioning too much compared to what they are allowed to under Solvency II. The Danish FSA says that you are well provisioned. What's your impression, are Tryg provisioning more or less conservatively than you would have been if you had been under Norwegian regulation?

Tor Magne Lønnum, CFO

That's a difficult question. I think I'd stick to the statement saying that we are sort of comfortable with our own reserve position. We do think that we do on a regular basis internally benchmark our reserves against our competitors both in Denmark and Norway, and we do feel that as I said, we have a comfortable reserving position.

Gianandrea Roberti – *Carnegie*

Yes, good morning. This is Gianandrea from Carnegie. I have a couple of questions here, as well. All this discussion on the Natural Perils Pool and the developments on the regulatory said in Norway just really prompts me one question. Is there a risk that your dividend and buy back policy can be changed on the back of this? That's my first question. Second question is around run-offs this quarter, but only highlighted 340 on COR, in Q1 and about 500 if I remember correctly for the last two years, so it's quite low. I assume there's less need of that, also looking at the already pretty strong level that you're printing. I'm also intrigued a bit about the split of this run-off, because it seems like in Denmark you have almost nothing and everything is coming out of Norway in this quarter, or almost everything, right? Well, you had a very high number on a constant basis for quite a few quarters in Norway. I'm not sure if you can add any comments on that, but it would be highly appreciated. And finally, I'm just wondering of your thoughts on the top-line development are anything different compared to Q1? I guess it must be pleasant to see the private lines growing, although by 0.1% in a quarter after quite a few quarters? Thank you.

Morten Hübbe, CEO

Yes, I can start with the last question and then Tor can add on the two first questions, Gian. No, we don't see that this quarters development on the top-line changes our view on future top-line. I think we've said for the past year or so that we are patient about the process of turning the slightly negative top-line into a slightly positive top-line. We're seeing the first signs in this quarter of private lines and corporate lines moving into slightly positive territory, which confirms that we are on the right track. I think the higher customer loyalty and the higher distribution, or slightly higher sales confirm that we are on the right track as well. But as Tor said, we will continue to see the two next quarters this year with a negative top-line, we'll have a rather flattish development next year, and we'll continue to see that Commercial and particularly Sweden will struggle to deliver positive contribution to the top-line. So there's really no change, but I guess a confirmation that the steps we've taken is moving us gradually and slowly in the right direction, and we feel very comfortable that the slightly higher sales are done on the back of new and more price differentiated products, where we see a higher quality and a better risk selection of the new customers. And then on the two first questions, Tor?

Tor Magne Lønnum, CFO

Yes, I guess on the Natural Perils Pool question there are no guarantees given, but the way we look at it at the moment at least, there are no plans to change our dividend policy or the thoughts around capital structure. So, as I said no guarantees, but at least we don't have any plans in that respect. In terms of the run-off, yes you are correct. There is a slightly lower run-off this quarter, and it brings it more, let's call it to a normalised level year to date as I mentioned. I guess, to a certain extent you will see some fluctuations in the run-offs, without putting too much into that. In principle, you can say that if we look into it there are some movements in the reserves this quarter, and that is also the reason why you see some differences between Norway and Denmark as you mentioned, because there is a change related to the workers' comp reserves in Norway, so we have seen some relatively positive developments in the motor segment, and then we have had actually some strengthening related to the workers' comp business because, there is a likelihood that there may be a change in the interest rate level used for compensation. So, yes there are some as you mentioned, some relatively large movements this quarter isolated, but you shouldn't read too much into it in terms of the longer term view or the results.

Gianandrea Roberti – *Carnegie*

Thanks for that. I actually have a very quick final question that I forgot. Again, looking at the geographical split of the Norwegian combined ratio is at 65.9, but I guess that's heavily impacted by the change in the pension scheme that you mentioned previously. You didn't disclose the impact of that, but would it be fair to assume that adjusting for that Norwegian combined ratio would have been anywhere between 75-80% this quarter?

Tor Magne Lønnum, CFO

Yes, we haven't as you said disclosed it, but it's 13 percentage points related to the effects on the Norwegian combined ratio, so as you mentioned a relatively significant impact on the combined ratio in Norway this quarter.

Daniel Do-Thoi – *JP Morgan*

Hi, good morning. Two very, very quick questions from me. The first one is related to the cloudburst in Denmark, which you say was covered by your reinsurance programme. Could you just give us the growth loss attributable to this cloudburst? The costs you would have had if you were not in the money on the …. Secondly, on the match portfolio, could you just help us understand the performance within this? Particularly, when you split it out into the two components, the regulatory deviation and the match portfolio performance. If you could just… I mean, … sort of return to that over time. Does that still apply, or how should we think about particularly the match performance component of that line? Thank you.

Tor Magne Lønnum, CFO

Yes, I can answer both of them. As you said Daniel, on the cloudburst on a growth basis we're talking in the area of DKK 50m, so not a very significant amount, but as you said there's no doubt that it's been covered by the sideways reinsurance, but also what is mentioned in the report is related to how we account for the sideways cover, which makes it slightly tricky to understand the accounting, but that's why we have shown the weather impact, and you'll find the coverage on the reinsurance programme on the run-off site. Related to the match portfolio, yes you are correct in your assumption. The regulatory deviation should over time more or less be equal to zero. I guess the most important factor to mention is as I said the DKK 50m, which we have called match performance, which in principle is that we see that we've had a very favorable development on the assets that we've held in the match portfolio. There is a substantial amount of Norwegian and Danish triple a-rated covered bonds that have performed better than benchmark, and of course that is something that, at least a substantial part of that is a profit that we expect to keep.

Thomas Eskildsen – *Jyske Bank*

Two questions from my side, the first regarding the Swedish market, I understand you have a positive effect from the Danske Bank agreement and you also have your own sales force in place in the Swedish market, which actually gives you 2% increase there, if we deduct the Nordea agreement. I was wondering if you could give a bit more insight to the status of the Danske Bank agreement? How much of this growth actually comes out of this agreement? My second question goes for the IT transition, which you are partly through now I understand. How much could we expect to see from costs in relation to this transition in the third quarter? Thank you.

Morten Hübbe, CEO

If I take the first question, clearly we are working hard to make sure that our own sales force and the Danske agreement can compensate for the drop of the Nordea distribution. So far, the fact that we're selling as much now without the Nordea agreement as with the Nordea agreement, is mainly the result of our own sales force being increased, and that is mainly our outbound call center in Malmö, which mainly does cross sales to existing customers with only single products from our niece areas. So, so far Danske actually has been started very positively, and we're very positive about the future, and we're starting to see referrals and sales, but the sales are not yet at a level where it contributes significantly to the over-all growth. Bear in mind that the model between Danske and us is not that they sell for us, but rather that they refer customers to us, and for us to do the actual sales. So we've started well, but it doesn't play a significant role in the actual sales numbers yet.

Tor Magne Lønnum, CFO

Related to the IT transition you can say that the transition is ongoing, we have just started and it will continue throughout the second half of 2014. In terms of the accounting effects, we have made a provision for the double operating expenses that we will see related to that transition, and also parts of the compensation that we need to pay related to the transition, and we haven't disclosed the amount, because this is a part of an ongoing negotiation with the vendors.

Niccola Dalla Palma – *Exane BNP Paribas*

The questions are on the reinsurance cover and large claims. The sideways renewal cover is at the 1 July. Has there been any significant movement in the cost of that programme, up or down, this year? And the second part is, you give an expected annual level of claims of one billion and fifty between large claims and weather claims. Is there any seasonal the second half from your experience that we should take into account, or is it roughly half of the budget? Thank you.

Tor Magne Lønnum, CFO

I guess I can answer. The first one is, yes the reinsurance cover has the sideways reinsurance, so the frequency cover has been renewed and there are no significant changes in terms of the programme or the prices - slightly increased prices, but nothing significant. In terms of the annual budget as you mentioned for weather and large claims, you can say that of course it's natural to say that you take one quarter every quarter so to speak, so 25% every quarter, because it's by nature difficult when to anticipate when those large claims will occur. In terms of the weather related claims you can say that that will have a heavily tilt in Q1 and Q4, and less of an impact in Q2 and Q3.

Lars Møller, Head of IR

Thank you very much to all of you, for participating in this call this morning. We will be around in the next couple of months starting in London tomorrow, then around in Europe, Tokyo and in the States, and hope to see you all around. Thank you and have a nice day.