Tryg – Q4 2019 results

Audio cast and Q&A 22 January 2020

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 Q4 results early around this morning.

And I have here 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 from my side as well. We report this morning Tryg's Q4 numbers with a technical result of DKK 762 million, up 16% versus Q4 last year, excluding Alka. This is driven by a profitable growth in the Private segment, the inclusion of Alka and related synergies, and at the same time, a continuous improvement in the underlying claims ratio. Bear in mind that comparison year-on-year will be easier from Q1 and onwards, where Alka's been 100% included in both sets of numbers. We see at the same time a good development in equity markets has helped investment income, resulting in a pretax result of DKK 940 million. We're paying an ordinary dividend of DKK 1.70 per share, completely in line the 3 previous quarters. And then we announced an extraordinary dividend of DKK 1.65 per share in a total of roughly DKK 500 million, leaving the solvency margin at 162% after the deduction of both the ordinary and extraordinary dividend.

The technical result of DKK 762 million is impacted by relatively low, large and weather claims. But bear in mind that also the run-off result was lower compared to other quarters. It's quite important to highlight that the full year technical result of DKK 3.237 billion was helped by some DKK 250 million lower-than-normal level of large and weather claims. In Q4, the underlying claims ratio improved some 50 basis points both for Private segment and for the Group in total, in line with recent development. As I mentioned, equity markets have helped investments, reaching DKK 198 million for the quarter compared to minus DKK 330 million in the same quarter last year. And equities alone have shifted from a negative of 15% in Q4 last year to a positive of 7% in Q4 2019. I've already talked about the ordinary and extraordinary dividend, but perhaps we should just add that we have submitted to the FSA an application with an updated partial internal model, including Sweden and some other smaller changes.

Continuing on Page 4, where we talk about customer development. We're quite pleased to see a continued improvement in the customer targets. We will see a strong link between customer loyalty and retention, and thereby our earnings. The improvement in the TNPS is from 67 to 68. Underlying, there are actually larger movements, where we see particularly the claims area improving significantly. We also see a strong development for Private lines, taking the total satisfaction in Private Norway to 75. We see the highest score, Private lines Denmark scoring close to 80%. And then we see a substantially lower TNPS in our online scoring, which is included for the first time in 2019. You see that the number of products is roughly unchanged. Underlying, we see a continued increase in number of products per customer in our core Private businesses in Denmark and Norway. But then we also see in '19 a higher growth in the car dealer channel, which results in more single-product customers in that channel. In the quarter, we are particularly pleased to see that the retention rate continues to increase from an already very high level. And then we're pleased to see that the non-Danish customers' awareness of the customer bonus improved 27% in the quarter.

On Slide 5, we show the split of technical result across the main business lines. As mentioned, Group technical result of DKK 762 million was up 16% versus Q4 last year, excluding Alka. Quite important to remember that the one-offs in Q4 last year were booked only on Group level and not on the business segments. And additionally, you may notice that the one-off results this quarter are slightly more volatile than previously. So, when you look at comparing technical results by division, bear that in mind.

And on Slide 6, we elaborate on the Alka business. 2019 was the first full year together with Alka, and it was a strong first year which showed a lot of positive development. Total synergies were DKK 24 million for the quarter, reaching DKK 90 million for the full year, exceeding the targeted DKK 75 million. In the first year, roughly half of the synergies comes from costs, while looking at 2021, we expect the run rate of claims-related synergies will play a bigger role, and that is already starting to happen. If we look at Alka stand-alone, top line growth in Alka is actually the highest growth in more than 22 years, while at the same time showing a strong development in both the customer development and earnings.

On Slide 7, we're pleased to show an increased dividend for the eighth year in a row. And we are pleased that we are able to announce an extraordinary dividend, as mentioned, of DKK 1.65 per share, reaching DKK 500 million. Our business remains highly profitable. And we're pleased to see that most of the top line growth comes from Private and Commercial segment where profitability is the highest and capital requirement is the lowest, which will help ensuring good returns for shareholders also in the future. Bear in mind that we've also announced a number of organizational initiatives in our Corporate segment and also in Sweden, along with various investments to secure even stronger underwriting capability in the Corporate segment in order to strengthen the ability to improve financial results in Corporate and Sweden going forward.

On Slide 8, we show the 4 strategic themes. And clearly, the strategic initiatives supporting the financial targets are of paramount importance. And here, we described in each of the 4 categories, the main progress. Claims excellence clearly being the largest of the initiatives, and we've achieved roughly DKK 350 million in 2018 and 2019 in total. You should be aware that part of the realised gains impact prior year claims and thus supports positive development in one-off results.

In digital empowerment of customers, we've reached DKK 60 million for the 2 years, and we're well on track to reach DKK 100 million for the full 3-year period. And we see that improves customer loyalty, and customer expects more and more speedy processes. Number three, products and services have had a strong development as well, reaching now our portfolio of some DKK 650 million. And then finally, distribution efficiency. We have improved some DKK 90 million over the 2 years, both by using the more efficient channel but also by improving efficiency of each channel. And clearly, this is one of the important sources to fund our increasing IT investments.

On Slide 10, we elaborate on the growth, which, for the quarter, excluding Alka, was 5.6%. And then for the full year, 6.1%, excluding Alka. We are pleased to see growth in all areas, particularly Private being the most profitable area also providing the highest growth of 7.6%, excluding Alka. Commercial was also helped by Alka and quite ahead of growth excluding Alka of 4.8%, driven both by the increase in retention rates, some net inflow of customers, but also price initiatives particularly in Commercial Norway to improve profitability. Corporate showed a growth of 1.1%, clearly impacted by the price hikes in Corporate Norway and also a reduction in that portfolio, while the Danish Corporate portfolio was helped by good renewal 1st of January 2019 and the TryghedsGruppen membership bonus, but also bear in mind that we're pushing through significant price increases also in Corporate Denmark but actually across the Nordics 1st of January 2020. Sweden shows a relatively high growth, primarily driven by pet insurance and accident insurance, but we are pushing through a number of price initiatives to further enhance profitability, and that will probably reduce growth in Sweden somewhat.

On Slide 11, we elaborate on average price development. And clearly, adjusting prices in accordance with claims inflation is very important and a key focus area that we monitor closer and closer. Profitability improvement is always a combination of claims initiatives and price adjustments. Bear in mind, when you look at the numbers that when we have a relatively high growth, as we saw in 2019, that may have a slightly negative impact on some of the average price levels. For instance, we see a higher-than-normal growth in the car dealer channel in Norway, where, for instance, introductory discounts are used. So, when that channel grows a bit more, that has a slight impact.

On Slide 12, we show the retention rates. And clearly, a high customer retention rate was extremely important for Tryg's business model. And the customers' view of Tryg is best monitored through mainly the retention rate. Very pleased to see improved retention rates in Q4 for all areas. And clearly, working with the claims experience and also working with the customer experience in Private Norway are some of the main drivers we see currently as well as a continuation in Denmark by the help of the customer bonus model. And then we also see the fact that we work with our digital solutions makes it easier and more convenient to be a customer.

Over to you, Barbara.

Barbara Plucnar Jensen, CFO

Thank you very much.

If you turn to Slide 14, you will see the development in our underlying claims ratio. In Q4 2019, as Morten mentioned, both the Group underlying claims ratio improved by 50%, as was the case for our Private business. Please note that in this chart, all quarterly figures for 2018 have been adjusted to include Alka. Price adjustments and the claims excellence program, including claims synergies related to Alka, are the main drivers behind the improvement. But for the Group overall, the rebalancing of the portfolio towards more Private business supports the overall improvement. The last comment to add to the development in Q4 is that we saw the high growth in the Private business had a modest negative impact on the underlying claims ratio as new customers, in general, will have a slightly higher claims ratio compared to the existing customers.

Please turn to Slide 15. This is a new slide. We have added this to show you a tangible example of how we work in our procurement team in order to support a more sustainable approach in our claims handling. The claims department has been working on this specific project, aiming at the repair of motor vehicles by introducing recycling or used spare parts in the process. Hence, the outcome of the project is a positive impact on the environment as well as reducing overall claims expenses and also create more volumes for our repair network. We expect the initiative to generate savings of approximately DKK 7 million in 2020 and higher than DKK 10 million in 2021.

Please turn to Slide 16, where we will specifically look at the large claims, the weather claims and the run-off. As Morten also mentioned, Q4 2019 was impacted by a slightly higher level of large and weather claims compared to Q4 of 2018. But given the usual seasonality, this was still well below our expectation for the fourth quarter of the year. For the full year, you can also see that the impact of large and weather claims was significantly lower than a normal year, creating a nice tailwind in the 2019 numbers.

Moving to the discounting and the claims reserves. The impact in this quarter was somewhat lower than the same time last year due to generally lower level of interest rates. Finally, the runoff result was slightly higher in Q4 with 4.7% of the combined ratio compared to 4.1% last year. Again, for the full year 2019, I want to highlight that the runoff was 1% less than last year.

Please turn to Slide 17. Here, you can see that the expense ratio for Q4 2019 was 14.6%, which results in a full year expense ratio of 14.2%. The somewhat higher level in this quarter could be ascribed to higher costs related to the high sales levels in Private, generating higher bonus and rebates as well as investments in the platforms created to support the partnerships that we have entered into. For 2020, we keep the target of around 14% unchanged. As you can see in the chart in the lower-right corner, we have experienced an increase in the number of FTEs during 2019, an increase of 124, primarily reflecting continued in-sourcing of claims handling related to health insurance in Denmark and continued expansions of the guarantee business in Germany, Austria and Holland. Finally, I want to remind you that the jump in the number of employees from 2017 to 2018 was, of course, driven by the inclusion of Alka from November 2018. From claims, we move to a review of our investments.

On Slide 19, we have further details on our investments, but there is not much news in this quarter. As always, you can see an overview of our total investments between the match portfolio of DKK 28 billion and what we have named the free portfolio of DKK 11 billion. We do this as the risk profile of the 2 parts differ somewhat. Overall, the asset mix has remained broadly unchanged.

If you turn to Slide 20, you will see a further review of the performance in the quarter. In 2019, we saw a significantly stronger performance compared to last year in Q4. Today, we reported an overall investment result for Q4 of DKK 198 million compared to the minus DKK 330 million in the same quarter last year, which, amongst other things, was driven by a very robust performance in the equity markets. When breaking down the components of our investments, it's in particular the noticeable stronger return of the free portfolio, which, as mentioned, was supported by stronger equity markets. The return on equities was approximately 7% in this quarter versus minus 15% in the same quarter last year. And if you multiply that for approximately DKK 2 billion, which we have invested in equities, you'll obtain an impact on the investment results of approximately DKK 440 million or more than 80% of the difference between the 2 quarters. Furthermore, the revaluation of properties had a positive impact of DKK 65 million. On the negative side, most fixed income asset classes generated negative returns in the quarter due to higher interest rates. The match portfolio contributed with a small positive result in Q4. And finally, other financial income and expenses was slightly better than usual given some one-off items, meaning less negative than normal.

On Slide 21, you can see an overview of the development in our solvency ratio, which was reported to be 162 at year-end after a deduction of the dividends. The development in our own funds is primarily impacted by the profits delivered and dividends. The main driver for the slight increase in the SCR was movements in the capital markets. As we have mentioned before, we have filed an application for an improved partially internal model with the FSA, and we expect an answer around half year this year. In this context, it's important to point out that a potential reduction of the SCR will also impact our own funds as a higher proportion of our Tier 2 capital will not be counted in our own funds. To give you an example, if the SCR is hypothetically reduced by DKK 500 million, own funds will be reduced by DKK 250 million.

On Slide 22, you can see the development on the solvency ratio by Q4 2019 compared to previous quarters. Today, we have already used our capacity to issue Tier 2 debt, but now the capacity for Tier 1 is also fully utilized, the payment of the extraordinary dividend has reduced the core equity Tier 1 at year-end, thereby reducing the Tier 1 potential.

On Slide 23, we show you the impact of movements in items stemming from our investments on our solvency ratio. The sensitivities to movements in the capital markets are unchanged compared to what we have shown before. The biggest sensitivity is to spread risk, which is due to the fact that our biggest asset class is covered bonds. Again, this is unchanged from previous quarters. I hereby conclude our update on the Q4 2019 numbers. But before we open for Q&A, I would like to hand over to Morten for an update on our targets and outlook for 2020.

Morten Hübbe, CEO

Thank you, Barbara.

And on Slide 24, we firmly maintain our financial targets for 2020. So, it targets a technical result of DKK 3.3 billion for 2020, combined ratio at or below 86%, an expense ratio of around 14% and ROE after tax at or above 21%. Then we will, towards the end of 2020, host a new Capital Markets Day, launching a new strategy and setting new financial targets. And then we conclude on Page 25 with our favorite quote from John D. Rockefeller, which seems particularly relevant on a day where we announce both an ordinary dividend and an extraordinary dividend, totaling dividend for the quarter in excess of DKK 1 billion.

And with that, we'll hand over to your questions.

Questions and answers

Youdish Chicooree, Autonomous

Good morning. I've got 2 questions, please. And the first one is on growth, on premium growth. It stayed strong at almost 6% excluding Alka in the fourth quarter. So, can you remind us why this level is sustainable in the near term? And if you could just split that between volume and price increases, that would be very helpful.

And then secondly on the underlying loss ratio, I think you've been guiding for modest improvement for 2 to 3 years now. So, I was wondering whether we should see an acceleration in 2020, considering there is a step-up in your own efficiency measures. You're also expecting higher synergies from Alka, and it seems that the Corporate segment is finally turning around in terms of profitability.

Morten Hübbe, CEO

Good morning to you, Youdish.

I think that when we look at growth, we're pleased to see that the ordinary growth is almost 6% for the quarter, excluding Alka. And we're particularly pleased to see the composition of that growth, with Private lines delivering some 7.6% of that growth organically, excluding Alka. And then, of course, we are pleased to see that Alka continues a strong and profitable growth in a segment where capital requirement is low, and earnings margin is high. I think when we move into 2020, the expectation is that Private lines Denmark and Norway will continue at a high-growth level. And clearly, that is supported both by volumes and price, but also by actually growing the market through our new products, I don't think we've ever published the exact composition of that, but it's clear in Denmark that there is a strong trend of both pricing and broadening of the market, covering a big component of the total growth. That is, to a slightly lesser extent, the case for Private lines Norway, where it is mainly pricing and volume. So, there's a task there to further improve cross-sales in Private Norway.

If we look at expectations again for 2020, we believe that Commercial lines will continue with quite high growth but expecting some deterioration in Commercial Norway because we are doing substantial price hikes in Commercial Norway. And then the big joker is how much reduction in portfolio we will see from Corporate lines. We've done price increases 1st of January. They're not fully final yet, but around 12% in Corporate Norway, around 10% in Corporate Denmark and around 8% in Corporate Sweden. And we are seeing some reduction in the Corporate portfolio as a result of that. But so far, the reduction of portfolio is actually slightly lower than we expected.

And then to your second question, should you expect an acceleration in the underlying improvement in 2020? I think the overall answer is no. We expect more of a continuous development, and we firmly reiterate our targets for the full year, but we don't expect an acceleration of the improvement as such.

Barbara Plucnar Jensen, CFO

Bear in mind what we mentioned today, that growth actually has an impact as new customers have a somewhat higher claims ratio. So, with the growth that we're experiencing now, obviously that puts slightly pressure on the development that we've seen.

Asbjørn Mørk, Danske Bank

From my side, a couple of questions. First, relating to your 2020 guidance and in connection with the Slide 8 that you showed today. So, if you look at sort of the Slide 8, if you're going to meet your 2020 targets, we should see DKK 350 million of boost to your technical profits in 2020 versus 2019. And then I guess we could expect Alka synergies on top, DKK 75 million. And then I agree with you of course that, all things equal, weather and large claims will give you a pretty substantial headwind in 2020. But all that together still gives me DKK 150 million of tailwinds on technical profits, and that's even before growth.

So, my point is that now you're guiding not even DKK 70 million growth to your technical profits this year, should we expect a substantial decline in run-off gains in 2020 versus 2019?

Morten Hübbe, CEO

No, we are not guiding on run-offs for the coming year. I don't think we ever guide on one year's run-off. But no, we're not expecting substantial changes in the pattern of run-offs. It is a more gradual development. Clearly, if we can order the same amount of tailwind on weather claims and large claims again for 2020, that would be great. That would be DKK 250 million in the bank. But I guess we plan for a normal year as we always do. And then bear in mind that some of the initiatives that we have and the impact from Page 8, our gross initiatives and gross impacts, and then you have a ton of moving parts underneath. And as we've described before, we always need these initiatives to overshoot the actual improvement needed because you always see adverse development in a number of areas.

And then bear in mind, as you mentioned in your statement, this does not include growth. But if you take a year 1 customer then in several channels, we have cost of sales somewhere between 30% and 40%. That means that we have a portfolio cost ratio of 14%, but a year 1 customer can have a cost ratio as high as 40%. And then there's always a lot of empirical data showing that a year 1 customer also uses their insurances more than the average portfolio customer. Therefore, on year 1 and 2, typically, their claims ratio is higher than a portfolio customer, taking the year 1 and 2 combined ratio for new customer is substantially higher than the portfolio. Now longer term that makes perfect sense because they become portfolio customers in a couple of years. But it means that actually higher growth in isolation is a worsening of the combined ratio. So, you should keep that into your equation as well. But the biggest driver is, of course, the weather and large claims and the DKK 250 million of tailwind we had in 2019.

Asbjørn Mørk, Danske Bank

Yes. But I mean, still if you meet your 2020 ambitions on Slide 8, we need to see some sort of headwind elsewhere, right? I mean I get your point with the growth, but I mean versus your entire premium stock, it's a rather small number anyway. Or am I missing something?

Morten Hübbe, CEO

No, no. You're not missing anything. And I think if you do the math almost for every single year, you would have always found that every year, we target that there is an improvement in earnings. We are also delivering that. But almost every year, that improvement in earnings is smaller than the sum of the initiatives. That has been the case for every single year. And the reality is if we can get a year with 0 adverse development with lice over the web, but in the past, that has not been the case.

So, I think I understand the math and the logic, Asbjørn. But in many ways, it's a continuation of the methodology where the initiatives target a much higher improvement of earnings than the actual target. And that we're able to count our adverse development because that always happens in different shapes and forms. And then in addition, we have the higher growth resulting in the higher combined ratio for new customers.

Asbjørn Mørk, Danske Bank

All right. Fair enough. On Alka, so you're delivering 20% higher synergies in 2019 than your original target. How should we look at the potential DKK 300 million in 2021? I mean, are you ahead of plan? Or is the total synergy potential substantially higher than you thought back when you did the acquisition?

Barbara Plucnar Jensen, CFO

I think it's fair to say that we are slightly ahead on the run rate impact from Alka, given that we have benefited, let's say, from adding Alka to our Tryg procurement, and thereby, the impact on the claims handling and so forth. That is a relatively fast thing to implement. But some of the other things that we're working on, so getting synergies from other areas in the Alka business, take somewhat longer. So, I think our assumption and what we see right now is still that the potential will be the DKK 300 million on a yearly run rate, but the things that we are working on now just takes a little longer to benefit from.

Asbjørn Mørk, Danske Bank

Okay. Fair enough. Norway, if I may. One of your peers' out saying that they were not too confident or too happy with the profitability in Private Norway at the moment. How do you see the repricing potential in 2020 from this market?

Morten Hübbe, CEO

Actually, we see a lot of variation between the Norwegian segments. I think, as I mentioned, if you look at 2019, our price increases in Corporate Norway was 14%. 1st of January 2020, Corporate Norway looks like 12%. Then clearly, in our view, 2019, our pricing in the higher end of Commercial Norway was too low, so we've been increasing prices quite substantially in the higher end of the Commercial segment, almost sort of in parallel with Corporate Norway. And then we are seeing a development where the price development in Private Norway is moving along as planned. I think we've had the debate on the heavier horsepower electrical cars in Norway. And in general, electrical cars, and I think there's always an observation on car insurance in Norway given the imported spare parts and the currency inflation through that. So that's clearly a point to be observant about. Also, there's more utilization of the Private health insurances. That's also a point to be observant about. But in general, we see pricing in Private Norway moving along as planned.

Asbjørn Mørk, Danske Bank

And Corporate renewal in January has been good?

Morten Hübbe, CEO

Well, Corporate renewal in Norway has been good in the sense that the lapse or the loss of customers is lower than we expected, but there is a net-net reduction in customers, and there is a net-net reduction in portfolio. Of course, it's always a negative when the portfolio reduces, but the reduction has been less than we thought it would be, and that is a positive.

Asbjørn Mørk, Danske Bank

Okay. Then the final question from my side on the bonus and rebate that you gave in Q4, the negative impact on your top line. Is there an ongoing future risk on your pricing in these kinds of agreements since you seem to be making more and more money on this, especially versus, I guess, what your expectations were when you made the agreements?

Morten Hübbe, CEO

Well, I think that the partner business has always been a big part of Tryg's business. And in a number of cases, some of these agreements with bigger unions, both in Denmark and Norway, is more than 75 years old. These are very stable, very long-lasting relationships, giving a lot of benefits, both to the unions and the members and to us. I think that the fact that earnings are higher than the year before and then we share some of that earnings with a partner, I think, to be honest, that is actually strengthening the glue to the partner and it's strengthening the longer-term lifetime. That it's not a challenge for us. We have good dialogue on these things with the partner. I think some of the challenges have been more practical that, sometimes, we've closed the year underestimating the earnings, setting aside too little for bonus and rebates, but we've become better and better at doing that. But in total, our profitability and stability from these partner agreements is very strong, also after sharing some of the profits.

Mads Thinggaard, ABG

This is Mads from ABG. The first one I have is a bit of a nitty-gritty one. On the free portfolio investment return, I think it's stated as 2.7%. But on your web page for Tryg Invest now, I got something a bit below 1.6%. I don't know if you can explain the difference. I think that was supposed to be the same.

Barbara Plucnar Jensen, CFO

Yes. And it's a good point, Mads. It comes down to a technicality. As you know, we started reporting the results of our free portfolio in the summer of last year. What is the difference between what you see on the website and the actual numbers reported is a revaluation of the property investments in our free portfolio, which does not go into the website as of yet. We are working to get that included, of course, so you'll have the full overview. But that's the one asset class that hasn't been included in the reporting that you see online. And bear in mind, for the full year or for Q4, it was DKK 65 million.

Mads Thinggaard, ABG

Okay. Okay. Okay. But going ahead, you will include the revaluation on the web page?

Barbara Plucnar Jensen, CFO

Working on that, yes. We're working on that.

Mads Thinggaard, ABG

Okay. Great. Yes. And then another one. I think we are talking a bit about -- I mean some pressure on the drop in underlying claims before due to the growth, and I guess it's a 50 basis points run rate we have seen for a long time. Could you help us a bit on what to expect here on a continuing drop in underlying claims looking ahead?

Morten Hübbe, CEO

I think, we will see a little bit of volatility in that number going forward. But I think, generally, I would expect something along the lines of what we're showing now, that is the broad comment. Of course, it's a lot of moving parts, so you can move a little bit away from that, but broadly in line with what you see this quarter.

Barbara Plucnar Jensen, CFO

In particular for Group, you might see a different composition underneath in the business segments. But for the Group, I think that would be a good guidance.

Morten Hübbe, CEO

Yes. It's a fair point, Barbara, that clearly, Private lines has been the main driver of the improvements, and we're seeing that we're putting more emphasis into securing underlying improvements also in the Commercial business and the rest of the business. And clearly, Private lines has the highest growth, with the year 1 customers having a higher combined ratio. So, you're right, Barbara, that underneath the Group number, it could be a little bit less Private, a little bit more the rest of the business. But overall, on the Group level, expect something like what you saw in Q4.

Mads Thinggaard, ABG

Okay. Okay. And then just a shorter final question on the extraordinary dividend. I mean that you're also planning to do some model improvements ahead, and of course, you considered that already. But is that extraordinary dividend, is that a kind of end-of-year thing only? Or could there be one during 2020?

Barbara Plucnar Jensen, CFO

I think let's keep it at the yearly review. As you know, we pay out a quarterly ordinary dividend. And by the end of the year, we have an assessment of how the business has performed, what is the overall drivers and how do we look on the solvency in order to make sure that we have capacity for the payments. So, I wouldn't expect that we change anything related to that methodology.

Jakob Brink, Nordea

I have 4 questions, I think. The first one, just coming back to the capital question and your solvency ratio of 164 in Q4. So, should we see this as sort of the new level where you are comfortable at running towards the end of the year?

Barbara Plucnar Jensen, CFO

I think, firstly, I would just like to correct. It's 162, not 164 at the end of the year.

Jakob Brink, Nordea

Sorry, 162. Okay.

Barbara Plucnar Jensen, CFO

Yes. And as you know, we don't give any guidance on any levels on solvency ratio, what we have done is, of course, to assess where are we comfortable related to the special dividends and we'll leave it at that.

Jakob Brink, Nordea

Sorry, but I just have to challenge one thing. Because in Q3, I think, Morten, you said that it was not sort of a standstill picture in time, it was also looking ahead and what might come in and support or weaken the solvency ratio. So basically, could we argue that the 162 is - you're willing to go that far down because you think there is certainly, you'll get the model approvals from Sweden? Or are the model approvals from Sweden something that we'll get on top basically next year of the profit generation?

Morten Hübbe, Tryg

Well, I think, Jakob, that it's a fair question. But it's also fair to say that our decision-making on this point is not that mechanical. I think for us, the priority of the ordinary dividend is clearly number 1. In that light, the actual solvency ratio is much less of a priority. And then it is a priority fairly frequently to be able to pay extraordinary dividends, so we are quite focused on looking at that. And then we do not only look at this year's solvency ratio, we do an extensive amount of solvency and capital modeling looking several years into the future, trying to make sure that we have a healthy and sound development in this area, and not just a mechanical year 1 decision-making based on a specific solvency number. That is not how we make the decision. So, it is taking a longer time span into the equation, and it's also looking at all of the parameters and all of the risks, and not just single mechanical decisions.

Jakob Brink, Nordea

Okay. Fair enough. And then my second question, coming back to also a question that has been discussed about your DKK 3.3 billion guidance for 2020 of technical result. I think last quarter, you mentioned that, when we talked about this and the DKK 3.3 billion, you mentioned the very strong headwind you've had from lower discounting. Now this quarter or in Q4, the discounting rate was up some 30, 40 basis points, which should give you DKK 70 million, DKK 80 million. So, I guess if that was the reason to be closer to DKK 3.3 billion last quarter, shouldn't it be a reason to be closer to DKK 3.4 billion now or?

Barbara Plucnar Jensen, CFO

Again, when we give our guidance and when we give our targets, we don't go in and adjust that for, you can say, movements in interest rates quarter-on-quarter. It is something that we deal with in the underlying performance of our business. So obviously, we are doing everything we can in order to meet the target that we have set out, but it's not something that we go in and adjust for on a quarter-by-quarter basis like this.

Morten Hübbe, CEO

And it's fair to say that since we announced our targets in 2017, interest rates have dropped dramatically. If this was a more mathematical exercise, we should have reduced our targets quite substantially since 2017, which we haven't done. So, for us, we believe that trust and predictability is extremely important, and that's why we keep our DKK 3.3 billion target regardless the fact that interest rates have moved all over the place since we set the target in 2017.

Jakob Brink, Nordea

Okay. And then the last question, you're still guiding in your report that an annual results or financial result on properties should be around 5%. And I just checked, and for the 4 of the past 5 years at least, you have had very strong Q4 performance due to revaluation and sales gains on properties. Could you maybe give us a bit more details on your property portfolio and whether we should expect this basically going forward as well?

Barbara Plucnar Jensen, CFO

I think if you look at the property market in general, that is what we lean towards when we're looking at the guidance we give. It's the same when you look at the overall guidance, we give for the investment portfolio. We also look at market benchmarks. So, I think that's where it's predominantly stemming from.

Morten Hübbe, CEO

It's extremely difficult, Jakob, because, on the one hand, we can see a historical average return on our real estate portfolio, and that's what gives the basis for the guidance we give. In general, most of our real estate is commercial real estate, where it's not buying and selling that drives the result, it's actually the running of the business and the yield from that. Having said that, when the price of commercial real estate goes up, then from time to time we have to adjust our valuation to mirror the market pricing. And of course, when interest rates move down as dramatically as they have, then the prices of commercial real estate moves up, and moves up more than on a historical average. But to be honest, predicting that into the future is almost impossible. And that's why our guidance is based on more historical average returns on this commercial real estate portfolio.

Jonathan Peter Phillip Urwin, UBS

Just a follow-up on that capital question. I'll try and ask it a different way to get a different answer. Well, worth the try. Would you have done the special if you didn't have this model approval application going in? So, if that wasn't a factor, then you just, you know, the sales ratio, you would have been without that, would you still have done the special?

And then secondly, just on the claims inflation front. I wonder, are you seeing anything on liability claims inflation? We obviously see a lot of news flow on this coming out of the U.S. given social inflation. But I've heard from a few of the larger European composites that there is some adverse trends in Europe as well. So, are you seeing anything in the Nordic region?

Barbara Plucnar Jensen, CFO

Well, I'll start by answering on the special dividends. And as Morten also said, this is a combination of a number of parameters. We look at where we are. We look at what we are having ahead of us based on a number of different things. So yes, I wouldn't say that it's specifically given the model is ahead of us or not. We still don't know what the FSA will approve, so we just have to wait and see.

Morten Hübbe, CEO

I think it's fair to say, Jonathan, that, of course, when we line up the positive impacts and the negative impacts, then, clearly, the fact that we have a model application is part of the potentially positive impact. But we have a long list of potential positives and potential negatives, and we look at a number of nuances on the composition of the business, the development of volatility, the development of reinsurance, the development of all sorts of things in a very, very detailed manner. So, the application is just one of many parameters in that process. I think when it comes to claims inflation and liability, this is an issue. I think where we've seen it most strongly is clearly in our Nordic Corporate business that is on behalf of customers that do business in the U.S. We have actually stopped as much as possible writing – particularly there's a lot of Swedish companies that has exports to the U.S. and has liabilities as a result of that – we have stopped writing that business almost entirely because we have had way too many liability claims with a growth in average claims and clearly a negative total earnings profile. We've seen also in some of the professional liability areas, like engineers, architects, bigger building projects, where we've also seen liability claims increase and social profitability being under pressure. Yes, so there is a tendency for liabilities to creep up. This is not a massive part of our business. So, in the bigger scheme of things, a fairly small component. But in isolation, we can recognize a negative pattern.

Jonathan Peter Phillip Urwin, UBS

Okay. What's the average duration for that business?

Morten Hübbe, CEO

Well, it depends a little bit on – the composition is very varied. You have a lot of building projects that are typically either 3 or 5 years and then you have the more complicated liabilities related to pharmaceutical industry or something hitting more personal injury stuff which has a very long duration typically. I would say you could get as high as 4, 5 years of duration on that portfolio.

Per Grønborg, SEB

Yes. A couple of questions from my side. First, a quick one. You've increased your equity allocation in the fourth quarter. Is this temporary? Or should we expect that to be persistent?

Barbara Plucnar Jensen, CFO

That's a minor adjustment. Well, you can say, we always go in and look at the asset allocation across the portfolio. In general, you shouldn't expect any major changes, but you can see adjustments from time to time.

Per Grønborg, SEB

Okay. Then on the pretty high rebate level you have in the fourth quarter, it seems like a lot of that is profit sharing, reflecting more year-to-date performance than necessarily Q4 profit. Is there any impact on Q4 profit? And if not, where is the offsetting factor in your P&L?

Morten Hübbe, CEO

Well, there's no doubt that it is a process where some of these profit-sharing agreements are quite complicated, and I guess, ideally, we would know on a daily basis what the profit sharing is, and then they would hit exactly the right week and exactly the right month and exactly the right quarter. To be honest, the model is not as sophisticated as that. We see that the bonus and the rebates was roughly DKK 89 million in Q4 2018, and it was roughly DKK 195 million in Q4 2019. And there is a tendency for that to be a Q4 settling of the full year, and therefore, it is, to some extent, mixing up the profitability of Q4 in isolation and the full year. I think that is the reality.

Per Grønborg, SEB

So, it's fair to say that the increase in rebates in the fourth quarter basically have been almost a similar drain on the net profit in Q4?

Morten Hübbe, CEO

I'm not sure I fully understand your question. Could you rephrase that, Per?

Per Grønborg, SEB

So, if we take the rebate run rate the first 3 quarters, it was approximately DKK 150 million. Now it's DDK 224 million in the final quarter. The delta of those DKK 75 million, that's something you have deducted from your income in the fourth quarter.

Morten Hübbe, CEO

Correct. Correct.

Per Grønborg, SEB

But I assume it has nothing really to do with your claims in the fourth quarter.

Morten Hübbe, CEO

Correct.

Per Grønborg, SEB

Meaning if you had been better at accruing these rebates, and I fully understand this is, of course, difficult, then your Q4 profit would, in principal, have been DKK 75 million, approximately better.

Morten Hübbe, CEO

I think that's a fair point. The increase is taking as a negative hit entirely in Q4. To a large extent, it relates to the full year. So ideally, you would have distributed that throughout the quarters. Completely correct.

Per Grønborg, SEB

Perfect. Finally, maybe a last one on solvency. This year, you are comfortable with 162%. A year from now, you have internal models likely to be enforced. Is 162 still the level that you will feel comfortable with? Or are you not really looking at the headline solvency ratio but looking at some underlying numbers which we cannot see?

Barbara Plucnar Jensen, CFO

I don't know how to say this in a different way, other than, as Morten already said and I've said before, this is a combination of a number of parameters. Bear in mind, the capital requirement stems from a lot of areas within our business, and therefore, we spend a lot of time at looking ahead, what do we expect in terms of requirements and movements in our business. So again, it's part of the analysis. It's part of the foundation for our decision. But as mentioned, there is a lot of different consideration that goes into our final decision.

Morten Hübbe, CEO

And then, I guess, we know that there's a legal minimum. And then we know on top of that, if the solvency ratio was 125%, the FSA parks their bus in our yard and starts running our business or asking a lot of questions. We don't want to go anywhere near that. But at the same time, I think, historically, we've learned that if we put a fixed target on the solvency ratio, then we start to put buffers on buffers in relations to that fixed target. And then all of a sudden, we start to make the stability of the solvency ratio priority number 1. And we're quite certain that for our shareholders, the stability and predictability of the dividend is far more important than the stability of our solvency ratio. And that's why I understand that from a planning, predictability point of view, perhaps it would be nice to know a fixed solvency ratio target.

But from a decision-making point of view, our view is that we would screw up our priorities relating to dividends if we made the solvency ratio stability a higher priority than the payout. And that is why, for us, we don't have a fixed target and we don't even have an internally fixed target. And then we try to make sure that our planning of capital becomes more and more sophisticated and takes more and more future years and future strategies into play. And it does also need to do that. For instance, if we do larger IT investments, how does that impact the balance sheet, how does that impact the solvency, et cetera, et cetera? So, we try to have a very holistic view on that. And then fundamentally, we try to make the payout priority number 1 and not the solvency rate.

Jonathan Denham, Morgan Stanley

Just coming back to your comments on Norway. How are you pricing versus claim inflation in Private property in Norway? And how happy are you with your profitability level of this book? I know we've had this chat before, the claims ratio seems fairly confident that one of your competitors is continuing to flag the need to raise rates there. And then secondly, just how you're doing in sharing your best practices from Private Denmark across the Group versus your own expectations? And maybe if you could give us any examples of initiatives, you're implementing which could move the dial over the next year or 2.

Morten Hübbe, CEO

Well, I think that house insurance in Norway, it's been quite a long time since that was a main concern of ours. I think if you take house insurance in total, that has mainly been a concern in Denmark, to be honest, where, for longer periods, our combined ratio of house insurance in Denmark was dangerously close to 100%. We've moved that needle a lot closer to 90%. So, we have improved that significantly. House insurance in Norway has always been more profitable than the house insurance in Denmark, and we haven't seen dramatic inflation there. If you go back 3 or 4 years, salary inflation in Norway was a lot higher than salary inflation in Denmark. And therefore, the repair of houses had a higher inflation than Denmark. Therefore, our price increases were higher. But that is stabilizing both because it's declined somewhat in Norway and it has increased somewhat in Denmark. That is becoming more of a neutral space. We don't see a strong development in the house product in Norway at the moment. So mainly, when we look at Norway, our main concern is always on Private lines where there is much more development and replacement of the types of cars in Norway. That's always a concern.

And then, of course, as we've mentioned, Corporate lines and the higher-end Commercial lines is where we spend most of our time. But I think if you compare, for instance, Gjensidige's portfolio in Norway to our portfolio, they are not very similar. We are very different in exposure in terms of the geographical mix of our exposure, and through that also the mix of assets, the mix of properties and the mix of cars. So, I'm not surprised that there are different observations there.

Jonathan Denham, Morgan Stanley

And is it fair to say that your home in Norway is close to or lower than the kind of 90% number you just gave for Denmark?

Morten Hübbe, CEO

Yes. I think that's a fair statement. And then it's a fair statement that we are a lot stronger in the western parts of Norway and a lot weaker around the Oslo region, which also means that the houses we insure on average are slightly cheaper than you would find in a more expensive area like Oslo, for instance. Those are some of the differences as well.

Jonathan Denham, Morgan Stanley

And then just on best practice from Private Denmark?

Morten Hübbe, CEO

Well, I think what we've done is that, there is no doubt that Private Denmark has come a lot further on product development and a lot further on cross-selling. I think we see progress in the sense that product development – if you, for instance, look at some of the new partner agreements we've done in Norway. If you look at NITO, for instance, the engineers in Norway, we've done 14 new products alone isolated for this one partner agreement, where we've taken a lot of inspiration from product development in Denmark, but also added a lot of new ideas and thoughts from the Norwegian organization that we can reuse in Denmark. I think for a number of our partners in Norway, both the products and the digital development is being shared. I think, actually, on the digital straight-through processing, Norway is somewhat ahead of Denmark. So, the best practice sharing goes the other way.

I think if you look at the focus for the coming year is that the cross-selling for the average customer in Private lines Norway is still a lot weaker than in Denmark. So, we want to progress that further during 2020. We know from Denmark that, that is not a sort of easy-peasy project, but we also know that it's worthwhile. That will be one of the focus areas for the coming year.

Kevin Ryan, Bloomberg

I just have one question which is, you mentioned that your investment in digital will hold back some of the expense savings. And I was wondering whether you could quantify that. And also, talk a little bit about when you see digital investment normalising and what a normalised number looks like.

Barbara Plucnar Jensen, CFO

I think what does a normal investment in digital look like is a difficult answer because the requirements we see in terms of having technical solutions for our customers is of great importance. We want to be where our customers are, and that means that we need to be able to interact with them both on digital means but also through personal contact depending on what the issue is. So therefore, I think, in general, being efficient, being able to meet the customers where they are with solutions that work for them is super important. So, I think setting a number on what is a normalised level is difficult. Right now, of course, we have some investments, as we've said, in our claims system and so forth, which is a little bit more extraordinary. But we can also see that we invest in digital solution with our partners when we start partnerships, and then the general level of investments is, you can say, going to continue as I see it. But I would not sort of put out a number on what would be a normalised level.

Morten Hübbe, CEO

I think that the most tangible we've ever said is that the IT strategy as such would build up an intangible asset on the balance sheet of around DKK 500 million in addition to what has been normal. That has been said and that is a tangible number. I think, if anything that number might actually be higher, but that is the most tangible number we've given. The tricky part, as Barbara mentioned, is actually the business IT development because whenever we make a new agreement with a new partner or a new distribution channel, then that always involves more and more IT investments. I think we've done the math that says that on an average day, 900 people work on our IT systems, developing our IT solutions. That is a massive number. I think we're quite pleased that the majority of those resources are Indian resources, so the average price is quite manageable and low. But on the other hand, I think when you look across the whole financial sector, not only in Tryg and not only in the Nordics, but globally, the dependency on digital solution is just increasing and increasing and increasing. So, I think I would clearly hesitate to promise a normalization or a reduction at any point. I think the anchor you can look at is that we want to keep the expense ratio stable at around 14% because that requires us to create enough of efficiency measures to finance the added IT investments. But to be honest, I don't see the IT investments going down anytime soon.

Steven Haywood, HSBC

Just one question from me. As on the new customers having higher claims ratios than the existing customers, can you confirm or give a bit more detail, this is mainly due to discounting of new business rather than any kind of change in risk selection at the start?

Morten Hübbe, CEO

Well, there is no doubt that if you put them in line of priority, year 1 customer, the main challenge is actually the cost of sale. So that the cost ratio can be as high as 40% as opposed to 14%. So that's challenge number 1. Then on the claims ratio, where you ask your question, challenge number 1 is often introductory discount depending on the channel. But actually, beneath that all of our empirical data showed and when we just acquired your insurance, your awareness of that insurance is substantially higher. For the first couple of years, then you clearly use that insurance more than when it is year 3, 4, 5, 6, 7, et cetera. It's not a massive difference, but there is a difference, and that is not a deterioration. So, what we do is that we make one comparison, which is year 1 customer versus the total portfolio, and then we'll make other comparisons where we look at year 1 customers today versus year 1 customers a year ago and 2 years ago and 3 years ago to monitor that the year 1, the customers of today are preferably slightly better than the year 1 customers from a year ago. But there is this mix of higher cost of sales, introductory discounts playing a role and then the higher awareness of using the insurance you just purchased. Those are sort of the 3 main parameters.

Gianandrea Roberti, Head of IR

Well, I would like just to thank you all for your good questions. We're around the next few days in road show and in London tomorrow. So just come over and meet us and feel free to send us anything else if you have them. Thanks a lot.

Morten Hübbe, CEO

Thank you.

Barbara Plucnar Jensen, CFO

Thank you.