Tryg – Q2 2019 results

Audio cast and Q&A 10 July 2019

Transcript

Presentation

Peter Brondt, IR Manager

Good morning, everybody, and welcome to the presentation of Tryg's result for Q2.

My name is Peter Brondt, and I'm from Investor Relations. With me, I have our CEO, Morten Hübbe; and our CFO, Barbara Plucnar Jensen. They will present the highlights of the quarter and then we will have time for Q&A.

And with this short introduction, over to you, Morten.

Morten Hübbe, CEO

Thank you, Peter. And good morning from my side as well.

And we start on Slide 3, where we report a technical result of DKK 979 million, which is an increase of 16% year-on-year, of course clearly impacted by the inclusion of the Alka results in the numbers and the Alka synergies but also a lower level of large claims and weather claims compared to the second quarter of the year before. We saw a continuous improvement in the underlying claims ratio some 50 basis points both on the Private and the group level. The investment income was DKK 57 million, impacted by good returns both in equity markets and in fixed-income classes and of course an improvement year-on-year.

Quarterly dividend per share of DKK 1.7 [achieved], which is clearly in line with our aim of stable and increasing dividends, compared to DKK 1.65 in the same quarter the year before.

Solvency ratio of 171, slightly up, impacted of course by the net profit and the quarterly dividend payment.

On Slide 4 we elaborate on customer highlights, clearly positive general customer development, continued increase in the TNPS score which is very important, but also you can argue that we're very happy to see a significant improvement in the retention rate for all areas. We also see a continuation and an increase of the number of products per customer clearly led by Private lines Denmark. And of course, that increase supports both loyalty and profitability, and we're working to broaden that same progress to the other areas outside Private Denmark. For the fourth consecutive year, TryghedsGruppen has paid out a membership bonus of 8%. Awareness is increasing, but still only 25% of the non-Tryg customers are aware, so we still see a significant potential there. And of course, we're pleased that, for the first time, the Alka customers have also received the bonus.

On Slide 5 we elaborate on the decomposition of the technical results. As I mentioned, clearly the inclusion of Alka improves the numbers, but also the underlying claims ratio and the large and weather claims. Clearly, we see the strongest progress in the Private line segment, where Alka plays a key role, but also we see here the improvement in the underlying claims. And also, a strong and healthy top line growth helps the total technical results. Corporate lines, we see an underlying improvement primarily due to the high price increases in Norway, but it's quite clear that we still have a way to go to improve profitability in all 3 countries of our Corporate business. Private Sweden this quarter saw a slightly higher-than-normal claims inflation for motor, which also has some negative impact on the results.

On Slide 6 we elaborate on the Alka synergies. Second quarter, we delivered DKK 22 million of synergies for Alka, which brings the first 6 months up to DKK 43 million compared to the DKK 75 million synergies promised for the full year of 2019. Currently, roughly half of the synergies are related to costs, which is in line with the expectation that the cost synergies would show up in the P&L first. Longer term, the largest synergy driver remains the claims area, but there is of course more harmonization of processes and routines in implementing that, and therefore the result comes slightly later than on the cost side. We remain very confident in our ability to achieve the 2021 synergies targets and we've had a very promising start, but of course, we should remind ourselves that we are at the beginning of that journey and not at the end.

On Slide 7 we elaborate on the dividends per share of DKK 1.7. And as you know, we plan to have a flat quarterly dividend throughout the year. ROE target of 21% continues to instill high discipline and ensure that shareholder remuneration remains key for Tryg. Our focus on capital repatriation remains extremely high, and 2019 will be the eighth year in a row with increased dividends.

On Slide 8 we elaborate on our 4 strategic initiatives which together with realizing the Alka results and the Alka synergies are the most important drivers to reaching our DKK 3.3 billion technical result target for 2020. I'm very pleased to see in the first half of '19 progress in all areas. And within these 4 categories, you can read the summary of the achievements on this slide, but clearly claims excellence is the most important driver for reaching the targets. And we are very pleased to see a continued benefit from exploiting our procurement power. And also, you've heard us say that we've been a little bit late starter on distribution efficiency but quite satisfied that we're starting to see this progress well, amongst others, with new, efficient sales channels in both Private and Commercial lines.

On Slide 10 we show the growth development. Growth excluding Alka was 5.9%. Private, as you know, is clearly our most profitable area, and therefore we're pleased to see that the majority of the growth comes from here, with the growth in Private lines excluding Alka of 8%. Commercial was helped by Alka in the reported numbers and had an underlying growth excluding Alka of 2.4% (sic) [3.4%] partly due to improved retention rates, also a slight net inflow of customers, but also we've seen higher-than-usual price initiatives in Commercial Norway to improve profitability which should help both the top line and the bottom line going forward. And we see in the Corporate a growth of 1.9% but within that number actually a lot of moving parts. If we look at Norway Corporate, first, we're carrying out significant price hikes, actually more than 11% year-to-date, which of course has reduced the portfolio quite significantly, whereas in Denmark we see a slight increase in the portfolio, of course supported by the customer -- or membership bonus here.

On Slide 11. It's quite clear that adjusting prices in accordance with claims inflation is very important and a key focus area, and therefore of course, we closely monitor the development in the average prices. And bear in mind that profitability improvement typically comes from a combination of claims initiatives as reported earlier and the price adjustments reported here.

On Slide 12. It's quite clear that customer focus is extremely important for us and also an extremely important value driver for Tryg. And clearly the customer's view of Tryg is monitored easily through the retention rate as one key indicator, and we're quite pleased to see improved retention rates in Q2 for all areas. We know, of course, that Denmark is helped by the customer bonus, but you also see a strong improvement in our Norwegian business which is not helped by the customer bonus program.

And over to you, Barbara.

Barbara Plucnar Jensen, CFO

Thank you very much, Morten.

If you turn to Slide #14. We break down the development in the underlying claims ratio. In second quarter, we saw a continued improved trend for the underlying claims ratio, where the ratio for both group as well as for the Private improved by 50 basis points. Please note that, when you look at this slide, all the quarterly figures for 2018 have been adjusted to include Alka. Price adjustments and our claims excellence program are driving the improvement, but for the group it also stems from a rebalancing of the portfolio towards more Private business, primarily helped through the impact of Alka but also through healthy growth in the Private business in general. Tryg expects the improvement in the underlying claims ratio to continue in 2019 and 2020, as it's a key focus area for our business.

If you look at Slide 15, we give you a bit of an update on the development in the various claims components. Q2 was a benign quarter in terms of the weather claims development, and weather claims were somewhat lower compared to Q2 '18 and a normal Q2 where we would anticipate weather to impact by approximately DKK 60 million. As you can see, we were as low as DKK 50 million in the current quarter. The nominal costs for large claims were slightly lower in Q2 2019 as well compared to Q2 2018, and also here we saw a lower level than a normal quarter. The large claims in percentage was 2.4% in Q2 against the 2.9% in previous year.

Finally, the runoff result was somewhat lower as well with 5.3% of the combined ratio compared to 6.8% in Q2 last year, and this was primarily driven by a lower runoff level in the Private business.

If you turn to Slide 16, you have here a review of the development in the expense ratio. In the current quarter, it was at 14.2%, which is in line with the guidance of our expense ratio of approximately 14%. We continue to work on improved efficiencies, which should support investments in IT and digital solutions at the same time, in order to develop the platform for the business performance. We saw an increase in the number of FTEs, primarily reflecting that we convert IT consultants to internal IT employees and also that we're insourcing claims handling related to health insurance in Denmark. Furthermore, the growth in the business has led to an increased number of FTEs in the customer-facing areas, e.g. via the customer service.

On Slide 18. You have seen this slide before, which shows that our invested assets are split between 2 different portfolios. Tryg had a total of DKK 41 billion of assets in Q2, of which the match portfolio comprised DKK 30 billion and the free portfolio comprised of DKK 11 billion. The asset allocation has remained broadly unchanged.

If you turn to Slide 19. The total investment return ended with a positive result of DKK 57 million in the current quarter. All fixed-income asset classes contributed positively to the returns. And if you look at the breakdown for the 2 portfolios: The free portfolio had a positive return of DKK 161 million in the quarter. We saw a negative return of DKK 43 million in the match portfolio, which bear in mind is equal to 0.1% of the overall size of the portfolio itself, but this is reversing a positive result that we saw in Q1 and a retrieval to the assumption of 0 returns in the long run. Our asset mix has only been adjusted slightly in the period and we maintain our low-risk approach.

On Slide 20 you have an overview of the development in our solvency position. The solvency ratio at the end of the quarter was slightly up compared to previous. So we saw a final result of 171 versus 168 at the end of Q1 this year. Own funds are primarily impacted by the difference between net profits and dividends. The SCR has remained broadly stable, as an increase in the nonlife primarily -- has primarily been impacted by the increased premiums. The development of the solvency ratio remains driven by the movement of own funds stemming from profits and dividends.

Turning to Slide 21, you will see a recap of the information we have given previously on our capital structure. As mentioned a few times before, following the latest debt capital markets transactions, the Tier 1 and Tier 2 capacity is virtually fully utilized, but as you can also see, the solvency ratio development is slightly positive given the reasons described on the previous page.

To give you a little bit more insight on the sensitivities of our solvency ratio, I ask you to turn to Slide 22. Here you can see that the sensitivities to capital market movements remain low. And as you can see here, the biggest sensitivity remains to spread risk; and specifically to the covered bonds, which remains by far our biggest asset classes. In general, the slide provides you more details on the individual components which overall remains broadly unchanged, so in summary there is no real news in this area for the particular quarter.

I'd now like to hand over to Morten to give an update on the financial outlook.

Morten Hübbe, CEO

Thank you, Barbara.

And on Slide 23 we show our financial targets for 2020, which are of course unchanged. We target a technical result of DKK 3.3 billion, including Alka; an expense ratio of around 14%; a combined ratio at or below 86%; and an ROE, post tax, at or above 21%.

And then of course, we finish on Slide 24 with our favourite quote by Rockefeller on dividends.

And I think, with that, we are ready to take your questions.

Questions and answers

Asbjørn Mørk, Danske Bank

A couple of questions from my side. First, a nitty-gritty one perhaps, looking at the premium side, the rebates again this quarter quite high, [146]; and quite high in Q1 as well. So basically, right now for the first half of the year, you've had rebates of almost DKK 140 million more than in the first half of last year, so my question is really is it the same explanation as it was in Q1. And should we expect this to sort of normalize in Q3 and Q4? Hence should we expect some tailwind on the premium side for the next couple of quarters?

Morten Hübbe, CEO

Asbjørn, the new structure in this is that, of course, with Alka comes Alka life. Alka life is de facto a business which is an old collective business where the earnings or margins of that business is shared with the unions, so there's actually no net profits in that business for us. And therefore, we also price the value of that as -- at 0 when we purchased it. And the life business comes on top of the premium we've been sort of talking about all the time, but the margin shared with the union on the life business is booked under this post in the P&L. And that's why you see the increase. So yes, this is a structural recurring phenomenon as a result of Alka life.

Asbjørn Mørk, Danske Bank

All right, fair enough. Then turning to your growth, Morten, as you also alluded to on one of the slides. I mean you're growing significantly within the Private segment. And it seems as if in Norway especially that the growth is basically moving from the Corporate to the Commercial segment and, I guess, for the Corporate segment in itself also significantly transfer of premium from Norway to Denmark. So I mean, if I add all these up, it seems like your growth is materially moving towards more profitable areas. Should we expect this to give you substantial underwriting tailwinds for 2020 and onwards?

Morten Hübbe, CEO

Well, Asbjørn, I think it's an important, correct observation that we are reducing our Corporate exposure significantly, even more than you can see in the reported numbers because, of course, the reported numbers increase -- include the significant price increases of 11% or slightly more than that in Corporate Norway. So the net risk exposure is reduced more than you can see in the reported numbers, where at the retail segments in Private and Commercial SME grows well. And I think the trend you're pointing to is very correct. It's correct for Private Denmark, Private Norway and Commercial SME Denmark. I would argue that Commercial Norway is somewhere in between the 2 categories. We mentioned in the report that actually price increases also for Commercial Norway is higher than usual. And we actually need to see that continue because we're not completely satisfied with the combined ratios in Commercial Norway, but a general swing towards more and more emphasis on retail, which is growing more, which is more profitable and which is less CapEx requiring, is clearly positive for the longer-term journey both in terms of profits and in terms of capital requirement and our ability to pay out higher dividends.

Asbjørn Mørk, Danske Bank

But if I then just follow up on that, if I look at your Norwegian business. Excluding runoffs, your combined ratio is up 1.8% year-over-year. Shouldn't we start to see this improve? I mean I think -- I know, of course, large claims, weather claims can move materially on a quarterly basis, but it seems like it's not really moving at the moment even though all the fundamentals, I guess, should pinpoint to an improvement.

Morten Hübbe, CEO

No, I think you're pointing to a correct observation. First of all, I think that the Corporate Norway price increase journey needs to continue further. The price increases we're doing in Commercial Norway is actually of a more recent nature, so we need to see that continue, but you're right. The combined ratio in Norway excluding runoffs is roughly 1.6 percentage point worse.

If you look at large claims from Norway in isolation, for the quarter, it's 2.4% higher year-on-year. Then there's a little bit of help from weather claims which is a little bit better year-on-year, but all in all that is the biggest reason why combined ratio, as you observed, excluding runoffs actually is slightly higher.

Asbjørn Mørk, Danske Bank

Okay, so the underlying would be -- if you had given us the number, would have been slightly better year-over-year...

Morten Hübbe, CEO

Yes, it would, but it doesn't take away the fact that the improvement in Corporate Norway and Commercial Norway needs to continue. And it's not yet where it should be.

Asbjørn Mørk, Danske Bank

Okay. Then if I turn to Sweden: I mean it seems like the headwinds in Q2 are SME claims, motor insurance and the like. It's been quite a lot of quarters where the underwriting has been, I guess, below the average of the group, to say the least. How do you look at the strategic, you can say, positioning in Sweden? Do you need to grow, buy something? Or do you need to exit the business? Or does it have a size right now where you think this is just the way it should be going forward?

Morten Hübbe, CEO

It's a tricky question, Asbjørn.

I think that clearly our size of the portfolio in Sweden is subscale. And clearly, in a longer-term view that does not make sense, so in a longer-term view that needs to change. On the other hand, it's obvious quite clearly that trying to grow that significantly organically, we don't think, will create value for our shareholders, so that's not going to happen. I think, if you take most of -- take the last 3, 4 years, the Private lines in Sweden has significantly higher ROE than our Corporate lines in the group, to take an example. So because it is mainly Private lines, the ROE is actually quite high. It is somewhat negatively impacted by the fact that MTPL in Sweden has a very high capital requirement, but it doesn't change the fact that actually, despite being subscale, the ROE over time in Private lines Sweden is actually effective for the group. But having said that, the most recent quarters, the claims inflation in motor is too high. And we are in the process of carrying out higher price increases for motor Sweden to make sure that we capture that problem. And then of course, more structurally the real problem in Sweden besides scale is that Corporate Sweden is not profitable at all. And that's part of the Nordic approach of making sure that we enhance the value creation for Corporate, including accepting a lower total top line for Corporate. So that is the main issue for Sweden. So yes, structurally subscale, but if we can drive a higher ROE than other parts of the group in Private Sweden, we can live with the fact that we're subscale.

Asbjørn Mørk, Danske Bank

Okay. And then just a final question from my side, on the guidance on 2020. I know that probably you're not going to change your guidance on a Q2 report, anyway, but you make DKK 1.6 billion of technical profits in the first half of this year. I guess normally you would say that half of the year should give you half of the technical profits, with taking winter, et cetera into consideration. I guess weather and large claims are close to normalized in the first half, so I guess that should bring you to DKK 3.2 billion annualized with the growth that you're seeing in the business and then, going to Slide 8, with the -- all the improvement measures that you still have. And I guess it looks very, very low, the DKK 3.3 billion guidance for 2020. Or am I misreading the Slide 8? Or is it just the fact that a Q2 is not the right timing to look at the outlook for 2020?

Morten Hübbe, CEO

So you're trying to take the first 6 months of this year and say how does that look in terms of calculating a full year 2020 on the back of that. That -- so that's your general logic.

Asbjørn Mørk, Danske Bank

Well, the point is just take the DKK 1.6 billion. I double it for full year. So that's DKK 3.2 billion. Then it seems on your Slide 8 that there's still a lot of improvement potential, from the Capital Markets Day 2017, that you will get in the next 6 quarters, so my point is just really it looks like you're on your way to deliver much more than -- or not much more but well above the DKK 3.3 billion in technical profits in 2020. But maybe I'm misunderstanding your Slide 8.

Morten Hübbe, CEO

Well, I think what we should say is that clearly the fact that the most profitable business area, Private lines, grows more than anticipated is clearly a helping factor. There's no doubt on that. And at the same time, it's clear that rebalancing the portfolio will see how much Corporate business do we lose, how much costs contribution do we lose. If you take that driver together with the investments in IT, making sure that cost is not a negative driver, it's very, very important. And then bear in mind that runoffs are still higher than we anticipate that they should be longer term. That could start to trend down somewhat. Whether that's a 2020 trending down or 2021 trending down, I don't think we should be that precise, but clearly we have given you the guidance that runoffs will start to normalize at a slightly lower level, so that will be a negative. And then of course, we do see that we've had -- if you take the total weather claims, guidance for the full year is 300 million -- for the half year is DKK 300 million, and of course we are significantly lower than that. So I think I wouldn't be, of course, making a quite simple assumption and calculating from there. I think you're right that there are positive drivers supporting the development, but I think we cannot just assume that weather claims remain benign. We cannot just assume that runoffs remain at this level. And we cannot just assume that we don't meet new negatives, but of course we're confident that we will reach the DKK 3.3 billion. But meeting the DKK 3.3 billion is also a significant improvement from where we started. And I think, if you interview the employees of Tryg and ask them doesn't that look too easy, I think they will disagree with you, but we are, of course, pleased that it looks promising.

Asbjørn Mørk, Danske Bank

But I guess your large claims have been slightly above in the normal run rate for the first half, but it's okay. I get your...

Morten Hübbe, CEO

Well, you're right. There's a little bit of an offsetting there. You're right.

Asbjørn Mørk, Danske Bank

But then no worries. It's okay.

Kevin Ryan, Bloomberg Intelligence

I've got 3 related questions. The first is could you let us know the percentage of claims currently on a -- done on a self-service basis. And related to that, could you let us know the percentage of claims now on the new claims-handling system and what the outlook for increasing that is going forward? And finally, has all the investment been made in the systems -- for this new claim system, or is there a bit more investment needed in the short term?

Morten Hübbe, CEO

Well, generally it's fair to say that there's a difference between Denmark and Norway in the sense that the self-service component or the straight-through part of claims is increasing significant in both countries. In Denmark we are now above 20% in full STP. In Norway we're now above 30% in full STP, and both are increasing quite rapidly. There is a trade-off because some of the STP is run through robotics, which is an -- if you will, a technology where you repeat a stupid process very frequently and very rapidly. And some of it is developed in Guidewire, which is our new solution where you develop the right process. And on Guidewire we only now have a few products, for instance, travel insurance, with a high frequency, which works well and gives the intelligent straight-through processing and -- but actually in -- the majority of all of the other products are in the process of being implemented on Guidewire. So you can argue that all of the more structural technical investments in Guidewire have been done. The implementations of the first products have been done, but the bulk of the majority of the products is still ahead of us. So a quite significant part of that is still ahead of us. And then of course, we make a distinction between what should be CapEx and what should be OpEx on that. And of course, what has a more longer-term value is handled as CapEx from that project.

Jakob Brink, Nordea

And I guess the first one is maybe slightly coming back to Asbjørn's questions in the beginning on the underlying claims rate, as now in this quarter, if I calculate correctly, you actually had around 10 basis points support to the underlying claims ratio on the group level from claims synergies in Alka, i.e., out of the 50 basis points improvement. So that 10 basis point is obviously going to increase as the synergies improve. So now for many quarters, we have had to -- or we have had roughly 50 basis points improvement in the underlying group claims ratio. Should we then start to expect to see that going up, or should we actually start to expect that the old Tryg is not seeing any more improvements? And I guess that's my first question.

Morten Hübbe, CEO

Well, I think it's important to say, Jakob, that we should distinguish between the Alka drivers in a big category which are the Alka synergies which will be reported as part of the Alka process; and then the Tryg classic improvements where, for instance, we described in this quarter that Alka's fraud methodology is helping Tryg's fraud capturing. But if you look at the recent quarters, we've actually talked about the fact that in a general claims program which is successful in Tryg pre Alka fraud is one of the areas where we've actually struggled. You may recall that we said that we were implementing a system called FRISS, which is a data-driven fraud detection system but which we actually chose to turn down as a project because it wasn't successful. So in some sense, on the Tryg classic we were using manual personal lines fraud and Alka-inspired fraud detection to offset a gap, if you will, in the claims program. And I think that you will see us report underlying and you'll see us report actual Alka synergies in 2 different categories. And you can see now by the Alka synergies that actually cost is the biggest driver and we're still really at the beginning of the claims drivers. If you're asking us to give you a new guidance for how underlying should develop as the Alka synergies on claims starts to flow in, that's not a guidance we have given. So I would hesitate to give you an imprecise numbers on that, but you can monitor the claims component of the Alka synergies in isolation, and then that will start to impact the total claims development.

Jakob Brink, Nordea

I guess that was actually my question on that. So when you start to get these from what you started out seeing, there's no reason to believe that the underlying old Tryg improvements should not be coming through, and then you're adding the synergies on top. So the 50 basis points [would become used to basically graduals increase].

Morten Hübbe, CEO

You are right that the synergies on claims on Alka, all other things equal, will improve or further improve the claims, underlying claims, trend for total Tryg. And of course, that will be more visible in Private Denmark than the group given that Alka is, of course, situated in Private Denmark; and doesn't really help the underlying claims of Commercial or Private Norway, et cetera. So Private Denmark will have the biggest impact, but the whole group will, of course, also have an impact. And that's correct.

Jakob Brink, Nordea

Okay. Then on top line: So you're riding, is it, 19.7% organic -- or local currency growth including Alka and 5.9% excluding. So trying to backtrack and then Alka must have been around DKK 630 million premiums, up from DKK 583 million in Q1. Is that -- I don't know the seasonality of Alka's premiums, but I would have thought they were pretty evenly split and it's not mainly Private business. So is growth in Alka really that high, or is something else going on?

Morten Hübbe, CEO

No, I think that's an important question. And perhaps we should give you a little bit more color on that in the coming quarters of reporting because, bear in mind, that Alka consists predominantly of a Private lines business. Then there is a very small Commercial lines business, and then there is a life business. The life business, we have not really talked about because it's a zero-sum game where the profits flow back to the unions. It's also not something we pay for, but actually when you see this total premium for the quarter when you backtrack, that is the sum of the Private lines, the small Commercial lines and then this life premium. So perhaps we should make sure in the coming quarters we'll give you a little bit more information on what is the size of the life premium because otherwise the backtracking becomes complicated. But that's the main reason, Jakob, why the growth seems unusually high. Actually, Alka is growing well. I think the year-to-date portfolio is up 50 million roughly, which is a fine growth but not a dramatic growth. I think in the underlying Alka business growth was slow in '18 and very positive in '19. In '19, we see that underlying sales is up 16% year-on-year. And we also see that we've just done a new agreement with 55,000 members of the [Union Holdco] in Denmark for wage insurance. So that will help the growth in Alka in the remainder of the year, but the life premium is what makes your backtracking look strange.

Jakob Brink, CEO

So basically, you're saying that the life booking differs a lot between Q1 and Q2.

Morten Hübbe, CEO

No. I think you're using -- if I hear you correctly, you're assuming 500 million on a quarterly basis in Alka. And then you're taking the second quarter, backtracking and saying why is the difference a lot bigger than 500 million. And that difference is mainly because of life. It's not that life has a strange seasonality, but it's just that life is part of the total and not part of the 500 million. So that's the distinction, but let's make sure we give you that, those numbers in the next quarter.

Jakob Brink, CEO

Okay. Then just a small -- a few things: The other income and costs was DKK 57 million negative this quarter, which seems to be some DKK 10 million above what I thought was a normal level. Is the DKK 57 million a new level, or is it still around DKK 50 million?

Barbara Plucnar Jensen, CFO

Sorry. Which line was that, Jakob?

Jakob Brink, Nordea

The other income and costs just above pretax profit, minus DKK 57 million...

Barbara Plucnar Jensen, CFO

That's just -- yes. That stems from the depreciations of the Alka acquisitions in current quarter.

Jakob Brink, Nordea

Yes, just what we used to say, that it was around 45 to 50, but okay.

Morten Hübbe, CEO

It's correct. That depreciation will be recurring, so the other is slightly higher. That's correct.

Jakob Brink, Nordea

Then final question, on the now interest rates are down in the quarter, which supported Q2 investment income. Do you have any rough sort of guidance on what this is -- that this should mean for investment income going forward? Are you pretty much lower, I guess, at some point?

Barbara Plucnar Jensen, CFO

The investment income is probably one of the areas that is most difficult to predict because it stems from the volatility in the marketplace. If you just look at the current quarter, it started out being very negative with the components of the trade war and then recovered in the second part of the quarter. So I think the guidance for the full year is probably one of the more difficult ones to give you.

Morten Hübbe, CEO
And then the -- Jakob, the current trend of interest rates between the countries is quite different.

Jakob Brink – Nordea
That's correct.

Morten Hübbe, CEO

So you see reductions in Denmark and you see increases in Sweden and Norway on interest rates, so which doesn't make the whole equation any easier, but it helps us in the sense that there's an offsetting trend between the 3 countries.

Jonny Urwin, UBS
Just one for me. So just thinking about the customer bonus model. So I guess the way we think about your, well, sort of last year of underwriting performance has -- obviously it's been very good. You've been in a sort of sweet spot where you've been growing quite strongly. Retentions have been improving and underlying loss ratios have got better. Now just thinking about the retention improvement, I mean, how much of that is due to the awareness increasing around the customer bonus model for your existing customers? Obviously when -- you've given us the stat. So we've gone from 68% awareness 1 year ago to 81% in the second quarter of 2019. So I guess what I'm going at is has the sustained improvement in retention been driven by that? And should we expect that to level off, or is there more to come?

Barbara Plucnar Jensen, CFO
I think it is one of the factors regarding the retention, but I think you should also look at the expansion of products that we now sell to each of the customers, which is increasing at the moment; and also the new products that we are launching to the customers. So I

think in that sense we see that the relationship and the customer retention is definitely supported by the continued growth of interactions we have, but the bonus is supporting it. That's for sure.

Morten Hübbe, CEO

There's no doubt that, when we mentioned monitor the 81% awareness amongst existing customers, that is directly after having paid out the bonus. Then during the autumn, that number will decline again. And then we'll further push it upwards next year. There's no doubt, as Barbara mentioned, that all of our statistics show that, the more products the customer have, the higher their retention, so pushing up the products improves it, but also the fact that now, whether you're on claims or whether you're on sales or service, we now know the TNPS, so the customer satisfaction upon the contact of each individual employee. When we started that project, we could see that there was a huge performance difference between the employees. Now for instance, if you're in customer service or sales, you cannot get any sales bonus if your customer satisfaction on an individual basis is not high enough. So clearly that has driven a strong catalog of customer services improvement initiatives, and our customer satisfaction in each of the contacts has never been higher than today. That is also a clear driver of retention. And now the tricky point is to make sure that the extremely high satisfaction scores we get in the telephone is transferred to equally higher satisfaction on the online experience which is becoming more and more important. So, I think both on the products and on the customer contacts those are equally important drivers as the bonus. We can work harder with those. And clearly the bonus has more potential, so I think we haven't run out of optionality to work with this at all. And I think, if you look at the number of products per customers, clearly Private lines Denmark has been the main driver. And exporting that more to Private Norway and to Commercial SME Denmark, Norway should further be an opportunity to improve both top line, bottom line but also retention rates. So, we don't see that we're running out of areas to improve this anytime soon.

Jonny Urwin, UBS

Very good. And then just one very quick one I suspect you won't answer but just thinking about special dividend potential capacity, appetite. I mean, are you a bit more comfortable at 171% solvency ratio than 165%?

Barbara Plucnar Jensen, CFO

You started by the conclusion, we typically don't guide on the special dividends. And we'll revert on that later in the year.

Mads Thinggaard, ABG

This is Mads from ABG. And I have one related to the premiums. Now it seems you are running around 6% year-over-year premium growth, exclusive of Alka, here in the first half. Could you tell us if there's any kind of reason to believe it would come down considerably in the second half of 2019?

Morten Hübbe, CEO

Well, Mads, you're of course pointing to an important area. And if you look at the first 6 months, growth is higher than we thought it would be when we started the year. And that's both because the sale of new products have been higher than we thought. Retention rates have improved more than we thought. We've also had these new collective agreements on Alka which we didn't anticipate. And generally, we've seen, for instance, in Commercial Norway an acceptance of higher prices. So there's been a lot of tailwind. When we look at the second half, there's really no clear indication why that should be significantly worse, but there are the same risk parameters in the growth as we've seen in the first half, so one being how are the Corporate customers reacting to the price increases. And if you look at Corporate Norway, we've seen a significant reduction in customers leaving. On the other hand, it has been largely offset by the price increases and a positive development in Denmark. That could deteriorate in the second half. We are pushing the envelope harder on price increases on SME Norway. That could deteriorate, SME Norway, more in the second half. And then it's always very hard to predict the precise development in retention rates during the second half, but there's no doubt that the top line development looks good. But there's also no doubt that the rebalancing that Asbjørn asked earlier is quite important because for us we would like to be more and more retail-driven company, which means that we would be willing to let group top line suffer somewhat by getting less Corporate exposure and getting more retail exposure. And that could impact the second half, but you're right. The total growth is looking attractive.

Mads Thinggaard, ABG

Okay. Great. And then I just heard you spoke about runoff gains before and gradually coming down, and I just wondered the kind of the 150 basis point drop you have year-over-year here in Q2. Should that be seen together with lower large and weather claims? Or how should one think of that? Or are we moving to the 3% to 5% quite fast now?

Morten Hübbe, CEO

I, we don't expect any fast, uncertain movements on runoffs. We just expect a long-term trend, but we don't expect any fast and sudden movements, so you shouldn't read the reduction in second quarter that now all of a sudden there's a lot of reduction in the coming quarters. That's not what you should expect. It's, of course, positive that in some quarters runoffs have been higher and large claims have been higher, but of course, those are separate P&L components. But I think your expectation should be that for future quarters there's really nothing changed. You shouldn't expect any major, new methodology or rhythm. And then you should expect still this longer-term trend of getting a slightly lower runoff to normalize longer term but no sudden movements.

Mads Thinggaard, ABG

Okay. Understood. And finally, on -- I mean, on the Danske distribution deal. I saw you were advertising here together with Danske. I don't know if you have any comments on that, any early indications or claims, et cetera you would like to comment on.

Morten Hübbe, CEO

Well, I guess we can say that the cooperation really started 1st of July, so -- and it's now the 10th of July, so it's fair to say that it's very early days. And -- but I think we've had a very positive start. And I think that -- both when it comes to ensuring the staff of Danske and setting up the first customer meetings both in Private lines. And as you know, for us it's new that we have a Commercial SME cooperation with a bank. We haven't had that before. And we're already now starting to see the first Commercial SME meetings set up with customers of Danske. So I think very, very early days but a promising start.

Jonathan Denham, Morgan Stanley
Just coming back to Jonny's question. How much more headroom is there for the customer bonus to increase your retention further? Should we think of the benefit from the bonus more to come from increased awareness from noncustomers, i.e., to a new business? Or is it maybe people being aware of the bonus for longer throughout the year, so less of a dropoff in 3Q, so increased retention further? And then just secondly, outside of Swedish motor, whereabouts are you seeing pockets of claims inflation? And where are you unable to go through?

Morten Hübbe, CEO

Well, I think, first of all, on the bonus model, having reached slightly more than 80% awareness, there's good likelihood that, that drops to 70% when we get further away from the actual paying out of the bonus. As you may recall, Gjensidige have reported some more stable numbers around 90%. So as that -- we still think there's potential to get from there. Our experience is that the Commercial and Corporate customers are all aware, but there is still a too high proportion of the Private individuals who are not aware, and that's why we try to mention it in all of our customer contacts to increase the awareness further. I still think it will take a couple of years before the awareness for Private customers is as high as we want it to be, but I think you're making the right point that, when only 25% of the noncustomers are aware, we have a significant argument towards new customers which we haven't utilized fully at all. And then I think it's quite important: If you look at the retention rate development for our Norwegian business, that is increasing well also without a bonus, so in our view we should drive the bonus hard to further enhance retention rate but also to attract new customers. And then we should make sure that all the drivers, more products, better servicing, better claims handling, better digital solutions, should elevate retention rate regardless of the bonus model because clearly one of the best ways of driving value in an insurance company is enhancing retention rates because then you have to sell a lot less and you have a much stronger relationship with the customers. So there is more headroom and there is a high focus but not only on the bonus. I think generally on inflation we talk about Norwegian most over a couple of quarters. I think we're handling it well, but of course, it's still high on the observation list. Swedish motor is slightly more recent on the list. We are focusing on that. We are seeing that salary inflation of craftsmen, particularly in Denmark, is high. It's not unusual for a carpenter to get a 6%, 7% salary increase at the moment. And there's actually a shortage of skilled labor, which clearly for the house and property repairs is a bit challenged. So we're working very hard to make sure that our procurement programs offset that and handles that in a strong way, but that is clearly a headwind and it's clearly a challenge. Then there are areas in property in Corporate and Commercial where we think the frequency of large claims is slightly larger than we like, so we're working quite hard to make sure that we both capture that through better prevention and better reselection but also capture that through higher pricing. But it's also it's always a little bit more tricky to predict because there's a lot more stochastics. And it's a lot less easy to get a full view of what is recurring and what is stochastic, but that's also a pocket of concern currently.

Phil Ross, MedioBanca

Just a single question on the expense ratio, please, 14.2% in this quarter, which is kind of broadly in line with guidance. I guess we could characterize it as being maybe top end of guidance if that's -- expense ratio will continue to stay around these sort of levels or perhaps, as you printed, as you spend money on efficiency improvements in the first part of that. And you also have higher employee numbers from insourcing the IT and claims people, et al.

Barbara Plucnar Jensen, CFO

I think it's fair to say that we see areas where we need to invest in. We talked about the IT side of things and also the insourcing of certain competencies, but in general you can say the efficiencies that we work with throughout the business, in particular as we've been discussing a few times on the claims handling and so forth, should counterweigh that. So overall, this is a clear focus area that we monitor and we control in order to stay at the levels that we experience at the moment.

Morten Hübbe, CEO

I think it's fair to say that most financial institutions at the moment are increasing their costs as a result of IT. And there's no doubt that, if we reported in isolation how much more money do we spend on IT, that is just going through the roof. So the tricky question is really can we make the rest of the company efficient enough, fast enough to finance the IT that is increasing significantly and stay around the 14%. That is clearly our target, but there's huge moving parts underneath that keeping the roughly 14% as stable as possible.

Sami Taipalus, Goldman Sachs
Just first, I wanted to pick up on interest rates and the impact on your P&L from earlier. And I appreciate obviously I wouldn't ask you to predict mark-to-market movements and what's going to happen in the second half or anything, but if we look at the run rate for 2020 maybe and onwards, how do movements in -- can you just talk us through how movements in risk-free rates and, I guess, [growth rates] as well which are relevant for you affect the combined ratio and the investment income separately, I think, given that the discounting you're applying to your [probabilities] is a bit different than for other companies? So that's my first question.

Morten Hübbe, CEO

Well, let's take the discounting first. Really the rule of thumb on discounting is actually fairly simple. I think that the -- if you take 100 basis points, say interest rates change 100 basis points, there's roughly a one-to-one correlation with the opposing impact on the combined ratio. So say 100 -- say interest rates move up 100 basis points, then combined ratio reduces 1 percentage point, and vice versa. So if interest rates continue to decrease in Denmark, there's almost a one-to-one offset. So 1 percentage point lower interest rate in Denmark, if that is at all possible, would mean 1 percentage point higher combined ratio in Denmark, and vice versa. We've also had questions on whether interest rate reductions in Denmark would mean that we would change our guidance for earnings and reduce that guidance. Our view is that we're not in the business of changing guidance all the time. So if interest rates reduce further, we have to work harder to deliver the same combined ratio. And similarly, if interest rates over the next 3, 4, 5 years starts to normalize slightly, that will give help to the combined ratio, but the link is 100 basis point on interest rates changes combined ratio roughly 1 percentage point...

Sami Taipalus, Goldman Sachs
And just to clarify: Is that in Denmark only, or is that at a group level?

Morten Hübbe, CEO
That's on a group level. And the reason why I mentioned Denmark only is that the current -- the most recent quarter, for instance, shows interest rate reductions in Denmark, interest rate increases in Norway and Sweden. So the current trend is different between the countries.

Sami Taipalus, Goldman Sachs
Got it, got it, okay. And -- but I guess there's also recurring -- and sorry. When you talk about 1 percentage points, that's not just the current year you're talking about. That's also including revaluation of, I guess, the reserves, let's say, the prior year claims liabilities.

Morten Hübbe, CEO
I guess you see 2 drivers. You see that's where the matching comes in play.

Sami Taipalus, Goldman Sachs
Yes, yes, okay...

Morten Hübbe, CEO

Say interest rates move up 100 basis points. Then you get a one-off hit on the mark to market on the bonds, and then you get a one-off positive on the reserving of the balance sheet. So the back book, if you will. So that's a one-off hit where the two offset each other. And then you have the ongoing run rate where you have the link I mentioned before.

Sami Taipalus, Goldman Sachs

Got it, got it. And then in terms of if I then move on to the investment income. So the -- I guess I'm talking about the run rate here for 2020. The -- obviously you're, we're talking about the free portfolio here. There must be some impact there from, I guess, risk-free rates; and a secondary effect as well like potential reductions in corporate bond spreads. Is it possible to say anything about the -- as far as those?

Barbara Plucnar Jensen, CFO

I will say not on the guidance. What we are doing is obviously we have a policy around our investments in the free portfolio. And we can adjust those if we see things are trending significantly in a direction or other. So it's obviously something that we monitor. We will -- obviously when you see big market movements like, for instance, in Q4 last year, you will see an impact on the free portfolio, but it is something where we have the ability to adjust the asset allocation to even less risk than we have at current.

Morten Hübbe, CEO

I guess you can monitor the duration of the bonds we have and you can monitor the market rates. And as we have mark to market, there's really no adjustments to be had by amortized or -- costs or hold to maturity. So you can monitor the market rates as well as we can on the investment side.

Sami Taipalus, Goldman Sachs

Yes, yes, but what you're saying is the market rates, the reinvestment rates should flow through pretty directly into the...

Morten Hübbe, CEO

The -- for us there's really no reinvestment logic because everything is mark to market. So you can see they flow through completely directly, but it also means that, compared to some peers, we still have older bonds giving higher yields than current yields. We don't have that driver at all. We are already now at the low current yields.

Sami Taipalus, Goldman Sachs

This is the -- exactly the point I was trying to make, actually. So when we look at next year, we should think about it as the current yield we're seeing in the market rather than the gradual decline.

Barbara Plucnar Jensen, CFO

[Okay, correct].

Morten Hübbe, CEO

[You're right].

Sami Taipalus, Goldman Sachs

Yes, yes. Okay. Great. Then shifting track slightly. You talked earlier about the difference in capital intensity between Corporate and Private -- or Commercial, as opposed Corporate and Private. Could you just -- is it possible to just quantify that, give some form of steer about what sort of savings there are available in terms of capital intensity by shifting business mix?

Morten Hübbe, CEO

Well, I don't think we've ever published the splits...

Sami Taipalus, Goldman Sachs

Which is why I'm asking.

Morten Hübbe, CEO

But you can argue that on several Corporate products, the capital requirement is 100% of premium. So if you take a product like workers' comp in Corporate, the capital requirement is more than 100% of premium, whereas in a lot of Private lines products you're looking at sort of 30%, 40% of premium. So there's a dramatic difference between the two. Of course, workers' comp is an extreme product. And there are more short-tail products in Corporate with a lot lower capital requirement, but it's also in Corporate where you have the big swings on liability. And you have the big swings on the large claims on property, which of course also drives higher capital requirement for those lines. So it's fair to say that the capital requirement for Corporate in a number of products is double that of Private lines.

Sami Taipalus, Goldman Sachs

Yes, yes, yes. I guess then we have to potentially take into account things like diversification, et cetera, but it sounds from what you're saying that we're talking potentially about tens of percentage points of premiums at the portfolio level difference between the claims lines.

Morten Hübbe, CEO

Are you trying to calculate the ROE? Or what number are you trying to calculate?

Sami Taipalus, Goldman Sachs

No. I'm just trying to understand how the capital intensity of the business goes down if you shift the business mix.

Morten Hübbe, CEO

You're right. You're right but it depends a lot on which line. It also depends on which line we'll take in Private line, but I think it's not all wrong to think that the capital intensity of Private lines is roughly half the capital intensity of Corporate lines. And that gives you -- so at least it's some guidance on the difference but bear in mind it is a line-by-line requirement, not a "business area by business area" requirement. But roughly half is not all that wrong.

Sami Taipalus, Goldman Sachs

Yes, yes, okay. And then just this is the final thing. I promise. On the -- just on the same topic, I think you've been talking for a while about wanting to shift more towards Private, but you sound a little bit more determined perhaps now than you've done in the past. Are there some structural adjustments that could be made there as well in terms of, I guess, downsizing the Corporate business and making some expense savings or anything like that of -- that can result -- or impact maybe?

Morten Hübbe, CEO

I guess reducing business is not all that difficult. You just cancel the policies. I think the tricky part is, of course, to have a meaningful alternative. And that's where, of course, all of our work on new products covering the scope of each of the Private individuals is something that strengthens the retail book. We want to push that from Private Denmark to Private Norway, Private Sweden. We want to further push it to Commercial SME, there's more customers in Denmark, Norway, so that we not only shrink the Corporate leg but we actually strengthen the retail leg. And of course, we would like to do both because, of course, Corporate also carries a lot of weight on costs support, staff functions, IT development, et cetera, et cetera. So it's a matter of working with both legs. And there, of course, we're pleased to see that our ability to strengthen the Private business is improving, as we see also in this quarter.

Sami Taipalus, Goldman Sachs
Yes. Sorry. My question was actually slightly the other way around. So are you adjusting your operational footprint to reflect the reduction in volume in Corporate? And...

Morten Hübbe, CEO
We are working hard to make sure that the cost ratio stays stable in Corporate so that, when we reduce exposure in Corporate Norway, for instance, we also reduce the costs. Well, that's correct.

Sami Taipalus, Goldman Sachs
Okay. So it's more than just a tactical shift...

Morten Hübbe, CEO
It is more than just a tactical shift, correct.

Steven Haywood, HSBC
Just one question from me. And obviously we've had a new government come into Denmark, and they were talking about increasing taxes and also particularly for the financial companies, so I wonder if there's been any news or update or policies that may be implicating Tryg in the future here.

Morten Hübbe, CEO
Steven, I think the short answer is no. And we've not heard anything. Typically, we hear about these things in advance, but we haven't heard anything. It doesn't mean that you

can rule it out, but if you look at what has happened historically when, for instance, the taxation of salaries in the financial sector were increased, then -- that taxation was passed on to customers through pricing. And so if the taxation were to increase, I think there's a general trend for the industry in the region to pass that on through pricing, but we haven't heard any sort of upcoming initiatives.

Per Grønborg, SEB

It's Per from SEB. One question from my side. Your top line we discussed after Q1 was 6%, where they were sustainable. You continued to run at 6%, excluding Alka, for the second quarter. Maybe first, after Q1, what are the impact from the bolt-on acquisitions you have done which you don't adjust for in that number, I assume? Any comment on that after this quarter? I'm thinking about FDM. I assume Troll was full in the numbers for Q2 last year.

Barbara Plucnar Jensen, CFO

You are correct. What we see on the -- on those portfolios is that they are part of the focus for the Commercial teams to grow, so work with the portfolios that we've taken over but also increase sales through the customers that we get onboard in those parts of the business.

Morten Hübbe, CEO

So there's really no year-on-year nonorganic in that. They were in the numbers a year ago, but of course, as Barbara points out, they are new customer groups where we have a better organic opportunity than if they were not there. So they do help the 6% but only in a "better access to new leads" organic kind of way. That's -- okay.

Peter Brondt, IR Manager

Thank you, everyone, for listening in.

We will be in London tomorrow, and then we will have roadshows after the summer. You can find them in the webcast presentation.

And thank you all for your attention and have a great summer.