Tryg – Q3 2019 results

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Transcript

Presentation

Gianandrea Roberti, Head of IR

Good morning, everybody. This is Gianandrea Roberti, I'm Head of Investor Relations at Tryg. We published our Q3 results earlier on this morning.

And I have with me Morten Hübbe, group CEO, and Barbara Plucnar Jensen, group CFO, to present the figures. Over to you, Morten.

Morten Hübbe, CEO

Thank you, Gian, and good morning to all of you. And we start off on Slide 3 with the financial highlights of the quarter.

We report a Q3 pretax result of DKK 779 million, slightly lower than last year's DKK 825 million, positively impacted by the core business, where the technical result of DKK 870 million is up 14.3% compared to the same quarter last year, and negatively impacted by the capital market movements resulting in an overall investment loss for the quarter. Quarterly dividend of DKK 1.7 per share is announced and a solvency ratio of 169.

Delivered technical result of DKK 870 million is driven by a stable combined ratio of 84.4%. This includes large weather claims weighing for 3.3% compared to 6.8% last year. While on the other hand, the runoff gains were lower at 5% compared to 8.7% in the same quarter last year.

More importantly, the underlying claims ratio continues to improve at 70 basis points for Private and 60 basis points for the group, while the expense ratio was flat at 13.9% for the quarter despite very significant investments in IT development. We continue to expect the full year underlying claims ratio which would be better than last year's underlying.

The investment result of minus DKK 29 million is actually split in good returns on nearly all asset classes in free portfolio and a loss on the match portfolio after a quarter that saw a lot of volatility, particularly at the long end of the interest rate curve. And also, movement in other financial income and expenses are broadly in line with guidance, but perhaps we can elaborate on the moving parts in other.

If we look at Slide 4 on customer highlights, we're very satisfied to see that we continue to improve in that area. Customer targets might seem soft but there's a very strong link to customer loyalty and retention, and thereby, a very strong link to expense ratio and earnings. This quarter, we're particularly pleased to see a continued improvement in retention rates, not only in Denmark where we have the support of the bonus scheme but also in Norway.

Of course, we continue to see a good help from the bonus scheme in Denmark. You can see that particularly the noncustomer knowledge of the membership bonus scheme continues to improve. In Q3, it's up almost 40%. But bear in mind, still only 29% now of the noncustomers in Denmark realize that we have this bonus scheme, so there is further room for improvement.

On Slide 5, we elaborate on the composition of the technical results. Clearly, the overall technical result has improved due to the inclusion of Alka business but also the improved underlying claims ratio. The Private segment, of course, being the largest helped by the inclusion of Alka but also a strong continuous improvement in the underlying claims.

Bear in mind that it is in the Private segment that we see a very high growth in the quarter, as we've seen in previous quarters, but now helped more by Private Norway as well. And bear in mind, that this is our most profitable segment, which actually improves further the business mix for Tryg and, overall, improved profitability and return on capital longer term. Be aware that the total runoff on Private lines is approximately 5 percentage points lower than the same quarter last year.

In Corporate, we saw an underlying improvement, primarily based on price initiatives in Norway. But in our view, we still have to significantly improve profitability in all 3 countries for our Corporate business. We have started well with price increases of 14% in Corporate Norway this year. We need that to continue. And we need to include Corporate Denmark and Corporate Sweden in further improving particularly underwriting the profitability before runoffs.

In Private Sweden, we've initiated profitability initiatives to mitigate that multi-claims inflation that's slightly too high, but it does take some time to get the full impact of that.

On Slide 6, we elaborate on the synergies of Alka. Alka is doing extremely well. We see in the third quarter DKK 23 million of synergies from the Alka integration. And for the 3 quarters now, in total, we've reached DKK 66 million out of the DKK 75 million promised synergies for the full year. Roughly half of the synergies are related to cost. And as you may recall, this is in line with our expectations that these cost synergies would show up in the P&L first.

But the largest synergy driver remains the claims area, but it does require harmonization of processes and routines. You may recall that we started on capitalizing the agreements we have with motor repair shops in Tryg. That is moving along nicely. And now, we're moving on to the agreement that Tryg has with craftsmen, which will particularly improve property claims, and we will see that in the coming periods. We remain confident in our ability to achieve the 2021 synergy targets and, in general, are very satisfied with the process of the integration.

On Slide 7, on shareholders' remuneration. Our focus here remains extremely high. We are announcing a third quarter dividend per share of DKK 1.70 in line with the previous quarters this year and in line with having a policy of flat quarterly dividends throughout the year. Our business continues to produce very strong profitability. And of course, the overall low growth implies the limited increase in capital requirements.

And then you should bear in mind that we are quite deliberate in growing our Private lines. And as the new businesses as these are areas where we have the highest profitability, the lowest capital requirement, and overall, that change of mix also reducing corporate will produce an even stronger and more healthy business mix and stronger capital returns.

If we jump the Slide 9, we elaborate slightly on the split of growth. Organic growth, excluding Alka, was 6.8%, clearly higher than usual and carried by growth in all areas. We do prefer to grow in the Private segment where profitability is the highest, and we're quite satisfied that Private Nordic has a growth of 8.6%, excluding Alka.

Commercial was helped by Alka and had a growth, excluding Alka, of 4.8%, partly driven by improved retention rates, which we saw in the Private lines as well, a small net inflow of customers, but also, we're starting to see price initiatives in Commercial Norway to improve profitability. The last is a trend that we expect to continue in the coming periods as we further want to improve profitability in Commercial Norway.

Corporate showed a growth of 4.5%. There is, of course, a high impact from price hikes in Norway Corporate, where the price hikes so far this year has been 14%. As a result, we've also seen some reduction in the portfolio, that is to be expected and to be accepted.

In Denmark, of course, the renewal rates are higher, helped by the membership bonus. But we do see in the coming periods a necessity that we want to improve further pricing and profitability also in Corporate Denmark and Corporate Sweden. And we do expect some impact in the top line growth of the entire Corporate area in 2020 due to higher profitability initiatives in the coming period.

Sweden showed a relatively high growth driven primarily by pet insurance and accident insurance. We see, as mentioned, that motor insurance, the profitability is not quite where it should be, so we are pushing through initiatives that might reduce the Swedish growth going forward.

On Slide 10, we show the normal figures on price increases. And clearly, adjusting prices in accordance with inflation continues to be extremely important, and we have further tightened our close monitoring to see all developments at as early a stage as possible. Profitability initiatives are, of course, often price but also combined with a number of claims initiatives to further improve earnings in several areas.

The development, on Slide 11, on customer retention rates is very positive. Clearly, extremely important not only from a customer experience point of view but also from a quality and earnings point of view. And actually, customers' view of Tryg is best monitored through the retention rates.

So very pleased to see the positive development in Q3 compared to same period last year for all areas. Clearly, the market is helped by the bonus model and continues to improve, but also actually we see continued improvement in Norway without the bonus model.

And over to you, Barbara, on claims.

Barbara Plucnar Jensen, CFO

Thank you very much, Morten. Let's move to Slide 13 for more details on the development in our claims ratio.

In Q3, we saw a continuation of an improved underlying claims trend. The group's underlying claims ratio improved by 60 basis points, Private by 70%. Please note that all the quarterly figures for 2018 have been adjusted to include Alka.

Price adjustments in the claims excellence program, including claims synergies related to Alka, are the main drivers behind the improvement, but also the rebalancing, that Morten spoke about of the portfolio to its more Private business, supports the overall improvement for the group. Tryg expects the improvement in the underlying claims ratio to continue for the rest of 2019 and into 2020.

Please turn to slide 14 for the large claims and weather claims. When it comes to Q3, it was a very benign quarter in terms of large claims with only DKK 36 million compared to DKK 228 million in the third quarter of 2018.

The opposite was true for the weather claims, which were much higher in Q3 2019 compared to Q3 2018, which was mainly due to cloud bursts in Norway. The discounting impact in Q2 2019 was much lower than the same period prior year given the much lower interest rate level in Q3 2019 across all countries.

Morten Hübbe, CEO

And that is perhaps an area where everyone should be aware and look into the numbers, because the change for the course is quite steep.

Barbara Plucnar Jensen, CFO

Exactly. The runoff is much lower, with 5% of the combined ratio compared to 8.7% in the same quarter last year primarily due to a lower runoff in the Private business.

Please turn to slide 15. Here you can see the development in the expense ratio, where can see that for Q3 2019 it was stable at 13.9%, which is in line with our guidance of an expense ratio of approximately 14%. The underlying dynamic continues to be that that an improved efficiency should support our investments in digital solutions, which is important for us to maintain the momentum and be ready for the future.

Recently, we saw an increase in the number of FTEs, this was primarily reflecting continued insourcing of our claims handling related to the health insurance in Denmark and a continued expansion of the guarantee business in Germany. As a reminder, the jump in a number of employees from 17 to 18 is, of course, driven by the inclusion of Alka.

Please turn to Slide 17 for an update on our investment capital and targets. This slide should be well known. These are the split between the match portfolio of DKK 30 billion and the free portfolio of approximately DKK 11 billion. Asset allocation on the free portfolio is roughly unchanged apart from small adjustments in the fixed income portfolio. However, for the development in the 2 portfolios, we should look at Slide 18.

The third quarter of this year was, again, a very, very volatile glider where we saw a lot of impact from the movements in the financial markets. The overall investment result was a loss of DKK 29 million, split between a positive result on the free portfolio of DKK 97 million, a loss of DKK 69 million on the match portfolio and other financial income and expenses of DKK 57 million, in line with the broader expectations. The free portfolio produced good performance across all asset classes, while positive fixed income returns were the key driver this quarter due to the falling interest rates.

The match portfolio produced a loss which was primarily driven by the regulatory deviation, which turned negative in the quarter, that experienced a sharply increased volatility intra-quarter, especially if you look at mid-July to mid-August, where swap rates for 20-year maturities moved sharply for all the relevant currencies, so Danish kroner, Norwegian kroner and Swedish kroner. And just looking at the Danish 20-year, it was down 70 basis points, which is only the covered model scheme in the last part of the quarter.

On times of such big movements, the sensitivity of the interest rate risk or elongated liabilities may change more of the corresponding sensitivities of the assets and this proves the negative result in our latest quarter. When it comes it other financial income and expenses, this was in line with our expectations, and then roughly half of this amount is driven by interest expenses on our loans.

On Slide 19, you can see an overview of our solvency position. At the end of Q3, the solvency ratio was 169 compared to 171 at the end of the second quarter. Own funds were broadly flat as the net profit was offset by the dividend payment and by actuarial loss on pension obligations booked under OCI due to the falling interest rates in Norway.

The SCR was slightly up driven by increased market risk, again impacted by slightly increased duration in the corporate bonds portfolio and a small increase in the insurance risk driven by the favorable top line development.

Please turn to Slide 20. This is limited -- or a slide with limited amount of new information. I think the most important highlight on this slide is that, as we have talked about previously, we have currently more or less fully utilized our Tier 1 and Tier 2 capacity.

More importantly, on Slide 21, you will see the sensitivities to our solvency ratio. This is very similar to what you have seen in previous quarters. And again, the previous sensitivity is to the covered bond spread, which not surprise anyone, as covered bonds are our largest asset class by far in the total investment portfolio. Sensitivities to equities and interest rate movements are relatively low.

Please turn to Slide 22 for our targets and our outlook. We will continue this presentation by repeating our well-known financial targets for 2020. We repeat that that we remain confident that we can deliver a technical result of DKK 3.3 billion, a combined ratio at or below 86%, an expense ratio around 14%, and finally, an ROE at or above 21%.

Moving towards 2020, our Private and Commercial segments are likely to continue to show a good top line development, but good growth is likely to be negatively impacted by the profitability actions across the entire Corporate segment, which Morten also mentioned earlier in his presentation.

Morten Hübbe, CEO

For absolute detail, Barbara, that those initiatives will be stronger across all 3 countries than this year, where it was primarily Norway.

Barbara Plucnar Jensen, CFO

Yes. Exactly. In general, the lower level of interest rate is making our life harder as we discount the claims reserves with a much lower rate compared to just a few months ago.

Just to give you a few proof points of that. We were looking at 0.5% at the end of Q3 2019 versus 1.3% at the end of Q3 2018. This creates an important headwind to us, but we expect to be able to mitigate those by the additional work and profitability initiatives that we have in place. And therefore, our DKK 3.3 billion technical result for 2020 is firmly repeated.

With that, I think I can refer to our favorite quote from John D. Rockefeller and open up for our Q&A session.

Questions and answers

Asbjørn Mørk, Danske Bank

If I may refer to your favorite quote from Rockefeller, if I look at the solvency ratio for Q3, 169, of course slightly lower Q-over-Q. Now it's not so far until you need to look at extraordinary dividend potential for the full year. So, I was just wondering if you could give us any flavor on how do you look at the capacity to pay an extraordinary dividend at the year-end also considering that you've utilized your Tier 1 and Tier 2 capacity.

Morten Hübbe, CEO

As you know, we don't guide on extraordinary dividends. And I would be disappointed that we didn't get the question, but we still don't guide on extraordinary dividends. But clearly, on a serious note, we will, of course, take a careful look at our solvency position at year-end, and together with that, look at our internal forecast for the coming periods both of earnings and on capital consumption.

If we do accumulate too much equity, it does cause problems for our 21% post-tax ROE target, so we don't have an interest in that. And then also bear in mind that compared to where we start now, we still see that we are in the process of getting Sweden into our internal model, which is a longer-term positive driver where we're not completely in control of the timing because it needs to be approved by the FSA. Bear in mind also that business mix we're working on between Private lines and Corporate lines longer term will have a significant impact on the solvency and dividend capacity. But all in all, I can assure you we will return to the matter after a careful taking a look at all of those issues.

Asbjørn Mørk, Danske Bank

So if I understand you correct, Morten, it means that you would not have any issues being slightly below whatever your actual solvency target is for the short term if you can see a steady progress for midterm?

Morten Hübbe, CEO

That was a cheeky variation of the question, Asbjørn. As you know, we don't have an exclusive solvency ratio target. But what I did say and where you're right is, of course, for us, it's not just a matter of a one second picture of the world. For us, it's a matter of making sure that we have a long-term, healthy view on the development on the business mix, the capital consumption, the earnings capacity and the dividends capacity. And of course, we do take a longer-term view on that because we are in this for the longer run.

Asbjørn Mørk, Danske Bank

Okay. Fair enough. If I may ask on your actual underwriting, the 60 basis points underlying claims improvement in Q3. Of course, very nice time to get that when you get the lower rates hitting your underwriting as well. Is this sort of the level that we should expect you to run at going forward? I mean now that you have turned your business -- are turning your business to more private-oriented growth area, so should we expect you to, the next couple of quarters, beat your 30 to 50 basis points guidance? And is this solely your own operations? Or is it a matter of pricing discipline in the market given the lower rates?

Morten Hübbe, CEO

Well, I guess, you can say that with the 60 and the 70 basis points, we are slightly higher than normal. And I would be cautious just to assume that then continues for all of the quarters going forward. There's no doubt that we do see the longer-term trend of continuing to improve underlying claims. We do see areas where Corporate should be able to contribute more. Because, I guess, we have been through a long period now where Private lines have delivered most of the improvement and Corporate lines has been behind the curve. Corporate line should improve more.

We have seen that Alka and the processes around Alka also helps the underlying development. And to be honest, for us, we see underneath a group-wide underlying development, which is positive, lots of pockets that are either better or worse than what you see on the reported total entity. So, we think that the slide on the higher side this quarter, so don't just assume that. But there are lots of pockets we can continue to further improve. And the composition of those pockets will change over time and this is an area where we spend a lot of our time because it creates a lot of value.

Asbjørn Mørk, Danske Bank
Okay. Fair enough. On the growth side in Q3, especially within the Private lines, the 8.6%, it doesn't seem that, that actually is coming from the Danske Bank agreement, which, I guess, starting slowly since to get some sort of traction. So, is that correctly understood? This is your -- more or less solely your current agreements that you have that is driving this growth. And should we expect that then to potentially continue to 2020 and when you get the next material distribution agreement really kicking off?

Morten Hübbe, CEO
To large extents, you are correct. But if you look at the actual movements on the portfolio day to day at the moment, which comes prior to the earned premium, we do see now that we get portfolio growth from both Danske and Nordea at the same time for a short period of time. That will, of course, stop as the agreement with Nordea stops and they start cooperating with their new partner. And I guess we should expect, also, some more laps from the Nordea portfolio as that portfolio gets no new customers and potentially more activity from new Nordea partner.

So, you are right that there is limited impact from Danske in the current premium numbers for the quarter, where you see a positive development in the portfolio numbers, but we will get some more headwind from the Nordea portfolio moving onwards.

Asbjørn Mørk, Danske Bank
Okay. Fair enough. Then the...

Barbara Plucnar Jensen, CFO
So again, what we should focus on is the other growth drivers that you see in Private right now, which is very much down to the product innovation that continues. Remember, over the last 18 months, we have launched around 60 products in this time span. You see, you can say, cross-sell and up-sell to existing customers with very high retention at the moment. So, there's a number of growth drivers other than the partnerships as well.

Morten Hübbe, CEO

And elaborating on that, Asbjørn, I still think we see a slight improvement of Norway through some of the product growth rates. But the reality is that the main pull there comes from Private lines Denmark, and we're very working very hard to export that to both Private lines Norway and Commercial lines Denmark and Norway. And these areas are starting to wake up from a product expansion point of view, but the majority of that potential is ahead of us and not behind us.

Asbjørn Mørk, Danske Bank
Okay. I guess that brings me to my final question. Because if I look at the development in Q3 and the communication that you have on improvement potential going forward, the fact that you're able to mitigate most of your headwind from lower rates in Q3 and the fact that you get higher synergies from Alka already now and another at least DKK 75 million for next year, it looks like you're still, even with lower rates, you're still on your way to beat your guidance for next year, the DKK 3.3 billion with some margin. Isn't that the case?

Barbara Plucnar Jensen, CFO
I think there's a good chance that we will meet the target but what you forget in that equation is the messaging we give around the Corporate segments. On the Corporate segment, we see that there is a need for us to continue to work not only with, you can

say, the risk assessment and the work on prevention with the large customers, but in particular, also with price increases. And we know that will have an impact on the top line for this particular segment. So yes, you can say when you see a positive trend in Private and also, it's starting to be in the Commercial segment, that should be counter-weighted by the actions that we're taking on the Corporate segment.

Morten Hübbe, CEO

And then we'll see -- I guess we did not have in our plans that the discount rates would fall as much as they did this quarter. That does create more work for us. Will we be able to mitigate that? Yes, that is clearly the plan. We do also see that we need to be able to handle larger amounts of large claims than we've seen in this quarter, for instance. And then we do see that time, the one-off gains will stabilize at a slightly lower level than what we've seen historically.

So just make sure that you don't count all the positives and no negatives when you try to do the math. Our signaling is that we have a high target of DKK 3.3 billion. We will deliver that target also with lower discount rates, but we're not signaling any strong overperformance with that target.

Mads Thinggaard, ABG

This is Mads from ABG. The first one is going a bit back to what Asbjørn discussed about premium growth before. Could you, I mean now you are kind of -- you're rolling out, I guess, the price initiatives in the Corporate segment from Norway to Sweden and Denmark. Could you put a bit of light on -- if that is already not 2020 but Q4 that we could see an affect there? And also, on the very high Private premium growth. You're talking about pluses and minuses, but what about -- I mean, what kind of potential is left in the portfolios where you are cross-selling from NITO and OBOS? I mean have you come to a point where we actually could see, I mean, less potential lift and meaning a lower run rate of the organic Private premium growth?

Morten Hübbe, CEO

Well, I guess, if we take the first question first, Mads, that I don't think you should expect any impact from Corporate in Q4. Q4 is not that a very big renewal season for Corporate, but the biggest renewal season is clearly Q1. So, a lot of the changes will happen starting from Q1. So, it is going on with the customers now, but from a reporting and P&L point of view, Q1 is really the first quarter where you will see some of that impact.

I think from a penetration point of view in Private lines, if I were to look at our growth for 2020, I would clearly include a negative impact from Corporate. I think the Norwegian Corporate growth is down a bit more than 4% this year. We will see some similar impacts in Corporate Sweden and Denmark. But as regards Private, as you asked about, I don't really see that, that pocket is emptying anytime soon.

You can see that NITO is growing significantly. We see that OBOS continues to grow significantly. We're actually now testing, as Alka is selling more than 40% online and a lot of the online sales are single product, we are testing to use franchise concepts and other concepts to contact the single product customers in Alka to add more products to their portfolio with very strong success. But it's very early days.

And we are also seeing that the rollout of taking some more of the Private lines' product ideas to Norway is really not very far in the process. We see that Commercial lines have almost not begun. It is in Private lines Denmark where we've come the furthest. We have still only sold new products to the customers that are either new customers or coincidently are in contact with us on the phone. We have still not found a way of rolling out the new products through the broad portfolio of existing customers. Not exactly easy, but it means that all of these examples are areas where we see lots of potential to continue to work with the new products.

So, for us, that work has not stopped in any way. That is something we will spend a lot of time on in the further coming years.

Mads Thinggaard, ABG

Okay, okay. I get it. So Private is still not actually that much of a headwind for the Private currently. So, yes. And my second question is on -- I mean, on other income and costs. I mean it's minus DKK 62 million this quarter. And of course, there's goodwill component in there but probably not changed. I mean what are the moving parts here? Is this, I mean, before your deal with Danske Bank gets fully up and running, that you have kind of a more of a track from that. Or could you explain at least how that works?

Barbara Plucnar Jensen, CFO

Well, you're definitely touching the right queries there, Mads. The 2 biggest components of the movement initially this quarter is, of course, the goodwill related to Alka, which is around DKK 32 million. And then obviously, we don't have the income from the Nordea agreement that we used to have. Right now, we are building the Danske Bank collaboration. So, you can say that is impacting us in this quarter.

Mads Thinggaard, ABG

Okay. And then, I mean, it's not like it's portfolio-based, but it's more new sales-based this one, so it comes back relatively quickly. Or how do you expect that (inaudible)?

Morten Hübbe, CEO

You're right that it is more new sales-based that it is portfolio-based. So, you're right that it does come back. In my experience, saying fast and a new partnership in a new equation as often not clever. So, it does take some quarters to get back to the level. And of course, we are also looking at when is the rebuild that income becomes the same and when is the rebuild that some of the costs need to be lower. And we do look at a combination of both to get to the right balance again. So, I would expect a few quarters before we're -- at least before we are where we should be.

Jonathan Peter Phillip Urwin, UBS

Just 2 from me, please. So firstly, where is pricing running roughly in aggregate across the whole book and where is the claims inflation? It sounds like you're just calling out a bit more claims inflation activity in places, obviously Sweden in particular. Secondly on Corporate, so I guess the language is more negative today around remedial action versus the language in the second quarter. What exactly are you planning for the reshaping of that book next year? Are there any lines of business in focus and just any more detail there would be great?

Barbara Plucnar Jensen, CFO
I think if we start with the Corporate segment and the actions plan, obviously, those are large customers and we look at every individual customer looking at what products do they have, what is the risk profile and so forth. So, it will be looking at a combination of price adjustments to reflect inflation movements, to inflect the risk profile of the individual customers, et cetera, et cetera. So, it's a quite thorough work that is going on and it's not to say that it's one-size-fits-all because that doesn't fit exactly with a segment like that.

Morten Hübbe, CEO

I guess we can elaborate slightly further, Jonny, on that and say that it's only natural that we'd serve the first step in Norway because Norway was clearly the biggest part of the Corporate challenge. And I think we should be quite satisfied with 14% so far this year in Corporate Norway. But more structurally, we have reduced our exposure to fish farming in Norway quite dramatically. We have also reduced our exposure to commercial buses quite dramatically.

In Sweden, we are reducing our exposure to international liability quite significantly, particularly the exposure to U.S. liability out of Sweden has been a challenge and continues to be a challenge. A lot of Swedish corporates have activity in the U.S. but liability, lawsuits, et cetera, in the U.S., even small from a Swedish entity, are just a nightmare. But also larger commercial vehicles in Sweden, we are more or less exiting completely.

But I guess, when you look at all 3 countries, and now particularly Denmark and Sweden, the main challenge is really that the pricing component that goes to large claims exposure is not strong enough. And it means that when you have the large property claims and you have the large liability claims, the return on capital simply becomes too low. And when we see that, in combination with an inability to grow the retail business with much, much higher capital returns, we do see that it makes a ton of sense for us to reduce the exposure to large claims in volatile areas in Corporate, to average pricing up most large claims' exposed lines down and then an acceptance of lower top line, and then rather shift more the weight of the portfolio to Private and SME, which is performing and growing extremely well.

Jonathan Peter Phillip Urwin, UBS

Makes sense.

Morten Hübbe, CEO

I guess when it comes to pricing, there is a general -- I mean, I guess, you asked the question in a shape that doesn't really concur with the way we've managed it. Because, I guess, the overall answer is that Norway's 0.5 points, 1 percentage point above perceived inflation. Perceived inflation is in most periods higher in Norway than in Denmark, higher in the craftsman-related products, more stable in Sweden, but Sweden is higher in motor.

But what we have, what we do -- the way we handle it is actually that we are in every business segment, in every single line of business, we have worked to further and further improve the group of people across procurement, across claims, across actuarial and across product development that monitors all of the small bits and pieces moving every month, so that we see actual developments as fast as possible and we act as fast as possible. And there are cells in this area where price increases are 20% or 25%. So, I guess, we're moving further and further away from the just

broad price changes to much, much more accurate price changes, and all the time targeting those that are slightly higher than the inflation we see. So, I think we are becoming more sophisticated in that area, but it is an area, I think, we can further develop in the coming years.

Jakob Brink, Nordea

Three questions, please. The first one, I think you said, Morten, that Norwegian Corporate premiums were down 4%. I don't know if I heard that correctly, but if you could then maybe also tell us what has happened to technical profit on Corporate Norway in the same period.

Morten Hübbe, CEO

To the first question, I think we look at it.. you are right. To get to specifics, pricing in Corporate Norway is up 14%, a bit more than 14% actually. Total volume, including the price increases, is down 4%. We look at it on a reported level and on a risk ratio level, where we sort of normalize large claims, et cetera, to see the actual quality of the book.

We are seeing in almost all lines that the risk ratios are dropping well. We still have 2, 3 lines of business in Norway where the actual claims inflation continues to be even higher than this price increase. And then we still have large claims in Corporate Norway, particularly in the beginning of 2019. I guess Q3 in general is quite benign from a Corporate large claims point of view. But a single quarter's reported earnings in Corporate, really doesn't tell you anything about the quality.

And the reality is that if you look across all 3 countries and if you look at underwriting year profits within, or combined ratio within normalized large claims level, we are at combined ratios at or above 100% and Norway is actually the worst of the 3. So, we are still at above 100% levels if you take out the one-off gains and if you normalize large claims. So, these ratios are improving, but I mean not enough yet.

Jakob Brink, Nordea

Okay. And just a follow-up on that. So, in Denmark and Sweden, do you expect sort of, I guess you said that actually, so you expect sort of the same reaction on volumes, 4% down? Or is...

Morten Hübbe, CEO
That's very good question, Jakob, because the reality is that in Norway, the price reductions to begin with were much bigger and I guess, protection was a lot -- played a big role in driving that. I think there's been a strong acceptance amongst customers and brokers that this was necessary to improve.

I think in Sweden and Denmark, as the price reductions have not been anywhere close to Norwegian levels and the earnings challenge is not as strong as in Norway, it's a little bit more of an open question, what will be the reaction in the market. So, I would hesitate a bit to predict that. I would expect that top line in total for Corporate Denmark and Corporate Sweden in 2020 would be negative. But it's really, really tricky to guesstimate the volume as a few single customers can move the needle quite significantly.

So that's why we would plan for strong growth in Private and Commercial and a negative growth in all 3 countries of Corporate, but with a large uncertainty as to the volume. But on the other hand, we're very certain that this will improve earnings in Corporate and it will reduce capital consumption in Corporate. So, we know -- we have no doubt that it will create value but predicting the top line is really tricky.

Jakob Brink, Nordea

If I just try to do the math in Norway then, it looks like you must have lost around 16% of your sort of starting volumes, which is then increased 14% to give you the minus 4%. What would be the sort of the threshold where it starts to be an issue for scale in the segment, where it starts itting or it starts...

Morten Hübbe, CEO
Well, actually the -- I think you're asking the right question, but in reality the math is not right. Because the issue is, first of all, we haven't reached the renewal date of all customers, so we haven't earned 14% across the entire portfolio yet. Then also, there

are pockets within the reported number that are actually not our premium but other companies' premiums.

So, for instance, if we have funds saying where we administrate this is from an international company in Norway, then we get a cost fee, but we have nothing to do with premiums and claims. So, we don't do price increases on those customers because they don't relate to us. So, they're actually taken out of the equation when you try to calculate the next net impact.

So, actually, the net-net loss is lower than what you're trying to calculate. So I think your logic is right but I don't think you have the numbers to do the math correctly, and that leads you to overshooting on the actual lapse. But having said that, our view is that, of course, we need to show this in a thoughtful way. But also that longer term, having a portfolio with much stronger Private, much stronger Commercial SME and somewhat smaller Corporate that does create value. We just need to steer that process in a mindful way.

Jakob Brink, Nordea

And then just on solvency and, again, regarding the Corporate. What is it that again? I mean how is the sensitivity on your SCR from Corporate premiums?

Morten Hübbe, CEO

Yes. I think the –- if you answered that question from a lifetime of the Corporate customer angle, then it’s really quite simple because per capital consumption of a Corporate customer is often thrice a high as that of a Private customer. But bear in mind that the SCR is a function of both the premium and the exposure from the premium and the claims and the liabilities. So, while you get a positive almost straight away from the lower premium, then is does take a number of years for the actual claims liability to run out of your books and thereby out of the SCR. So. There is a short-term/long-term view to this. And of couse, we are monitoring both because they both impact our earnings and they both impact our longer-term capital consumption and dividend potential.

Barbara Plucnar Jensen, CFO

And then also looking at the --, you can say, the composition of the products with the Corporate business that is lost, it makes a huge difference whether it is the long-tailed products compared to the short-tailed. So, it is not easy just to make a like-for-like comparison.

Morten Hübbe, CEO

So, you could say that if, for instance, Norwegian workers' comp is a big part of what we lose, that is one of the worst drivers on the capital consumption, so that's great. If for instance, then you see we ate taking out international liability insurance out of Sweden, that is also one of the worst capital-consuming, low-return lines. So, that is very positive. On the other hand, it does take a while for the tail of these liabilities to roll off. So, longer term, the math is very clear. But it is not just done with the taking out of the premium.

Jakob Brink, Nordea

Okay. And very final question, coming back to Asbjørn's first question on the solvency ratio and the extraordinary dividend. So, I understand you don't want to guide but -- on a solvency ratio. But last year, would you have done an extraordinary dividend? The way I can calculate it, the solvency ratio would have been 155. This year, if I get of course Q4 and everything else right, it will be 161 or something. So, 5, 6 basis points above what it would have been last year where you did not do an extraordinary dividend. So, is that 5, 6 percentage points really the difference or have something else changed? Are you -- if you will do the extraordinary dividend?

Morten Hübbe, CEO

I appreciate the creativity of the question. I think to be honest, we don't do the math of 5% or 6% and we make a decision. We try to look at where is the business headed from an earnings point of view and from a capital consumption point of view. And where is it headed from an internal model development point of view. To include Sweden, what is the impact of that? To reduce Corporate, what is the impact of that? What is the speed of that impact? How does that prognosis look from an earnings and capital consumption point of view? And then we'd take all of that into the equation and then we make an intelligent choice based on that. And that is more forward-looking than just a mathematical calculation of 5% or 6%.

Barbara Plucnar Jensen, CFO

I think I'll cover that. Obviously, last year, that was the timing where we just went to the market to fund the Alka acquisition. So, you can say, it will be a little difficult to go out and argue why we should then, on top of that, also pay out an extraordinary dividend.

Kevin Ryan, Bloomberg

I just had one question, a clarification, really, which leads on from the recent questions as well. You mentioned that low interest rates were clearly not helpful. I was just wondering whether you are building low interest rates into the rates you're trying to push through in Norway and elsewhere in your portfolio? Because clearly, it's got a solvency issue, particularly on the larger Corporate side if we carry on, as it would appear we will do, with these extremely low interest rates. Perhaps you could offer some insight into your thinking around that.

Morten Hübbe, CEO

There is no doubt that when you look at what is -- what are appropriate rates in the Corporate segment, you need to be quite careful about the capital consumption because it's very high. You need to be quite careful about the volatility assumptions because that actually leaves the need to on the capital consumption quite significantly, and then we need to be quite careful on the assumptions you make on interest rates and discounts, and because a lot of the longer-tailed lines do sit in Corporate.

We have been gradually building the continued lower interest rate level into our assumptions on future rates. We didn't predict how much rates would fall in Q3, to be honest. So, it's not like we have the perfect model that says now Q3 has this adjustment and then I think you could drive for 1st of January pricing. But I think in broader sense, we have captured well the lowest interest rates and built that into the rate requirements for Corporate.

But when we look at the current pricing, we mentioned the 14% price increase in Norway, which is not enough. So, the journey from improving where we are now to getting to the right balance in all Corporate in all 3 countries is a several years' project. So, we cannot get the right pricing in one go. So, the fact that we see continued lower interest rate is not really a challenge because we have generally built in low interest rates and we have several steps of price changes to get to the ultimately correct price.

So -- but there's no doubt that we do punish Corporate from the point of view that we are seeing more volatility on the large claims, for instance, in Corporate Sweden but also on Norway, both on property and liability, and we are seeing a lower discounting rates, and both punish the earnings of Corporate Norway. So, it is also some of the drivers that makes the decision of rebalancing even clearer.

Per Grønborg, SEB

A question left on my paper. On the Corporate, you said that Norway was -- had been minus 4% in volume this year. You are uncertain whether the impact would be worse or bad in Denmark and Sweden. But is it fair to assume that you're implying that we should expect Corporate volumes next year to go down by -- in the magnitude of DKK 150 million to DKK 200 million? That seems to be the magnitude or approximately 1% of group premiums coming from the pricing initiatives?

Morten Hübbe, CEO

Well, that’s a -- I would hate to give you the wrong number, Per. I think in some ways you can argue that the steepest reduction should come from Sweden because, there, we have a weaker starting point mark decision. In Denmark, the bonus scheme should help the journey more. I wouldn't rule out that the reaction could be higher than the number you mentioned. But it is extremely tricky to see what the net-net impact is.

It is -- I would estimate a negative from all 3 countries. I would not be surprised if the number is as high as you mentioned, that the number could be higher. So, I wouldn't give a guesstimate there because it's -- you know, some of these customers pay DKK 30 million, DKK 40 million in premium. So, we just shift a handful of them to either the positive or the negative, even to move another DKK 200 million. So, I really don't want to guesstimate that.

Barbara Plucnar Jensen, CFO

Also taking the competitive landscape is a consideration. Because what you see in Norway, there, we can see that our peers are also increasing prices as it is. So, we'll have to see what happens in Sweden and Denmark.

Morten Hübbe, CEO

So that's -- there is a -- some component of coincidence and some component of timing because, as you may recall, we did high price increases in Corporate Norway in both '18 and '19. In '18, we saw quite a low customer lapse as a result of that. In '19, we've seen more of a lapse as a result of that. It's not easy to predict the sort of short-term impact of that. And our hesitation comes both from the uncertainty, but also from the fact that if we are too keen on protecting the top line on Corporate, then our efforts on carrying out the profitability initiatives and price changes becomes too weak.

And as we see it, the current growth in Private lines, in Commercial lines are so strong that we can capture also a significant negative component on Corporate. And whether we look at earnings or we look at capital consumption or we look at ROE or we look at dividend potential, all of those KPIs improve when we improve Corporate. So we really should do that even if the result could be higher or more negative than what you mentioned.

Per Grønborg, SEB
Okay. I was just a bit confused on the profit impact. As I noted Barbara earlier on the discussion of how easy it was to reach the DKK 3.3 billion, she talked about headwind from the pricing initiatives versus when you were talking about it being a positive. I assume it's the latter and not the first outcome?

Barbara Plucnar Jensen, CFO

The headwind was predominantly from the discounting impact and then obviously, as you can say -- as Morten was saying, the pricing impact will have an impact on the top line.

Morten Hübbe, CEO
And we talked about headwind on top line and help on the earnings, and then we talked about the headwind on the discounting. So, if we got some of that mixed up, then apologies, but that was the messaging.

Steven Haywood, HSBC

Sorry if I missed this earlier, but is there anything specific going on in Sweden motor driving up the claims at the moment? Anything industry-specific? Or is it just a one-off quarter?

Morten Hübbe, CEO

I guess we can say that we all know that there's a general trend of new cars with new equipment causing high inflation. I think we're managing that quite well. I think there's been a master of the Teslas and the expenses or high-horsepower electric cars in Norway. I think we've managed that quite well. I think, to be honest, the moving parts on motor Sweden have been sort fairly small. So, in a group context, quite small. I don't think it's an industry-wide issue.

There are some pockets in motor where the exposure we have priced have not been priced completely accurately. It does impact our Private Sweden numbers. It is more to do with our own, to be honest, slightly too slow reaction. Every time you do a new tariff, then you need to make sure that you recalibrate very often and very frequent because you always need to do that, and there are some pockets in motor Sweden where we've been a little bit too slow on that. We have now reacted, and the numbers are really quite small from a group point of view but a little bit more meaningful from a Swedish point of view.

Steven Haywood, HSBC

I see. But when you say too slow, are you talking about weeks, month or a year?

Morten Hübbe, CEO

I would say that we've been about a couple of quarters unreacting on something, I think, we should have spent a couple of months reacting on. And that actually backs the comment I mentioned earlier that I think, over time, insurance has always been too slow to react on the most recent changes in patterns, and we've always used the more traditional actuarial methodology of waiting to see the longer trends and the bigger movements.

And I think from a certainty point of view, that's great, but you get behind the curve in a few seconds. And I think that's why we're working quite hard. And we've been, in those areas, quite successful in firming up the timing and the time of reacting to new trends from much, much shorter period. And Sweden Private is not up to speed on that yet, but we are further improving on that area.

Steven Haywood, HSBC

Okay. And we obviously have seen the problem of not reating quickly to trends in motor in Norway in the past as well. So, I hope you are in top of the case in Sweden then.

Morten Hübbe, CEO

I can promise we're on top of the case in Sweden. And I think what made the Norwegian case more difficult was the extremely high growth in Teslas and the like. I think in Sweden, the total portfolio of cars has been much more stable. So, we're -- was talking about much more smaller moving parts than in Norway.

Steven Haywood, HSBC

Yes, yes. And can I just ask, is -- sorry, if this has been asked earlier as well, sorry, but on the Corporate side of things, was there been any change in the trend that meant that you'd want to increase prices significantly in Denmark and Sweden? Or is it just a fact that the strategy of that you don't like Corporate as much as you used to in the past?

Morten Hübbe, CEO

Well, to be honest, I don't think that there's any sort of large, new pieces of information out there. I think that's the worry on Corporate profitability and capital returns has been more for a while. The biggest challenge was Norway, we acted to Norway first. And you're always trying to understand how much profitability can you improve with how much of the top line impact. And I think it's becoming clearer for us that, that sort of a challenge has been clear for a while. The lower assumed longer-term runoffs do not help the equation. The lower discounting rates do not help the equation.

And -- but generally, I think the need has been there for a while. We have just become clearer and clearer on the willingness also to let more top line go in the process. And are also seeing quite clearly how much that impacts not only P&L, where you see an obvious place to start, but how much it actually impacts capital consumption. And through capital consumption, also the ROE and the future dividend potential.

And if you may recall, if you go back to the Capital Markets Day we had in 2017, already back then, we started talking about rebalancing. And actually, if you do the math from 2017 to now, you can already now see how the retail component is becoming bigger and bigger of the group and you will see that trend continuing as Corporate thinks and as Private and as the need grows. So, it is really a longer-term trend, where we're becoming slightly more harsh in the next 12 months, but it's not a new trend.

Barbara Plucnar Jensen, CFO

And I think just to finalize that, it's also a question of not liking or disliking the Corporate segment, I think it is just a matter pricing the right risks at the right price.

Morten Hübbe, CEO

Yes.

Steven Haywood, HSBC

Okay. And just the final one from me. Do you have a time line on your internal model application for Sweden? I know it sometimes takes up to 6 months to get approval. So, if you can give us a sort of time line in that, that'd be great.

Morten Hübbe, CEO

I think our experience on guesstimating time line of authority approval has proved quite poor. And as it's completely out of control, I don't think we will try to do that.

Teik L. Goh, Citigroup

Just one question, please. It is on the runoff gains in Private. So conscious that you've been running at sort of 3% to 4% level in last few quarters, could you explain just kind of the drivers behind this drop that we are seeing today, please?

Morten Hübbe, CEO

Well, I guess, that the -- actually, if you go to the various quarters, you can actually see on the reported group level fairly stable trends on total one-off levels. I guess this quarter, the large claims have been quite benign and the total runoff levels is also lower than we've seen, for instance, last year.

But actually, if you dig into the individual quarters, you'll see a lot of variation on the composition of that runoff. And then, particularly, Private lines has a significantly lower runoff, almost 5 percentage points lower runoff compared to last year. I won't read too much into that. That is quarterly volatility in the composition of the runoff. And I think you expect that to continue also in the future. But from quarter-to-quarter, the composition will jump, and you will see more stability on the group numbers.

Gianandrea Roberti, Head of IR

Well, with those words, I would say thanks to everybody. Thanks for your very good questions. We're around the next few days, so there will be chance to discuss more if needed. Thank you.
