Teleconference

Q1-Q3 results 2011 – 9 November 2011

Ulrik Andersson - Tryg, Head of IR

Good evening and this is Ulrik Andersson and welcome to the conference call on Tryg's Q3 figures. The programme for this evening is that Morten Hübbe, CEO, will run through the headlines of the results and then afterwards Morten and Tor Lønnum will participate in a Q&A session, so with this over to you Morten.

Morten Hübbe - Tryg, CEO

Thank you, Ulrik. And as you may know you can actually watch our pre-recorded webcast whenever it suits you, so I will just give a fairly brief introduction but I guess we can see that in our third quarter we have delivered a solid improvement to our insurance results which as we see it supports our medium-term targets of reaching a combined ratio of 90 % and an ROE of 20 %. If we look at the quarter as such, the combined ratio has been improved from 99.2 % in the third quarter last year to 91.5 % in the third quarter this year, which of course on the face of it is a very sizeable improvement. The negative impact in this quarter has of course been from 2 July Copenhagen cloudburst which cost roughly DKK 1.1 billion before reinsurance and 190 million including reinstatement premium after reinsurance and on the positive side we have seen less large and medium-sized claims than we would expect. That has of course helped the quarter. We have also seen slightly higher run-off gains and then I guess Q3 last year as a comparison was a fairly lousy quarter. But underlying we see a good and strong improvement in all three business segments most noticeable is that our commercial business segment has a drop of around 10 percentage points in the combined ratio year-on-year. We can see that there are smaller or fewer medium-sized claims and somewhat higher run-off gains explain roughly 5 percentage points of that improvement and if we look at the private lines, the combined ratio 91.5 % down a bit more than 1 percentage point despite the fact that run-off gains in private lines are actually roughly DKK 100 million lower than last year and roughly 4 percentage points different, and then of course a corporate combined ratio of 87 % in the quarter helped by the fact that we have almost 10 percentage points run-off gains in the corporate book but also there a good underlying improvement. You may have noticed that in Sweden and Finland we see for the first time, I think, a quarter where the combined ratio is slightly below 100 in both markets so I guess a good and strong underlying improvement but also some tailwinds that have helped us in this quarter, but a situation where we are happy to be able to provide good strong insurance earnings despite the cloudburst we saw in the beginning of July. I think with that short introduction we should hand it over to your questions.

Håkon Fure – DnBNOR

Yeah hi and good afternoon guys, this is Håkon Fure from DnB in Oslo calling. Just two questions. Firstly, you continue to realise rather high run-off gains. Can you elaborate on whether there are any specific private lines that drove this in Q3 and how you see this developing going forward. Secondly, you state that you are taking targeted initiatives relating to the cloudburst in early July. Is this pricing initiatives or are we talking loss prevention initiatives? Thanks.

Morten Hübbe - Tryg, CEO

And good afternoon to you also, Håkon, I guess on the run-off gains you are correct that they are somewhat higher than in the third quarter last year but if you actually had adjusted for the High Court ruling a part of run-off last year was actually slightly below that level but I guess we said also after the second quarter that we expected slightly higher run-off gains in the coming quarters and there is no doubt that a product line like workers' comp. is a significant part of the run-off gains in this quarter and that is also why we see an increase in run-offs in Commercial and Corporate lines whereas we see slightly lower run-off gains in Private lines and I guess our positioning is that we would also in the coming quarters see a good likelihood of run-off gains of a fairly decent size. On the cloudbursts, I would argue that it is a combination of both preventive measures and pricing measures. For the Commercial customers, for instance, we have said that there are new conditions, for instance referring to the fact that storage in basements needs to be elevated 40 cm above the floor level. Several other changes to conditions and then of course a higher differentiation on pricing. For the Private customers it demands like saying that some customers who receive their claims need to install water locks in their basement. They need to use other materials. We put maximum coverage on what content could be covered in a private house and we will implement in 2012 a new house contents product which will differentiate a lot harder on basements with water proximity and basically valuables in basements. So it is a combination.

Hans Pluijgers, Cheuvreux

Yes, good evening gentlemen I will try to just hurry up. I have got four questions. First of all, yes a follow-up question on the run-off profits. It is a little bit, let us say, we can read it that you see high level of run-off profits because of the workers' comp. you have mainly, of course, so far experienced relating to the August last year, the court ruling has been much better than expected so in principle you refer to a little bit of the additional provisions that have been taken last year. Secondly, you are talking about in the Swedish niche market you see some impacts from the economic developments. Could you give some feed-in on premium growth in a niche market of the size which you are referring to? Thirdly, you also are referring to a higher level of expected cloudburst caused going forward. How then do you see also your reinsurance going forward? First of all the coverage and secondly also with respect to pricing because if you look at the current last two years, of course, your reinsurance companies have made quite some good losses on this contract. So could you give us some feeling of what you see for ultimate pricing going forward? And lastly on the capital buffer, your capitalisation report you saw a decline in your capital buffer from 13 % to 10 % and you also indicate you want for your dividend policy to have at least 5 % buffer. How do you see your capital buffer in Q4? And yes, do you see any improvement there as well in respect of the dividend forecast currently. If I look at the cash outflow that is somewhat ahead of your current, let us say, buffer you are having above the 5 % so could you give some feeling of what you see on the capital buffer going forward?

Morten Hübbe - Tryg, CEO

I will take the first two of your questions and then Tor will join me on the other two questions. On the run-off gains, I think it is fair to say that last year we saw both the court ruling and we had a worry point about what seemed to be a negative trend on early settlements or temporary settlements of workers' comp. claims. What we have seen since then is both a positive development and less re-opening of claims from the court ruling and also a stabilisation of this underlying trend we saw in all of the other workers' comp. claims so you should see the run-off gains in this quarter in workers' comp. as a combination of both and by far not only the court ruling debate but a combination. On the Swedish niche area what we see is that after a number of years where the sale of medium to larger-sized leisure boats for private individuals has stopped to the extent that we don't see really growth in the market as we have seen in the previous years. It has slowed down already a year ago but then the lower interest rates helped again to build sales so both in larger leisure boats but also in motorcycle insurance we have seen less growth than we have seen historically and I guess in a sort of more depressed financial development period we should expect lower growth from such segments. And I guess in general from our Swedish and Finnish business we are more focused on making sure that we can deliver combined ratios below 100 and we actually do expect lower growth in the coming years from those markets than we have seen historically.

Hans Pluijgers, Cheuvreux

And those two niches – how much of the Swedish premium comes in currently can you give us some feeling on that?

Morten Hübbe - Tryg, CEO

I think – we can do the math in a short while, I guess that they contribute - I would say less than half of the premium.

Ulrik Andersson - Tryg, Head of IR

There was approximately 40 % in the Swedish premium from those niche areas.

Morten Hübbe - Tryg, CEO

40 % - but a bigger proportion of earning so it is one of the most profitable areas that we have in Sweden.

But I guess you should also expect lower growth in the non-niche segment in Sweden and Finland, simply because we prioritised the combined ratio higher in the coming period than we have in the previous period.

And also reinsurance on cloudbursts.

Tor Magne Lønnum - Tryg, CFO

Yes, it is Tor Lønnum. I will try to answer that question. The question was whether or not we think it is achievable to sort of receive the same kind of coverage going forward and I guess in that respect we are quite optimistic we think that we will still be able to reach some agreement regarding reinsurance coverage. Of course it is a natural price that you mention and naturally, you'll se the price hikes also in the insurance market when you get this kind of weather related, large weather related events. I think, however, that the pricing aspect will not be very significant in terms of reinsurance pricing.

Regarding the capital question, I got the question related to the fact that the buffer to the F&P has dropped from 13 to 10 % but could you repeat the last part of the question, please?

Hans Pluijgers, Cheuvreux

In principle you will have a buffer requirement for your dividend policy of at least 5 % that would apply about DKK 500 million if you look at the Q4 forecast, you expect to your dividend it would imply a slightly higher cash outflow than the 500 million buffer you currently have so that my question is especially what do you expect for the capital buffer in Q4, do you expect to improve and of course do you still stick with the 5 % minimum buffer?

Tor Magne Lønnum - Tryg, CFO

I think it is fair to say that it is you couldn't answer what we expect in Q4 but what I can answer to your question is really that when you look at what happened in Q3, there were a couple of events that we think are perhaps - well I would not call it non-recurring really but it is extraordinary and it is related to the fact that you have a very high tax rate in Q3 which of course reduced the profit after tax. I mean it is related to the change in Norwegian pension liability where you have a lower discounting rate and that had an impact on the equity so I guess I would call some of the events in Q3 extraordinary related to the capital buffer and what happened to the capital buffer.

Morten Hübbe - Tryg, CEO

I guess it means that even though we stopped entry to our pension scheme in Norway back in 2008, we still have almost 1,000 employees on that scheme and it basically means that we have a swing factor of almost 200 million from that alone to the capital in the third quarter.

Hans Pluijgers, Cheuvreux

In principle to be logical, do you assume that the capital buffer could increase, say, a little bit in line with the earnings expectations?

Morten Hübbe - Tryg, CEO

That would be our expectation in most quarters to be honest and I guess you can speculate the many international investors that have moved into Danish and Norwegian government bonds pushing down interest rates – at some point that will start to normalise again and there would be some degree of rebound from the Norwegian questions but I guess in general interest rates are low and challenging and then that is not, that phenomenon has not vanished yet but I guess, yes you should expect that in most causes.

Hans Pluijgers, Cheuvreux

And you don't expect any let us say for the pension schemes any impact from low interest rates in Q4 in adjustments of say..

Morten Hübbe - Tryg, CEO

It all depends on what happens to interest rates in Q4.

But I guess it has been quite extraordinary how much international investors have fled into Danish and Norwegian government bonds and I don't think we should assume that to continue in any quarters to come.

Ulrik Andersson - Tryg, Head of IR

But I think it is important also that this pension scheme is in Norway for, as Morten said, a little below 1,000 Norwegian employees but it is a speciality of Norway. You don't have other pension schemes like that.

Christian Hede, Jyske Bank

Yes good evening it is Christian Hede from Jyske Bank. I have two questions. One is on your outlook for 2011. I see that you stick to saying that your premium growth should be in the same level as 2010 - there you had premium growth of 4.5 % in local currencies and for the first three quarters you are now at 5.2 %. Is there any reasoning for you not to reach the 5 % and I know that would still kind of be in the level, but is there anything specific for Q4 that we should worry about? And the second question is on your investment return and on the matching portfolio where you say you have a gain from the spread widening between the Nordic and the Euro area and also you indicate that when this normalises, you might have a loss from this. Is there anything you can do or are you doing anything to kind of just lock up this gain and avoid the loss when things normalise or will we just have to see that you take this loss when things normalise? Thank you.

Morten Hübbe - Tryg, CEO

I will take the first question and then I think Tor will look forward to answering to the second question. On the first question there is really no reason to expect a significant problem with the growth rate in the fourth quarter. So what you are seeing is sort of a year-to-date growth rate is likely to continue in the full year and as you said that is broadly in line with previous years but of course in reality somewhat higher. But don't expect any big shock from that in the fourth quarter but of course growth in the third quarter is helped a bit by the fact that we have the negative impact on the top line last year from setting aside DKK 100 million on change of ownership so it got elevated a bit in the third quarter this year. And then on matching, Tor.

Tor Magne Lønnum - Tryg, CFO

Thank you Morten. Well I guess I can at least try to say something about it. What happens is really that when you use the Euro swap for rates for discounting on your debt side and of course it makes more economic sense to actually use Norwegian and Danish assets from a matching side you can say that from an economic standpoint of course it makes more sense so the fact is that this creates the mismatch that you mentioned and the challenge will be, as indicated, that if and when you have a reversal that will hit the result negatively. Of course it may be that there are some changes that can be made but all in all you can say that the overall challenge is related to the fact that there is the Euro swap on the discount side whereas you have different assets on the other side. However, what we can say is that sort of from a more long-term perspective it is natural to work with the FSA to look into whether or not we can be able to change the discounting rate.

Claus Højmark, ABG

Good evening gentlemen, just one quick question from my side. You address the issue of claims inflation in Norway and say you are looking for or you are trying to address this issue. Could you maybe just guide us towards what type of premium growth you expect, you need to match this claims inflation in the coming years also to reach your target of a combined ratio of 90. I assume you also want to reach that target not only at a Group level but also in Norway?

Morten Hübbe - Tryg, CEO

Well, I guess you can say that that question varies quite a lot from product to product. I think we see roughly a 4 % salary increase on average in Norwegian society meaning that if we don't expect frequencies to fall in different segments, then we need at least a 4 % price increase to counter that inflation. We have seen several segments where we increased prices significantly more than that. We have generally done 10 to 15% on commercial property during this year we are seeing that in corporate property we need to effect significant price increases as well. So in many segment we are doing significantly higher price increases than 4 %. I guess you can argue that only in fairly few lines we actually see drops in frequency that would allow us to have smaller price increases and then the 4 % and then I guess we have generally said that when we do price increases we will lose a bit of volume in some areas and that could then reduce the top line driven from price increases but I guess the 4 % sort of establishes a bottom for the types or levels of price increases we need in the Norwegian market at the moment.

Claus Højmark, ABG

But I guess that is mainly just to compensate for inflation, right? That would not take you down to the 90 % combined ratio?

Morten Hübbe - Tryg, CEO

Well it is correct. I mean I guess we can also see that as I mentioned in those of the segment we do significantly higher price increases than 4 % and I guess if you look at this from a Group level we are doing on average 5 % price increasing and we are seeing roughly 3 % inflation and that gives us the net positive of 2 percentage points to the combined ongoing and of course you can see that reaching our 90 % we want a margin increase in most of our segments also next year but of course with the bigger in Norway bigger need to improve Commercial and Corporate and less of a need to improve Private so I guess, as I said, the 4 % just establishes the bottom and as I said there are several products were we are doing 10-15 % price increases but it varies a lot between products.

Claus Højmark, ABG

OK, can you give a quick comment on the competition in Norway, how is that reacting at the moment?

Morten Hübbe - Tryg, CEO

Well, I guess we can see that our Corporate business is more stable than we actually saw 1½ years ago with a bit less competition on workers' comp. than we have seen. I think in private lines our experience is that the bigger players are all adjusting prices upwards because of inflation but we are still not really seeing the smaller players, B&B, Store Brand, Frende etc. increasing prices to the same extent so I guess we still have basically a market situation where these smaller players are taking a bit of market share from the bigger players where we see more loss of market share in Gjensidige and If and that we are fairly stable although a small reduction in market share and I guess we can live with that situation because basically none of these small players are making any money and I think we will see a change in their behaviour in the coming years or maybe even for some of them a change of owner.

Giulia Raffo, Autonomous

Hi, good evening, just two big questions, really. 1: In light of what you have seen in the last two quarters, which is, you know, price increases coming through, a bit more normalisation especially in workers compensation will it be fair to say that, you know, that in your slide you have this medium-term combined ratio target of 90 which is a line that crosses both 2013 and 2014, would it be fair to say that you are more confident to deliver on that in 2013 as opposed 2014? And then the other point which is clearly linked to that I mean if we look at your nine-month combined ratio before month you are at 93 and you are pretty tough geared in the sense that probably large claims were in line with your normal, but really on the weather front you did not have a lucky nine months. Now if we assume what you just said that you put 5 points in pricing physically, the net benefit is 2 points I would even, you know, I would come to the conclusion that you can even do more than, you know, sort of like maybe it is even lower than 90 in 2013. Now clearly against that interest rates are going lower but I am just trying to connect the first question with the second one and trying to frame whether it is too optimistic to think that you can deliver earlier.

Morten Hübbe - Tryg, CEO

Well, I guess, Giulia that you have got all the factors right. The question is then how optimistic or pessimistic you are about the various factors. There is no doubt that every month and every quarter we get more confident that our price increases are indeed being carried out. We see in Denmark higher customer retention in private lines despite the price increases. It is slightly lower in Norway, but at a good, strong level. We have seen a bit of drop in retention in commercial lines in Denmark, mainly, but basically more and more confidence that the price increases are improving and you are correct that we see a stronger development in workers' comp. than we expected, which is helpful as well. On the other hand we have seen more large claims in our Norwegian Corporate books, which actually mean that we expect the necessity of higher price increases in Norwegian Corporate, particularly in property than we thought, say six months ago. We see a good and strong and healthy development in products like contents for instance in both Denmark and Norway, a good improvement in Norwegian house insurance. On the other hand, Danish house insurance is still a challenge and I guess the cloudburst that we saw in July is not helping that and we are working with the assumption that cloudbursts will be a bigger challenge also in the coming years. So I guess yes we are becoming more confident that we see more positive factors, we see less surprises. On the other hand, it is also clear that a fourth quarter will usually have a higher combined ratio than the other quarters of course depending a lot on the winter so we still feel that we need to make a significant improvement in 2012 and we need to make a significant improvement in 2013 and I guess whether we reach our three-year target at the end of 2013 or for the full year 2013 or the beginning of 2014, it is really hard to guesstimate that. But I guess for us to see that within a three-year period we reach this level of around 90 %. We are quite confident that that will happen and I would not want to speculate on whether that could be sooner or not, because there are lots of things that will fill the news also in the coming two-year period and as you said interest rates are not exactly helpful at the moment so what seems to be an offside happening in the spring of this year is I guess neutral at the moment and I guess no one really knows what happens to interest rates in the coming period, so we are confident we are sticking to our plan and I would not want to signal any earlier expectations than previously.

Giulia Raffo, Autonomous

And I'll ask you just a quick follow-up on something else, on the investment income assuming rates stay where they are, is it correct to anticipate investment income after tax and interest to be settling below DKK 200 million as a normal yearly trend assumingly leave no gain on the matching portfolio.

Morten Hübbe - Tryg, CEO

Yes that sounds like a fair assumption.

Claus Grøn Therp, SEB Enskilda

Yes, I have two questions. The first one is relating to the investment income. Could you try to elaborate on the fixed income part of the free portfolio? I am a little bit surprised that it came out as negative 31 million for the quarter, especially when you see the development in both Danish and Norwegian yields during the quarter and the second question is relating to the Danish competition if you could elaborate a little bit on to what extent it is possible to come through with price increases in the Danish market or it is becoming more and more competitive.

Morten Hübbe - Tryg, CEO

I think I will start with the second question and then Tor will take the first question. On the Danish competition, I think what we are basically seeing in private line is a situation where almost all companies are adjusting prices on many of the core products to try to catch up with inflation we have seen in the last couple of years. And as I said even though we have been doing quite a number of price increases in the Danish private lines area we actually see now for the second quarter in a row an increase in our customer retention rate and I guess the customer retention rate is a fairly good indicator of where competition is. So we see a good and healthy environment for adjusting prices in private lines. In commercial lines I think the picture is a bit more varied. I think in some areas Topdanmark effected price increases in commercial lines before many of the other companies so they had a disadvantage a year or two ago and now they probably have a slight advantage, but generally we also see that most players need to adjust prices in commercial lines and clearly the cloudburst makes things more expensive so we see that it is not as well developed yet that we see price increases in Commercial as we have seen in Private, but the trend is pointing in that direction. I think in corporate lines it is a different debate altogether. We still see in Denmark a tendency towards reduced pricing in the last couple of years and I would say they stabilised somewhat this year. We lost less business in Danish Corporate this year than we expected but we will still have to stay very alert to assure that prices don't fall in Danish Corporate and we need to think that they need to increase somewhat because if you look at the Danish Corporate results, they are improving but the actual underwriting year still has too low prices. So difficulty in Corporate and I think a good development in the other two segments. And then the first question, Tor.

Tor Magne Lønnum - Tryg, CFO

Yes related to the question about the exposure and the free portfolio is first and foremost high-yield exposure that has led to the negative results.

Claus Grøn Therp, SEB Enskilda

It just surprised me because you have 6 % to high-yielding bonds and when you look at the Danish and the Norwegian yields which have plummeted totally during the quarter.

Tor Magne Lønnum - Tryg, CFO

Yes, but the high-yield exposure will not be towards Norwegian and Danish bonds.

Claus Grøn Therp, SEB Enskilda

I acknowledge that. Could you elaborate, is it Greek bonds or what...

Morten Hübbe - Tryg, CEO

Ha, ha, ha, no, no it is not Greek bonds. We have no PIGS exposure whatsoever. We have had one Spanish exposure which we sold a year and a half ago and let that run out but I think what you need to bear in mind is that if you look at our general duration on the – call it the Nordic exposure on bonds and the free portfolio it is extremely short so we get very little positive impact from the drops in the yield and that is the part of the equation where you might go wrong.

Vinit Malhotra, Goldman Sachs

Hey, it is Vinit Malhotra from Goldman Sachs. Just two quick ones, firstly is it fair to say that in the Corporate Nordic segment the actual underlying third quarter premiums were actually down year-on-year because customers are leaving or the tension is becoming a small issue there. That is the first question. The second thing is then just a follow-up on the run-off, under the low relief I see a lot of the low relief also in the Private Nordic 73 million and we have understood it for workers' comp. or mostly workers' comp. but what are these coming from? Thank you.

Morten Hübbe - Tryg, CEO

Your first question was related to the actual growth in Corporate where I guess it is correct to say that in 2009 and 2010, we saw a drop in our top line in Corporate and in 2011 we expected a drop in the sub-line as well and we have seen a fairly stable development in our top line in Corporate in some areas reflecting mainly a price increase but I guess you can say that we have seen a whole sort of stop of the actual drop in number of customers. So I think we are actually slightly more optimistic about top line in Corporate now than we were say a year ago. As far as the run-off gains are concerned you are right we had a run-off gain from private lines of around 70 million in the third quarter this year compared to almost 180 million in the third quarter last year and I guess historically we have seen most of our run-off gains in private lines coming from motor insurance. That is still the case. But I guess we are starting to see now a stabilisation of smaller run-off gains in some of the other private products as well like contents and like house after a two-year period where we rather consistently saw run-off losses in those products. I guess that answers your second question?

Per Grønborg, Danske Markets

It is Per Grønborg from Danske. I have a single question related to your industrial business. You are writing in you report that there has been price pressure and you are talking about the current year's business not really being where it should be. Clearly your profit is largely driven by prior-year gains. How much of that is due to claims inflation, how much of that is due to insufficient pricing in the last couple of years?

Morten Hübbe - Tryg, CEO

Well, I guess Per that we were curious to figure out who was on the call with that name, but I guess it was you. It is good to hear from you as well. Well, I think to be honest that if we look at the Danish corporate business the challenge that we are describing is by and large a challenge driven from the fact that prices have been dropping in the last couple of years. And what we have done now is to centralise the authorisation to adjust prices in a renewal process so that now we have only two people in our total Nordic Corporate business that are allowed to accept price adjustments in the renewal process and also we have installed a new process where if the expected ROE of a larger Corporate customer is below 20% then at least it is expected to be between 10 and 20%, the Management Board has to approve it, both on renewal and new sale, and if it is below 10% expected ROE then actually the Supervisory Board has to approve of the new agreement. I guess that is a fairly tough strengthening of procedures. I think in Corporate Norway we see more of, call it traditional inflationary elements and particularly in property we have seen more inflation both in commercial property in Norway but also in Corporate - sorry - corporate property because actually we effected fairly broad price increases of 5-7% in those segments in Corporate in Norway last year but still we have seen inflation that we need to catch up with so a bit different story between those two markets.

Per Grønborg, Danske Markets

My concern is primarily we had the same discussion about your large clients a year ago where a lot of the distribution channel in this business, the brokers we are talking about, quite feared price competition. At that time you also stated that Tryg intended to hike prices. Now you are stating again, Tryg intends to hike prices. I don't know how much the market actually has improved pricing-wise? My concern is just that what you did not succeed in last year, will you succeed in that next year? And the issues as you see them should we then expect a significant cut to your top line? There must be a reason why you were able to keep on the business last year and my theory is of course that that is the reason why the current year profit is so much weaker than it normally has been in your industrial business which tends to be quite fantastic.

Morten Hübbe - Tryg, CEO

Well, I guess, Per, it is a fair question because last year we also were of the opinion that pricing needed to increase in Corporate. We actually managed to carry out the price increases of 5-7% as I mentioned across the board in our Norwegian Corporate business. I don't think that last year we were firm enough in our way of eliminating the opportunity to change prices in the renewal season. The structure I talked about where only two people can approve a price change and where ROE below 20% or below 10% has to be authorised by the Management Board or the Supervisory Board. Those were not installed last year so I guess that you are right that we wanted to improve pricing last year, but we have been tougher in our measures of making sure that that actually happened this year. How much that might impact our top line in Danish corporate business is a good question. We are from our side expecting to have some negative impact on the top line in Corporate business next year. Not a huge negative impact but some negative impact and as we see it, many of the other local Corporate providers need to increase and avoid price reductions as well so we would assume that this happens generally in the market but I guess we are also seeing some trend that pricing is increasing in the reinsurance market, which is also an indicator of the Corporate market, but I guess you are right. This is an open question and we have not seen price increases yet. But we are very determined to control and stop the drop in prices and if we need to lose a bit of top line as a result of doing that, so be it.

Vegard Mediås, Pareto

Thank you and good evening. I just have a quick question on development in Sweden and Finland. Could you give us some flavour on your initiatives on the cost cutting side and how long they have proceeded? If there is more cost cutting to be achieved or not, going forward?

Morten Hübbe - Tryg, CEO

Well, I guess that it is clear, as you say, that most of the improvement we see in Sweden and Finland is actually from cost cutting but still we see a significantly higher cost ratio than in Denmark and Norway. We are at the moment running a rather large programme to automate a number of processes in the Finnish market so within the next 2-3-year period we would expect significant further drops in the Finnish cost ratio. To be honest, in Sweden our focus is more to make some of the broader direct private lines more profitable in terms of pricing and claims ratio and have slightly less focus on the cost ratio but I guess for both markets, we expect the sales and thus the growth to be lower in the coming years and as sales are a big driver of distribution cost and total cost ratio that will help to reduce the cost also in the coming years. So expect to see a reduced cost ratio in Sweden in 2012 and a reduced cost ratio in Finland more long-term as the programmes are carried out.

Vegard Mediås, Pareto

Can I then have a follow-up question please? Are there done any normally occurring cost elements in Sweden in Q3? Since you have a significant drop in costs there.

Morten Hübbe - Tryg, CEO

It is a drop in costs it is not a recurring or non-recurring issue.

Gianandrea Roberti, Carnegie

Yes good afternoon from me as well. I have three quick questions that partly have been touched from your answer already. Morten, if I look at 2012 what are your expectations on the top line growth. I know you have this price hike around 1 billion but I think you have already hinted at the fact that you sort of expect probably to lose some customers so I guess we are looking at a normalised Q4 this year you can probably end up with a top line of 21.8 billion but I mean what is your expectation on the top line for 2012. That is the first question. The second one, reinsurance prices have been discussed before. Is it correct that if I remember correctly out of the roughly 1 billion that you seek to reinsure, only one quarter of that is the CAT programme so that is really the number that may be impacted by substantially rising reinsurance prices because that is obviously quite different from the entire 1 billion and then the last question a bit more nerdy the technical interest in Q3 is basically half of what it was at the Q1 this year and is clearly driven by the lower rates but if I look at a clean 2012 year would that be correct to assume that is lying around 130-140 as rates are right now? Thanks.

Morten Hübbe - Tryg, CEO

Hi Gianandrea, I will take the first two questions and then Tor will help me on the third. I think if we look at 2012 top line we have not really said anything about what you should expect but I guess you are pointing to the conclusion on your own, I think, that the top line would start out with a positive impact of roughly 5 percentage points from pricing initiatives. And then we would expect to lose a bit of business on Corporate and also on the Commercial SME and that would pull down the growth somewhat and what would be the net of that. I don't think we have communicated that but I think if I were you I would probably install a bit of pessimism from the fact that the macro environment seems to be slowing down and that is not helping growth either and I guess that slow-down is more evident now than just a few months back but I think that probably calls for a bit more caution on top line assumptions the next year. On the reinsurance side, I guess you are roughly right, when we have roughly 1 billion worth of civil business in a year actually approximately half or a bit more than half of that is captive and fronting business so not traditional reinsurance, only roughly a bit short of or around ½ billion if the actual traditional reinsurance programme out of which the CAT programme is actually below 200 million and of course we do expect that we will have deductions of higher risks on the CAT programme but as a starting point it is below 200 million in costs even though that will increase and as Tor said, we don't see being large enough numbers to really disturb the total result improvement then for next year. And I am not really sure whether we are able to give an answer on the third question.

Ulrik Andersson - Tryg, Head of IR

I think I can answer the technical nerd question. The thing is since the claims reserves are discounted technical interest is interest on the premium reserves and they are smaller in Q3 than they are in Q1 as premiums are to a large extent paid in the beginning of the year so premium reserves are smaller as the year passes.

It also goes for Corporate business where I think 40 or 50% of the portfolio renews on 1 January so you get a very large premium reserve in the beginning of the year.

Jakob Brink, Handelsbanken

Hi, it is Jakob from Handelsbanken. Just a few follow-ups as well. You talked about the run-off gains a bit earlier and you stated that it was relating to workers' compensation, both the ruling and a better frequency. Could you maybe just give us an update then on how much we should be expecting for the next coming quarters? Then, on the interest rates, you state somewhere in the report that the support from the discounting impact was roughly the same as in Q3 last year. Could you maybe give us then an update on what should be kind of the delta going into the fourth quarter, how much you typically stated in a small table saying that it is around 3% positive on the combined ratio in the quarter. I think it was 3.1 in Q3 2010. Could you maybe give us an update on what would be the impact in Q4 and going forward with constant interest rates and then just to make sure I understand it correctly but the guidance you have given on the medium-term combined ratio of 90, you stated in the Q4 2010 report that that was based on average interest rates in 2010. If I compare the current interest rates to 2010 average it is down around 100 basis points. So the fact that you keep it flat, as you talked about before, Morten, is that then relating to the fact that you are more positive on the underlying or is it simply just because you don't want to change the mid-term guidance every time rates change? That was my question, thank you.

Morten Hübbe - Tryg, CEO

Hi to you as well, Jakob. I will take the first and the third question and then Tor will help me on the second question. On the run-off question you are right that it is largely driven from workers' comp. I think that if we look at the coming quarter, we have always communicated that in most periods we would see a likelihood of run-off gains in sort of the region of 3 percentage points for the combined ratio or higher. We have seen somewhat more in this third quarter and also for the coming quarters we do expect a likelihood to be slightly higher than the historical average and some of that will come from workers' comp. also in the coming quarters that seems at least likely as it is now. When it comes to your question on the interest rate assumed on our three-year target you are right that we set our three-year target in 2010 but as I recall it, what we used there was not really the average interest rate for 2010. It was the interest rate that we used in the autumn of 2010 and of course what is helpful there is that we saw a rather low point in the interest rate in that autumn period and that is why at the end of the third quarter this year we are actually roughly at the same level as we were in that same period in 2010 so it was in fact not an average for the full year then, it was that interest rate we saw exactly in the autumn. Was it October or something like that 2010? But I guess your final point, we would not want to so we have not seen a great need to adjust the target as a result of that. We saw a beginning upside in the start of 2011 which has vanished again but of course we would not want to adjust our 90% target up and down every time interest rates change so we would clearly try to absorb it if necessary if interest rates are lower but as of now we are roughly at the same level that we were when we planned in the autumn last year. Then you had a very precise fourth quarter question on what to expect on discounting. I don't know if that is so precise into the future, I am not really sure whether we answer that.

No, I think we don't. Jakob, I think you have to try to figure that out on your own.

Jakob Brink, Handelsbanken

I was just a bit surprised that the reduction from the second quarter where you actually stated what the discounting impacting was, I think it was 3.2 percentage points and the combined and now you stated it was the same as Q3 last year which was 3.1% but despite a pretty significant drop in interest rates you only have a 0.1 percentage point reduction, which was a bit surprising to me that it was so …

Morten Hübbe - Tryg, CEO

I understand the question but I think if we look at our webpage we have a slide showing the seasonal pattern for the last couple of years on interest rates and I guess there if you look within 2010 and if you look within 2011 there has been a fairly high volatility so you saw periods in 2010 that were higher than the third quarter and you have seen periods in 2011 that were significantly higher than the third quarter but both of them hit a fairly low level in the third quarter in both years and that is why the change is small but I think you should look at that graph. It gives a fairly good picture of where we are in the third quarter and in which periods we have been higher than that. And then you can follow the interest rates from where we are now as well as we can.

Jakob Brink, Handelsbanken

And just a final one if I may. There was, I was in Sweden a week ago and it sounds like the competition in Sweden just sort of anecdotal-wise should have been stepped up on the Private side that especially If through this water circle company which they apparently own some of, part of it should have been quite aggressive then actually taking quite a few from you. Is that correct or is that just coincidence or can you actually feel that competition in Private lines has been increased in Sweden?

Tor Magne Lønnum - Tryg, CFO

I guess that was part of the discussion earlier with the niche product in Sweden.

Jakob Brink, Handelsbanken

But this was not actually a niche, this was some private house and…

Tor Magne Lønnum - Tryg, CFO

Oh, sorry I thought you thought you said motorcycle. OK, sorry.

Morten Hübbe - Tryg, CEO

I think to be honest that what we have seen - when we started out our business in Sweden I think our ability to price core products like house and motor was too weak, to be honest. And we have all along been - Moderna has all along been good at pricing the niche segment so what we have been focusing on for the last year or so is really to reprice and to improve our pricing matrixes on house and car significantly. So we have done significant price increases, predominantly on house but also on car in the Swedish Private line of business. And of course I don't mind letting go of some customers but I mean there are segments within that debate where our pricing has 50% wrong so the fact that some compared with us picked up some of that business does not surprise me and to be honest I think that is OK. And I am just pleased that now we have stronger actuarial competences on board in Sweden to make sure that our future pricing is more correct because that was simply not intelligent enough as a starting point.

I think we should thank you a lot for participating even at this late hour and look forward to seeing you on the road. If you have any questions on a more detailed level to Investor Relations then they will be available in the coming days so please feel free to call them.

Thanks a lot.