Tryg – Q1 2019 results

Audio cast and Q&A 10 April 2019

Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published our Q1 results earlier on this morning. I have here with me Morten Hübbe, group CEO, to discuss and present the figures.

Over to you, Morten.

Morten Hübbe, CEO

Good morning, and thank you, Gian. And we start off on Slide 3, where we report a technical result of DKK 626 million against DKK 563 million year-on-year.

Clearly, the result was positively impacted by the inclusion of Alka for the first time and the first delivery of synergies from that case. But then, again, negatively impacted by higher-than-normal level of large claims, but then positively again from weather claims being a bit below normal.

More importantly, we see a continuation of the trend of underlying claims improvement, some 50 basis points both on the group level and in the private business.

Clearly, a large swing factor in the investment results, DKK 353 million for the first quarter, very positive, and we might want to book that for all quarters in the future. But clearly, impacted by global equity markets up 11% and a general quarter, where all risk classes are up year-on-year.

Dividend per share for the first quarter of DKK 1.7 in line with our aim of continuously increasing dividends and compared to DKK 1.65 year-on-year. And a solvency of 168 for the quarter.

And if we turn to Slide 4, pleased to see that our positive trend on customer satisfaction, TNPS, continues. And of course, that one of the positive drivers of that is that it improves our retention rate, which is the most -- the strongest way possible of improving the top line and the bottom line at the same time.

You also see on this slide that the number of products per customer increased and that also supports loyalty. And pleased to see again a payment of membership bonus from TryghedsGruppen of 8% now for the first time also to the customer in Alka. So now all in all, 1.3 million customers in Denmark received the membership bonus.

On Slide 5, we show the split of the technical results. Clearly, generally positively impacted by Alka and improved in underlying claims and negatively impacted by the larger claims. And you see that reflected in the split between Private, Commercial and Corporate. A very strong development in Private lines. But then, again, we see in Commercial and Corporate that the large claims reduced the technical results. Sweden continued to increase the results and we see a positive result driven in the Swedish business.

On Slide 6, we have shown a new slide where we just summarized 2 opposite rather volatile elements in this quarter. One is large claims and the other is, of course, investment returns. If we look at the large claims graph, we see DKK 181 million large claims in the quarter, up DKK 137 million year-on-year. That is largely stochastic. And of course, we monitor closely if there are any patterns to be reflected there and how to handle that in terms of price increases. But bear in mind that we stick to our normalized guidance of large claims for the year of DKK 550 million.

If we look at investments income, we continue with an unchanged low-risk investment strategy. But of course, in Q1, virtually all our asset classes are up, and DKK 353 million for the quarter is an unusually high investment income.

On Slide 7, we elaborate on Alka. Of course, the first full quarter of including Alka in our figures and delivering the first DKK 21 million on synergies from the Alka integration. And bear in mind that we have [promised] DKK 75 million for the full year 2019.

In the beginning here, we see that roughly half of the synergies is cost synergies. For instance, headcount reductions, development function reductions, sponsorship, football league, et cetera, reductions are much in line with our expectations. And then bear in mind that the biggest longer-term synergies area is in claims. That has started well. We've been going through 700 contracts having a very clear and concise plan of using the combined muscle on claims procurement.

We've started out mainly in motor insurance, where Tryg repairs some 8% cheaper than Alka. That is starting to pull through, and you'll see more of that during the year. And then 1st of April, we continue on with property and -- as the next big area. We're very clear and confident in our ability to achieve the 2021 synergies targets of DKK 300 million.

If we look to Slide 8, we elaborate on the payout dividend of DKK 1.7 per share, a 3% growth year-on-year. And as usual, we aim to pay a flat quarterly dividend throughout the year. And of course, our ROE target at 21% post-tax continues to install discipline in our carrying out of the business and our very high focus on shareholder remuneration. We will continue that focus on capital repatriation, and we're pleased to see that 2019 will be the eighth year in a row with an increased dividend.

And we move on to Slide 10 where we elaborate on the growth composition. Of course, the growth is rather high in the quarter. Excluding Alka, some 6% with growth in most areas. Bear in mind that the largest growth is seen in the Private lines business, which is of course, our most profitable business area and our least capital consuming business area.

Bear in mind that underlying in Private, we still have positive drivers in Denmark from FDM for instance, from the new product coverages. In Norway, the new partnerships with NITO and the impact from Troll and OBOS pulls up the growth higher than usual. So although this current growth in Private lines would be nice to continue into perpetuity, that is probably not what you should put into your spreadsheet. But we're very pleased that the most profitable area is the area that grows the most.

And bear in mind that Commercial growth was also helped by Alka. And excluding Alka, we see a growth of some 5%. Unnaturally high because, actually, Premiums and Commercial in Q1 '18 was unusually low.

And then you see a low growth in Corporate lines. Very intentional. This is our least-profitable business segment. And if you dig beneath Corporate, we see a positive growth in Corporate Denmark and a negative growth in both Corporate Norway and Corporate

Sweden, where the main focus is to increase prices and enhance profitability, which is not at a satisfactory level in neither Corporate Norway nor Corporate Sweden.

Then we see a growth in Private lines Sweden which is not impacted by acquisitions, where we see a reasonable growth from a small business segment.

Then we continue on Slide 11 on average prices. We're, of course, just trying to stay ahead of the curve and adjusting prices in accordance with claim inflation. It's extremely important. And profitability improvement, of course, stems from a combination of claims initiatives and price adjustments.

And then we continue on Slide 12, elaborating on customer retention. And you see a very, very healthy development in both Denmark and Norway, and in both Private lines and Commercial. And that is, by far, the soundest way of improving earnings in an insurance company. And in all areas, we've seen improved retention rates in Q1 compared to the same quarter last year.

We know, of course, that in Denmark, the customer bonus scheme helps this development. It also means that we are particularly pleased to see that we're improving the retention development also in the Norwegian business, which is not helped by the customer bonus scheme.

Further on, on Slide 14, we open up the claims section. And as mentioned, we saw in Q1 a continuation of the improved continued underlying claims. We see that on a group level, there's a 50 basis points improvement. And in the Private line, there's a 50 basis points improvement. We noticed that some of you have tried to calculate your own underlying numbers, which is, of course, an interesting exercise. But perhaps, you should stick to the calculations that we make.

We have, in this slide, adjusted the columns for all the periods to include Alka to make things comparable. If we see price adjustments and claims excellence, those are the main drivers of improving underlying year-on-year. But also, we do have a clear intention of rebalancing and leaning the portfolio more and more towards retail. Of course, Alka helps rebalancing the portfolio more towards Private lines. We expect the underlying claims ratio improvement to continue in '19 and in 2020.

On Slide 15, we elaborate further large claims and weather claims. As mentioned, Q1 was quite benign in terms of weather claims development and somewhat lower compared to Q1 year-on-year. And much lower than a normal Q1, where we would normally expect DKK 100 million more in weather claims. But then as mentioned, DKK 181 million large claims, DKK 137 million higher year-on-year.

We do see some trend in fish farming and a couple of other lines in the Corporate segment in Norway. In January, we monitored very closely the trends and signals to pick up to adjust both on exposure and on price development. And then you see similar to last year that the one-off result was at a quite high level of around 7.1%.

On Slide 16, we elaborate on the cost ratio. 14% is much in line with our guidance of keeping the cost ratio at around 14%. It seems like nothing is moving, but actually underlying, there's a huge amount moving parts with a dynamic that we improve the efficiency on one hand, to support and finance investments in IT and digital solutions on the other hand.

You do notice an increase in the number of headcounts. When we do new IT solutions, new robotic solutions, new AI solutions, we do recruit more staff to support these areas. And also, we hired more employees in Alka, expecting that some of the physical integration will lead some employees to leave the company.

And over to you, Gian.

Gianandrea Roberti, IR Officer

Thanks a lot, Morten. On Slide 18, you can see the split of investments between the match and the free portfolio. There's nothing really new on that, and most of the asset classes in the free portfolio are exactly the same as shown previously.

So if you move on, on the next Slide, you can see the investment return for the first quarter, I think Morten summarized it well before, we made DKK 353 million on the total investment return, which is a multiple of the normalized amount. So I guess just pay attention not to extrapolate too much from that number. And especially in the free portfolio, nearly all asset classes, apart from equities, produced very, very strong returns.

Moving on to the solvency position, we are reporting a solvency ratio of 168. It was 165 by year-end. We're pleased with the development. Actually, the development, it's more or less driven by the spread between our net profit, the net result and the dividend that we're paying.

In the quarter where the SCR is mostly flat, you may see that there's a couple of the components in the SCR. The market risk capital charge has gone up simply driven by the so-called dampener that adjust upwards after equity markets moved upwards quite a bit in the quarter. And then we did an annual update of the parameters of the model, which helped mitigating a bit the higher capital charge. So 168 at the end of the quarter.

And I guess the next slide shows very little news. Our Tier 1 and Tier 2 capacity, it's more or less fully utilized after a couple of relatively recent transaction. And we mentioned before that to forecast our solvency ratio really should be mostly a function of net profits and dividends. So it's a relatively open and should be modeled somewhat easily.

And the last slide that I will comment on, it's on the sensitivity, also this one are broadly unchanged. The biggest sensitivity is the spread risk, which shouldn't come as any surprise considering that our biggest asset class by far is Nordic Corporate bonds.

Over to you, Morten.

Morten Hübbe, CEO

Thank you, Gian. And on Slide 23, we just reiterate our financial targets for 2020. We target a technical result of DKK 3.3 billion, an expense ratio 14% roughly, combined ratio at or below 86% and an ROE post-tax at or above 21%.

Bear in mind that DKK 3.3 billion in technical result target is our highest technical result target ever, and we're not guiding for anything higher than that. And also, bear in mind that in the cost ratio target of 14%, there is efficiency pulling down the number and then there is investment in IT and digital pulling up the number. So we're not guiding for cost ratio in 2020 significantly below the 14.0%.

And then finally, we just summarize with our favorite quote on Slide 24 from John D. Rockefeller on dividends, and we're pleased to have been able to increase our quarterly dividend per share to DKK 1.7, with an increase of some 3%.

And with that, we will turn to your questions.

Questions and answers

Youdish Chicooree - Autonomous

I've got 2 questions, please. Firstly, could just provide us an update on pricing and claims trend in Denmark and Norway? And secondly, it's in relation to your guidance on the underlying loss ratio. I think we have seen a steady improvement of around 40 to 50 basis points in the past year. And considering you are still sticking with your runoff guidance of 3% to 5% range by next year, should the magnitude of improvement accelerate from here?

Morten Hübbe, CEO

Morning to you. I think generally, in pricing, the general trend we see is quite stable in the retail segment. We see that we're carrying out sort of the price increases in most area of around of 3% as planned. We see that in most areas, but the claims inflation is slightly lower than that. Then we have, as reported in a number of quarters, been worried about some of the frequency trends in motor handling that, and some of the average repair costs in electrical vehicles in Norway trying to capture that. But all in all, I would say that the biggest price trend changes actually still comes from Corporate and Corporate Norway.

Bear in mind that we talked about last year in the spring that we had increased prices in Corporate Norway by a bit more than 7%. We increased -- decided to push the envelope even harder than that and we've increased prices in Corporate Norway 1st of January in Q1 by more than 11%, which is a very substantial number. But to be honest, we think that trend needs to continue for a couple of years in order to get to an attractive level of earnings in the portfolio. And then we see in a quarter like this quarter that the vast majority of our large claims is in Corporates and the bigger Commercial accounts. And clearly, earnings in Corporate is not satisfactory. So we need to continue to work both on the exposure side of Corporate and also on the average pricing side of Corporate. So that is where the main change will be also for the next couple of years.

I think from an underlying claims development point of view, the 40 to 50 basis points that we've seen is the trend that we expect to continue to see. And that will then -- as we see it gradually improve our claims experience, and then we will see how our runoff development develops. There's no change signals there. But also, as we have communicated a number of times, a runoff is probably something you should see in the more longer term, with a more longer-term glasses. And that the development towards 3% to 5% area is a gradual development and not a sharp deadline or a sharp date.

Asbjørn Mørk – Danske Bank
A couple of questions. If I start with Denmark, Morten, you said that, organically, you're growing 5% in Q1. And you also said that, that is not something we should extrapolate on considering Q1 '18. Could you just maybe elaborate a bit on what is actually the true underlying -- true, true underlying growth in Denmark? And where is that -- I mean, are you taking market share or is Denmark turning more benign? How do you see the general growth for Denmark right now?

Morten Hübbe, CEO
Morning, Asbjørn. I think that the Danish growth is also underlying strong at the moment. I think there are a number of factors impacting that growth that we cannot just assume continues. It's quite clear that Denmark is getting a lot of support from the membership bonus, and extrapolating or figuring out how does that develop longer term is, of course, a difficult exercise. Then you see all-time high, for instance, in the Private lines Denmark retention rates, which is something we're continuing to work on but also something that you cannot just assume continues upwards. And then it's quite clear that

our Danish business is supported both by the new partnership agreements like FDM, for instance, which is organic. But it gives us access to a new group of members, and therefore, a high growth. And then it's quite clear that a number of our new products is supporting growth well.

And on your question on stealing market shares are not, take the new personal line packages where we have combined classic accident insurance now with health insurance for private individuals and dental insurance, which no one else in the market has done. That product alone in Denmark has sold 9,000 policies in the month of March. And you can add to that the children's health insurance, the sale of insurance, et cetera. So what that actually proves is that without stealing market share from the others, we can actually grow the market. And as far as we can see, the more we grow the private market, that is the healthiest part of our book, and the more we grow the customer broadness, if you will, instead of trying to steal market share from the others, then we are growing and enhancing both the top line and the bottom line without sort of pushing the market.

So I think that Private lines, actually both in Denmark and in Norway, is clearly growing above guidance at the moment. We actually see that, that trend will continue to grow above guidance. I think that Commercial lines is also growing above guidance, but is perhaps less sustainable than in Private lines. We still see that OBOS helps Commercial in Norway, Alka helps Commercial in Denmark. And then the big dark horse is how much will Corporate lines pull down the average. You see around -- a very small growth in Corporate in this quarter, but actually the growth in Corporate Norway is minus 4.4% in the quarter. The question is how will that number develop. So if Corporate lines decline less, then actually the group growth will be well above guidance. But we need to be willing to let the Corporate book shrink to reach the profitability levels we want to achieve in Corporate. And that is a far more important topic on target than the actual top line growth. So hopefully, that gives you some nuance on your question.

Asbjørn Mørk – Danske Bank

It does. But does that mean that basically, first, you don't see yourself taking market shares at the moment, at least not material market shares in Denmark? And secondly, I guess your profitability on the new private customers that you get and the growth you get here, I guess that is, all things equal, higher than the corporate growth that you might lose? And now your growth is clearly higher than you expected a couple of quarters ago and you reiterate the DKK 3.3 billion technical profit guidance for 2020. So my point is rather that are you not growing -- are you not making profits when you grow at the moment? Or are you just cautious on your guidance for 2020?

Morten Hübbe, CEO

Well, I think it's important on the market share question to say that we do see that we're growing slightly, slightly in number of customers in Private. But the majority of the growth comes from more products. So clearly, that's more the driver. We see that new customers in Private lines are, by far, more profitable than customers in Corporate. But traditionally, we can see in the numbers the new customers have a slightly higher claims ratio in the beginning of their life as an insurance customer and that pulls down a little bit. But there's no doubt that every time we substitute some top line from Corporate to Private, we're strengthening the company, we're strengthening the future earnings. And therefore, we're building more, if you will, certainty into the future earnings estimates.

But I wouldn't get carried away with the growth as such because it's hard to predict how long time will we have this much support from FDM, from NITO, from Troll, from OBOS, and can we continue to develop new products at the pace that we're doing currently. But this is, of course, very encouraging that we are able to grow our most profitable business segment with new products to existing customers without stealing market share and without pushing the market.

Asbjørn Mørk – Danske Bank

Okay. Clearly understood. Then on your underlying or if you look at the large claims, of course high for the group in Q1, but also you say that the vast majority is from Norway. So I guess we can conclude that there's very small large claims in Denmark and I guess, to some extent, also Sweden. So if you look at the underlying, which I guess you don't really disclose fully, but can you just comment a bit on where is the underlying developing for Denmark, Norway and Sweden on the different country site?

Morten Hübbe, CEO

Well, I guess if you take Norway first, which is of course what would be the important Q1 question, we have a combined ratio of 104.5% in Norway in the first quarter. Of the DKK 181 million of large claims for the group, roughly DKK 140 million of that comes from Norway. So of course, that's an important driver of understanding the development. Then we see that runoffs in Norway is roughly half of what it was in Q1 last year. So we were close to 7% on runoffs in Norway last year, we're around 3.4%, 3.5% this year. So all in all, what we see is a stable, slightly positive underlying claims development in Norway. Slightly less positive than the group, but positive. And then too many moving parts and too many large claims.

So on one hand, very satisfied that the underlying in Norway also improves. On the other hand, clearly not satisfied that the large claims are too high. And working hard to make sure that we reduce the large claims exposure. And more importantly, that the large claims component of the premium paid by the Corporate customer, particularly Norway but also in Sweden, that, that increases. If you do the math in Sweden, you come to the conclusion that we have a strong development in Private line Sweden, but we have a combined ratio of Corporate Sweden, which is way above 100 in the first quarter. So clearly as unacceptable as Corporate Norway.

And that is why we see probably this more as a Corporate question/large claims question, than we see it as a Norway question. And we need to make sure that price increases in Corporate Sweden and Norway continue, and that the large claims exposure reduces further in Norway and Sweden. And that job is clearly not done yet. We're in the process. We said goodbye to 4.4% of the Norwegian Corporate book. We said goodbye to a lot of the fish farming in Norway. We said goodbye to most of the bus customers in Norway. We've reduced the number of liability customers in Sweden. So we're reducing large claims exposure in a number of areas in Corporate Sweden and Norway, but it is not enough yet and the earnings is not acceptable in those 2 areas.

Asbjørn Mørk – Danske Bank

But if I look at the Norwegian business and your retention, it's basically -- as you also said on the Commercial side, it's up in Q1 and you have repriced. So I guess all things equal, we should expect tailwind going through 2019 into 2020 as it looks right now. Is that fair to assume?

Morten Hübbe, CEO

I think I would expect that the Private lines business in Norway continues the positive development throughout the year, actually both top line and bottom line in terms of claims. I think we will gradually start to see Corporate benefit from the higher prices, 7% up last year, 11% up this year. I'm not completely sure that the largest customers in Commercial Norway has had enough price increases to be honest. So it's perfectly likely that we need to do more price adjustments there, and that might have some negative rub off on the top line of Commercial Norway.

Asbjørn Mørk – Danske Bank

But positive on your technical profits.

Morten Hübbe, CEO

Positive on our technical profits as we earn the price increases, yes.

Asbjørn Mørk – Danske Bank

Exactly. Okay. And then the final question from my side on Alka, the DKK 21 million of synergies for Q1, I guess, if anything, slightly ahead of plan, nothing material of course. But the point is rather, should we expect some sort of a catch-up effect? I mean you're guiding for DKK 75 million this year, another DKK 75 million next year. But you've got the keys 5 months ago and already now you have delivered DKK 21 million. So are you maybe a little bit more positive on the synergies than you were a year ago? Or is it just a number of -- a small numbers [law]?

Morten Hübbe, CEO
Well, I guess it's 1 quarter into a 3-year journey. So I guess on one hand, we're very positive that we have started well. We have started well both in terms of the synergies and the actual performance of the business. We start with the costs first and then we will see more and more on claims during the year. And I'm very happy that we have this very German plan on claims procurement with the 700 contracts because that is running like a machine. But it's also a machine that takes the number of quarters first to get into the market and then to earn the impact as you go through all the claims. So I wouldn't get carried away by the fact that we are little bit ahead of the plan. But of course, it's reassuring, with a large target like 300, that we have started really well.

Mads Thinggaard - ABG Sundal Collier
This is Mads from ABG. The first one relate to Slide 15 in the slide deck, where you mentioned the large claims and expected annual level 2019 of DKK 550 million. Is that, I mean including the very high large claims in Q1? Or is that more kind of a normal long-term average annual level you point to here?

Morten Hübbe, CEO
Morning, Mads. It's clearly a normalized long-term level that we expect. If you look at the data, it's quite clear that the number is never correct. But it is the most sensible long-term trend that we can find. So that is the answer.

Mads Thinggaard - ABG Sundal Collier
Okay. Then I was thinking about the -- I mean now you have the high investment result Q1. And I don't know if you could kind of put a bit of light on the outlook for extraordinary dividend in 2019 on back of this very strong start to the investment results in '19.

Morten Hübbe, CEO

I think if we could book a ticket to 3 more quarters of investments like Q1, then we will have a party at the end of the year. No but seriously, I think that the challenges, of course, that while we have a very high investment income in Q1, the political uncertainty globally are still very high. And I think that we are still headed for what could be several years of high uncertainty on investment income. So we would largely base our ordinary dividend and future extraordinary dividends on the core business and not just the development on investments. We will get back to you in due course when we come to a conclusion on future dividends, and it will be too early days to talk about this now.

Mads Thinggaard - ABG Sundal Collier

Okay. And then just a final question from my end. You were kind of addressing the 3 to 5 percentage point runoff guidance for 2020. Perhaps it would not necessarily be a very sharp deadline getting down to that level. Is that kind of -- I mean, are you kind of implying a bit of new communication here? I mean is the 3 percentage point perhaps starting to look a bit too? Or how should we interpret this?

Morten Hübbe, CEO

No, I think we're not changing any communication. And while I appreciate understanding that fully is quite difficult. What you need to bear in mind was that or is that some of our claims development, take workers' comp for instance, that is one-off development from claims that are almost 20 years old. So predicting in precision where -- how will they develop 2 years from now is completely impossible. So what we did in 2017 was to make an estimate of the 3% to 5% from year 2020 and onwards. And we have no doubt that, that is -- that will be the long-term plan. But it's also quite clear that given the nature and the tail length of some of these reserves, you cannot just say that by Q1 2020 or by Q4 2020, this will be the result. That is not the level of precision that you could expect in runoff gains. So I think what you should expect is that we will, longer term, move towards the 3% to 5%, but there is not a mathematical precision on, on which quarter that precisely will happen. So that's more the signaling.

Kevin Ryan – Bloomberg Intelligence
I just wanted, first of all, to have a little point of clarification on the new Private bundled products you're selling. Should we assume that, that is what's driving the additional products per customer? That's question one. And if not, what is driving that and what's the target product to drive that up? And sort of related to that, you tell us that 60% of all inquiries are now digital. Is that helping push the new product through? Is that what you're seeing? And also, can you tell us whether there's going to be any more investment needed in that digital push?

Morten Hübbe, CEO
Yes, thank you. Well, first of all on the additional products, it's fair to say that while it would be nice to invent the next motor insurance and then we saw one new product and then the average number of product goes up, that is not really what is going on. It is really more a matter of selling lots of new small products and lots of new small coverages. To give you a couple of -- so it's not one product, it's more than a handful. But to give you a couple of examples, we now sell, for instance, content insurance, including an alarm. So that's not new product, but it adds to the average price of the content insurance and therefore it adds to the top line and the broadness of the customer cover. Then children's health insurance is, for instance, a new product which is adding to the number of products. The new Personal lines package, which then also includes, for instance, dental insurance, would be part of increasing the number of products per customer. So it is a number of smaller initiatives.

But the benefit of all of them is that they make the customer relationship broader to customers we already know who are already profitable. And then also, in turn, it enhances the retention rate because we clearly see the more product customers have, the longer they stay with us. So there's a broad process in other -- in one single product covering that. When it comes to the digital development, the 60% digital approach is now helping us get value out of our investments. It doesn't actually help the new product coverage. On the contrary, when people buy online, they tend to buy 1 or 2 products. So generally, there's a task of making sure that customers that buy one product online is then cross-sold on all of the other products.

But largely, what people do online is to report claims, is to manage claims and then it is to manage service. So let me give you a small example or 2 small examples. Now 20% of all claims reported are actually handled straight through online, untouched by human hand, in a few seconds. Of course, that pulls down our processing costs and it pulls up the customer satisfaction. And we made a survey that a ton of the customer phone calls relates to the billing. But now we have made an online solution where you can see your billing and explanations to that billing, and we see that in Q1 alone, 70,000 customers have used the online billing functionality instead of calling us. So a lot of it has to do with less processing costs, less claims handling costs and higher customer satisfaction and not really new product sales.

Per Grønborg - SEB
Two topics from my side. First of all, back to the large claims, you stated that DKK 140 million approximately came from Norway. If I look at Sweden, the difference between segment Sweden and country Sweden is a loss of DKK 58 million, which implies that they're also having a quite significant part of the large claims. Is it fair to assume that the large claims in Denmark in Q1 has been pretty close to 0?

Morten Hübbe, CEO
That is fair to say. The large claims area in Corporate Sweden is DKK 33 million in the quarter, which leaves next to nothing to Denmark. So that is completely correct.

Per Grønborg - SEB
If I look at your communication over the last -- not every quarter, but many quarters, [one is sitting] back with the perception that the run rate of large claims must be

materially higher in Norway and maybe also Sweden compared to Denmark. If your group level is guiding for 2.5% average large claims, is that divided by 1% to 1.5% in Sweden and 3% to 4% in Norway? Or how should we look at that?

Morten Hübbe, CEO

Well, it's -- that's a good question, Per. I think we've tried to use Slide 6 to give some illustration on how large claims have looked historically. But the problem, of course, insurance is paid based on huge amounts of data and empirical evidence on claims frequency and claims severity. And in Private lines and Commercial lines, that works great. But the reality is that the empirical data on large claims is way too small. We've had some quarters now where Norway and Sweden is heavily overweight in the large claims. But if you go back 5, 6 years, we can see periods where Denmark was heavily overweight on the large claims. So there's not a clear historical pattern if you look at it with a longer term glasses, but there is a short-term pattern where Norway and Sweden is the challenge on large claims. And when we combine that with the fact that even the underlying claims trend in Corporate Sweden and Corporate Norway is not satisfying either. So there's really no doubt that Corporate Norway and Sweden is where we increase prices the most, it's where we reduce exposure to large claims the most. But I wouldn't jump to the conclusion that longer term, that's where we have the large claims. There's really no evidence to support that.

Per Grønborg - SEB

Okay. My second question is your top line was quite impressive. The top line will show you have deducted the rebates. The rebates run rate this quarter is very high compared to what it normally is. How should we look at this, the 150-million-something that you have deducted in rebates this quarter?

Morten Hübbe, CEO

Well, the trigger part that is of course that, from an accounting point of view, you have to take -- typically, when you've got partnership agreements, so agreements with unions or bigger group of customers, very often they are somehow tied to sharing some of the profits. So what actually happens is that when our Private lines, for instance, is producing more and more profits, we share a portion of that with the partner or the union or whoever it is. And accounting-wise, you have to deduct that from premiums. And then you can debate is that really a premium question, well, a classical premium question at least. But that is what is going on, that we share -- we don't share more of the earnings. But as earnings grow in Private, the -- we keep on sharing the same proportion with the partner, and then the actual bonus and rebates increases somewhat. It is somewhat volatile during the quarters. And to be honest, we could perhaps be a bit better at predicting that quarter early, but we're doing our best to try to make that number correct. But that is the nature or the substance of the business. So if you see that number growing, it's because earnings is growing.

Per Grønborg - SEB
Okay. But the very high level, this number, has basically reduced your earnings. If you say -- what I hear you say between the lines is maybe this should only had been 100, maybe 25, and this has basically reduced your earnings this quarter because you have paid a rebate to some of your group customers this quarter, which basically maybe belongs to last year. Or is that, in a way, exaggerating it?

Morten Hübbe, CEO
That is -- that would clearly be part of the explanation, Per. Because when you do the full year accounts, then often you end up that the estimate you did on the profit sharing with the partner was not completely correct. So then you have to adjust that in Q1. And that happens almost every year, either positive adjustment or negative adjustment. So that is completely correct. And that can distort the quarter-on-quarter comparison somewhat.

Jakob Brink – Nordea Markets

I have 2 questions, please -- or actually 3 questions. So coming back to the -- what you said in Italy, Morten, about the -- or many times actually about the -- that you're not really taking too much market share but you're just inventing new products or selling new products to the customers. Now of course, we don't know exactly how much you're making on these new products. But looking at the growth in Norway Private, for example, it's up significantly year-on-year from Q4 compared to Q4 '17. So now Q1 versus Q1. So I just find it a bit difficult to think that it's only due to new products all of a sudden making such a big increase in underlying numbers, FX adjusted and everything. And also in Denmark actually. So could you maybe give us a bit more detail on how much is actually market share gains and how much is new products to the customers?

Morten Hübbe, CEO

I think to start on that question, Jakob, it's quite important that when you dig into the country specifics, there's a lot of difference. Because clearly, if you look throughout our business, Private lines is the one driving the content of more products, not Commercial lines. Within Private lines, Denmark is clearly ahead of Norway. So if you look at it from a Private line Denmark point of view, I would say that we haven't put numbers on the split, but the new products driver is higher than the new customers driver.

Then if you move to Private lines Norway, we are trying to catch up with the new products in Denmark, but we're clearly further behind. And in Norway, there's clearly the impact that the NITO agreement, the Troll agreement and the OBOS agreement is not as such inorganic. But it is new partnership agreements allowing us to tap into new membership basis, which actually means that we are growing the number of customers in Private lines Norway. So the split between new products and new customers is clearly different between Denmark Private and Norway Private. Again, we haven't given the split, but that is to give you some nuance that the country development is quite different.

Jakob Brink – Nordea Markets

So I guess the reason I'm asking is, I mean, the -- all those partnership agreements as you say, I mean, it is really organic growth. You're taking the customers from someone else. It's not like you have been buying a book of premiums. So isn't this a risk that you're growing so much more than -- I was just checking last year the number of policies in Norway was up 2% for the whole market in both motor and house. And you're growing, is it 9%, you write in your report? Isn't there a risk that competitors will somehow strike back? Or...

Morten Hübbe, CEO

I understand your line of questioning, Jakob. But if you do the -- take a 5-, 8-year history data evaluation in Private lines Norway, what you would find is that for the majority of those years, we've lost market share in Private lines Norway. So when you compare, for us, it means that just adjusting -- getting to a balance where we don't lose market share in Norway, adding a little bit of new customers, particularly in the Oslo and Eastern part of Norway, where NITO, Troll and OBOS is stronger, represents what we have historically been. So just getting up to a neutral and then a slight positive on the number of customers is a rather big swing from a period where we lost customers systematically every year. So I wouldn't say that we are increasing the number of customers dramatically. I'd rather say that we came from a rather large loss of customers and the swing factor is quite significant. And I'm not seeing a development in the Norwegian market, where we are pushing competition anywhere. I don't think we're large enough to do that in Norway. And I think the number of customers we're winning in Norway is nowhere near large enough to have such an impact.

Jakob Brink – Nordea Markets

I guess just on Norway as well, the merger of DNB and SpareBank 1 insurance, is that anything to do with the high growth, that it's basically just easier to take market share now?

Morten Hübbe, CEO

No. I would say that if you look at, for instance, the new partnership agreement we've made with NITO, NITO in Norway is all the engineers in Norway. We've had that similar agreement in Denmark for a number of years, and we've built a large portfolio on several hundred million with engineers. So that's one example of growing with a customer segment, with a partner, because we now cooperate with that union. That really has nothing to do with what DNB and SpareBank 1 is doing. I think the whole market is waiting to see how will DNB and SpareBank actually impact the Norwegian market. I think consolidation generally leads to more discipline, so that would be my expectation. But I haven't seen any real impact on the Norwegian market from that question yet.

Jakob Brink – Nordea Markets

Okay. And then final question. Gian, you mentioned in the solvency SCR walk DKK 91 million that you had used to mitigate the negatives. Could you maybe give us a bit more detail on this and how much more mitigating actions do you have for quarters like this?

Gianandrea Roberti, IR Officer

Well, I'm not sure if I can comment on more mitigating action, but this is actually a relatively normal. Every time at year-end, we take an in-depth look at the model. As you know, we only do the partial internal model for insurance risks. So we look at all the parameters and there's always basically some smaller adjustments. And it -- bear in mind that we have DKK 24 billion, DKK 25 billion of claims reserve and more than DKK 20 billion of premium. So just small adjustment to the parameters can give some moving parts. And in this case, it was more in the long tail part of the business. So I wouldn't envisage anything recurrent or anything like this on a recurring basis, Jakob.

Jonny Urwin – UBS

Just 2 from me, please. So firstly, Norwegian large losses, could you just give us a bit more color on what drove those? I guess what I'm getting at is this a market issue or is it just some bad luck on specific policies for you guys? And then secondly, retention's obviously trending well pretty much across the book. But in Denmark specifically, how much more benefit is to come from the customer bonus model, please?

Morten Hübbe, CEO

Good morning to you as well, Jonny. Well, I think on the large claims, one particular trend which is quite clear is that this is a -- largely a property issue, not the other lines. I think if we look at last year, we had some problems with liability, particularly out of Sweden. But this year, it's largely property claims. When we then look within the property claims, we've seen fish farming in Norway which was a challenge in the fall, but again a challenge this year. It has to do with the actual handling of the fish after the farming where we had a large fire. And then we had fires also in some of the large commercial exposures.

So if anything, it is the property segment which is the villain. We've now reduced our exposure in fish farming in general quite dramatically. We have taken our exposure to fish farming down more than 50% during the past 6 months and increasing prices more than 20% on the remaining part. So I think we've taken some quite harsh measures in that area, but we're not finished working on ensuring that the corporate property customers pay enough premium to support the large claim risk. So that is a bit of color on that.

I think on the retention rate in Denmark, there is still more potential from the customer bonus. It is still only 65%, 67% of the customers that understand that they received a bonus. I think still [looking], it's close to 90%, so there should be more potential. It climbs every year, but it's still not at a level where it should end. So there should be more potential for the next 2, 3 years on that. And then I think that retention also has to do with what you experience when you have a claim, how fast is it, how satisfied are you with that. It's also linked to the number of customers, not about products. Because if you have more products, you stay with us longer.

We can see that we're improving customer satisfaction in a number of areas. But we've just implemented a new measurement system where we try to measure customer satisfaction throughout all of the contact points. And to be honest, we can find lots of contact points where the customers are not satisfied and where the solutions are not good enough. And for instance, we can measure some of the digital solutions where satisfaction is clearly not as high as we want it to be. So our list of customer experience areas that we would like to improve is a very long list.

So we continue to find areas which can support the customer experience, which can support the retention rate. But still predicting retention rate is extremely difficult. But I think there's a general observation that the more we continue to work to push up satisfaction, the more we're at least pushing the retention rate in the right direction. Then we cannot predict how competitors react or bad press or whatever which could impact retention negatively. But we can make sure we have a pipeline of positive retention drivers. And that is something we're continuously working on.

Jonny Urwin – UBS
Just a quick follow-up on the large losses. Are you -- on the property losses, are you also seeing the market take rate and step away as well?

Morten Hübbe, CEO
I think we're seeing the market increase prices and rates in the Corporate book in Norway, and that is very comforting to see. Of course, we cannot see competitors' large claims. There's no sort of public data on that. So unfortunately, I don't have visibility on that. But we can see the competitors in Corporate Norway are increasing prices as well. And if you look at the results in Corporates, then they should, because they have the same challenge as we do.

Phil Ross - Mediobanca
Just the point of clarification from me on the composition of runoff gains this quarter. I know you gave the example, Morten, of the unpredictability of workers' comp runoff more so in the medium- to long-term. But I wasn't sure if you were suggesting that workers' comp was part of the reason for the higher runoff gain in this quarter or

whether it came from other sources.

Morten Hübbe, CEO

Well, I think a lot of the runoff gains typically comes from the longer tail lines, which means that workers' comp always play a lead role, motor reliability always plays a lead role, areas like health and sickness and the more longer tail lines play a lead role. I don't think we have published the split of runoffs, but clearly, workers' comp, motor liability and those are some of the biggest, biggest areas. But that's quite classic. And then, I guess, liability in Corporate, a little bit of property. But there's no -- there's nothing new or particularly noteworthy on the trend of splits of that. I think something like 1/3 of the runoffs comes from motor, something like 1/4 comes from property, a chunk from health and accident. But there's -- to be honest, that looks much like other quarters. There's nothing really new or special on that.

Phil Ross - Mediobanca

Clearly, as you're saying, in the actual lines of business that feels consistent?

Morten Hübbe, CEO

It's quite consistent with what we've seen previously, and there's nothing really new on that as we see it.

Gianandrea Roberti, IR Officer

In the investor presentation, you actually have the split, not in the webcast as Morten said. But in the investor presentation, you have the split of the runoff by line of business.

Morten Hübbe, CEO

Yes. You can check the split there.

Jan Erik Gjerland - ABG Sundal Collier

Jan Erik Gjerland from ABG. Just 2 very quick follow-up. The first one goes to large claims. Have you done more mitigating effect to prevent the large claims in Denmark than you have been able to do Norway and Sweden? Or is it just that coincidence that it's higher in Norway and Sweden?

Morten Hübbe, CEO

I would love to say yes, but the reality is that we cannot say that. I think we work consistently with requirements on sprinkling the properties of large exposures. We worked systematically on containing or compartmentalizing the various factories. But there's really no clear evidence that, that has been more efficient in Denmark than in Norway. And I can go back in history and find periods where Denmark was the villain when it comes to large claims in Corporate. So no, we don't see a magical cure there. But there is a cure which is to make sure that the average Corporate customer pays a significant higher proportion of their premium to support large claims. So it is linked to the fact that the Corporate premiums are too low. But we are, as I said, reducing our exposure to, for instance, fish farming as we see that they are overrepresented. We've also reduced our exposure to the bus sector in Norway and Sweden because earnings were too low. So every time we see a more structural component, we react to that by reducing exposure or increasing prices. But it's not that Denmark has the magical cure on that.

Jan Erik Gjerland - ABG Sundal Collier

Just finally then on prices. You said on Slide 11 that your price on house Norway is up 3%. Is this so that, that is then more than the underlying inflation? Or how should we read that note? And finally on the 2.2% for car or motor inflation. Is it then that you put into a different mix of car, more electrical or a different type of car in your book this year than last year?

Morten Hübbe, CEO

I think first of all that when we show Slide 11, which we've been showing consistently for a very long period of time, it has some pros and some cons. The pro is that it's transparent and it's visible. The con is that it mixes price change and exposure mix change or customer change. So for instance, on average, the price increases we're doing on house at the moment should be slightly higher than what we see on claims inflation. On the other hand, you would look at the number 2.2% on car in Norway and say, "Isn't that number slightly to low?" And actually, the composition of that is that some of our large partner agreements in Norway pulls down the average price development on motor, whereas our average direct customers pull up this average. And clearly, if you look at the Tesla segment, we are looking at price increases closer to 10%. But if you look at the average electrical cars, we're looking more at sort of 5% to 7%. And then the usual cars lower than that. So there's a lot of variation underneath that number. But clearly, direct customers pull up the average and particularly one large partner agreement pulls down the 2.2%.

Jan Erik Gjerland - ABG Sundal Collier

Okay. So you're -- added the less electrical car to your portfolio (inaudible) apart from the NITO effect?

Morten Hübbe, CEO

Well, it's quite clear that while we have a lot of electrical cars in the portfolio and it's increasing every day, we don't have a very high weight of the sort of Tesla segment, which is the expensive electrical cars. And they have a higher claims frequency and they also have a higher claims average, because the garage and repair structure, for instance Tesla's, is a lot more difficult to get efficient than repairing a Volkswagen, which is a hybrid or an electrical -- or Toyota, for instance. So there's a lot of difference between the 2. And we have more of the smaller traditional brand electrical and hybrids and less of the Teslas, which helps our development.

-

Well, I'll just say thanks, everybody, for all your very good question and listening to today's call. Peter and I are around today and tomorrow for -if you have more questions. And yes, just contact him if you have more. And thanks a lot.
