Tryg – Q2 & H1 2020 results

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Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published our Q2 results earlier on this morning, and here I have with me Morten Hübbe, Group CEO and Barbara Plucnar Jensen, Group CFO, to present the results.

Over to you, Morten.

Morten Hübbe, CEO

Thank you, Gian, and good morning to all of you. I think we start on Slide 3 with the financial highlights, where we report a very robust Q2 with an overall pre-tax result higher than DKK 1.5bn. The technical result was 1,063bn, driven by a combined ratio of 80.9 while capital markets performed also very strongly in Q2 following a very difficult Q1 and of course, the outbreak of COVID-19. In that sense, you almost need to see Q1 and Q2 together as we saw unusual investment market volatility in both quarters.

Back to the core business. The technical result in Q2 benefits from a robust top line growth, particularly in the Private and Commercial SME segments, an improvement of underlying claims ratio for the Group of 60 basis points and a continued delivery of the Alka synergies. The investment income for the quarter was DKK 541m, boosted by a 12% return on equities and almost 10% on corporate bonds. Solvency ratio of 193, helped by the new partial internal model being approved and strong organic capital generation in the quarter.

Turning to Slide 4 on customer highlights. We are very satisfied with continued improvement in the customer targets as we see a strong link between customer loyalty and retention, which again drives a low and efficient expense ratio. In this quarter, we are particularly pleased to see that we have reached our CMD target of a TNPS of 70, particularly in a period where COVID-19 has given a high number of particularly travel claims and that all our claims staff has been working from home, actually handling some 500,000 claims from their living room. That was a first, and we are happy that it worked out well.

In general, retention rate developed satisfactorily, but we have seen Private Denmark as expected, that the discontinuation of the cooperation with Nordea gives a drop in the retention rate for the Nordea customer portfolio, which I will get back to a little later.

The number of products per customer increased from 3.8 to 3.9, and we are approaching the full year target of 4.0. Also, very positive to notice that the Danish non-customers' knowledge of the membership bonus continues to improve. We see in this quarter 29% against 25%, but we also continue to see a further potential for higher knowledge amongst the non-customers.

On Slide 5, we elaborate on the technical results. As mentioned previously, the Group technical result reached DKK 1.063bn for the quarter, an improvement of DKK 84m or some 8%, also helped by lower frequencies for certain lines of business in the quarter. Private lines had a slightly higher result than in Q2 last year, primarily driven by a higher premium level as the combined ratio was slightly higher, primarily due to a lower run-off level that the year before. The Commercial business improved primarily because of an improved underlying development as the net impact from weather, large claims and run-off was broadly at the same level as the year before. The Corporate business saw a significant improvement in profitability, which primarily was due to the profitability initiatives carried out, particularly in Norway, but starting also in Denmark and Sweden, and we also saw a net positive impact from weather, large claims and run-offs. Very positive to see these positive trends in Corporate. Bear in mind, that the process of improving margin in Corporate is by no means over or by no means stable yet. But it's very positive to see the first early signals of strengthening profitability in Corporate.

On Slide 6, we show a helicopter view of COVID-19, and then Barbara will dwell into that in more detail. We've chosen to illustrate half year impact from COVID-19, as we believe this makes the most sense when looking at the full impact for the 6 months instead of the quarters in isolation. For the year-to-date impact, we include the negative investment results. The total was minus DKK 422m, with a marginal positive impact for the insurance part of DKK 17m and significant loss from investments of DKK 439m.

We've seen that the number of claims has been much higher for travel insurance with an increase of some 80% year-on-year while we have seen a total 6 months period with a rather stable number of motor claims. Bear in mind that we have had a 5% growth in number of customers from motor and that actually, this means a somewhat lower 6 months' claims frequency for motor, which had a positive impact of around DKK 68m. But of course, as Barbara will return to, the volatility between the various weeks and month on motor has been unusually high.

On Slide 7, we are very pleased to continue to see that the synergies from the Alka acquisition continues to be delivered according to plan. And in Q2 this year, DKK 43m was achieved in synergies. We are very confident that we will achieve the promised total synergies plan related to Alka and also, very pleased to see a continued strong underlying development in the Alka business, both when it comes to sales, retention rates, growth and underlying claims.

On Slide 8, we elaborate on the strategic initiatives. I'm very pleased to se that all strategic initiatives that are significant drivers to reach our technical result target of DKK 3.3bn shows very good progress. We continue to harvest synergies from the gradually using and expanding Tryg's procurement power and of course, using those agreements in the acquired Alka business with very strong results. Continue to have a strong focus on developing new products and services, and we have now reached DKK 850m, which is very satisfactory. We believe that in the long run, working structurally with new products and services will strengthen our relationship with the customer and increase the size and profitability of the market.

In the digital part of our strategic initiatives, we are in very good shape. All the targeted numbers for digital – numbers of digital transactions are actually above target. Nevertheless, it might still be challenging to reach our 70% target in self-service. The reason behind that is that the customers continue to, in addition, use the phone for contacting us. So, the number of phone contact is much higher than anticipated, while at the same time, we see a much higher number of digital contracts. Actually, this is different than planned, but we think that is quite positive as higher traffic supports higher customer loyalty and interaction with the customers.

On Slide 9, we elaborate on shareholder return. And as you probably recall, we published a stock exchange announcement on March 27, explaining that we would move to full year dividend decision for this year as opposed to usually quarterly, following the intense regulatory debate after the extreme capital markets development in Q1. This does not at all change Tryg's aim to deliver a normally stable and increasing dividend, and it does not at all change Tryg's dividend policy.

We have noted that regulators across Europe remain dividend on this issue. As we see it, we are reporting a very robust solvency position. And assuming a normal Q3, it will be further improved with a solvency ratio likely to be well above 200 after Q3. We will take the autumn to observe the development in regulatory guidance on dividends and, of course, observe the development in capital market stability in the autumn and then we have noticed that, for instance, the Dutch authorities have now opened for insurance companies paying dividend again.

On Slide 11, we elaborate on growth. The total Group growth was 7%. We're very pleased to see that the growth comes from the areas of Private and Commercial in all countries. Clearly, Private lines are the most profitable segment, and therefore, we are very satisfied to see continued strong growth in Private of 10% for the second quarter. The growth this quarter is a continuation of what we have seen in the last quarters with a strong development in Denmark, strong cross-selling and sales through strong partnership agreements, among others, with FDM and Danske Bank. But also, we see a strong development with our independent sales agents, also helping the number of products per customer. In Private Norway, we've seen very strong sales performance, particularly in the car dealer channel as well as the cross-sales to those car dealer customers.

In Commercial, we saw growth of 4.4%, which was a combination of organic growth in the SME segment, which is, as we see it, the most attractive part of the Commercial segment, both in Denmark and in Norway. And in addition, we saw price increases for particularly the larger commercial customers in Norway contributing to the total growth.

Corporate, on the other hand, showed 0% growth on the Nordic level, which was impacted by price hikes in Norway, which reduced the size of the Norwegian Corporate portfolio while the price hikes in the Danish Corporate portfolio was positively impacted by a high acceptance of the price increases, and the price increases have been around 10%. Sweden showed relatively high growth of 7.4%, primarily driven by price increases in motor to improve profitability in motor Sweden.

On Slide 12, we elaborate on the price development. And structurally, adjusting prices in accordance with claims inflation is extremely important, and it is a key focus area for us to closely monitor all developments in average prices and the development in claims frequency and average claims as well. Of course, profitability improvement is always a combination of claims initiatives and price adjustments. And of course, here we only show one of the two legs.

The average price development is also in this quarter impacted by, particularly, in the Norwegian business, a change in one large partner agreement. If you look at the average price development of Norwegian house insurance, you see a drop in the graph, which can be ascribed solely to a reduction in price of more than 10% of one single particularly large partner agreement in Private Norway.

If we turn to Slide 13, we elaborate on the customer retention rates. And of course, retention rates are extremely important because customer focus is extremely important. And actually, customer satisfaction and the health of that development is well monitored through the retention rate.

We are pleased to see stable and improved retention rates this quarter, but bear in mind that for Private Denmark, as expected, we see a slight drop in the retention rate as a consequence of the drop in the portfolio of Nordea. Remember that we discontinued the cooperation with Nordea and replaced it with a new cooperation with Danske Bank. On a net basis, we are very satisfied to see that the net impact of reduced Nordea customers and increased Danske Bank customers is very positive based on very strong sales to Danske Bank customers. But bear in mind, that Danske Bank customer sales are not included in the retention rates, whereas the drop in Nordea customers are included in the retention rates. Without this impact, we also saw an increase in Private lines Denmark retention rate.

In Norway, we're very pleased to see that even in the period of price changes and adjustments, we actually see the highest retention level in 10 years.

And over to you, Barbara.

Barbara Plucnar Jensen, CFO

Thank you very much, Morten, and good morning to you all. On Slide 15, we'll go through the development in our underlying claims ratio, where for the Group, the ratio improved by 60 basis points and for the Private by 20 basis points in the quarter compared to the same quarter last year. Please note that the numbers do not include the impact from the COVID-19 claims. Price adjustments and the claims excellence program, including claims synergies related to Alka, are the main drivers behind the improvement, but also a rebalancing of the portfolio towards more Private business supports the overall improvement for the Group.

The high growth in Private business has, as expected, a modest negative impact on the underlying claims ratio as new customers, in general, have a frequency, which is approximately 3% higher than the portfolio in general. We are very satisfied that especially the initiatives in Corporate Norway supports the improved underlying claims ratio development for the Group, which was up 0.6% compared to the 0.5% in previous quarters.

On Slide 16, I will go though some more details on the impact of COVID-19, as Morten promised earlier. As a starting point, I want to highlight that in the Nordics, we experienced a full lockdown in the middle of March. However, already by the end of April, we embarked on a gradual re-opening of activities, which, of course, has impacted economic activity. At the lowest point in April, as an example, there were 40% less cars on the roads in the Nordic countries.

As you can see on the table on this page, the gross insurance impact related to our customers for the first half year of 2020 was negative with DKK 85m. The majority of the negative impact relates to our travel insurance. However, as you can see here, the lower frequency for especially motor, property and accident has had a positive impact, which to some extent, has mitigated the loss on travel insurance.

After reinsurance protection of DKK 140m, technical result before expenses was DKK 55m. And after subtracting the COVID-19-related expenses of DKK 38m, as an example here, I will mention extra cleaning, IT cost, et cetera, we end with a positive impact of DKK 17m. And finally, as you know, COVID-19 impacted the capital market significantly in the first quarter, leading to a very negative investment result for us. This has, to some extent, been recovered now in the second quarter, leading to a total loss at the half year of DKK 439m. All in all, the total negative impact, taking into account both the insurance as well as the investment activities on our assets and our liabilities, for Tryg ends up at DKK 422m for the first half year of 2020.

On Slide 17, you can see in the top left corner that Q2 has had a somewhat lower level of large claims compared to the same quarter last year, while weather claims were more or less at the same level. The discounting impact in the second quarter of 2020 was much lower than in the same period last year due to the lower interest rate level in general. Here, it is important to remember that as a rule of thumb, we say that our sensitivity to 100 basis points movement in the discounting rate has an impact of approximately 1% on our combined ratio.

Finally, in Q2 of this year, the run-off result was slightly lower with 3.6% of the combined ratio compared to 5.3% in the second quarter of 2019.

Now please turn to Slide 18. The expense ratio for the second quarter was 14.3%, hence in line with Q2 2019 and the target for 2020 of around 14%. As mentioned earlier in today's call, our expenses were impacted by COVID-19 costs of DKK 18m in the quarter. We continue to see that more efficient distribution, to a large degree, continue to finance our IT investments. Looking at our organisation, the number is stable compared to first quarter 2020. But compared to last year, we have seen a slight increase in the number of employees, which has been driven, amongst other things, by the higher volume in our business.

Please turn to Slide 20 for insights on our investments. On this slide, you can see the usual details of our investments. There's not much news in this slide, but we think it is important that you understand the split of our DKK 40bn investments between the match and the free portfolio, respectively.

When turning to Slide 21, we have a little bit more detail in terms of the movements in the quarter. 2020 has indeed been a volatile year following the outbreak of COVID-19, and Q2 has offered a strong rebound compared to the first quarter of the year. Our investment income in the second quarter was highly positive. DKK 541m, primarily driven by a strong performance of our free portfolio, generating a positive return of DKK 519m.

More or less, all asset classes performed positively. As Morten also mentioned earlier, equities were up by 12% and corporate bonds almost up 10% in the quarter, partly reversing the highly negative trend that we saw in first quarter.

The match portfolio was also helped by narrowing Nordic covered bond spreads. And in this quarter, other financial income and expenses were somewhat worse than normal, which was primarily driven by higher costs for the currency hedges, given the extreme movements we have experienced. However, our expectation for this line remains to be slightly more than around DKK 60m per quarter.

On Slide 22, you can see that our solvency ratio was 193 at the end of the second quarter, supported by a strong organic capital generation and a lower SCR. The lower SCR is a function of the new partial internal model, partly offset by higher capital charge for equities, higher exposure and high actual capital charge and also a rebounding of the Norwegian and Swedish kroner, which imply higher claims reserves on the balance sheet and therefore, a higher charge for the insurance business. Own funds primarily benefitted from the strong Q2 result and by the fact that no quarterly dividend was paid following the decision disclosed on March 27 to move to a full year dividend decision for 2020. In general, Tryg's solvency ratio continues to mainly be a function of our profits and dividends.

Please turn to Slide 23. On this slide, we deep dive a bit on our dept position and capacity. Currently, we have a capacity of slightly more than DKK 300m for Tier 1 instruments where the Tier 1 instruments as a maximum can account for 25% of the core equity Tier 1. The decision to postpone any dividend announcement at the year-end means that the core equity Tier 1 should increase every quarter and therefore, create more space for Tier 1 instruments. However, assuming a normal dividend pattern, there is no space for further insurance. When it comes to Tier 2, Tryg has actually a spillover of DKK 192m, as these cannot be counted in at the moment since they exceed the 50% SCR threshold.

On Slide 24, we want to show you the long-term development of the solvency ratio, which is at a very stable level. The bigger changes in the last 4 years have been the acquisition of Alka and the approval of the new partial internal model here in the second quarter of 2020. As mentioned previously, leaving these items aside, the profits and dividends are the key drivers of the solvency ratio.

Finally, please go to Slide 25. As usual, we provide you details on solvency ratio sensitivities. The biggest sensitivity continues to be the spread risk, which obviously stems from the fact that the vast majority of our fixed income instruments are Nordic-covered bonds.

With this, I would like to hand over to Morten for our targets and outlook.

Morten Hübbe, CEO

Thank you, Barbara. And rounding off, we firmly repeat on Slide 26 our financial targets for

2020 and, of course, particularly important, our DKK 3.3bn technical result target for the year. After delivering a first half year technical result of DKK 1.7bn, we are well positioned to reach the full year target. And of course, as you remember from the first quarter, the ROE target for 2020 was abandoned at the end of March following the extreme capital markets development of the first quarter.

And then we finish with our favorite quote from John D. Rockefeller on dividend on Slide 27.

And with that, we will turn to your question

Questions and answers

Asbjørn Mørk, Danske Bank

I have a couple of questions, one relating to your Private business. The 10% growth that you report and then the 20 basis points improvement to the underclaiming claims ratio, you say that we should expect less improvement going forward for the Private due to this growth. I was just wondering if 20 basis points is sort of the run rate that you expect from here or whether there is a specific impact from the partnership renegotiation that you mentioned for Norway?

And then as a follow-up to the Private growth, the Nordea-Topdanmark distribution, have you seen any changes during Q2 after the reopening of the economy has churn sort of accelerated in June versus the first two months?

Morten Hübbe, CEO

Good morning to you, Asbjørn. I think the announcement that we would see a continued underlying improvement of the claims ratio, but the roles would change a bit in the sense that private lines, which has been dragging almost the entire weight for quite a long period of time would be pulling a little bitt less weight. Then we would see the Commercial and Corporate business starting to add to the party and carry their weight. I think it is extremely important longer term that we start to see that, and we are quite pleased with that.

I think with respect to the run rate and the 20 basis points, I do not think we give precise guidance for underlaying development, but we do expect to continue to see a slight underlying improvement in the Private lines. So, I do not think you are far off.

I think when it comes to Nordea and Danske Bank, we need to bear in mind, that there was a short period where we actually had a cooperation with both Nordea and Danske Bank. And of course, that model would have been nice to have into perpetuity, but probably not very possible. And now we see a period where we see the loss of Nordea and the addition of Danske Bank. I think during these first six months, there's really nothing changed, and there's really nothing changed in May or June, as per your question, after the reopening. And when we see the net impact, the number of new customers from Danske Bank is clearly higher than the number of customers lost from the Nordea portfolio. And I believe that is actually the most important question that, that is what drives both volumes and earnings longer term. And then, of course, we try to show how the one of the two legs, the retention rate is impacted from the Nordea portfolio. So hopefully, that is fairly transparent.

Asbjørn Mørk, Danske Bank

All right. Then a question on your Slide 16, the COVID-19 impacts. If you look at the Q2 versus Q1, motor is basically flat, the benefit you get. Property is actually down a bit. I guess when we look at the societal shutdown in Q2, it lasted somewhat longer than the three weeks it had in Q1. So, I guess I would have expected a bigger impact in Q2. Can you sort of elaborate a bit on how has the development been throughout the quarter? Is there anything we should be aware of after the reopening of the societies that have had a negative impact here?

Barbara Plucnar Jensen, CFO

I think as a starting point, Asbjørn, in March, it was a full lockdown and you saw very limited activity at that point in time. But then you have seen in Denmark, for instance, since 22nd of April, we started to reopen. In Norway, that was the 27th of April. So more or less throughout the majority of the quarter, you have seen a good rebound of activity. The week in April, where we had the lowest number of cars on the roads, it was, as mentioned earlier, down 40% compared to a normal week. So, we have seen, you can say, some of that impact.

What you should bear in mind is also that there has been a catch-up, you can say, on motor claims that we didn't get through where there was the lockdown. But when economics have reopened, there has been a number of claims that have come in to catch-up, so to speak, for the time where everything was more or less shut down.

Morten Hübbe, CEO

And it means, for instance, Asbjørn, if we compare June month to June of last year, actually, the number of motor claims is up 16%. Now we know that we have 5% more customers, and we know that there's some catch-up. But what we also see is that there seems to be a reluctance for people to use public transportation because it seems that they are worried about the proximity to other people. So there seems to be a tendency that people actually do not take public transportation and less than before, and actually take private transportation more than before. And it's also likely we are seeing some tendency of that already at the end of June that when more people stay in the Nordics, more people use their car driving around during their vacation. And actually, that pushes up the number of car claims in June and probably in July, but we'll see after, as you said, Barbara, an extremely low point in April. So, we need to monitor that carefully. And clearly, there's more volatility between the months and quarters on motor than usual. But I think comparing Nordics to the rest of the world, we are getting closer to normal activity level and faster than most other countries.

Asbjørn Mørk, Danske Bank

So, if I hear you correctly, you're basically saying that if we look at July, August over the summer, the benefit you'll have from travel might actually be offset by rising motor claims?

Morten Hübbe, CEO

I guess predicting people's travel patterns in the world of COVID-19 is extremely difficult, but I think it's fair to assume that some of the people who would usually be traveling abroad will stay at home. And as a result of that, their car will drive more than usual in the summer vacation. I think that is a reasonable assumption.

Asbjørn Mørk, Danske Bank

All right. And I guess we'll have to see how it actually goes. But on the Alka synergies, you have delivered 175 now. The run rate is 43. Should we still expect roughly DKK 300 million or should we take the current run rate plus the initial DKK 150 million for 2021? So, your total synergies are going to be closer to DKK 400 million? I mean, I guess my question is, are you ahead of the plan, but the total potential is still the same or is the potential bigger now?

Morten Hübbe, CEO

We have not changed our view of the total potential. But of course, we are pleased that we are slightly ahead of the plan on the synergies. And of course, equally important when we monitor the Alka business as such, prior to synergies, particularly pleased to see that, that business is doing really well. So, I think that's a positive experience, but we've not changed the outlook for the total synergy.

Asbjørn Mørk, Danske Bank

All right. Then on Sweden, there's improvement also on the underlying for Q2. I mean it's not a great business, but it's improving. How are you – I mean, with the initiatives that you're doing right now, how are you seeing sort of the midterm outlook for Sweden?

Barbara Plucnar Jensen, CFO

I think on Sweden, what we have been really focused on is to work on the areas that you can say we have mentioned like motor is an area where we have been quite mindful around the pricing and so forth. We are continuously looking at what is the development in the business in Sweden and are taking the appropriate actions in the areas that we see as being relevant. So, you should expect that to continue also in the quarters to come.

Morten Hübbe, CEO

Yes. Because it is really a journey that is not final yet. I think we are into the process of enhancing prices, for instance, in motor Sweden, in Private and then, of course, also on some of the Corporate lines, but we are not at the end of that process.

Jonathan Denham, Morgan Stanley

Good morning. Firstly, Morten, you mentioned the Dutch regulator and dividends and your own strong solvency ratio. Would you seek to declare the first three quarterly dividends of 2020 at Q3, if you're allowed? And maybe if you had any conversations with your local regulator about that topic?

And then just secondly, are you doing anything to combat higher part costs in Norway due to FX? So, are you putting through additional rates or peers who are taking any claims actions?

Morten Hübbe, CEO

Good morning to you as well, Jon. On the first question, I think it's overall structurally positive that some regulators are starting to see that insurance companies are not banks and insurance companies have more stable business models and more stable capital generation than banks, and that should influence the decision on the attitude towards insurance companies' dividends. I think we're pleased to see that the Dutch authorities are voicing that argument. I think that is one regulator out of many regulators, and I think it still too early days to see what the consequence of that is. I don't think that we should expect or plan that in a particular quarter we can jump to a dividend decision. I think we need to see what happens around us during the autumn. We have said we will move to an annual dividend decision. We are very pleased with our solvency rate. We know that it will grow further during the autumn, and we are very pleased with our results. And we'd like to pay our dividends. But when it comes to the view of the regulator and when it comes to timing, it is still not possible for us to give you a clear guidance on that. So, I think we'll have to see how the world develops during the autumn and how the regulators' view develops. But I think we are in a very positive and strong position. And at the end of the day, that is the most important.

Barbara Plucnar Jensen, CFO

Question on the claims inflation in Norway and Sweden and whether we take extra measures. I think dealing with claims inflation is part of the business model that we run. So, you can say, obviously, we are more impacted at a time like this, but it is something that the business is following quite carefully in the way that they deal with, you can say, both the supply chain, but also when looking at adjustments to our prices to take into account expected price inflation going forward. So yes, it has been a little bit more than we have seen for a while in terms of volatility in the first half year. But as I said, it's something we are used to dealing with in terms of our ordinary business.

Jakob Brink, Nordea Markets

Just coming back to COVID-19, please. Could you just remind us what is the short-term impact of all this opening and closing of different countries and travel insurance, et cetera, and also your reinsurance status?

Morten Hübbe, CEO

Well, I guess, Jakob, if the authorities had stuck to the first signal of keeping, for instance, Denmark closed for the entire summer holidays, then any travel claims during that period would have been covered as the same first reinsurance event as we saw from March and onwards for COVID-19. So, no new net payment for us but a full reinsurance cover. Given that a number of countries have now been reopened, then our own travel claim will pay.

If we see a new outbreak or a high number of travel claims, then we would step into a second period of reinsurance where we would have a new claims size to cover on our own before the reinsurance kicks in, in round two. But typically, you would narrow down which is the 14 days period with the largest number of travel claims and then use the reinsurance for that, but we would have moved to an event number two after the reopening. So hopefully, that's fairly, fairly clear.

Jakob Brink, Nordea Markets

Okay. And on the longer-term impacts of COVID-19, I know this is very premature, but it could be interesting to hear your thoughts. I think you mentioned that there have been more motor accidents now in June, maybe because people don't want to travel public transportation or whatever, maybe also people stay at home from or driving more in the vacation. But what do you think is more the sort of longer-lasting impacts? We've also heard about more companies allowing people to work from home, et cetera, et cetera. It would be interesting to hear your thoughts.

Barbara Plucnar Jensen, CFO

Yes. I think, as you say, Jakob, it will impact, you can say, our ways of working. I'm sure about that. It will also impact the travel patterns. It's difficult to see sort of what the medium-term impact is and what will be the long-term sustainable impact. And I think that's something that we get more clarity on, yes, probably only in the next 12-18 months. Because right now, if you look at the global economies, there is a huge difference in terms of where the individual countries are in the cycle dealing with COVID-19. So that also means that with now borders opening and people being able to travel more, what will be the impact of that. Will we see that the infection rate starts to increase, so we need to see further lockdowns where we see that people will then take into account significant less travel and so forth. I think there's a lot of question marks still in terms of how this will have a more longer-term impact.

Morten Hübbe, CEO

I think if we use Tryg's own employees as a proxy, they are telling us that they would like to spend at least two days a week working from home. Now of course, if that's the case, then the usual commuting traffic in cars longer term should be lower. How much more private driving does that then mean? Well, somewhat higher, but net-net, perhaps a reduction. But it is a little bit tricky to see through how much of that view of working from home is influenced by the recent experience and what will be the actual permanent carrying out of that.

I think there's a good likelihood that we will indeed see a longer-term higher tendency of working from home, which will impact our transport patterns. I think we will also see some less business flights for meetings, et cetera. But it's difficult to fully judge, we can see the opinion today, but how long is the memory and have we all forgotten about that two years from now, that is really tricky to figure out.

Barbara Plucnar Jensen, CFO

I think some of the things that are sort of being investigated right now is the understanding of new risks occurring. So, I think it's become quite evident also in the lockdown and in the period, we've just gone through how important IT security is, as an example, when you need to do more work from home, if you want to be more, you can say, decentralized, that puts some requirements in terms of your IT infrastructure and so forth. So, I think what you also see develop is some new risks arising where people obviously would look at insurance coverage to hedge some of those new risks coming in.

Jakob Brink, Nordea Markets

Great. And then on the Private side, could you say anything more about this 10% price reduction in Norway? And why did this happen? Or just the negotiations around this could be interesting to learn more about.

Morten Hübbe, CEO

Yes. We can do that. I think what we see is that typically for an average Private customer, price changes are gradual, and they happen all the time. Whereas for some of the larger partnership agreements, you have a less frequent period of looking at the profitability and looking at the margins. And most often, there's a risk sharing between the partner and us and the profitability sharing, and that gives a little bit larger waves up or down. And it goes both ways with some of these larger partnership agreements because we need to agree on them. So, for us, there's really no surprise in this. We could see from some of the profitability numbers that this would be the result. And then the impact hits a little bit oddly in terms of hitting a particular point in time because it has been negotiated and agreed with the partner. And of course, the variation of margins and combined ratios between the various partner agreements and the various products are quite significant. And most often, that gives some increases, some reductions and then it doesn't really impact the total. But when there's a product like house, which is large, and a reduction of 10% with a very large partner, then you see it in the numbers, and then we'd rather explain to you that, that is where the impact comes from and not a changed pricing pattern for all of our other Private house customers in Norway.

Jakob Brink, Nordea Markets

Okay. I guess just following up then on the Private underlying combined claims ratio was 20 basis points improvement year-on-year. We talked about it a bit earlier in this call, but you say that probably a run rate of this level could be expected. But would you be willing to even see a deterioration year-on-year in order to get growth?

And secondly, I don't think you answered on this before, but how does this 10% decline of the house price in this partnership agreement in Norway impact the underlying claims ratio going forward? Is that already in the numbers now or will that have an additional negative impact in H2?

Morten Hübbe, CEO

I think on your first question; would we attempt to accept deterioration of underlying claims ratios in Private lines to reach higher growth? I don't think that would be meaningful and that would never be our target. The way we see it, we should always make sure that we focus on the customer experience, the customer retention rate and the customer development, growing the market with more innovation and new products while at the same time accepting that new customers always have a structurally slightly higher combined ratio for the first couple of years, both because of the higher distribution costs, but also the slightly higher claims frequency for the first couple of years. So that is structurally unavoidable. But we should always make sure that we continue to improve the underlying while improving the customer relationship at the same time because both are drivers of strong continued improvement to margins.

So, I don't see any signal or reason why we should leave that. But of course, there's a good and strong logic in making sure that we don't need to see Private lines pulling all of the weight of the improvement of the entire group, but rather spread that to ensure that we include Commercial and Corporate in the improvement. And as of now, there's clearly a stronger need of improvement in Cmmercial and particularly high-end Commercial and Corporate. And that is why we are working very hard to make sure that they pull more of the weight. As I think we've explained all along and now we start to see it in the numbers, and I think that's a more healthy way of equalizing how the various business segments add to the value creation and not just having Private lines pulling all of the weight.

Jakob Brink, Nordea Markets

Makes sense. Very final question from my side. On fraud detection, I think you mentioned DKK 20 million in the first half year, which would be some 20 basis points on the combined ratio. I can't remember what exactly you guided for in the Capital Markets Day, but was it around 1 percentage point improvement over the strategy period? So also, you have highlighted before that Alka was significantly more effective in finding fraudulent claims. So, could you give us an update on where you stand on improving that side?

Barbara Plucnar Jensen, CFO

Yes. I think what we have been telling all along is Alka were quite progressed in terms of how they work with their fraud identification. They had a very strong data-based setup that sort of could ensure that they had some strong results. That is something that we are rolling out to the wider Tryg. But as this comes back to also IT technology and real-time data in order to make the maximum value out of the methodology that Alka has been using, that is something that we're in the progress of implementing, but we are not where we want to be for the full group. But it's positive to see that both the methodology and the approach that we use around identifying fraud is something that we can start see spilling over to the wider Tryg business as well.

Morten Hübbe, CEO

I guess, Jakob, you made the reference back to the Capital Markets Day. I think we were extremely pleased to have the competencies within the Group now from Alka on fraud because at the Capital Markets Day we were in the process of implementing an external fraud system that had nothing to do with Alka and our anticipation was that, that would drive a lot of the fraud work, and the reality was we never got that external system to work in a Tryg contract and we had to abandon that project completely. And then we've got new competencies on board from Alka. But as Barbara said, we are still quite far from having the Tryg data-set equivalent to the Alka data-set. I think the Alka fraud model looks at 121 parameters. We're nowhere near that in the Danish or in the Tryg business. Alka runs on real-time data. The Tryg data runs in batch overnight. So, there's a number of structural differences. We're pleased that we have strong progress as a result of Alka. But clearly, the journey is a lot different than what we thought at the Capital Markets Day in 2017.

Per Grønborg, SEB

A couple of questions from my side. First of all, we had an event in your share price some weeks back, seemed to be related to the ombudsman's case. Can you give us some perception of where you are seeing that case that is won by the Danish ombudsman at the moment? In that context, can you give us any data on how large a share of your Private business is Danish? And if possible, also how bigger share of the Danish business is affinity agreements where I assume you haven't applied the same systematic prices as you have to the other part of the portfolio?

My second question is returning to the Norwegian price change. You addressed a bit on the client. My question is more generic. Is this a risk that is facing a significant number of your affinity agreements that they have become too profitable and now the counterparty demands prices to be lower? It was a bit positive that you said there was a profit-sharing agreement on those ones. I assume the premium you're addressing is after rebates that is the premiums you address everywhere in your report. So just can you clarify where that fits in? That was my two questions.

Morten Hübbe, CEO

Yes, when it comes to your first question, the way we see it, there is no case. There is a set of legal guidelines and rules for price changes and we have, of course, abided by all of those rules and all of those regulations. So as far as we can see, there is no case. And as far as we know, the ombudsman hasn't started the case. So, for us, that is the short version of that story.

When it comes to the size of the price changes carried out, it's quite important to say that it is only Denmark, it is only Private lines. Within Private lines, there is typically a risk-sharing or profit-sharing mechanism depending on the nature of the partner agreements. So typically, the partner agreements would follow another pricing structure and would not be included in this debate.

Secondly, every year, a large number of customers would change their car. They would change their house. They would change their apartments. They would change some of their children's insurance policies or other changes as a result of the many, many product adjustments and additions we've done. And if they have changed products during the process, they are not relevant for the calculation of pricing impact. And as you can hear, all of that means that you would carve a very large proportion of the total portfolio away if you were to try to calculate what has been the net impact of those price changes. So, the number, we've not published the number, but the number is actually fairly small.

I don't think we've ever published a precise number on the share of affinity agreements. And I think affinity agreements are many different things. Some of it is bank corporation, some of it is the civil servants' insurances that we have worked with for 80 years, some of it is small, more cash flow affinity agreement. So, there's a whole broad variation, but I think it's fair to say that both in Denmark and Norway, there is a large proportion of our business which is affinity agreement and a lot of that is very old and very large agreements. So, it is a very sizable number of policies that you would need to subtract to try to calculate the net relevance of the price changes. I don't think you can do that math, to be honest. But I think the number relevant of price changes and the consequence is actually quite small. And then I would revert to the starting statement, which is that, as we see it, there really is no case because we have done everything according to the current rules.

Per Grønborg, SEB

Okay. And the second question?

Barbara Plucnar Jensen, CFO

That's related to, you can say, the price change, you can say, on the Norwegian agreement. I think, as Morten already said, there is a number of agreements that we have in place. There's a number of agreements that we have had in place for a very long time. So again, these need to be renewed from time to time, and it's down to individual negotiations where in this particular case, we have seen somewhat of an impact, but it is not something that you should expect to see significantly more of going forward. Again, it's coming back to the fact that we deal with the partnership agreements on an ongoing basis, so that they work for both partnerships.

Morten Hübbe, CEO

And I guess your question, Per, on, is it a profit sharing? Is it risk sharing? Or why do you then have bigger adjustments? I think the reality is that we would like all partnership agreements to follow the same contractual structure and have the same rules on risk sharing and price adjustments and whatnot. The reality is that, that is not the case at all. There's a huge variation on the structure of the way a partnership agreement is actually structured. In some cases, there's a lot of risk sharing or profit sharing. In some cases, there's 0 profit sharing or risk sharing. In some cases, there's sharing of costs and in some cases, not. In some cases, we change prices very frequently. In some cases, we change them very seldomly. So, I guess the gist of your question was, is this a signal that we will see a lot more of these in Norway? And the answer is no. There's no sort of structural element, and they're not structured in the same.

Jonathan Urwin, UBS

Just two, please. So, it sounds like Tryg has changed some of the pricing practices from the start of this year. So, there's potentially less dynamic repricing below this 5% increase threshold. I just wondered will that impact the underlying development in Private going forward? That's the first question.

And then secondly, run-off was a bit lower in the second quarter. So, I wondered what's going on there. Are you just building more prudence into reserves because you expect frequency and severity to rise?

Morten Hübbe, CEO

I think on your first question, I'm glad you asked the question because that's actually very important. It's quite important to state that our view of price changes has not changed at all. The way we see it is extremely important that we monitor claims inflation, we try to be ahead of the curve, we try to make sure that we have both index and price changes in addition to index to make sure that we offset claims inflation. So, the discussion on pricing, in my view, has nothing to do with the volume of price changes. We will do exactly the same volume of price changes as we've done previously because our view on the role the price changes play is unchanged.

The only debate is how do you communicate these price changes. Do you communicate everything in the same way, or do you distinguish between significant and insignificant price changes as the current regulation does? That is the only debate. It is not a debate about the size of the price changes we do because that will be unchanged. Hopefully that's fairly clear.

Jonathan Urwin, UBS

Yes.

Barbara Plucnar Jensen, CFO

You had a question on the reserves, whether that is a step change? Or did I get it wrong?

Jonathan Urwin, UBS

Yes. I just wondered why it was a bit lower in the quarter. I mean, I guess, you probably want to build a bit of prudence just given if you're uncertain on the frequency impact over the summer and potentially severity?

Barbara Plucnar Jensen, CFO

Are you talking about the run-offs or the reserves?

Jonathan Urwin, UBS

Well, both, lower run-off, higher reserves?

Barbara Plucnar Jensen, CFO

Yes. Yes. I would say that if you look at run-offs, they are a little bit volatile. And obviously, we have a look at current situations from quarter-to-quarter, and we are always trying to manage, you can say, what is the expected development in our business. So, I would say, yes, it's somewhat lower than the 5.3% that we saw in the comparable quarter last year. But if you look at recent quarters, they have been moving between more or less 3.5% and 7%. So, it's not extraordinary that you would see a variation from quarter-to-quarter.

Morten Hübbe, CEO

And I guess when we look at it through the front window or windscreen of the car, in our view, our outlook on future run-offs is unchanged. We don't see any sort of change signal or trend in that.

Mads Thinggaard, ABG Sundal Collier Holding

I only have two questions left here at this point. And the first one, I mean it's on the renegotiations you did in Norway that we had a lot of questions on. I mean, I've been speaking to some, I mean, of the other Nordic insurance and some of them are seeing less partnership agreements being less attractive than they used to be. I don't know if you see a change here and if there is some kind of, I mean, strategic inflection of this seen from your point of view, if you could address this.

And then also just a small one on the Norwegian flooding risk that didn't materialize in Q2. Is there an overhang on Q3 with flooding risk?

Morten Hübbe, CEO

Thank you for two good questions, and I think I'll take the first one. I think it's a very relevant question because you should always be very aware of what is the value and the quality of a partnership agreement. You easily run into the risk that a partnership agreement is just the same product, the same starting point price, the same distribution cost, the same penetration in theory, the same margin, but then you add a discount and then it's actually a worse proposition than not to have the partnership agreement. And you easily run the risk of having that be the conclusion. So, lots of partnership agreements are actually not attractive if you enter into them.

So, the way we see it, we need to see a logic where the distribution cost is lower, the penetration is higher, the loyalty or retention rate is higher or there is an opportunity to product innovate between us and the partner because the partner has a particular homogeneous group of members whom we can then jointly innovate product towards and through that, add the number or increase the number of products per partnership customer, and through that create more value. But you need some of those comparative advantage elements to play a key role. Otherwise, a partnership agreement really doesn't make sense. And those are clearly our strong focus areas when we enter into a partnership agreement. And otherwise, we would not do it.

Mads Thinggaard, ABG Sundal Collier Holding

Okay. Has it become less easy to do an attractive deal than it used to be or is it quite the same kind of effort and work?

Morten Hübbe, CEO

No. I think, actually, the nature of the work has changed quite dramatically because I think typically, today, entering into a new partnership agreement means entering into a large number of product changes, concept changes, a large number of digital changes, online solutions, et cetera, et cetera. So typically, the IT and innovation associated with the partnership agreement is by far the driving force of a new partnership agreement today, which also means that there's typically a very large upfront investment. So, we need to believe that a partnership agreement will be successful because otherwise, it's not worth the upfront IT investment. And typically, we design all those IT and online solutions from the Nordics and then we have people often in India actually coding and carrying out a lot of that. But clearly, that was not the case just five years ago. So the nature of the work has changed a lot.

Barbara Plucnar Jensen, CFO

And on the Norwegian flooding, obviously, some of that relates to the snow melting and how it then impacts. Is it a fast melt or is it a slow melt, et cetera, et cetera? And I think what was expected was that we would see quite a bit of impact in the second quarter. I don't foresee that we see a spillover to Q3, but it has just been gradual, hence, less of a sort of immediate impact with the melting in the second quarter of the year. So, I wouldn't see that going into Q3.

Martin Gregers Brink, Carnegie

A couple of questions from my side. The first one on you Morten alluding to Commercial and Corporate need to carry their own weight going forward. How many years of successive price increases would you expect that to take before we reach, in your view, a satisfactory level? That was my first question.

The second question goes to maybe digging a little bit more into Q3 and staycation effects where you also alluded to an impact on motor, in particular. What is that going to mean for other insurance lines? Are we still expecting Q3 to be a net positive from COVID-19 or is it going to be net negative? Those are my 2 first questions.

Morten Hübbe, CEO

Thank you for that. I think on the first question on Commercial and Corporate, I think, first of all, it's quite important to say that commercial is actually a combination of an SME segment, which is very profitable, and then a higher-end Commercial segment, which is not profitable or a lot less profitable and which looks a lot more like the Corporate segment. I think there is a fairly big variation in the maturity of the price changes we're doing in Corporate in the way that Corporate Norway is now in year 3 of price increases. And we're seeing a significant improvement in profitability in Corporate Norway in this year 3, but we will need at least a year 4, maybe more, but we are now seeing the improvements carrying through, whereas Corporate Denmark and Corporate Sweden is really closer to being year 1. Of course, the starting point challenge is smaller than in Norway. So, if Corporate Norway needs somewhere between 4 and 5 years to fully get to where we want to be, then hopefully, Denmark and Sweden Corporate needs less. But I think the Norwegian journey tells us that it actually does take a while. And I'm quite pleased that Norway Corporate is ahead of the other two countries because we want to see the earnings starting to improve, and we are actually seeing that. So, I think that's positive.

Barbara Plucnar Jensen, CFO

On your staycation point, I love the expression. I think as we've alluded to before, obviously, isolated looking at people's travel patterns, where they will have their vacations this summer and how that will impact in particular, the motor, is one thing. But I think you need to take it into the bigger picture. So, what do we foresee that there will be a wave 2 that will obviously impact that you can say we lockdown again with whatever consequences that has. So, I think, as we've mentioned before, it's slightly early days to have a firm view on that. But isolated looking at more people staying in the Nordics, more people on the roads, it will have an impact we foresee on the motor part of our business.

Morten Hübbe, CEO

And I guess you could speculate on accident as well because I think the more leisure time you have and the more you do various leisure activities, there is a likelihood that you will have some accident claims as a result of that. So, it is a little bit tricky to see the entire pattern. And I think still a lot of families are not really sure whether they drive to France or Italy or they stay at home. But it still looks like a lot of people staying at home, and that will have some impact on both motor and accident and other products. I don't think that net-net of that is a deterioration, but it just means that it's probably not sensible just to expect a strong net-net reduction in claims because that is not supported by the current activity level.

Martin Gregers Brink, Carnegie

Okay. Okay. And then a final question on COVID-19. COVID-19-related expenses, are they expected to disappear completely by Q3?

Barbara Plucnar Jensen, CFO

If you look at this quarter, we had DKK 18 million of expenses. And you can say, a proportion of that was related to ensuring that our IT and our telephone setup was appropriate and to deal with the fact that all of our staff was working from home. So, you can say that is more or less a one-off that we had to incur. But there are other areas like right now, we have a changed pattern in our canteen in terms of the meals. There are, you can say, of course, I would say, sustainable impact on things like our cleaning activities. But the counter side is also then looking at what will be the need of space and so forth going forward. So, you have a bit of positives and negatives on that, that we just need to deal with. I don't foresee that you would see a sudden - you can see spike of further costs at all.

Teik L. Goh, Citigroup Inc

Just a few questions from my side, please. I'll ask them one at a time. So, if I just start off with COVID-19, and I'm just thinking about kind of the potential adverse impacts that might come. So, this is just kind of going back to the comment that you still have in your report today that you might see some adverse development in business interruption and also in credit and surety. So just on business interruption, I know you've previously said that you don't write pandemic coverage and your standard wordings are tight, but what are the key uncertainties there and how might this play out? Has there been any kind of change in sentiment given what's going on in the U.K.?

Morten Hübbe, CEO

I think it's quite important to state that in a number of countries around the world, you would actually cover business interruption as a result of pandemics. And as you rightfully say, that is typically not the case in the Nordics. So, you would need a physical event to trigger the business interruption cover. So, you would need a building on fire, or you would need a flooding, or you would need a storm or something to trigger the event. So, there's really no change that business interruption as a result of pandemics is not covered in our policies. I think we have a few very, very small corners of that. But in general, it is not covered and there's no change on that. So, the debate you're seeing in a number of other geographies is not relevant for us.

Teik L. Goh, Citigroup Inc

Yes. And just your comment in you might still see some adverse development. So, what you're saying here is that, if any at all, it's going to just be a very material amount? Is that correct?

Morten Hübbe, CEO

You can argue that if you look at the guarantee business, that is still dependent upon the number of bankruptcies we'll see in society, but we see that the guarantee business is also being helped by aid packages supporting the companies. So, it doesn't look very likely that we'll have a material negative impact. But there, the link is not to business interruption, it is to the risk of defaults.

Barbara Plucnar Jensen, CFO

And I think that's also what we discussed, I believe, on last quarter where this will be very much a different timing from some of the other immediate things that we have seen in first and second quarter. This is something that will come slightly later depending on how the economies will pick up and how the various sectors will be impacted, so...

Teik L. Goh, Citigroup Inc

Yes. Yes. That's fair. And is there any exposure to think about in terms of the health insurance and also on events cancellation?

Morten Hübbe, CEO

I think that, again, typically, there are some exposures to what we will call sickness insurance in Norway, but quite limited. We are not big players in events and events cancellation. We have some insurances of the liability or the risk of injuries happening at events. But typically, our exposure to events cancellation, which I understand is quite a business area for a lot of international insurers, is very, very limited for us. So, I would be very surprised if you saw any real impact from that. But sickness in Norway could drive some impact.

Teik L. Goh, Citigroup Inc

Yes. Yes. And going back to motor, so I think you previously mentioned, you're not seeing any kind of pressure for rebate. But I'm just thinking about how might benefit still be socialized or passed back to the customer? Do you have a no-claims discount in place? And is it the case also that maybe some of the profit-sharing agreements that you have with your partner would see some of these benefits flow through there?

Morten Hübbe, CEO

Well, I think it's a sensible question. But if you look at the first 6 months in total, you see, as we talk about, for instance, in motor, rather high claims pattern before COVID-19, then extremely low claims for a few weeks of COVID-19 and then back to normal at the end of the quarter and actually, June looks very high. So, the reality is, if you look at it from a full 6-month point of view, there's really no large net reduction that should call for any discounts or any profit-sharing changes. So, we don't see that as a major driver.

Teik L. Goh, Citigroup Inc

Yes. Yes. And one last question, please. Just on the commercial growth. So, it's 4% organic growth in the quarter. Could I get a sense of the volume and pricing contribution from this 4%? And the reason for that is, I'm just trying to understand what kind of impact has the lockdown had on underlying volumes?

Barbara Plucnar Jensen, CFO

If you look at the underlying impact on volumes, it's actually been more limited than what we anticipated. We have seen smaller adjustments, but it's not any material impact that we have seen so far. I think the area is probably most within motor, again, adjusting the kilometers on the cars and so forth, but that is actually the area where we have seen more impact or some impact, so to speak.

The growth of 4.4%, if you look at the Commercial business we have, it's a slightly different story if you look at Denmark and Norway. In Norway, it will be a larger proportion which stems from pricing activity, whereas in Denmark, in particular, given the partnership we have with Danske Bank and the penetration of the SME segment, the initiatives that we have around the cyber insurance which have, you can say, spirit, a very good dialogue with our customers, that has been driving quite a good growth in terms of the Danish business. So, a slightly different case, depending on whether you look at the Norwegian or the Danish business in terms of where does the growth stem from?

Steven Haywood, HSBS

It's Steven Haywood here. Can I ask three questions, please. Firstly, on motor claims inflation, what kind of level are you seeing at the moment? And how is this being impacted by the delay in repairs and delaying in parts and additional higher car costs?

Morten Hübbe, CEO

I think there's a little bit of difference between the countries. I think in Denmark, we're not really seeing a delay in the repairs. I think we do see that the parts have been available, and repairs have been done. And the inflation looks like what we saw prior to COVID-19, which is generally a trend where, particularly the higher safety equipment parts are much more expensive and that is an isolation challenge, whereas the more ordinary parts replacement has an ordinary fairly low inflation, and then we use our procurement power to pull that down. But I think the reality is that our pricing of newer cars has been capturing that well. So that's really not a worry point.

And then I think the main change, and that's not a COVID-19, it started way before. It has been that for Norway, given the currency development, the price of imported spare parts has been a lot higher, which has been driving the need for higher price increases in Norwegian motor. But that is a debate which is a number of quarters old, and it's a trend that we have been capturing. It's still a trend. So, we still need to make sure we handle it, but it's really not new and it's really not a result of COVID-19. So, I wouldn't expect a changed pattern or a certain or a sudden spike as a result of that.

Steven Haywood, HSBS

Okay. And then on your investment portfolio, the equity exposure has gone up significantly. Is that because of you buying more equities or just because of the mark-to-market movement? And also related to that, my final question is, you aren't getting full credit for your Tier 2 instrument. Would you consider buying more equities to increase the SCR to get more credit for the Tier 2 instrument?

Barbara Plucnar Jensen, CFO

No. I think if we start with the latter question on buying equities to offset, you can say, our Tier 2, that is not something we plan to do. In terms of the equity exposure, some of that is rebalancing, and obviously, the mark-to-market value is the big driver. We haven't changed our investment strategy. We haven't rebalanced, to a larger degree, our asset allocation. So, you can say it is very much driven from the market movements that we have experienced in the quarter.

Gianandrea Roberti, IR Officer

Thank you so much for calling in today and for all your very good questions. If you have more tomorrow and later on today, Peter and I are always available. Otherwise, I just take the chance to tell you, have a great summer to everybody. Thanks.

Tryg