Tryg – Q1 2018 results

Audio cast and Q&A 11 April 2018

Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations at Tryg.

We published our Q1 result this morning. And so I have here with me Morten Hübbe, Group CEO; and Christian Baltzer, Group CFO.

A few words, over to you, Morten.

Morten Hübbe, CEO

Thank you, Gian. And good morning to all of you.

And let's start on Slide 3 with the financial highlights of the first quarter with a pretax result of DKK 553 million, roughly DKK 220 million below year-on-year but some 15% above consensus. If we look at the technical result, DKK 563 million, roughly in line with last year despite DKK 44 million higher weather claims in both Denmark and Norway impacting particularly motor insurance and frozen pipes. And we are pleased to see a continued improvement of the underlying claims ratios in Private lines of some 50 basis points and on a group level of some 40 basis points.

We see, of course, a lower investment income of DKK 9 million compared to DKK 223 million last year primarily due to the drop in equities, where MSCI is down 2% this year compared to up 5% in Q1 last year and, of course, rising interest rates.

In Q1, a dividend per share of DKK 1.65, in line with our guidance of stable and increasing dividends.

We see an elevated solvency ratio of 283. Bear in mind 197 when you adjust for the capital raising for Alka or expected approximately 170 when the deal is approved.

Move on to Slide 4 with the customer highlights. We are pleased to see the TNPS, the customer satisfaction, at 62, which is an improvement of some 5 percentage points from Q1 last year. One of the first examples of claims prevention is integrating alarms into our private insurance products of contents. We see already now that some 40% of the customers that are offered alarm as part of the content insurance actually accept it. And we see that it significantly improves our year 1 churn or the ability to get the customers safely onboard in our business. We have launched a track and trace for our claims in Private lines Denmark for the first time. This is clearly becoming an expectation of the customers. And we see that a very large proportion of our telephone calls from customers has to do with questioning the status of the claim, so avoiding that.

We have purchased Troll insurance in Norway, some 12,000 customers, which will strengthen our position in the eastern part of Norway. Bear in mind that there is no goodwill payment for that given the financial situation of the seller. And also, we do see that the acquisition of OBOS Insurance, a small portfolio, last year but also in the eastern part of Norway means that we're now selling DKK 2.5 million to DKK 3 million worth of insurance to private customers from OBOS per week at the moment.

And if we move on to Slide 5, we see a technical result, as we mentioned, in Q1 much in line with last year despite the DKK 44 million higher weather claims. We can see a continued strong result development for Private and Commercial. Clearly, Corporate is still challenged, but we are pleased to see particularly in Corporate Norway that we've implemented a number of profitability initiatives. And on average, the price increases carried out in this period are a bit higher than 7%, on average. This doesn't mean that the problem has been solved. And we should expect also future inflation to consume part of those 7%, but what is extremely important is that, after 3 to 4 years of price declines in Corporate Norway, we have a very clear process and priority to get prices up. And we are willing to reduce top line to achieve sustainable price levels.

If we look at technical results in Norway [showed through] across all BUs, we see some DKK 60 million lower technical result year-on-year. Some 40% of that is due to claims in Commercial, where clearly Commercial Norway last year, Q1, was very positive and then some DKK 20 million due to weather claims in Norway. But we have no doubt that, when we look at the initiatives that we've taken in retail in terms of volume and sales and in Corporate Norway in terms of increasing prices, that we are in the process of improving both the top line and the bottom line in Norway.

If we would look at Slide 6. We have a very strong shareholder focus in Tryg, and that is clearly illustrated in the historical valuation development. From 2011, we see a very strong development in our share price compared to the insurance industry in general. We have a very, very strong focus on stable and increasing ordinary dividends. And for Q1, as I mentioned, the dividend will be DKK 1.65 per share, and that is also the level you should expect for the coming quarters.

If we turn to Slide 8, regarding growth. We show a growth of 2.2% for the quarter, which is actually the highest quarterly growth in more than 6 years in local currency. Watch out for the currency movements, as Norwegian krone versus Danish krone is down 6% in the period. And also, SEK is down in the period.

We are particularly pleased to see that our most important business area Private lines has a strong development of 3.8% supported by FDM in Denmark and OBOS in Norway but also a very strong organic development for Private lines Denmark which grows organically 3.5% versus the 7% reported.

Commercial, with a growth of 1%, helped by OBOS, but we are also approaching a better balance between churn and new business but a journey that we have not ended. But we are satisfied to see the improved trend.

In Corporate, a quite different story between the countries: a growth in Denmark due to the membership bonus and our guarantee business performing well while a significant drop in Corporate Norway due to the profitability initiatives that I mentioned. We are extremely determined to carry out more sustainable and higher pricing. And the slightly more than 7% price increases in Corporate Norway is extremely positive, while not enough, but an important step on the journey. We are pleased to see that in Corporate Norway this seems to be a general market trend. Everyone is struggling with the underwriting year prices and need those to increase to get to positive underwriting year results and a sustainable relationship between pricing, risk and profitability.

If we look at Slide 9, in terms of average pricing. As in the previous quarters, we continued to see an increase in average premium for all products, reflecting our focus on profitability. And we have a very strong focus on ensuring that development in claims inflation is captured and recognized as early as possible and that we adjust prices accordingly. And if you look at the graphs, particularly important to see that in motor Denmark we've seen a strong recovery in terms of price development compared to previous trends.

If we look at Slide 10. It's quite clear that, the more we are able to improve our retention, the higher the retention, the less we have to sell and the stronger our business will be. So in general it's quite positive to see that we have a higher retention rate and a positive trend in all business areas. We're starting to see some help from the membership bonus in Denmark, but actually across all business areas the focus on customers, customer experience, customer satisfaction is improving the retention rates. In Commercial Denmark, for instance, we see the results of a new service program where we are contacting all customers throughout the year and some new initiative clearly increasing both satisfaction and retention, but also working with our new -- Capital Markets Day targets means that our general customer satisfaction is up. Our product per customer is up as well. And both parameters improve retention, which ultimately improves our growth both in terms of top line and bottom line.

And with that, over to you, Christian.

Christian Baltzer, CFO

Thank you, Morten. And good morning, everyone.

Turning to Page 12, the underlying claims ratio improvement. We are very pleased to see the continuous improvement that we have communicated before. And the underlying improvement is impacted by the claims initiatives and the price adjustment carried out during 2017 and the first quarter here in 2018. The group underlying development or improvement, as Morten mentioned, is 0.4%. And on the Private business it's 0.5%. And again, bear in mind that these are driven by our initiatives on claims and on pricing. Especially on group level, we are seeing the profitability initiatives that Morten is mentioning on Corporate Norway is supporting the group underlying development.

We expect for the full year of 2018 the underlying claims ratio to continue to improve. Bear in mind that the improvements are somewhat stable, and you will need to expect improvements in line with what we have seen in the recent quarters and no large volatility on the underlying development.

Turning to Page 13. As Morten mentioned already, the weather claims has been somewhat higher in both Denmark and Norway. In Norway it has been the coldest winter in the western part of Norway. And what you need to keep in mind, that we see a risk going into second quarter 2018 of some flooding in Norway. The large claims and runoff are at somewhat same level as same quarter last year. And we are seeing an interest rate increase from full year 2017 and slightly higher for the first quarter of 2017 here in 2018, which is positively improving our combined ratio.

Turning to Page 14. Tryg continues to have a strong focus on efficiency, and we are posting a 14% expense ratio here in the first quarter of 2018.

It's an improvement of 0.4 compared to first quarter '17. This is based on the impacts from our efficiency programs during 2017 that we are seeing the results of. Do bear in mind that we have mentioned that, from 2018 to 2020, we are going to be investing in efficiency and IT. And we expect an unchanged expense ratio of 14% for this period. We will see digital solution being implemented, as Morten has been saying. And self service is going to help us maintain our low expense costs as we invest in these services. As an impact of this further IT investment, we have also insourced some of our IT staff in order to get a better, closer digital development on our systems. And that is shown as a slight increase in our FTE currently.

Moving to Page 16, our investment asset allocation. We maintain with matching of assets and liabilities as a key component in our investment portfolio. The asset allocation is broadly unchanged, with property slightly up but still slightly below the targeted level for Tryg in our portfolio.

Turning to Page 17, the investment return. It is a low investment return, as Morten mentioned, compared to same quarter last year but also especially driven by the equities that are posting a DKK 145 million difference or swing between Q1 '18 and Q1

'17. You see on our match portfolio a return of DKK 34 million. This is primarily due to the narrowing yield between the Swedish mortgage bonds. Now do bear in mind that on our match portfolio we do expect a long-term 0 result, from the match portfolio. Our overall approach to our investments is unchanged and is at a low-risk approach.

Turning to Page 18, on our solvency position. We post a solvency ratio, as Morten mentioned, of 283; or adjusting for the capital raise done as part of the Alka transaction, of 197. Post or -- closing or upon closing of our deal with Alka, it will be at around 170, as mentioned before. Our own funds is primarily driven by profit and dividend, while miscellaneous is explained by some actuarial gain on our Norwegian pension plan driven by higher interest rates in Norway. Our SCR reduction is driven primarily by our lower market risk and capital charge by the drop in equity markets. Our property exposure is still slightly below target and is helping the SCR with approximately DKK 50 million.

The next 2 slides are broadly unchanged compared to previous quarters, so I will hand it over to Morten for some closing remarks.

Morten Hübbe, CEO

Thank you, Christian.

And we finalize on Slide 21 with an unchanged economic target outlook post the Alka acquisition approval, with a target of a technical result of DKK 3.3 billion in 2020; with a target of a combined ratio at or below 86; an expense ratio of unchanged around 14%, including the significantly higher investments in IT and digital; and an ROE after tax at or above 21%.

And then of course, our favorite quote, on Slide 22, reminding us all to have an extremely high, continued focus on dividends.

And with that, we will turn to your questions.

Questions and answers

Ida Melvold Gjosund - Carnegie Investment Bank

It's Ida from Carnegie. I have a few questions, please. Firstly, if we exclude runoff gains, you have a Norwegian combined ratio above 100% this quarter. Morten, you mentioned the worsening in the Commercial market this quarter, in addition to the challenges in the Corporate markets. Could you perhaps elaborate a bit on the negative trends in the Commercial market and how you see it developing going forward? Secondly, could you give us an update on how you see the competitive environment in Norway, especially in the Private markets, please? And last, a new update from NVE 2 days ago confirmed an above-normal risk for spring flood with potential for serious damages in Norway, so do you think there is a risk for higher-than-normal weather-related claims in Q2?

Christian Baltzer, CFO

Ida, I'll take your first and last question. I think I also mentioned during my walk-through on the weather slide that we do anticipate that the second quarter will have a higher risk of some weather-related claims that we're not really used to seeing in second quarter. So I think you are right, that we might have a risk of some weather-related claims that are more unusual than normal in our second quarter numbers. On the first one, you're absolutely right that, when we look in our Norwegian business, we have an above 100 combined ratio excluding the runoffs. Now do bear in mind that, when we set aside -- when we post our numbers pre -- including or excluding runoff, in those numbers we are also setting aside for future runoffs. And adjusting for that, we are balancing the book in Norway at about 100 combined ratio. And as Morten mentioned, there is no doubt that we have some very fortunate or some very good numbers from our Commercial side the same quarter last year and have had a little bit less positive in this quarter for Commercial, but combined we actually see the outlook for our Norwegian business to be strong and positive. So Morten, to the second question.

Morten Hübbe, CEO

Yes. And just to complement, Ida, on the first question: There's no doubt that, when we see more heavy winds in Q1, there's also a historical trend that in -- our Norwegian combined ratio is higher than our Danish in Q1. And then typically our Norwegian combined ratio has been stronger in Q2 and 3 than Denmark. And then we will see how the flooding in Q2 this year might impact that. When it comes to the competitive landscape in Norway, I think it's actually quite important to see that generally we are seeing a positive development in Private and Commercial where price development is satisfactory. There's a little bit more competition in the car dealer channel in Norway. We also see that, after the first 2 months of the year, actual car sales in Norway was down 22%, much to the surprise of the entire market. That has now improved in March and is expecting to improve the rest of the year, but the biggest change in the competitive landscape in Norway, I think, is in Corporate. And we saw in the autumn that we were one of the first companies out with very clear, higher prices in the Norwegian corporate market, but we see now that a number of players in Norway is doing the same. And there's quite good public statistics on this showing that the current underwriting year profitability challenges in Corporate Norway is a problem for the entire market. And during the past 3, 4 months, we've seen most of the corporate market in Norway react on this and carry out general price increases. And that is a clear train -- change in trends compared to just a quarter ago.

Asbjørn Mørk – Danske Bank

A couple of questions, some relating to -- a little bit on the same topic as the first couple of questions, but if I look at Norway, as was mentioned before, the combined ratio x runoff, clearly above 100%. I acknowledge that weather claims on a group level was higher year-over-year but still below, you can say, your normalized range of around DKK 200 million in the quarter. Large claims are very low, so -- and your Private underlying combined ratio is down 50 basis points year-over-year, so it's -- this should be very much isolated to the Corporate segment. And if we sort of normalize numbers, it seems to be even worse, so will this improve significantly going forward with the price hikes that you've done in the second half of last year? Or what is really going on here?

Christian Baltzer, CFO

Asbjørn, so some of the same comment as I've mentioned for Ida before, but just to your last one, which is more about what is the rate of the improvement that we'll -- could anticipate from Norway, I think we have to bear in mind that turning around a business that has had some profitability issues what we have seen in Norway does take some time. But with the carried-out initiatives in Corporate, especially Morten mentioned above 7% price increases, we see better traction with our OBOS and our new acquisition of Troll on the top line in Private. We're seeing a better general traction on our retention also in Norway. Those kind of components will make it for a more positive outlook on our Norwegian business from where we stand today.

Morten Hübbe, CEO

And I would expect timing-wise, Asbjørn, that -- if you disregard weather and the challenges that could hit Q2 as well with the melting snow, that Private lines and Commercial lines will have a more rapid improvement, whereas Corporate I think is a sort of 3-year journey before we reach areas that we want to reach and a period where our top line in Corporate Norway is likely to be more volatile and where the price increases will be very determined and clear but also will take up to a 3-year period to carry out fully because, the price reductions in the general market in the past 3, 4 years, we will not be able to counter in just 1 year.

Asbjørn Mørk – Danske Bank

Okay. Then if we maintain the Norwegian focus on the Private part: Your motor premium is up 0.7% year-over-year. Have you seen at this stage any effect from your competitors' move here in terms of this new no-bonus model? And do you expect -- or have you seen or do you expect claims inflation on your motor side? Or do you expect to sort of adjust your pricing structure to be more similar to peers?

Morten Hübbe, CEO

Well, we have been monitoring the motor no bonus [question] in Norway. This started out as an initiative from If, and for a period, it was unclear what the rest of the market would do. We've now seen both Gjensidige and others following with different, similar initiatives; and we will do the same. And we actually saw a similar journey in Denmark some 7, 8 years ago. I guess it's fair to say that we have some worry how that would impact the profitability of the total motor market in Denmark. The reality is that it turned out structurally to make quite little difference after the sort of dust had settled again. And I do expect that in Norway we will see much the same, but what we are seeing to some extent is a higher focus on the car dealer channel, where there is a little bit tougher competition; and then particularly in Norway, some movement when it comes to seeing how do you handle electrical cars. We are seeing now that electrical cars is as high as 1/3 of the new car sales, and insuring that is somewhat new. When you're insuring Teslas, the whole repair mechanism is a completely different planet to normal cars, but it seems that now more and more of the new electrical cars will come from more ordinary brands where you have more ordinary repair patterns as well. So figuring out how to handle this car dealer channel in electrical cars is a little bit of a new phenomenon in Norway.

Asbjørn Mørk – Danske Bank

Okay, but would it be fair to assume that, all things equal, your claims inflation from changing the model would come faster than the effect from any repricing that you'll able to do on the back?

Morten Hübbe, CEO

I would -- I think there is a risk of a little bit of volatility from that, but on the other hand it needs to hit both the new sales and then the portfolio. So I think, if we look at this from a sort of, call it, 18, 24 months perspective, I would doubt that we would see serious volatility from this issue.

Asbjørn Mørk – Danske Bank
Okay. Then on Sweden, Q1 also clearly above 100% on the core excluding runoffs. There seems to be sort of a trend shift versus previous couple of quarters. Anything to highlight here?

Christian Baltzer, CFO

Not a lot, Asbjørn. I think our Swedish portfolio is a little bit more volatile than we see other ones just from a -- being a smaller portfolio. I think the underlying profitability in general has improvements. And a lot of the initiatives we are working on with the claims department and also in procurement will show improvement on Sweden. We have some larger claims or mid-sized claims in Sweden that actually does impact our headline numbers. And when the portfolio is not as large, absorption of these kind of sizes will impact the combined ratios.

Asbjørn Mørk – Danske Bank
Okay. And then a final question from my side on your investment income and the adjustment on the real estate portfolio. I think we've talked about this before, that you are quite conservative in your valuation in real estate. Is there [any], you can say, more technical adjustments that you expect to come looking ahead from this versus where market rates are at the moment?

Christian Baltzer, CFO
We have in general, over the last couple of years, been working on going away from

being direct owners of properties and more owned properties through funds or investment certificates. And I think in this process we are reevaluating some of our properties as we try to sell them off or try to get the valuation on them. And that has been part of the process here in Q1, and that's why you're seeing some of these property values actually increase in the book values. As we get offers on our properties, we need to also increase the value booked in our balance sheet.

Morten Hübbe, CEO

And that process -- as you're asking should you expect more, I don't think we could give any guidance on that, but of course we haven't finalized that process yet. There are still properties that are being sold, but if we had knowledge about changes, then we would have to book it now.

Per Grønborg, SEB

A couple of questions from my side, starting off in Norway. Premium was down 4% q-o-q, 2% year-over-year. You state that it's that Corporate book that is going down. How long should we expect your country data for Norway to continue to show negative growth? It seems like you are trying to convince us that you have an okay growth in the Private lines in Norway. My second question is Denmark, the FDM portfolio. You mentioned DKK 50 million in quarterly premiums. Is that what you have got the first quarter? It sounds like pretty high [amounting in] to account only 20,000 policies, 10,000 [per annums] annual premiums. It seems high to me. And finally, a nitty-gritty question on Troll in Norway. You state the equity, and you state tax asset. I assume the tax asset isn't part of the equity [cone], as this is a tax asset that will come up when you take over the company. That was my 3 questions.

Morten Hübbe, CEO

Per, well, interestingly, you are asking about the total Norwegian growth, which to be honest is a parameter we don't use in our business modelling because, the way we see it, retail Norway and Corporate Norway is 2 completely different stories. So a little bit difficult to guide you on a parameter that we don't use, but if I split it into the 2 areas that we look at: One, the most important retail, being Private and Commercial, what we are seeing is that, in both 2016 and '17, in retail our total sales was not high enough to capture the annual churn and deliver a stable development with a slight top line growth. Then during the autumn of 2017, our sales have been increasing in both Private lines and Commercial lines. What we are seeing in the spring of this year is a continued trend of higher sales in Private lines Norway and Commercial lines Norway. And at the same time, we are seeing, of course, that OBOS is contributing to that and that Troll will be contributing to that. And then as Christian mentioned, we have seen a rather new trend that our retention rates are improving. All of that calls for a not-current-quarter satisfactory earned premium but future quarters more positive earned premium, not any dramatic high numbers but a slight improving trend in retail. That is our core focus. Then if you look at the other component which is Corporate Norway, then Corporate Norway is down almost 5% in the first quarter. And to be honest, for us it's not important whether that number is 0 or 5% or 10%. It's important for us that we get to a [new] situation where we have a sound and sustainable development in pricing of Corporate Norway where we get to a point where the current underwriting year has positive earnings because otherwise it doesn't make sense for us to run a Corporate Norway business. So we don't have a top line target for Corporate Norway. We have a profitability target. So the difficult parameter to decide is how many players in the Norwegian corporate market follows the same path. So how much will be the customer churn as a result of these higher prices? The minus 5% in Q1 is an indicator, but we are quite certain that what we've done in Q1 is going to improve our earnings in Corporate Norway, so we have no doubt at all that it makes sense, but I would not want to predict what those minus 5% in Corporate Norway looks like in coming quarters because that is not a priority. So I would, if I were you, monitor the retail development on one hand and expect volatility on top line in Corporate Norway on the other hand and then focus less on the total.

Christian Baltzer, CFO

And Per, on the FDM portfolio, I think you have to bear in mind that it actually is a portfolio with a lot of kind of mature customers, so to speak, that has a lot of value and assets. We do see that our average premium for these customer are at DKK 10,000, which is higher than the rest of our portfolio. And so we are really pleased to see that we are full selling and we are selling a lot of products with -- to the customers as we approach them through the FDM organization. So that is correct, the 10,000. With respect to the tax assets on the Troll, you're absolutely right that it's -- as we taking over the asset, that it becomes a value to us, this tax asset.

Jakob Brink - Nordea

Just 2 remaining questions. The first one question, you said in your speech about the underlying claims ratio improvements that we should be expecting a similar improvement as in the past few quarters, so does that basically mean that you believe that the whole of 2007 (sic) [2017] quarters were basically correct underlying, i.e. that there was nothing sort of flatter fluctuations within the underlying claims ratio in any of the quarters last year? That was the first question. And secondly, just could you tell us, is there anything new to add about the whole regulatory approval process on Alka?

Christian Baltzer, CFO

Well, Jakob, that almost sounded like a trick question there. And underlying, when I talk about the underlying improvement, I think what we are seeing is that, especially when we look at the Private segment, the stability in our underlying improvement of the area that we have seen so far is what you also should expect the coming quarters, so no dramatic triple-digit improvements in the underlying. Now when it comes to the group level, you can also argue that there are some more fluctuation, as we have mid-sized claims in Commercial or Corporate. So there is a little bit more volatility on the group level, but as you -- we're now predominately reporting the group underlying level, it has more stability than as when previously we're reporting each in segment underlying. So I find that, where you say -- the projection of our underlying development is in the range that you have seen. And you shouldn't expect any kind of a 100 or 200 basis points improvements quarter-on-quarter, so do anticipate some sort of more stability in that.

Morten Hübbe, CEO

And with regards, Jakob, to your second question, on Alka, we are dependent on 3 different regulatory bodies in the process. One is for the general finance function, the finance [ministry], to approve the transaction as such. They have already done that. Two is depending on the second authority body, (inaudible), which has to approve that our planned merger can't be done retroactively, which is important for us because when we do that then we can make sure that the Alka customers gets the membership bonus for 2018. They have also approved that. And then thirdly, we are dependent on the competition authorities to carry out their approval, and they are still in the process of doing that. And I think that the only one that can answer the time line of that is the competitive authorities.

Jakob Brink - Nordea

Okay, so nothing's changed regarding timing or anything from your side.

Morten Hübbe, CEO

Well, it's, to be honest, we are not -- we don't have the hand on the steering wheel here. I think it's fair to say that, when you're a private customer or a company and you're waiting for authority approval, it is always slower than you would have liked, but I think that is not unusual.

Jonathan Urwin - UBS

Just 2 questions from me. So firstly, obviously a lot of discussion on Norway again, but just -- I mean just to clarify. What sort of a message that you'd like us to take away today on that Norwegian business? It sounds to me like trends are still pretty tough in this quarter, but actually you're a bit more positive on the outlook from here. So just to confirm. That would be great. And then secondly, just could you run us through quickly what you're seeing in terms of claims inflation trends in Denmark and Norway and exactly where you're pricing against those? It sounds like, given you expect continued underlying improvement, that you're still pricing slightly ahead of claims inflation.

Morten Hübbe, CEO

Well, if I take the first question, Jonny. I think you're hitting that spot on. I think we're saying that we're seeing an improved trend but also that we need to continue that improved trend. I think that weather is always a little bit of a nuisance. I think we had lots of first quarters and fourth quarters, for that matter, whereas Danes were surprised by the weather volatility in Norway but -- so that will happen also in the future. And I wouldn't really pay too much attention to that, to be perfectly honest. I think, when it comes to growth in the retail segment Private and Commercial, because their profitability underlying is developing as we want it to, we are seeing a slightly higher sales. We are seeing the impact of the smaller bolt-ons. And we are seeing the customer retention rates improve, all in all pointing to a more sustainable, slightly positive top line, as opposed to flat and slightly negative top line, but again a trend that we have to follow also in the coming quarters and not one that has been finalized. And then the slightly longer journey which is Corporate Norway pricing, where the timing is slightly longer, but I think more than 7% average price increase in this spring is a fairly hefty number and a very opposite trend to what we've seen in the past 3, 4 years. So all in all, back to your starting point, correct, an improved trend but not a problem solved.

Christian Baltzer, CFO

And if I take the claims inflation. I think in general you're right that we are trying to price ourselves ahead of the claims inflation. And the pricing was around 3% on the portfolio. Our assumption on claims inflation is 2% to 2.5%, and that's net of some of the claims initiatives that we are doing. Now the areas that we have a primary focus on has in the past been auto, where we have seen frequency kind of pop up. I think we are seeing a more stabilization on the frequency on auto, and it feels like that we are getting the inflationary trend on auto more under control or normalizes a larger extent. The other area that for us is more a focus on in the kind of coming quarters is on the construction index in general in both Denmark and Norway: in Denmark driven by more positive economics that -- where more growth in the construction, more kind of busy construction sites, so to speak; and in Norway with the low currency impacting some of the material costs in Norway. So those are kind of the key areas that we are looking at and seeing and feeling that our pricing is adequate for maintaining our underlying performance improvements.

Steven Haywood – HSBC

I've just got 2 questions for you. Could you give us an update on your expansion into Germany, please? I know it's the Tryg Garanti product, and I just wanted to see what your plans there are and sort of the level of premiums and how you're going to recognize it in your accounts as well. Are you going to break out that segment, or is it too early to tell? And second question, on your John D. Rockefeller quote in the presentation, I wonder if you think you would be disappointed by the cancellation of your special dividend for this year and whether or not you'd be concerned about the uncertainty of future special dividends on the timing and amount of them.

Morten Hübbe, CEO

Well, thanks for the question on our John D. Rockefeller quote. We'll get back to that, but firstly, on your question, Steven, on Germany and guarantee: When you look at the expansion we carried out in the past 7 or 8 years from Denmark to Sweden, Norway and Finland on guarantee, that expansion was quite slow and quite controlled, if you will. The expansion into Germany will be the same. The focus, so far, has been on establishing the right local teams. So we have recruited a country head for that business who is a Dane but that has done a large part of his career in Germany. And then we have recruited 2 out of 3 German teams with very strong managers from [Euler Hermes]

and at [Radius], so very, very experienced in this field. And we're in the process of hiring the manager of our third team. And then everything else when it comes to pricing and risk management et cetera is handled out of Denmark. It actually means that we haven't started selling yet, so there's really nothing to report on that. And it also means that we have, as mentioned, increased our reinsurance cover so that in the future we actually need a claims ratio above 220% before reinsurance to get to a negative combined ratio, so preparing to avoid the future volatility. As it -- when it comes to future reporting, you will see this reported as part of Corporate and Corporate Denmark. And then we will make sure that you get some more nuance as to the underlying or the developments specifically in guarantee. When it comes to your second question, I think that we have been fairly clear that both historically our extraordinary buybacks and our special dividends have been extraordinary. Of course, when you do something every year and you call it extraordinary, people tend to forget the word extraordinary. I think we were quite clear in conjunction with the Alka acquisition that we would cancel the special dividend for 2018. And 2018 will be a transition year where we have a lot of the transition costs and processes, only a short period of earnings and only a small proportion of the synergies, but there's no doubt, as we've mentioned, that it will increase our longer-term dividend potential both when it comes to ordinary dividends and when it comes to doing special dividends again. And so I think, from the overall long-term value creation, we are not in doubt that we are increasing that; and as expected, a pause in '18. And then we will see the pattern and speed of getting back to special dividends again, but we'll make sure that we'll keep you informed on the progress of that. local teams. So we have recruited a country head for that business who is a Dane but that has done a large part of his career in Germany. And then we have recruited 2 out of 3 German teams with very strong managers from [Euler Hermes]
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Jan Erik Gjerland - ABG Sundal Collier
I have 3 questions. And the first one is regarding the price changes you have in motor and houses. And I just wonder how easy it is to increase prices from today's levels when we look at the competitive environment and, as you said, the pricing for a 3% inflation. You showed on Page 9 a nice pickup in the average prices. I just wonder how well you can implement further price hikes from now. That was my first question. The second question is about Corporate. You said it takes some maybe 3 years before you see the full profitability impact from the hike in Corporate in Norway. I just wonder how many years does it really take and how many customers have really left you here. Finally, on the runoff gains in Corporate. You have some 6 percentage points improved runoff gains in Corporate, so I just was curious to see which line of business it was.

Morten Hübbe, CEO
Jan Erik, well, when it comes to price changes and the 3%, as you mentioned, to us it's really quite clear that, when we're in the territory of carrying out price changes that are

roughly in line with inflation and slightly above that, the general markets in both Denmark, Norway and Sweden receive that well. And I think in Denmark the market is used to slightly low inflation, but inflation is picking up. And of course, we have the membership bonus supporting us, so we're not really seeing any major challenges with that. And when it comes to Norway, I think the market is used to slightly higher inflation and, as a result of that, slightly higher ongoing price adjustments. Inflation is somewhat lower in Sweden, and thus the adjustments are somewhat lower, but all in all most of our customers are receiving rather small price changes that are really quite similar to inflation adjustment plus a little bit more. And I don't really see any challenges in carrying that out, and it is a perfect logic to do so. So I wouldn't worry about that, and we don't see any data to support such a worry. And when it comes to the Corporate segment it's a completely different story because in some areas, of course, when you do 7% price increases, there are products within that 7% that has a 30% price increase or a 20% price increase, which is of course a completely different dialogue. And those, these are professional buyers. And we need to prove why this is necessary both from a macro claims trends point of view but also from an individual customer claims experience point of view, which is a dramatically different task. And it means that a number of our Corporate salespeople spend more time discussing and arguing and proving the need for price increases, as opposed to spending their time selling. So that is a completely different task. And that is why we are quite clear that, that needs to be a higher priority than the priority of higher sales and the priority of top line. So I would not be worried on the retail segment, which is more than 3/4 of our total book. I wouldn't really be worried for Corporate Denmark. And then the challenge is higher for Corporate Norway. And should I take the last one?

Christian Baltzer, CFO

Yes, yes, Jan Erik, if -- there is actually a Page 28 in our investor presentation that gives you the split of runoff by product line. And as you can see there, 32% of that actually comes from workers' comp which is predominantly in the Corporate segment, that we have that workers' comp. And also, the health and accident is an area where we see prior year positive development.

Jan Erik Gjerland - ABG Sundal Collier

Perfect. Just a follow-up on the Corporate side: The oil sector and oil-related activity is picking up on the west coast in Norway again. Do you see any signs of sort of increased employees coming back to the [arts] et cetera? [And then I suppose] I'm aware that you're having a possibly impact when writing premiums for 2018.

Morten Hübbe, CEO

You are pointing to a wide factor. I think it's too early days to see any sort of [big] positive from that, but I guess what we do see is that, the negative driver that we saw from number of employees reducing, number of LOIs reducing, everyone focusing on clients to get a lower price because they were in trouble, we see that trend has changed. So we're back to a more neutral zone. And I think you're right that there is some likelihood that, that will move into more positive territory, but we haven't really seen a lot of that yet.

Wajahat Rizvi – Deutsche Bank

Waj Rizvi from Deutsche Bank. I have one quick question on Alka actually, please. I don't know how much you can talk about their full year '17 numbers already, but they seem quite light compared to the 9 months numbers you showed at the time of the acquisition. So any color as to how we should think about Alka's technical result will be very helpful.

Christian Baltzer, CFO

I think, on Alka full year number, it very much was in line with what we anticipated for the full year. On the technical ones you're kind of taking up some of the one-offs that they had due to the transaction, so we have no change in our -- in the underlying profitability or performance of Alka. And we still maintain our positive view on their operational performance.

Wajahat Rizvi – Deutsche Bank

Are you able to quantify what those one-offs are, were for Alka?

Christian Baltzer, CFO

I don't think that it's something that we have more access to than you do on a public basis. I think you will have to review some of the Alka material that they posted out in March.

Morten Hübbe, CEO

We're in this transition period where there is lots of things we would like to know, but we do not have the keys to the business yet, and as such, we don't have the keys to the data either. I guess the data we've used, so far, has been the data-room data. And of course, once the data room has closed, we will get access to all the data when we get the keys to the company. But we don't have those keys, so until that, we're not able to give you more information, unfortunately.

Gianandrea Roberti, IR Officer

Well, thanks a lot for all your question today.

As usual, in our presentation you have the list of our road shows, including and starting with London and Geneva tomorrow. If anything else, just call IR.

And thanks again from us.
