Tryg – Q2 2018 results

Audio cast and Q&A 10 July 2018

Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations for Tryg. We published our Q2 results this morning. And I have here with me Morten Hübbe, Group CEO; and Christian Baltzer, Group CFO.

Over to you, Morten.

Morten Hübbe, CEO

Thank you, Gian, and good morning from my side as well. We start on Slide 3, where we show a pretax result of DKK 735 million with an increased insurance technical result and a reduced investment income. Technical result improves 4% year-on-year to DKK 846 million, impacted by some DKK 24 million increase in weather claims and an increase of some DKK 76 million in large claims.

Pleased to see a continued improved trend in the underlying claims, which improves 40 basis points both in Private lines and within the group. Clearly, a low investment income for the quarter, minus DKK 90 million, which is a change of some DKK 210 million year-on-year, but Christian will elaborate on that.

For Q2, we see a dividend per share of DKK 1.65, which is clearly in line with the guidance of stable and increasing dividends. That results in a Solvency II ratio of 292, but bear in mind that, that is elevated and it is expected to reach some 170% after the Alka transaction.

Speaking of Alka, we are expecting authority approval now in Q3. We're very pleased to see that Alka, Friday last week, performed -- or reported an H1 performance which is very strong, with a technical result of DKK 187 million and a combined ratio of 83.4%.

If we look at Slide 4, we elaborate a little bit on the customer highlights. Clearly, a strong quarter for the customer-related figures, particularly retention rates, and all areas are very strong compared to last year. And in Denmark, in particular, we see the highest level of retention rates for the past 5 years.

We continue to focus on developing digital solutions and very pleased to see a more than 45% increase in the number of customer log-ins in Denmark and Norway, clearly supportive of our Capital Markets Day targets.

And then we have seen now for the third time in a row TryghedsGruppen paying out a membership bonus in Q2, which is clearly supportive of our retention levels. We are seeing an increased awareness of the bonus, both for customers and noncustomers, and we want to continue to improve that trend in the coming years.

On Slide 5, we elaborate on the split of the technical result. As mentioned, in total, technical result for the quarter is up 4% year-on-year despite higher level of large claims and weather claims, very strong continued performance in Private and Commercial. While in Corporate, we still have a focus on improving profitability. And then especially in Corporate Norway, we are working hard to increase profitability with current run rate of price increases of around 7%, which is a journey that we will continue in the coming years.

On Slide 6, we show a little bit of background on a strong shareholder focus in Tryg, clearly illustrated in the historical valuation development.

From 2011, a very strong development in share price relative to the sector; and for the quarter, a dividend per share of DKK 1.65, continuing a focus on stable and increasing ordinary dividends. And the DKK 1.65 should be the expectation for the coming quarters as well.

On Slide 8, we show a high line growth of 4.9% compared to 2% year-on-year. Strong development for Private lines, of around 5%, supported by the acquisitions of FDM and OBOS, but also a strong organic development for Private Denmark and an improved trend in Norway. Commercial growth of 4%, driven by OBOS in Norway, but also an increased number of customers in both Denmark and Norway. Headline growth in Corporate of around 6%, which looks high, but in reality, it's only around 1% when adjusting for continued growth in the currency business and regulations in Q2 last year. We see clearly a drop in Corporate Norway due to the profitability initiatives, as expected, but we have also been able to make new agreements in low-risk areas in Norway.

Private line -- when we see Slide 9, we show the continued focus on increasing average premium for all products in accordance with inflation, reflecting Tryg's focus on profitability. We are making sure that we see inflation as early as possible, that we react to that and we adjust prices accordingly.

When you look at the increases in motor insurance premium, in Norway particularly, the increase of only 1% looks low, but it is impacted by a regulation of one very large and profitable affinity agreement in Norway, while the rest of the portfolio on motor has significantly higher increase.

On Slide 10, we show the mentioned very strong development in retention rates, increasing in all areas to all-time highs in several areas. And Denmark, supported by the membership bonus, but also working with insurance packages in Private, increases retention. And we see strong service level improving the Commercial business. In Norway, we also see an increased retention, and we see [an increase] in customer focus and customer satisfaction. And as we see it, clearly, high retention rates and low costs are cornerstones of strong value creation in our line of business.

On Slide 11, we have given a new slide regarding the market, as such, in Norway. We've seen some changes in the structure of the Norwegian market and also for Tryg's agreement with Nordea and, therefore, included a slide with a few facts on that.

In general, we think that history shows that a consolidation is healthy for the market structure. And in general, we believe in bancassurance. But as we also show on the right-hand graph, we have seen sales performance reducing significantly in the recent years. And if you look at the actual sales that happened currently in the bank branches in Norway, that is actually below 2% of Tryg's total sales in Norway.

Now the ending of the Nordea bancassurance agreement in Norway in the short run will have a cost advantage because we don't need to pay a profit commission and sales commission. But in the long run, we want to replace that with alternative arrangements, and we have, for a while, been considering different options. We also see that we have a very strong distribution on our own of life and pension products, which we know that several parties and potential partners find very attractive.

Speaking of Norway, we're pleased in Q2 to see that in our Norwegian business, underlying claims improved 0.5%. While we have a significant proportion of our large claims and weather claims in Norway, we're pleased to see top line growth in Private Norway of 2.9% and year-on-year growth of 13,000 customers in Norway.

And over to you, Christian.

Christian Baltzer, CFO

Thank you, Morten, and good morning, everyone.

Turning to Page 13. As Morten communicated, we are seeing an improving underlying trend for the second quarter of '18, which is possibly being impacted by our claims initiatives and the price adjustment carried out throughout the portfolio.

For the group, the underlying improvement in the second quarter was 0.4 percentage, and we saw a continued improvement in our Private business of 0.4 percentage also. Again, most of this is carrying the price initiative and price increases through our portfolio, helping our underlying profitability.

And also, especially the profitability initiatives in our Corporate Norwegian business is supporting the overall underlying development on the group. Now as communicated before, we expect the full year '18, from an underlying perspective, to be better than full year 2017.

Turning to Page 14. We still have a strong focus on claims inflation in motor. In the previous presentation, we have showed average claims on bumpers. And we've done a little upgrade here where we're actually seeing that the trend is not just on bumpers, but also on other parts of the cars, i.e., we have used the headlights to show that technology is actually driving some of the increases in claims inflation.

Now the frequency continues to increase slightly, but not with the same rate as we saw in 2015 and '16. And overall, we are seeing a general increase on claim inflation from motor and will manage this through claims initiatives and pricing throughout the portfolio.

Now Slide 15, this was a slide that's a repeat from our Analyst Day in Bergen, where we're kind of highlighting some of the Norwegian insurance claims inflation trends. Broadly, we see a 4% increase in the repair cost on cars and are pushing through a 5% increase on the prices in Norway.

Now we do have an exposure to electric cars and hybrid cars and definitely see different risk profiles compared to normal. However, bear in mind that Tryg proportionately actually has a less exposure to the faster kind of models of electrical cars, like Teslas and the likes. So we feel quite comfortable having the electrical part under control.

Turning to Page 16. As Morten has already mentioned, we have had a larger amount of large claims here in the second quarter of DKK 134 million.

Now that is higher than last quarter. Bear in mind that it's very much in line with our guidance of DKK 550 million per annum. Now we are coming through a couple of quarters where we had very low level of large claims.

And please note that almost half of the large claims are deriving from Norway in the second quarter '18 versus a very small amount of large claims in second quarter '17. And as Morten mentioned, you cannot see the underlying on Norway, but we're giving you the guidance of a 0.5% improvement on the Norwegian business as a totality.

Weather claim is a bit higher than the second quarter, and again, mostly driven by our Norwegian business. We're pleased that the flooding in Norway did not become as severe as we thought it would be ending our Q1 numbers. The run-off level is relative high in the quarter, but it's also helped by some of the gains we've seen in our Swedish motor [third-party] liability portfolio.

Turning to Page 17 on our expenses. We're improving our expense ratio from 14.3% to 14.1%. It's helped by the initiative that was put in place during 2017 and also helped by the good development in our top line growth here in the second quarter.

Now the number of employees have been increasing over the last couple of years, predominantly driven by portfolio acquisition and an increase in some of our IT employees as we have in-sourced some of the key personnel in IT. Expense ratio target for the full year of -- for 2020 will be around 14%, as communicated at our CMD.

Turning to Page 19, which is somewhat of a benign slide from the fact that there's not much changes, neither in our free portfolio or in the split. So turning to Page 20, which is a little bit more interesting as we -- seeing an overall negative result, I'll get more into the details on this on the next slide, Tryg remains with the low risk profile. As you can see in the upper-right corner, that shows the market risk capital charges versus invested assets. Now we have 92% of all our group fixed income asset on AAA rated, and another 3% is between AAA and A rated.

Turning to Page 21, which is a new slide, but we felt in this quarter, it was a good quarter to double-click a little bit on our development on our investment portfolio. We have a negative DKK 90 million investment result in the second quarter. The free portfolio returned only just DKK 10 million. Equities was up only 1% where we've gotten used to quite higher numbers in the past. The widening of credit spreads on emerging market bond and investment grades dragged down the overall fixed income return by about DKK 37 million.

In the free portfolio, Tryg has around DKK 4.5 billion of covered bonds where yields are negative. Overall investment income in the free portfolio remains under pressure, especially in a quarter with almost flat equities and widening credit spreads.

On our match portfolio, it was also slightly negative, primarily because of a slightly negative performance. Do bear in mind that we, in Q1, had a positive performance. And year-to-date, we have on the match portfolio a positive DKK 15 million year-to-date. And also, we have been guiding that on our match portfolio, you should expect a 0 result in general.

Other financial income and expenses of negative DKK 85 million is impacted by our pre-implementation of IFRS 16, the leasing standard of approximately DKK 10 million per quarter. Also, there's been an impact on our Tier 1 and increased interest cost on our Tier 2. Cost hedging on our Norwegian equity is also affecting this line and has moved up in this quarter. In general, it's a slightly volatile post in our balance sheet on a quarterly basis. And as communicated on the fourth quarter 2017 call, we expect roughly DKK 250 million annual cost on this, but do bear in mind the volatility on a quarter-by-quarter basis on this line.

Turning to Page 22. Solvency ratio is up to 292, up from 883 (sic) [283]. Our own funds is primarily driven -- own fund's upward, it's primarily driven by the new Tier 1 issue and the spread between profit and dividends. Our SCR increase is driven by a slight increase in market risk. It's the equity dampening, and it's up slightly. Equity exposure is also up slightly. And bear in mind that here, you actually -- well, it's the reduction of a hedge that we had done on our equities and also a modest higher exposure on high-yield bonds. Tryg continues to expect a Solvency ratio around 170, as Morten communicated, once we have the Alka acquisition fully consolidated.

On Page 23, I only want to highlight one thing, which is that our Tier 1 capacity is virtually used once Alka is consolidated into our balance sheet, and not much new on this slide else.

And Morten, I think with those comments on investment, I would turn it over to you.

Morten Hübbe, CEO

Thank you, Christian. And I would just finalize on the targets and outlook where we were reiterate our financial targets with a technical result of DKK 3.3 billion, including Alka in 2020; a combined ratio at or below 86; a cost ratio at or below 14%, including a higher IT investment and cost; and ROE post tax at or above 21% in 2020.

Adding to that, ambitious customer targets, where we would further build upon the current positive trend in retention, which is very strong addition to the value creation in our portfolio. Then, of course, we, as always, end with our favorite quote.

And with that, we should turn to your questions.

Questions and answers

Asbjørn Mørk – Danske Bank

From my side, a couple of questions. First, on Norway, if I understood you correct, Morten, you said the underlying claims ratio for Norway was down 50 basis points year-over-year for Private lines. Was that correctly understood? And if it was, is that what we should expect looking ahead as well?

Morten Hübbe, CEO

The 0.5% is for the total Norwegian portfolio underlying, but otherwise, the number is correct. I think we don't guide on the specificity on each segment underlying. We see that what we're doing currently in terms of efficiency measures will, over time, improve our underlying further, but we don't split that into segments as specific as that.

Asbjørn Mørk – Danske Bank

Okay, fair enough. Then if I look at your Corporate, your combined ratio, your underlying combined ratio is basically 5% better year-over-year. You're also growing quite significantly in the Garanti product. I was just wondering if you could give us a little bit of flavor on what is the combined ratio for the Garanti product at this quarter or at this stage? And how you see the growth there looking ahead?

Christian Baltzer, CFO

I think I'll comment a little bit on this one. There's no doubt that we kind of stopped doing the reporting on Corporate underlying because they have also -- we see some quarters are really being very positive and other quarters being negative, especially hit by medium-sized claims. Yet, when we look at the Corporate, we are happy to see that the underlying is actually improving. And in the Garanti business, it's very much in line with what we have communicated before, around the 60% combined ratio on the Garanti business. Now from a growth perspective, I think we are continuously seeing a slow but -- and controlled growth on our Garanti and are starting to take our first step into the German market in a very controlled manner.

Asbjørn Mørk – Danske Bank

Okay. But then I guess you are still seeing a pretty decent improvement to the underlying Corporate, also excluding the Garanti if I look at Q2 versus Q2 last year?

Morten Hübbe, CEO

We are, Asbjørn, but we're just cautious on the trending of that because the reality is that we see the 7% price increase in Corporate Norway, which is, of course, positive. We need to continue that. We're working very hard to secure that we increase our prices also in Corporate Sweden and reduce our exposure and risk further. And then we're a little bit hesitant to draw a too far the line of a trend too far into the future because the volatility is simply higher on Corporate. So you're right, we appreciate the positives, but we're not out of the woods yet in Corporate, not at all.

Asbjørn Mørk – Danske Bank

Yes, okay. Because if I look at the Corporate, if I exclude run-off gains, exclude the Garanti, you're basically not making that much money on the Corporate. So basically, would you expect that business to be profitable in the midterm?

Morten Hübbe, CEO

Our view is that over time, we would like our retail portfolio being Private and Commercial to be larger than today, and we would not dislike our Corporate portfolio to be smaller than today. And having said that, we are spending a very large amount of resources finding the root to optimizing exposure, pricing and return in Corporate. We see the challenge by far being highest in Norway. That's why the 7% price increase starts there and will continue for several years. We're working very hard on Sweden as well. And then we have a group-wide initiative to look at the total exposure on Corporate where we see the ROE in Corporate, as such, being below what we think it should be. And therefore, we are running this group-wide project to ensure a higher, long-term ROE on Corporate than today. So within an insurance portfolio, which -- where the performance is very strong, we are not satisfied with Corporate. But that is a structural phenomenon that will take us a couple of years to move, but we're quite determined to do that.

Christian Baltzer, CFO

Just a little addition to that, Morten. I think, Asbjørn, when you look at Corporate and take out the run-off gains, you have to bear in mind that we are setting aside more than the 3% on Corporate. That is a quality line that we're putting aside for future run-off gains. So you can't just freely take out all the run-off gains because then you're actually taking out some of the actual quality that we are putting aside for the future.

Morten Hübbe, CEO

Then you should be taking out the underlying year savings or margin on new claims as well, so it is not fully meaningful.

Asbjørn Mørk – Danske Bank

Okay, fair enough. Then on the investment income, as you also highlighted earlier this year on the IFRS 16 and I guess the Tier 1 impact, could you just -- I know you had a slide on it, but could you just give us a little bit of flavor on where do you see sort of normalized investment income looking ahead? What kind of level should we see expect in this line? There seems to be sort of a trend shift versus previous couple of quarters. Anything to highlight here?

Christian Baltzer, CFO

Well, I think that the normalized investment income is a very interesting kind of a thing to talk about. You could argue with it in our newsletter back in 2016. We talked about 7% on equities, and I think 5%, 6% on properties and whatnot. I think currently, we are seeing an other expense that has increased compared to that newsletter we put out. And we've kind of guided that the DKK 250 million is more roughly the new level with some volatility as the FX protections might have actually impacted that. I don't think we guide necessarily on investment income. It's a small portion of our total earnings. It's a volatile portion of our earnings. And I think most of our focus is back on the technical result, back on driving the core business that is profitable in the long run.

Asbjørn Mørk – Danske Bank

Okay, fair enough. And then a final question, on Alka, you said that you expect it to close Q3. I was just wondering, is that just basically because it didn't close in Q2? Or do you have any new information that makes you quite comfortable that this is actually going to close in Q3?

Morten Hübbe, CEO

I think the planning is in our hands and the synergies is in our hands. Authority approval is not in our hands, unfortunately. We are given the guidance from authority's side that we should expect Q3, and that is all we know, and that's why we base our expectations on that. I think certainty is a strong word, but that's the guidance we are given.

Asbjørn Mørk – Danske Bank

And there's no indication that -- sorry?

Christian Baltzer, CFO

Sorry, Asbjørn, I was just -- I think it's important to highlight what Morten mentioned in his walk-through of the numbers that Alka is actually coming out the first half of the year with very good profitability numbers. And we can see, when we talk to managers, that the focus on driving the core business is still very much there. So that's very comforting from our point of view while we're waiting.

Morten Hübbe, CEO

And I guess [more than 2] -- no, sorry, continue.

Asbjørn Mørk – Danske Bank

No, of course, I agree. I just wanted to see it in your hands the business, but I fully understand that H1 was strong.

Morten Hübbe, CEO

But it's -- what we're doing, Asbjørn, is we are detailing our planning of integration even further, and that is working out extremely well. But of course, we are as keen as you to see the final authority approval, and we will see that in Q3 according to the guidance of the authorities.

Asbjørn Mørk – Danske Bank

Okay, that's great. If I may, just one final question. Now, of course, '18 is going to be a very different year due to all the acquisitions. You still say 0% to 2% organic growth for the year. Could you maybe specify that a bit more?

Morten Hübbe, CEO

Well, I guess that if you look at the current trends, we are seeing improved trends organically and then we are seeing the bolt-ons adding to that growth. And then, ultimately, we will see Alka adding to that reported headline growth as well. If you need any help specifying the split, you're more than welcome to contact Gian or Peter offline. I think, longer term, we have no changes to our organic outlook.

Jakob Brink - Nordea

I have 2 questions, please. The first one is regarding Page 11 in the slides, at least towards in the invested -- the one with the new bancassurance models in Norway. I know you talked about it already, Morten, but could you give some more flavor on this? I mean, a lot of things has happened since we met at the Analyst Day in June. I think, there, you said that there's not so much risk capital available in the Norwegian insurance market anymore. And since then, we have seen 2 new partnerships. So how do you see this all panning out? Maybe just a bit more details. And then also on dividends, the extraordinary dividend, what Solvency level should we aim for here? I mean, what level could you go down to and still pay out a dividend, please?

Morten Hübbe, CEO

If you look at the Norwegian trend, I think what we commented on the Analyst Day is that in the recent 10 years, you've seen a lot of new entrants into the Norwegian insurance market. A lot of these have subsequently been put up for sale or struggled to deliver results and, therefore, there is clearly a lot lower risk willingness of capital to new initiatives in the Norwegian market. I think we see on this slide a couple of examples of further consolidation, which I think is natural, and as we see it also, a positive thing for the structure of the market. I don't think it will make big differences to the market, but it shows that a couple of players have found initiatives to do business together instead of one by one. And to be honest, we see strong competitors and consolidation in the market as a positive. We also comment on the bancassurance, as such, because I guess if you go back a number of years, bank branches were selling a lot of insurance also for Tryg. But what we show in these graphs is that over the recent years, that has been reduced significantly to the point where, today, this is more a lead-generating machine for the Tryg business. And that is why we have both the opportunity to work with other leads and work with other partners in the future, and that is a process we have been preparing for a while. So hopefully, that gives you some idea of the magnitude of that cooperation currently.

Christian Baltzer - CFO
And on the Solvency rate...

Jakob Brink - Nordea
How much should we put...

Christian Baltzer, CFO
Yes, go ahead, Jakob.

Jakob Brink - Nordea
Sorry, on the Norway thing. So what would you expect yourself would be the top line impact for you because of the Gjensidigebanken and Nordea partnership or acquisition and the partnership afterwards?

Morten Hübbe, CEO
Broadly speaking, we would expect to be able to replace that currently below 2% distribution with other arrangements, both moving our own sales force towards other

leads from OBOS, from NITO, from Troll, et cetera, because today, we actually have only so much distribution capacity, and using that on other leads is fully possible. And then longer term, exploiting any of the other opportunities with other potential partners because working together with banks, we believe, makes sense both for banks and for us. And we also see that we have, as mentioned, a very strong own distribution of life and pension, which we find several parties in Norway that is interested in. So there might be a little bit of movement short term, but longer term, we will be able to replace that, and I don't see that having any severe impact.

Christian Baltzer, CFO

So Jakob, to your second question, I think we've been trying to be somewhat clear that we don't really guide on our Solvency level of what we are accepting. But we have communicated that the 125 is where we think the Danish FSA would knock on our door and kind of ask for plans on what we are doing. I think, for us, it's an annual process that we do year-end where we look at our Solvency position, we look at our prognosis. We kind of run simulation on what we believe is the right thing and where, for us, to keep in mind is the stability of our ordinary dividend, and we also have our ROE target. So the stability of our ordinary dividend and our ROE targets are the 2 kind of components that are making -- that are put into the kind of -- the ingredients that are put into the pie in order to figure out whether there will be extraordinary dividend. And I think we were trying to communicate very clearly that for 2018, we do not expect that to be the case.

Morten Hübbe, CEO

I guess if you look at it slightly longer term, when you do the math, it's quite clear that if we don't return to extraordinary dividends, then our general equity will grow too much and then we will struggle with our ROE. And that is the kind of discipline we've installed in the model, and that is the kind of discipline we'll continue.

Ida Melvold Gjosund - Carnegie

A few questions from me as well. On your Norwegian underlying business, you mentioned an improvement of 0.5 percentage points year-over-year. Is this a result of price increases in Corporate or efficiency measures? A bit color on this would be great. And then second, Morten, you have mentioned previously that there are some synergies between the Corporate business and the rest of the business in Norway. Could you remind us of what those are again? Just trying to understand if there are any consequences for the rest of the business if you exited Corporate in Norway. And then last, under run-off gains, which are close to 7% this quarter, I was wondering if you still expect this level to come down to somewhere between 3% and 5% in 2020.

Christian Baltzer, CFO

Ida, I think I'll do number one and three, and Morten will take the second question. On Norway underlying, I think definitely here, we're seeing both Corporate Commercial and Private pulling in. As you're mentioning, this is price increases carried out through the Corporate business that are definitely helping, but it's also the profitability measures that are done on our procurement side in general and also just on our overall kind of pruning our business. So it's both kind of both things that are impacting our underlying development. I think the reason why we are trying to give you a guidance on the underlying development is when you look at the headline numbers for Norway, it's kind of hard to kind of dissect what is large claim, what is weather claims or -- claims and whatnot. So that's why we're giving that kind of input. On the run-off gains, yes, you're right that it's in the higher range. I think that we are still maintaining our 3% to 5% guidance for 2020. There's no doubt when we look at our reserving position in Tryg, it is strong and then also why we have the ability to have this almost 7% run-off gain for the quarter. But there will be a little fluctuation on this post also going forward.

Morten Hübbe, CEO

And I guess lastly, Ida, on your synergies question and Corporate Norway, first of all, we don't have any plans to exit Corporate Norway. But what we're trying to say is one, we want our profitability in Corporate to be higher than today, and that is actually not only for Norway, that is across all 3 countries. And then as far as synergies is concerned, you're right, that's an important topic because when you just look at the headline numbers, you might miss the point that an underwriting on brokers, on larger claims management, there's a synergy between Commercial and Corporate. And then secondly, of course, Corporate helps also pull their weight on the group. IT expenses, group staff functions, et cetera, et cetera, which means that Corporate adds to the group also in addition to what you can see in the reported numbers, but that does not at all change the fact that we have a strong ambition to create a higher return in Corporate in isolation, and that is what we are working very hard on, both in Norway, in Sweden and across all 3 countries.

Mads Thinggaard – ABG Sundal Collier
This is Mads from ABG. I have a couple of questions left. The first one is regarding the underlying claims that we have seen this 0.4% drop year-over-year, I think, for 2 quarters now. I mean, is that kind of when you guide for lower underlying claims in '18 and that's also going forward with all your initiatives? Is that kind of what you should look for year-over-year, a 40 basis point drop in underlying claims?

Christian Baltzer, CFO

Mads, I think actually last quarter, we communicated that the rates of the improvement would be roughly what we have been reporting the last couple of quarters. I think on Private, it's less volatile, so you'll probably see that range on the Private book. And on group level, we do see some volatility up and down. So whether it's exactly 0.4%, I don't think I would put down, but we will see an overall year-on-year improvement in the range of what you have seen in the first 2 quarters for the full year.

Mads Thinggaard – ABG Sundal Collier

Okay. And then I'm just a bit curious, I mean, moving back to the run-off gains. I mean, when you started kind of skewing expectations down to this 3% to 5% in 2020, were you kind of thinking a kind of a path into that where you would have these 6.6% in Q1 and 6.8% in Q2 '18? Or are you seeing something that is actually a bit surprisingly higher in your view here?

Morten Hübbe, CEO

I think, Mads, that the way we see it, some of our liabilities are between 15 and 20 years. So generally, we see liabilities and runoffs as a long-term trend question. But from quarter-to-quarter, there will be volatility. We're seeing now, for instance, in this quarter, significantly higher large claims, more weather claims and higher runoffs. So in some quarters, we've seen the opposite trend, and we will see those kinds of fluctuations from quarter-to-quarter. But the general trend is a controlled process from the elevated level towards the slightly more normal level in a rather smooth, steady process. So not very surprising. And a thing you will see also in future quarters, volatility quarter-on-quarter and then a longer-term trend that mirrors the path we've explained.

Mads Thinggaard – ABG Sundal Collier

Okay, okay. And then just one last kind of technical or specification here. I mean, as I understood you -- if I understood you correct, you have a slight Tryg in Nordea employees behind 3 percentage point of the distribution, I mean, in Private Norway. And then you say -- I mean, you think you can kind of sell the same to OBOS, and NITO, et cetera, are using those employees. I mean, is this in addition to this -- I mean, the cross-selling or lead sales you already planned before this deal between Nordea and Gjensidige?

Morten Hübbe, CEO
Well, your perception is completely right. I think what one needs to bear in mind is that partnership agreements are very important for the lead generation, but also that our total distribution capacity only has a bandwidth of so much. So what we're seeing is that currently, we have actually a very strong position in Norway to make sure we have strong leads through our sales force and that we are able to use those new partnership agreements to lead to our current sales force. And therefore, as such, it's not mechanical that less than 2% or this 3% of our staff in Nordea branches will fall away. It is more a redirection of those sales resources towards other leads. That doesn't take away the view that we want to do bancassurance in Norway longer term anyway. It is just to give a perspective that what actually falls away is the below 2%, which is the actual sale by Nordea staff in the branches. The other parts of it is actually the leads that we can move to other partnership agreements. And then longer term, we want to replace and find a new structure for bancassurance Corporation. Anyway, I can make the comment on the slide as well that if you want to be cynical, then actually, short term, we have higher profitability without bancassurance because it's actually quite expensive. But that doesn't change the fact that longer term, we see the value creation of bancassurance and, therefore, we will want to work with a new partner in Norway as well.

Jonathan Urwin – UBS
Just one last, actually. So just thinking a bit more about pricing versus claims inflation trends. I just wanted to confirm that you're still pricing ahead of claims inflation on average at the group level. I can see in Norwegian motor, you're seeing 5% price versus 4% claims inflation, but it felt like maybe a bit early, you were flagging higher claims inflation in motor. I just wonder if there's anything to worry about there. Have you managed to stay ahead of that curve with pricing increases or if you've fallen behind?

Christian Baltzer, CFO
I think that on an overall group perspective, we are seeing, on average, the 3% price increases carry out throughout the entire book. And we have an expectation between

2% and 2.5% inflation. So yes, we are carrying out price increases ahead of inflation. Now I think the underlying development that you see on Private is also the kind of -- to show that we actually are carrying out these numbers. I think motor has just been a conversation topic in many different kind of calls here but also with some of our peers, which is why we are highlighting both some of the risk that are in motor, but also some of the initiatives that we are pushing through. And I think when you do line by line, there will be lines where we are pricing much more ahead of the inflation, and there are other lines where we're more on par. And that's kind of our portfolio we are massaging in throughout the year or throughout the year or so that we kind of on average do the 3% and have about 2% to 2.5% inflation.

Per Grønborg – SEB

Also, a couple of questions from my side. Talking about searching to help new clients in Norway, your growth numbers looks great. But I'm looking in your -- can you redefine any organic growth numbers? Can you tell us what the organic growth has been in the first half and, if possible, divided on what was in Denmark and what was in Norway?

Christian Baltzer, CFO

I think we will have to revert -- I think I should let Gian and Peter get back to you with those numbers. I think it's closer to what we have been guiding at the 0% to 2% and probably closer to the 0 to 1% when you take on organic only. And definitely, there has been the positive development of some of our acquisitions. So we will give you the specific numbers after the call.

Morten Hübbe, CEO

I think the main -- but if I can just elaborate a little bit, Per, our organic growth doesn't jump on a quarterly basis. It's a quite stable number. I think what is mainly impacting organic growth at the moment is that retention rates are increasing. So there's no significant jumps in organic growth.

Per Grønborg – SEB

Okay. When I look at the latest data from the Danish insurance organization, they are talking about an industry growth in Denmark of 5.8% in the first quarter. It looks like you are growing significantly less and I assumed that you had pricing power due to the client dividend from TryghedsGruppen. How should I look at the gap between your organic growth and the market growth? Do you have any comments on that?

Morten Hübbe, CEO

Well, if you look at 5% at Denmark specifically, we are currently growing more than 6%, around 6.5%. In my view, that is more than the market growth. I think maybe we should revert and comment more because I don't think the general market growth is 5.8% at all. So maybe we should look into that statistics, Per, and give you some feedback on that. I think on average, the Danish market has been growing more like 2% than 5.8%. So that number sounds surprisingly high. So I think we would need to understand what that number is.

Per Grønborg – SEB

I'm also a bit surprised to see the last 2 months where we have seen pretty high growth. But when you're talking about 6% growth in Private Denmark, that's still including acquisitive growth.

Morten Hübbe, CEO

Exactly

Per Grønborg – SEB

The organic growth is clearly low, I assume.

Morten Hübbe, CEO

It is clearly low. Yes. So 5.8% Danish market growth would be fantastic, but that doesn't sound right.

Per Grønborg – SEB

I was also surprised when I have seen the last 2 months of data. My final question, Sweden, your country result for Sweden versus -- indicate that you have a significant loss in Corporate Sweden. Can you indicate how high is the combined ratio for Corporate Sweden this quarter?

Christian Baltzer, CFO

I think you can actually reverse your numbers into Corporate Sweden if you kind of subtract the Sweden result and the Private result. There's no doubt that we have a significant run-off loss on our old year -- prior year development on one single claim. But we're also seeing some run-off gains on our other Swedish portfolio, in our motor and MTPL. So I think this is a one-off thing that we have noticed in Corporate Sweden, but as Morten mentioned, Corporate Sweden is definitely an area where our focus is on pricing, pruning and exposure kind of reduction in general.

Morten Hübbe, CEO

It's fair to say, Per, on Corporate Sweden that our liability business in Sweden has given us some very large claims and also that we see our professional motor segment in Corporate Sweden with negative margins as well. So there are several areas of Corporate Sweden where earnings is not satisfactory, which impacts this quarter negatively. But also, if you take away the [sarcastics], reflects an unsatisfactory balance between risk and pricing. So we're working quite hard to mitigate that.

Vinit Malhotra – Mediobanca

So just a sort of a follow-up on the technical and then 1 or 2 questions on the investment side, please. So firstly, on the technical level, only 50 bps improvement underlying in Norway. Just trying to understand, is this in any way giving or should give us more confidence that in the future years, so '19, '20 even, this sort of 40 bps steady path could actually evolve into something slightly higher? So that, I mean, is there -- is that giving us more hope? So that's one question. Second question is on the emerging market bonds. I mean, it's a very small portion of the asset base, but it's probably the biggest line item now in the P&L. Is there any -- in the 1H, I mean. Is there any thinking around whether we should -- you should be there or any other hedges you would like to place around that? And then I also noticed this equities, which is quite low compared to what we would see from the outside. And then you also have moved the hedge from hedges. Was it -- I mean, even after removing hedges, a lower – could you comment a bit upon this hedge action? And sorry, one sort of strategic question. This new partnership that you could explore in Norway for banking, can it be imagined to be sort of a similar size of budget in your mind or any guidance on what scale you're looking at?

Christian Baltzer, CFO

I'll start out. On the technical part, you mentioned on Norway, the 0.5%, I think, in general, when you look at Norway, and we are seeing retention rates going up, we are seeing our portfolio having more traction on the price increases on Corporate, and we're also seeing kind of customer satisfaction in general in Norway kind of increasing, I think there are many positive trends in Norway that are making us kind of pleased to see. Whether this should make you more bullish on the underlying business in total, that would be up to you and your models. I think, in general, we are seeing the slow kind of progression on underlying development this year of the level that we have seen to be what you also would be seeing going forward. With this respect to the emerging market bond, I think in the newsletter we had back in 2016, we actually have an emerging market index. And I think if you look up that index, it's about roughly minus 5%, which is also what we are pretty much posting. Even though it's, as you said, a fairly low amount of exposure, only with the 400, I think it's 30-some million in exposure, it does impact us when we have a negative movement of minus 5%, 6% in this quarter. Now could we do something to hedge this? I think that we are not positioning ourselves to do any changes in the emerging market fixed income area. It's definitely been some of the trade war. It's kind of some of the political scene that has given us some of this volatility. We would love to see a reversal of that, but we're not changing our position as we think the diversification effect that we're getting and diversity in our portfolio is positive. And your last question on the investment part was the equities of 1.1 versus what you could expect. I think you are right, we are a little lower than expectation or benchmark in the emerging -- or in the kind of MSCI world. Sometimes, we're above; sometimes, we're below. And this quarter, we're a little below. I think with respect to the hedge that we've talked about, in the end of the second quarter, we removed a downward hedge on equities, expecting a couple of quarters of upward movement on equities and didn't need kind of the protection downwards, which then impacts our SCR with about DKK 109 million in total on the market risk. So you're right that we have taken out some hedge. You more see that in the SCR than you actually see it in our results. So Morten, I don't know if you want to comment on...

Morten Hübbe, CEO
On the new partner question, I think, Vinit, it's important to see that, first of all, the magnitude is not very high. Secondly, the solution is one that will be a combination of organic, redirecting sales resources to other leads where we have strong, new agreements with new partners ready and then new partner agreements with banks. And there's no doubt that for us, having some level of sales through banks longer term has value creation in there. And typically, for banks or their life insurance company, it's attractive for them that we are able to sell or be a significant distribution capacity in life and pension. Whether future agreements is with one partner of a similar size or with several partners, I think put both options are on the table. And we have been working on these options for a while, and we see good opportunities in the market. And we see that we have time to find those solutions and really, that we are in no rush to find short-term solutions. This is really about finding longer-term value creation. And I think there's no doubt that the banks in the Nordics are changing their digital landscape significantly. We are doing the same. So it's also a matter of finding the new distribution and collaboration models that will work in a more digital world because we are clearly moving away from the old-fashioned model of bank employees selling insurance in the bank branches. So we expect to replace it both organically and with partners, and that could be one partner or it could be several partners.

Steven Haywood – HSBC

I just wanted to follow up on that question that had been just asked about the options you have for Norway bancassurance and really going to a bit more detail on trying to understand which banks don't have any agreements in place already in Norway or don't have any non-life businesses established currently in Norway. So I'm trying to sort of getting a picture of the whole landscape throughout the Norwegian non-life bancassurance deals. And then on a separate question, Morten, I think you mentioned in one of your comments in the press release about TrygXplore. Can you explain a bit more about this? And what do you mean by making it easier to be Tryg?

Morten Hübbe, CEO

Steven, well, on the bancassurance side, first of all, it's important to say that it has 2 sides to the coin: one would be banks selling insurance for us, and the other would be us selling life and pension for a bank or their life company. So it is both sides of the coin. I don't think it would be wise for me to comment on specific names in a negotiations phase, so I think you will have to be a little bit patient, and we'll communicate more when we have a new agreement to communicate about. When we look at TrygXplore, I think it's fair to say that we've seen in the recent years a more positive trend on innovation and growth in Denmark than in Norway. And therefore, we have directed more of our innovation capacity also towards Norway, and TrygXplore is an example of that. What we see is -- let me give you a couple of examples. We have started a cooperation with a Norwegian startup called Lifekeys, which focuses on psychology treatments, which is clearly an area that's interesting for us because we see that insurance of people and health will be a growing area for Tryg in the coming years. A second example is AIMO, which is a German initiative which focuses on 3D body scanning as part of health and preventing claims and being observant of health issues that you should manage; again, relating to health, which we see will be a growing part of our business. But I guess your last question, Steven, on making it easier to be Tryg, the Tryg component both tells you that we want to work harder on preventing claims and advising customers on how to prevent claims, and making it easier is much about the customer experience on the digital journey. We see now that almost 50% increase in the number of customers that contacts us online just year-on-year and making more and more digital solutions that makes it easier to cooperate with us, be that on faster claims handling, automatic claims handling or be that on servicing, et cetera, that is a major area of focus because a lot of customers still find it frustrating and difficult to be in contact with their insurance customer -- insurance company. So those are the main components in easier on Tryg.

Christian Baltzer, CFO

And just to elaborate a little bit more on that, I think, Steven, you have to remember that the Danish and Norwegian word Tryg actually is an emotional stage where you have piece of mind and you feel comfortable. So that's why it's a little bit of play of words on this one, and we know when we translate it to english, it needs to be explained.

Gianandrea Roberti, IRO

Well, I'll just say from my part, thank you very much for the call today. We will be in London tomorrow. There's a list of roadshow in the Investor presentation. Please, for the ones who will be based in London, remember the analyst presentation at 3:15. And have a fantastic summer, and we will see you in August.