Tryg – Annual results 2014

Audio cast and Q&A 28 January 2015

Transcript

Presentation

Lars Møller, Head of IR

Yes, good morning everyone. Here is Lars Møller, Head of IR at Tryg. We are here to present our Q4 and annual results for 2014 and with me today I have our CEO, Morten Hübbe, and our CFO, Tor Lønnum, and after this short introduction over to you, Morten, please.

Morten Hübbe, CEO

Thank you, Lars. And if we turn to slide 3, we are pleased to announce the best fourth quarter since Tryg's IPO some 10 years ago. With a combined ratio of 83.7%, we increased the technical result in the quarter by some 40% and for the full year some 22%. Of course, the quarter has been helped by some 300 million lower weather claims as well as higher run-off gains. On the other hand, we have had roughly 150 million higher large claims year-on-year in the quarter. Clearly, the underlying main driver is our efficiency programme which now has resulted in almost a billion DKK. And also, we see that despite a write-down of our domicile premises of roughly 100 million, also our pre-tax result is up some 20%. If you look at the topline for the 4th quarter year-on-year, it was down 2.4% in the 4th quarter 2013 and down 0.1% in 2014, 4th quarter. So a step in the right direction, but realistically we are expecting also pluses and minuses on the topline in 2015. And then in 2016 a more stable topline around the inflation level. If we turn to slide 4 and we look at the full year, as I mentioned the technical result is up some 22% or more than 500 million. Clearly, we had a helping hand from the one-off gains relating to Norwegian pensions in Q2 of some 135 million and we improved the combined ratio 3.5 percentage points for the full year. The topline improved from -2.7 in 2013 to -1.1 in 2014. So clearly, not finalised, but a step in the right direction. We delivered a return on equity of 23% post tax and we suggest to the AGM an improvement of the dividend from 27 DKK per share last year to 29 DKK per share and also a split of our share of 1:5 at the AGM. If we turn to slide 5, we point to some of the main events in 2014. Clearly, the most important probably is that at the Capital Markets Day after successfully delivering 950 million of savings in the old efficiency programme we target a new 750 million of efficiency measures towards 2017. At the same time, we have set ambitious targets for our customer development in a fashion that makes customers and earnings go hand in hand by focusing on customer loyalty, customer satisfaction and the amount of products per customer to become broader. We also decided to do another 1 billion DKK of buy back programmes in 2015. We shifted our provider of IT maintenance during 2014 and we made significant progress in our project of price differentiation and also built upon that our customer lifetime value initiative to make sure that we continuously improve the quality of our portfolio as well as our competitive position. If we look at slide 6, we see how the four different business areas contribute to the earnings improvement. And there is no doubt that the two main drivers have been Private lines or biggest business areas with a combined ratio of 82.5 and also an improvement of 21% in the technical result and clearly an improved trend on the topline and customer development in Private lines. And also the second driver, Commercial, with a combined ratio just below 80, an improvement of the technical result of more than 30%, I guess, elevating Commercial from an area which just 4-5 years back actually did not have any positive technical result to now a significant technical result of 785 million but clearly further behind Private lines in terms of topline. Sweden and Corporate also add satisfactory levels of around 92% in Sweden and some 89% in Corporate. If we turn to slide 7, we show our strategic initiatives for 2015. We are not exactly inventing the wheel with four new initiatives, but rather building upon the four previous and I would say successful recipes we have used in 2014. We will further enhance our price differentiation. Being historically an old mutual company we still have significant potential to improve our price differentiation and also our customer lifetime value modelling. Number two, our customer experience we will further enhance our focus on increasing the net promoter score, our customer retention rate and the number of products and clearly we see that as an important driver also of efficiency and of earnings quality. Leading in efficiency covers our new efficiency measure of 750 million on claims procurement and on costs which will be the main driver of earnings improvements in the coming year. And also, we see IT stability continues to be important, adding upon that further focus on digitisation which will enhance self-service and efficiency helping the cost measure as well. On slide 8, we show the quarterly improvement in efficiency. We deliver some 117 million in the quarter, on claims particularly in property but also Workers' Comp. we see a positive impact. On the cost side, we see working with IT sourcing but also, at the moment, working with finance sourcing will be drivers of earnings improvement. And then we see that the fact that we have done more digitalised communication with our customers has reduced our costs as well. On slide 9, we show our continued focus on reducing the cost ratio. If we look at the full year, the 14.6% cost ratio looks very promising but bear in mind there the one-off impact of 135 million from Q2 and if you adjust for that the full year is at 15.3% - an improvement of 0.3, but still further improvement we will take during the coming year. If we look at the quarter in isolation, it improves year-on-year from 15.4% to 14.9%, which we think is a strong level for Q4 and we see that we have further reduced the number of head counts by 161 people, excluding the purchase of Securator. And then if we turn to slide 11, we elaborate slightly on how the four business areas contribute both to the technical result and the topline and clearly if you look at the annual numbers, Private lines now reaching a technical result of 1.6 billion and worth mentioning Commercial lines 875 million and clearly those are the main drivers for improving the technical result. If we look at the topline, Private improves the most, together with Corporate. Private from -2.2 to 0%, Corporate from almost -3 to a plus of just about 1%. And clearly, if we turn to the quarterly numbers, we see that the underlying improvements in claims are mainly from Private and Corporate and we see that the topline improves gradually to -0.1%. And then over to you, Tor.

Tor Magne Lønnum, CFO

Thank you, Morten. If we continue on slide no. 12 and look at customer retention, we can see that there is a continued positive development in Private Denmark up to 89.6% in retention level. We see that there is a small reduction in Norway. We see that on the Commercial lines, there is a positive development in Denmark, an improvement whereas you can see that there is a decline in the Norwegian market although you can still see that the decline is coming after a long period of improving the retention rate and thus should be considered more as a normal fluctuation. If you look at slide no. 13 and look at the development in average premium you can see that there is a continued positive development in average premiums in Norway, both for the house product and for the motor product. In terms of the motor product in Denmark, you can see that there is a weaker development. It is a negative development in average premium. There are a few drivers in terms of the average premium. It is related to competitive pressure and discount but it is also related to the fact that as we have mentioned for a number of quarters that there are people moving to smaller and safer cars. In terms of the underlying claims ratio, as is mentioned on the slide, we actually see that there is a significant drop in the claims ratio as well so profitability is sustained. In Q1, we will introduce a new car tariff which we think will actually improve our situation in terms of market being able to sustain our market position. If we move on to slide no. 14, and talking about Private Sweden, you can see that the Sweden retention level is more or less at a normal level. We see that the Nordea portfolio, as is shown isolated, has moved more or less back to what you can see as the average for the portfolio and really indicates that the pressure we had on the portfolio in the beginning seems to be levelling out. In terms of the profit development, it is a slightly weaker result in Q4. It is due to seasonality and some one-off effects. Among others, we have some significant run-off gains in the quarter last year. If we move on to slide no. 16, and looking at the claims development, as I think Morten mentioned earlier, we see that we have an underlying improvement overall in the quarter by 0.3% overall. We see that there is a 1.8 percentage point improvement for the full year and in particular I would highlight the fact that we do have an improvement of 1 percentage point in Private. If you look at Corporate, Commercial and Sweden, it is a more mixed picture. You see that there is some weakening in terms of Commercial and Sweden, some improvement in Corporate although I would call it more normal fluctuations. In particular Commercial is coming from a very low level. If we move on to slide no. 17, and look at large claims, weather claims and run-off, as Morten mentioned there is a significant increase in large claims this quarter. Up 150 million. We see that there are a couple of particular types of business that have that kind of claim. It is related to seismic and it is also related to fish farming although we don't see it as a particular, negative trend. If we look at the weather-related claims, as Morten mentioned, of course there was a significant drop in weather-related claims, some 300 million. I would highlight, though, that if we move into 2015 we have seen significant storms both in Norway and Denmark here in January. So I would say that it is more or less accidental whether it is on this side of New Year's Eve or on the other side. And we do see that there are claims in the area of slightly above 100 million related to the storms here in January. If we look at the run-off gains, you see that there are slightly higher run-off gains this quarter. It is actually 7% run-off gains, which elevates the run-off gains to 6%, approximately 6% for the full year. Going forward as we communicated on our Capital Markets Day in November, we will see a likely higher probability of run-off gains. Historically, the run-off gain has been in the area of 4-6% whereas for the next strategy period we expect run-off to fluctuate around the current full-year level. If we move on to slide no. 19 and look at the investment result, we had a good performance in equity prices in the fourth quarter although relatively volatile. So we actually realised a 3% return on the equities which elevated the equity return for the full year to 10%. As Morten mentioned, the portfolio is, of course, impacted by the write-down of the domicile here in Copenhagen, which reduces the return by slightly less than 1%. If we move to slide no. 20 and look at the capital structure, there is a continued positive development in the capital buffer. It is at 51% despite the increased dividend that Morten mentioned. We have initiated the buy back programme and you see the more or less weekly or the weekly reporting related to that. And finally, I would mention that the equity development, as you can see, is more or less stable so a solid capital development as well. And with that I leave it back to you, Morten.

Morten Hübbe, CEO

Thank you Tor and just our last slide. On slide 21 where we reiterate our new financial targets as we stated them at the Capital Markets Day. For 2017, we have an ROE target after tax to be at or above 21% at a very low interest rate level, we might add. A target to reach a combined ratio at or below 87% and a target to reach an expense ratio at or below 14%. Clearly, the main drivers will be our efficiency programme of 750 million for the coming period until 2017 but also our work with price differentiation will add to the quality and the margin in our portfolio together with working with the customer experience, enhancing the customer loyalty, enhancing the broadness of the product coverage and also improving on the lifetime value and selection of these customers and all in all to make sure that we continue a positive trend and the positive earnings momentum in the coming years and with that we will turn over to your questions.

Questions and answers

Per Grønborg – *Danske Markets*

Yes, good morning. Impressive results. I just have a single question that I would like some comments on. If I look the segments I see that your combined ratio, I think it was 27 on workers' compensation. Can you give us some comments upon that? I guess it is primarily a prior-year gain that is rolling it down to this level?

Tor Magne Lønnum, CFO

Yes, Per that is correct and of course when you look at the higher level of run-off this quarter it is primarily Workers' Comp. being a source. I would just add to that comment that you also see some variances in terms of where the run-off result is stemming from so you have probably seen that there is slightly higher run-off in Denmark whereas it is actually a bit lower in Norway so of course that impacts the geographical segments that you comment on.

Per Grønborg – *Danske Markets*

How much is there, I guess this is still related to the changed liability law back in 2004. How much is there still to roll back on the liability line or are you more or less in place now?

Morten Hübbe, CEO

I think you can both, Per, look at the liability law change but also the general margin on Workers' Comp. also in older years than that and I think we have positive - sizeable, positive margins on both and I think it is fair to say in the higher expected mean of fluctuating run-offs in the coming years, Workers' Comp. will continue to be a significant driver of that.

Jakob Brink – *ABG*

Yes, I just have one follow-up question on Per's question actually on run-off gains. Could you, I mean, historically you have been talking about I mean when you do your claims estimate then you have let's say a best estimate of 100 and you add a buffer of 7. When you are now talking about a sort sustainable higher level of run-off gains, is it then only coming from sort of prior years sort of over-reserving on Workers' Compensation and Motor or is it also because that 100, the best estimate, is actually too high? That your models maybe do not factor in inflation good enough or low inflation or what exactly is going on?

Tor Magne Lønnum, CFO

Yes, Jakob, I think first and foremost to make sure that there are not any misunderstandings, we are saying the same today as we did at our Capital Markets Day in November, which is that we do expect a higher level of run-off gains in the strategy period, i.e. there is no infinity in terms of or perpetuity in terms of run-off gains. On the contrary, of course, we do factor in a margin on the reserves as you commented yourself. But it is important for us to say it is not like we are saying that the current run-off level is something that will run into perpetuity although I would add to the latter comment that when we look at the development in terms of margin, clearly there has been and that has been a continued trend that you all know about, the fact that sort of the early vintages of the 2000s have shown a very favourable development and that is something that we have continued to see both in Denmark and Norway.

Gianandrea Roberti – *Carnegie*

Yes, good morning from me as well. I have three little questions. The first one just to make sure I have got my number right. You have done 952 million after the 1 billion old savings plan and then when I look at the new savings plan I think you mentioned before the 415 we should expect 125 out of the 750. Do I need to add the 48 million missing from the old savings plan or that goes in the 125? That is the first question. My second question is that you mention that the claims ratio in motor Denmark is down 5% during 2013 and 2014. By the way, I like the word the profitability sustained - it is probably a little bit more than sustained on that point but does it mean that the combined ratio in motor Denmark is down 500 bps from the end of 2012 to the end of 2014 or is it actually down 1,000 bps? Can you clarify that? And also, how has that developed in Norway? That will be quite interesting. And the last question that I have is on the sideways reinsurance agreement, I think you had around 150 million in that agreement as per Q3 and few nasty weather has been hit in Q4 and Q1. Can you just tell me how much you have so far under that agreement? Thank you.

Tor Magne Lønnum, CFO
Yes, Gianandrea, to question no. 1 yes the remaining 50 will come in, will be factored into the savings which are planned for the coming three years, i.e. it will be a part of the 125 million in - so that will be a part of the programme going forward. In terms of the last question, can you repeat that, please?

Morten Hübbe, CEO
It was the sideways...

Tor Magne Lønnum, CFO
Ah, the sideways cover, sorry. In terms of the sideways cover, yes, we do expect to get some recovery on the storms that we had here in January. I think that you will find in the annual report the comment that there is somewhere around 80 million left before we get into the cover so that will give you sort of at least an overview of what is going on around the reinsurance agreement.

Morten Hübbe, CEO
And I guess the 80 million that was left before we are in the money on the sideways cover, Gianandrea, is a 1 January number so prior to

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Gianandrea Roberti – *Carnegie*

Basically, if I assume that the storm has cost you 80 you are in a way home free on larger weather events until 1 July that is the right way of thinking. Correct or?

Morten Hübbe, CEO

That is probably your wording and not ours but you are correct in the maths.

Guillaume Maillot – *Exane BNP Paribas*

Yes good morning all Guillaume from Exane. I have a question on the foundation. Even though it is not in your hands, people could you provide us with an update on anything you know and on the potential timing for discussions regarding the adoption of a policyholder dividend model? Has anything changed or been accelerated as compared to when you commented at the CMD last November?

Morten Hübbe, CEO

Well, it is, I can comment on that. I guess, the process is that the group of 70 representatives have during 2014 been working to find different modeling to do a customer bonus model including solving the question that parts of their historical fortune has been built also from Nordea Life and how would that be handled in the process. The process is now that they have the next discussion of this topic during February. Then they look at the discussion again in March so I think the earliest possible decision could be in the middle of March but I think, you know, it is a democratic process with 70 people involved so we need to have some respect for that process but the earliest decision possibility, as I see it, is in the middle of March.

In-Young Chung – *Goldman Sachs*

Hello this is In-Young from Goldman Sachs speaking so just one quick question on Sweden. We see that the Nordea portfolio retention is up and the ex- Securitor the premium change in the quarter seems to be about minus 5%. Do you have any comment on the Swedish portfolio ex-Nordea? Does, you know, I think up to 3Q was developing fairly okay so yes, that is just a question on Sweden please.

Tor Magne Lønnum, CFO

Yes, I think it is a mixed picture related to Sweden as you comment the Nordea portfolio is developing positively. We do have two other affinity agreements that have been terminated that will impact the revenues in 2015 and despite that we actually see that the sales here in Q4 have been relatively good so it means that for the full year Sweden will probably be negative but not as negative as we have expected and based on that I would reiterate what Morten said that for the full year 2015 the topline guidance is between a negative of 1% and up to neutral so exactly the same as we said on our Capital Markets Day.

In-Young Chung – *Goldman Sachs*

Sure, so that you say the minus 1% and that is on a group level, isn't it? Rather than for Sweden.

Tor Magne Lønnum, CFO

Correct.

Christian Hede – *Nordea*

Yes, good morning, this is Christian from Nordea in Copenhagen. I just have a question on your capital structure and I guess this is mostly a question on timing. In November, you were also talking about the option for issuing more subordinated debt when the rules are clear so I am basically wondering what is your best estimate for when the rules will be clear. Is that still going to be some time mid-2015? Thank you.

Tor Magne Lønnum, CFO

Good morning, I think it is really difficult to say what, you know, what the authorities will do and not do because it will be based on what will happen around the regulation for the natural perils pool and we are of course hopeful that we should be able to give a comment about that in the first half but, you know, to make any promises on behalf of others that we don't control I think is really difficult. But as you indicated, Christian, it will be important in terms of what we do related to the subordinated debt which, as you mentioned, has a call date in November-December this year.

Morten Hübbe, CEO

So I guess, Christian, you can conclude that hopefully we have news on the perils pool prior to November but the actual call date of the existing sub-debt is November so I guess the latest timing where we will make a change would be Q4 2015.

Mika Koskinen – *SEB*

Yes, good morning. Thanks for taking the question. I only have a very simple question on the investment income and relating to your write-down that you made on the domicile. Should I read this that, excluding the write-down of course, your investment income had been 106 million DKK higher, would that have been a kind normalised or normalised level of investment income or whether other one-offs impact the investment income in one direction or the other? And then as I am totally new or fairly new to the company, a question to you was this write-down communicated in before a year? Was the underlying investment income actually a fair amount better than the consensus expectation was if we adjust for the write-down?

Tor Magne Lønnum, CFO

Yes, good morning. I think first and foremost yes the 106 had an impact on the investment result as you say in Q4. Whether or not Q4 was normal is really difficult to answer. What I can say is that as I mentioned we have 3% return on equities isolated in Q4, i.e. 10% full year and our expectations in terms of a return on equities are 7% for the full year and it is at 6% on real estate so we do try to give some guidance in terms of the normalised investment result. What I would highlight is of course the fact that we have seen a new interest rate drop and of course that will have an impact on our investment return going forward.

Mika Koskinen – *SEB*

Absolutely. Okay, that is fair enough, thanks very much.

Paris Hadjiantonis – *KBW*

Yes, good morning, an excellent set of numbers today. I was wondering if you could comment a bit on the impact that the FX movements and basically the depreciation of the Norwegian currency is going to have on your earnings, capital and growth for next year and the years after? And if you could also explain the lower tax rate that we saw in this quarter. Thank you.

Tor Magne Lønnum, CFO

Yes, if we take the FX movement first, I guest first and foremost it is important to understand that we try to hedge the currency risk related to the equity exposed in the Norwegian branch so capital movements overall should be more or less neutral. It is not a perfect hedge but it should be more or less neutral. We do see some deviations there. In terms of overall impact related to profits, with the current level of exchange rates against the NOK it should have that if we hypothetically say that it stays at the same level for the full year it could have a 50 million Danish impact on the profit level so it is not a very significant number. In terms of the tax rate it is clearly impacted by the fact that equities have been a major driver for investment return and that actually impacts the tax rate significantly for the full year and also for the quarter so that is the main deviation point in terms of the tax rate.

Morten Hübbe, CEO

Then we might add that I guess in Norway we have seen in the previous years rather high GDP growth relative to the rest of Europe as well as a rather high level of new car sales, etc. and it will be interesting to see in the coming year how the lower oil price and the impact of the surrounding industries in Norway how that may impact the longer-term GDP development in Norway as well as new car sales and car insurance sales, etc.

so I guess it is likely that growth will be slightly lower in Norway in the coming years and that we will have to work slightly harder for topline in Norway in the coming years.

Gianandrea Roberti – *Carnergie*

Sorry, just to go back I had a question that I don't think we discussed yet. It is the claims ratio in motor in Denmark, I did not quite understand when you write that it is down 5% in 2013 and 2014 if that is a cumulative 5% or how should I read it? And how has that developed in Norway if you can give us some comment as well? Thanks.

Tor Magne Lønnum, CFO

Yes, we have discussed it, Gianandrea, sorry, I was actually going to comment on it, but the number of 5 percentage points is what you can find in the notes to the annual accounts movement from 2013 to 2014 so it is not an accumulative effect. In terms of the development in the Norwegian market we do see the same kind of positive development in risk margin in Norway as well so there is a sustained good profitability in the Motor products.

Gianandrea Roberti– *Carnegie*

Tor, just to make sure I understand this correctly because I have not seen the notes in the annual accounts but typically you reported the product profitability on a consolidated figure, right? Not on geography by product. So when you say the notes to the accounts, are you referring to the then Tryg motor book or what?

Tor Magne Lønnum, CFO

Yes.

Lars Møller, Head of IR

Thank you for taking time to place calls this morning here and I just want to remind you that on the last page of the presentation you can see where we will be on road show in the coming period and all of us are looking very much forward to meeting you around and thank you again and have a nice day all of you.