Conference call transcript

Third quarter of 2006

November 9, 2006 at 10:00 CET / 09:00 BST

Corporate participants

Morten Hübbe

TrygVesta – CFO

Ole Søberg
TrygVesta – Head of IR

Conference call participants

Jesper Brydensholt
SEB Enskilda

Giandrea Roberti
Danske Equities

Torsten Bech
Jyske Bank

Jan Eric Gjerland
ABG

Presentation – Q3 2006 highlights

Operator

Good morning ladies and gentlemen. Welcome to the TrygVesta Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. I would now like to turn the call over to your host, Mr. Morten Hübbe. Thank you.

Morten Hübbe – TrygVesta, CFO

Thank you very much and good morning to all of you. We're glad to have you with us this morning despite, I guess, busy times with results also from our Nordic peers and interesting developments at Sampo. Hopefully you've had a chance to see our Q3 release this morning and also our webcast with our CEO Stine Bosse. I will briefly go through some of the financial highlights of our Q3 results and fairly quickly move into a Q & A session.

Income summary statement

If you look at Slide 2 on the conference call slides, we have reported a growth of 2.4%. We've reported a result before tax of a bit more than 1.1 billion compared to roughly a billion last year and we've reported a combined ratio for the quarter of 85.3%; and that is despite the effect of heavy rain showers in Denmark in August which costs some DKK 80m which roughly equates to 2 percentage points of the Q3 combined ratio and also despite strengthening our worker's comp claims resource in this quarter by roughly 50 million. This bottom-line result makes Q3 the best financial quarter ever in our company's history and that has of course been helped both by the improvement in financial markets both on bonds and equity.

Secondly, the underlying claims development has been very strong, particularly in our corporate business; and thirdly, the fact that they have a say in the UK has approved our sale of our UK business has led us to include the 80 million unexpected result from that in our P & L.

Outlook

We have also upgraded our financial outlook for this year, which you can see on Slide 3 in the material we have sent out. Previously, we expected for the year 2006 a combined ratio of 89% and a result pre-tax of 2.65 billion. We have increased that outlook for this year to a combined ratio of expected 88% and a result pre-tax of 3.15 billion. That is an increase in the pre-tax result of 500 million and now means that we expect our 2006 result to exceed our 2005 result by 237 million pre-tax and 553 million post-tax. We've also included a soft guidance for 2007 indicating a 3% growth and a combined ratio in the area of 90% to 92%. We have also explained that that excludes run-off results in 2007 and that is a continuation of our way of handling this from previously and if you look at our 2006 and 2005 results, you clearly see a positive effect of 2% to 2½% from run-offs but as we also in previous years saw a negative effect from run-offs, we continue our methodology of not including run-offs when we give our guidance for future results.

Gross premium drivers

If you turn to Slide 4 and have a slightly closer look to the premium drivers, it shows the composition of our premium growth, which has been particularly strong in our corporate segment with a Q3 growth of 7.5% and a year-to-date growth of 5.2%. We've there seen the positive effect of the way we've, for the past 1½ years, worked with customer teams and risk advising for our larger corporate customers and the growth is now also being helped by our corporate business in Norway.

Our Finnish operation has had a 42% growth in Q3 and the portfolio's now exceeding 200 million in annual premium; Q3 is actually the first quarter where we have a break-even in Finland, defined as a positive technical result and for us, that is extremely important to have the combination of very strong growth and now also the improvement in the technical result.

Private and commercial Denmark has grown 1.5% in Q3 and 2.2% year-to-date. Before bonus year-to-date is 2.9% but the growth also reflects a slight reduction in average rates for motor and also this, as I mentioned, increased bonus payment.

Private and commercial Norway has had a negative growth of 3.2% but what we've seen since June this year is a continuous improvement in the underlying development. Our net number of policies has increased since June. Our portfolio has increased since June and also our renewal rate level had increased significantly over the course of this year; and those three elements we expect to affect our coming quarters' premium development positively.

Result distribution

If you turn to Page 5, to the technical result drivers, you will see a very significant improvement in the technical result of our corporate business, particularly in Norway. What you now see is that our technical result in corporate for the quarter has increased from 159 million last year to 277 million this year and we see the unusual result that our corporate business actually delivers a higher technical result than our two private and commercial businesses in Denmark and in Norway. But all in all, you see there is good balance between the earnings and our three main business areas and if you look upon the Q3 combined ratio of these three areas, we have now a corporate combined ratio for the quarter of 81.8, a P & C Norway combined ratio of 83 and a P & C Denmark combined ratio for the quarter of 88.3. Those are very strong and satisfactory levels, which also I guess in comparison with the Q3 last year, which was to date our best quarter, and if you compare this development with our Nordic peers, we also believe that is a good Q3 technical result.

Frequency

If we look at Norway, we have seen a continued decrease in the frequency both in motor and house and we've actually seen now and we believe that is quite positive that we are starting to see the average repair cost of house claims to come down, after a very long period of increases in average repair for house indicating some release or relief in the bottleneck in the construction sector Norway. So that is a positive.

Performance of claims

Finally on Slide 7 before turning into Q&A, you can see the development in our run-offs and a continued positive development in this area. For the year-to-date, run-off has affected our segment pool result positively by 289 million gross and 279 million net which means or translates into a positive effect on the combined ratio of 2.4% gross and roughly 2.3% net. I hope this has given you an impression of our financial development in this quarter and the webcast by Stine Bosse has elaborated on our operational development in this quarter, including our new customer concepts and our changes to our management level. And now we are ready to take your questions.

A very good performance in the corporate line and it will be enhanced by the expectations to our Risk Advisory service that we have started the launch of but we will see that increasingly performing in the years to come.

Q&A transcript

Operator

Thank you. We will now begin the question and answer session.

[Operator instructions]

Jesper Brydensholt from SEB Enskilda is now online with a question.

Jesper Brydensholt – SEB Enskilda

Hi, it's Brydensholt from Enskilda, a couple of questions first relating to the price competition that we are seeing in motor and it seems still from various companies that it is confined to only motor not the personal SME and not that much to the industrial lines. Can you confirm that we are going to see signs that the competition is coming in, in other places, and also how you view the initiative that Denmark took on Monday where they're arguing that they are clearly the lowest of the four largest in motor premiums and that they will cut the average premium by 200 million or 10%. That would be question number one. Then secondly, could you just give us a reason for why you are strengthening the worker's compensation research *{sic}* in the third quarter by 50 million? I thought that claims which it was going the right direction and then the combined ratio guidance that you gave on combined ratio for 2007 of 90% to 92%, are we still to expect that to be a cautious view as 2007 hasn't started and also includes the traditional one percent in buffer for unforeseen events? Thank you.

Morten Hübbe – TrygVesta, CFO

Good morning to you Jesper. I think it's fair to say that what we also indicated in the second quarter was that we were expecting and seeing price competition in the motor segment. A year ago, we introduced our new motor to areas including mileage and we have explained that we've seen, in our portfolio, a reduction in the price in motor of roughly one percent. What we've seen now from top Denmark, to turn to your first question, I guess, is a slight repetition of what we did a year ago and also I believe an area where they seem to indicate a premium change on motor that is higher than ours. Let's see what will happen and what they will actually carry out; but I think when we look at the general competitive picture in Denmark, the development has been on motor. We still see very good pricing discipline in both house and private insurance and we also still see very good pricing discipline in general also in the commercial products with a continued high price increase in worker's comp of around 10%. We have seen, but we also saw that in the second quarter, that the smaller competitors are more focused on motor and the price of motor but I do believe that we have had responses to that intelligently with our new pricing tariff and we see that Top *{sic}* has thought the ideas of our pricing tariff's good enough to copy them. With regards to the worker's comp, we are definitely seeing a continued improvement of the recent years and we are seeing still that the new years in worker's comp have a claims ratio of below 100. When we've strengthened worker's comp by 50 million, it is a strengthening of older years and worker's comp and to be perfectly honest, we have the general opinion that we'd like to be on the slightly cautious side when it comes to our claims reserves also for older years and also for worker's comp. I do believe that we are also when you look at that from an average point of view in the quarters also end also in worker's comp. When it comes to 90% to 92% combined ratio for next year, we keep, we hold onto the rather cautious approach of having a high expectation for natural catastrophe events and high expectations for large claims and also, we hold onto the general approach that we do not try to estimate what run-off gains or run-off effect in general is likely to be in a new year, and as I mentioned, that has affected us positively both in 2005 and 2006 and there's no change in our attitude and methodology when it comes to handling our claims reserves. So we are continuing the generally cautious line when we give our guidance for the future.

Jesper Brydensholt – SEB Enskilda

Just a, it's usually a cautious line but is it fair to say that in the guidances, besides when it causes you on catastrophe and large claims, as it causes you also inclusion of a buffer for unforeseen events like the cease firework blow-up a couple years back, things like that?

Morten Hübbe – TrygVesta, CFO

Well, as we see it, yes. If you have a catastrophe event, a catastrophe can be weather related or it can be an event that hits a large number of, for instance, private houses at the same time. That would also from a re-insurance point of view be perceived as a catastrophe event so you could say that when we give our guidance for catastrophe, we can have a storm like we had in January of 2005 or we can have a huge event like *ceased* {sic} or larger than that and still be within our guidance. If we were to see both a storm like 2005 and a similar event of a lot of houses, for instance, like ceased *{sic}* or larger, that would tend to be above our total expectation if that happened at the same time.

Jesper Brydensholt – SEB Enskilda

Just a small follow-up. You had mentioned in the report that you have sold 10,000 policies in Sweden. Is that around 15 to 20 million premiums and the cloudburst that you had in the third quarter, was that around 50 million loss or something like that.

Morten Hübbe – TrygVesta, CFO

If you will return to take your first question first, yes, our average premium is roughly 2,500 Swedish krona so that is roughly 25 million Swedish when we have sold 10,000 polices and if you'll look at generally how we perceive the sales in Sweden, we are very positive to the speed with which that has progressed. If you compare the sales we have now achieved in Sweden only from July to now and compare that to our sales in Finland when we started up the business, we actually now in Sweden are selling at a level compared to year two in Finland and we're only actually now a few months into our process in Sweden which is very positive and of course the breakeven result-wise in Finland now shows that we can actually both have the strong growth and the positive results. As far as the rain showers in August are concerned, they cost us 80 million approximately.

Jesper Brydensholt – SEB Enskilda

And it made up re-insurance, yes, 80 million.

Morten Hübbe – TrygVesta, CFO

There's no re-insurance on that when the level is not higher than 80.

Jesper Brydensholt – SEB Enskilda

Could you just give us an example? How do you perceive the sale this morning from Sampo? They get a lot of money out from 30 billion Danish Kroner. Do you have any idea how you see the reaction to the Danish market on this? Could they do, go for anything, you think?

Morten Hübbe – TrygVesta, CFO

Well, I'll answer your question, Jesper, and then we'll see if anyone else has questions. I think it is definitely transaction that will affect potentially what is happening in the consolidation of P & C insurance in general. I would imagine that I appreciate increasing their presence in Denmark but if you look the competitive scene in Denmark and the legal structure of the companies represented in insurance in Denmark, it's fairly hard to see what is out there that they could potentially purchase; but, yes, that's a question you ought to pose to IF *{sic}* but definitely they have a new situation with new options.

Jesper Brydensholt – SEB Enskilda

Thank you very much.

Operator

We have Gianandrea Roberti from Danske Bank online with a question. Thank you.

Gianandrea Roberti – Danske Bank

Yes, good morning to everybody. **I think I've joined the conference call and it's likely late so I would kindly ask you to tell me a little bit more of the worker's comp reserve that you mentioned before; if you can just tell me again the number and what's going on there. Then the second question, it's regarding your Slide No. 6 where you have the performance of claims. I was looking at this slide. I mean I know it's year-to-date trends so it's probably not indicating too much but can you tell me why in Denmark you have auto, that the frequency is likely going up as you mentioned before but then the average cost of claims is down; and I think in Norway you have exactly the opposite but what are main difference in drivers there?**

Morten Hübbe – TrygVesta, CFO

Well and good morning to you Gianandrea. If we take the worker's comp question first, what we've done is that we have strengthened our worker's comp claims reserve by 50 million in this quarter; that is, on older years, claims reserves, as we're seeing a good development on the new years. As you know, worker's comp is an area where the tail is quite significant and when we see movements in older years, then we want to make sure that we have the right level of conservatives in our claims reserves, also in worker's comp and historically, we believe that we have a conservative level in general in our claims reserves but that worker's comp has been perhaps the softer end of that general conservatism and slide movements in the older years have led us to increased buy *(sic)* by 50 million. Your second question with regards to frequency; as I explained before you joined the conference call, we have seen a slight increase in the number of break-ins in cars this quarter in Denmark and a slight increase in vandalism to cars as well. This is not a very significant impact but still it's enough that we can see it in our claims development for these past three months. As far as continued reduced average claim in motors in Denmark, that is a continuation of the trend of having less personal injury in the motor claims that we see and also an increase in our utilisation of the preferred garages and the discounts we get there. In Norway, as I mentioned, we really see the most important as to reduction, average claim in-house, because that has been going, that has been increasing by 25 percentage points over the past 3 to 4 years and it's good now finally to see that break away and start to decline again. Otherwise, the frequency has developed also continued positive development in Norway mainly in motor.

Gianandrea Roberti – Danske Bank

Okay, thank's a lot.

Operator

Torsten Bech from Jyske Bank is now online with a question. Thank you.

Torsten Bech – Jyske Bank

Yes, good morning. Just one quick question left. **Regarding your development within the larger corporates on industry segment, are there any specific segments or sectors you see as the main drivers behind the strong**

growth and also on the combined ratio situation. You had mentioned the all joined responsibility areas. Is there any segment you see giving greater opportunity going forward, also from a strategic point of view? That was pretty much it.

Morten Hübbe – TrygVesta, CFO

Well and good morning to you Torsten. What we see is that last year, we had a negative growth in our Corporate segment and historically, when we have approached the market in our Corporate segment, we've had a very clear division between our sales force, our underwriting teams and our claims handlers. We started a project a year and a half ago in Denmark whereby we made less offers, so a smaller number of offers to new potential corporate customers but made them more intelligently by combining our sales force, our underwriting team and our claims handlers in providing solutions where we met the need of the individual corporate customer better. That we started in Denmark last year and that has helped during the past year, our ability to write new business on good conditions in Denmark. We have now this year taken up the same process in Norway which now in the third quarter has turned what has otherwise for a longer period been negative growth in our corporate segment in Norway and it has turned that into a growth of around 5% in Norway for this quarter; and when we look at the product, it's both in liability that we see this good development and if we look at the various segments, it is a fairly broad number of segments but what you can say is that we're focused on businesses where this combination of our sales, underwriting and claims teams can add value also in our risk guidance to our corporate customer; so if you will, it's a more qualitative and focused strategy to trying to attract corporate business that is now beginning to pay off.

Torsten Bech – Jyske Bank

Okay, great, thanks.

Operator

Jan Eric Gjerland from ABG is now online with a question.

Jan Eric Gjerland – ABG

Good morning. It's Jan Eric Gjerland from ABG. **I just have two questions here. The first one is regarding capital and the hybrid that's in use on those issues in Q3 numbers. And secondly, the industry segment you said, the results were very favorable in Q3 versus Q2/3 last year of 277. Could you please just give us some more flavour on the improvement from last year and how the development has been during 2006 full (inaudible) segment? Thank you.**

Morten Hübbe – TrygVesta, CFO

If we turn to the question of capital first, I guess the first issue is of course that the strong development in financial results for Q3 and our increase of our expectations for financial outlook for the entire year 2006 will help our ability to pay a strong dividend for this year. We have in the capital model that we have put on our homepage described that we have seen this quarter a change from S & P; that has applied a new capital requirement in their model where they require a specific charge for catastrophe event or what they call "250-year events" and that has affected our car ratio by roughly 4 percent in this quarter. We do have some flexibility and that's why in the material we have described the car ratio both with and without this effect. We do have some flexibility as to how soon we meet this requirement, partially or completely, and therefore we have described the effect of that in more detail on our Web page. There are no other changes to the way we have conducted our hybrids so all the way, our capital base otherwise looks but we will, when we get to the spring of next year, look at what capital that our capital model requires and then the good results of 2006 will allow us to return significant capital to shareholders. With regards to your second question of the corporate business, what we can see is that there's been a very strong underlying trend for the past two years where the Danish corporate business has continued a strong development with fairly low claims ratios and the Norwegian corporate business has been lacking slightly behind that. If you look at this year, the picture has been slightly distorted by the fact that we had almost a full year of large claims in the first quarter in Corporate this year and then we've had a level of large claims in this quarter; that is, slightly lower than we would expect on a normal quarter so you could say that the underlying development and that's actually been better than you could see on the surface already in the first quarter of this year and continued into the second and now third quarter. But we are seeing a very considerably larger contribution to our technical result in Corporate from our Norwegian corporate business and that has been the result, I believe, of the past year's work of making sure that we select our Corporate risks right; our Corporate business has less of the more heavy industry risks now than it did a couple of years ago and also, we've gotten the risk selection and price of the worker's comp segment in better shape now, so it's a good performance of our Norwegian corporate business that is helping this positive development and then as I said, less larger claims than we had, for instance, in the first quarter.

Jan Eric Gjerland – ABG

Okay, thank you. **Just a follow-up on competition, how do you see the Norwegian aspect entering into this competitive world here and how do you see the other Norwegian aspect acting these days? Are they less aggressive in motor again; are they more aggressive? And how do they do in-house? Is it just more today, or aggressive on, or what is your view here?**

Morten Hübbe – TrygVesta, CFO

I think actually the competitive angle in Denmark and Norway is slightly different. In Denmark, we've seen some of the smaller competitors being more aggressive on motor. But rather, it's sort of a single line approach. What we've seen in Norway is rather, you might call it a more intelligent competition where both and ourselves have tried to position ourselves better for the customers that typically have many products and buy into the customer concepts of getting a better quality, better offering and also a better price when they bundle many products with the same provider. That has meant that we have increased and improved the benefits that customers with, for instance, 4 or 5 different products with us and Norway gets and that has been, I would say rather a competition on customer concepts and thinking them intelligently and not competition as such just on how do you fight the motor insurance differently to Denmark? As far as Store One *{sic}* is concerned, well, I guess we will have to see they are starting up their non-life insurance 1st of January. I think it will be interesting to see what, how they will conduct their business. As I understand it, they have a fairly high hurdle rates for their return on their consumer requirements so I think it's something like 16%, 18% or so which will require them to conduct their entry to non-life insurance with a good discipline and good pricing; otherwise, I guess they will have a hard time meeting their hurdle rates. And otherwise, they will have to spend, of course, a lot of time building up claims handling systems, actuarial systems, building up distribution channels, etcetera, etcetera. So it will take some time for them to have a significant impact. Well, of course, they have the advantage of a strong brand, which is also always helpful. I don't know how this purchase of that has bought a part of. I don't how that is potentially going to affect the future but perhaps you know more about that than I do.

Jan Eric Gjerland – ABG

Yes, there's still a lot of room in that. You can expect (inaudible) the other way. Just finally, on the premium growth in Norway, we have seen now that in local currency, it has fallen just below 3 percent I think you indicated in your report for the last couple of questions. What kind of business line is falling and who is gaining here basically?

Morten Hübbe – TrygVesta, CFO

Well, what you can say is that we should distinguish between market share development and premium development. If you take the premium development first, we indicated already in the autumn of last year that we saw the claims ratios of private houses in Norway as being extremely and unusually low. I think after the first six months last year, our private houses in Norway had a claims ratio of 48% which is extremely low and already in the fourth quarter of last year, we indicated that if that development in claims frequency was continuing, then we would see price adjustments in private housing in Norway. That we have seen during this year and that is part of the explanation that the average premium in private houses has gone slightly down and that is of course affecting the total premium development. Then we've seen that our new customer concepts have led us to hold better onto our existing customers in Norway; our new rate has simply improved but we've had a harder time making new sales because we have stopped giving this introduction discount which means that we have had a reduction in the number of policies for the first six months of this year but for the past three months, so in Q3, our number of policies have consistently increased week by week so we're now seeing that change; and if you look at the market share statistics for the Q3, it is flawed somewhat by the fact that AIG is not part of the statistics but there you see a clear tendency that we have stopped the reduction in market share and even slightly started to increase our market share again in Norway. So it is the long haul of making sure that we hold onto these good customer concepts and improved customer retention and then this improvement in sales that we've seen in the third quarter; but of course the reduction in prices or rates on private houses affects the total top line.

Jan Eric Gjerland – ABG

Okay, thank you very much.

Operator

Gianandrea Roberti from Danske Bank is now on line again with a question. Thank you.

Gianandrea Roberti – Danske Bank

Yeah, sorry. **I have an additional question that's regarding the new charge that you mentioned in the S & P model, the catastrophe charge. I can see it's taken to 140 million roughly. I'm just trying to understand. This is, I guess, going to be the same amount in the years to come and when you also talk about a little bit of flexibility, can you be a bit more clear on that?**

Morten Hübbe – TrygVesta, CFO

What it simply means, Gianandrea, is of course that we monitor the S & P model carefully and then we have our internal ways of evaluating risk and capital requirement and when the rating agencies carry out a change of the model, they are of course aware that the companies, if they could buy that change, do not necessarily want to adapt or adopt that change the second after they get it because it of course all companies need some room to plan and implement; and that is why they usually, they have the same approach when we all implemented IFRS that if the changes of IFRS had negative consequences to the capital model, then they would have the more flexible view on the timing of making sure that that negative was covered by additional capital so that's why we're saying when we've looked at our expected capital requirement for this year, we didn't plan for a requirement of 240 million for cap and when we look at our expectations for paying dividends, then of course we will also have to have a look at, should all of that be covered in 2006 or should part of that be covered first in 2007 and that is the flexibility that we will allow ourselves to have when deciding upon our dividend for the full year. Also in the capital model, we describe the affect or the difference as to whether you use our discounting which is based on market rates observed in the market every month or you use S & P's 10-year rates which is rather more arbitrary and the market rates we use and the 10-year rates used by the S & P model have developed rather differently during this year and that is also an issue that we are starting a dialogue with S & P on because we, of course, control and match our assets and liabilities with interest rate exposure very, very closely and that is not done by using this 10-year rate. Using the actual observed market rate, so that is also a discussion does it: how should that affect the total capital requirement? But that is mentioned in what is on our Web page as well.

Gianandrea Roberti - Danske Bank

Okay, thanks a lot.

Operator

At this moment, there are no further telephone questions. Thank you.

Morten Hübbe – TrygVesta, CFO

Then I would like to thank you all for participating and for good questions and let you go onto busy work with our peers and what else is happening on the Nordic scene. Thank you very much and have a good day.