Tryg – Q4 2018 results

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Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published our full year results earlier on this

morning. And I have here with me Morten Hübbe, group CEO; and Ulrik Andersson, Interim CFO, to discuss the figures. Over to you, Morten.

Morten Hübbe, CEO

Thank you, Gian, and good morning to all of you. And we start on Slide 3, where Tryg reports a Q4 technical result of DKK 656 million before Alka, which is roughly 5% higher than Q4 last year. Clearly, if we see the Alka business, we see very strong performance in the full year '18 with a technical result of DKK 342 million. But bear in mind, in the Q4 report, the technical result impact from Alka is actually net negative DKK 60 million as a function of only 2 months of earnings being in the P&L and also as a function of the provisioning for restructuring.

When we look at Q4, we see low weather claims and low large claims in the quarter but also relatively low runoffs. We also see in Q4 continuous strong improvement in the underlying claims ratio, some 50 basis points for Private business and some 40 basis points for the group. Clearly, investment result was challenged by the very difficult equity markets and minus some DKK 330 million, driven by equities, down almost 15% in the quarter, and also a loss on most fixed income asset classes.

Pleased to pay out a quarterly dividend per share of DKK 1.65, taking the total dividend per share for the full year up to DKK 6.60, increasing full year dividends for the seventh year in a row. Solvency ratio of 165, impacted somewhat by the longer than initially estimated approval period for Alka, and of course, also the market losses in Q4.

On Slide 4, we are very pleased to see a strong and continued increase in the TNPS score. The high level supports high customer loyalty, which is paramount to our business. And in financial terms, the high level supports our low expense ratio. We saw a strong increase in the retention rate in all areas with actually record-high levels. Also, we see the number of products per customer increase from 3.5 to 3.8, supporting both loyalty and profitability.

At the bottom of the slide, we show that awareness of the customer bonus continues to increase. And even though awareness of customer bonus increased also for our noncustomers, it still adds a low level of 21%, representing a strong potential for Tryg, with increasing awareness of the bonus scheme in the future.

On Slide 5, we show that the technical result, as mentioned before, Alka improved 5%, primarily reflecting an improved underlying claims ratio. Of course, to reach our financial targets until 2020, we will continue to improve the technical result in the coming years.

Private, as planned, is the main driver of the technical result and increased more than 18% year-on-year. And particularly, the Danish business continues to deliver strong results, of course, helped by the customer bonus, and of course, also helped by a runoff and benign weather in the quarter.

Commercial, in general, delivered strong results, but we do expect to see further results improving going forward, focusing on stronger segmentation and actually more focus on the lower or smaller part of the Commercial segment.

Corporate was impacted by a negative runoff on a couple of very large older claims. And actually, we have a very significant focus on the needed profitability initiatives. You know that we have carried out price increases of Corporate Norway of 7.2% in 2018, and we've carried out even slightly higher price increases than that on the 1st of January renewal 2019. Sweden has recovered after losing some large partner agreements and achieved a technical result of DKK 38 million in the quarter.

On Slide 8, just illustrating that we're pleased to pay out quarterly dividends of DKK 1.65, as I mentioned, taking the full year to DKK 6.6. Our focus on capital repatriation is unchanged. And the fact that we are increasing our full year dividend for the seventh year in a row speaks for itself in that matter.

On Slide 7, we show a new reporting, on progress on the 4 strategic themes. Tryg, as you know, has defined a number of strategic initiatives supporting the financial targets for 2020. Claims excellence is clearly the main initiative, and we continue to work for higher utilization of our supplier contracts. We see now an impact in procurement of DKK 100 million, but we also start to see significant impact from improving process and fraud when it comes to claims.

Product and service innovation is also very important as it helps create new sources of revenues and bottom line, and offsetting potential other changes in the current portfolio. We see already now, as illustrated, a number of new products improving both earnings and top line.

Digital empowerment of customers is clearly important and on track and supporting the targets for TNPS. But also, we see the first financial impacts as robotics and self-service starts to make the process less salary-intensive.

Distribution, as the last area, is traditionally the area with the highest cost level, where we actually haven't reduced costs prior to this strategic period. And we show here the first DKK 30 million impact in 2018, where we are on track to improve distribution efficiency, clearly an area to further improve in the next 2 years.

All in all, in 2018, we have achieved approximately DKK 200 million of earnings impact from these initiatives. Of the DKK 200 million, DKK 150 million relates to claims, supporting, of course, the 40 basis points improvement in group underlying claims ratio. But bear in mind that actually these claims and initiatives also support the runoff gains on older years' claims.

On Slide #8, we show the strong performance of Alka. As mentioned, technical result of DKK 342 million for the full year versus an assumed a run rate of DKK 300 million, a combined ratio of 84% and a growth of more than 4%. Of course, 2018, helped by benign weather, also stronger performance but also taking into account that the costs have started to reduce during the year. But actually, this shows that Alka is an extremely well-run company even before synergies and supports strongly our target of technical result of DKK 3.3 billion in 2020.

On Slide 9, we show an illustration on the new distribution agreement with Danske Bank, which we believe will be even stronger than the previous agreement with Nordea.

Danske is the largest bank in the Danish market where Tryg has the strongest position. And also, as a new feature, we will include commercial business in the cooperation with Danske Bank, which is actually new for Tryg in a bank context and bears a lot of potential.

On Slide 11, we show that the growth excluding Alka was 4.5% on the top line, and we're pleased to see growth in all areas. As Private, as you know, is the most profitable area, we're very pleased to see significant growth here. Also, we see in the Commercial segment, while we saw some help

from small acquisitions, we're very pleased to see now growth in this area where, for many years, we actually saw a reduction in top line. And as Commercial is structurally much more profitable than Corporate, growing here is actually key for the future.

Corporate, as such, showed a growth of 3%, but in general, growth on top line is not a key focus area in Corporate. As mentioned, we want and need to improve profitability in Corporate. And as I mentioned, we've actually carried out, again, now 1st of January '19 in Corporate Norway, price increases that are even higher than the 7.2% we did in 2018, also resulting in some loss of customers in Corporate Norway, but clearly on the path to improve earnings in Corporate.

On Slide 12, we show the development in average premiums. And of course, clearly adjusting prices in accordance with claims inflation is structurally extremely important. We see some changes in the mix of the Danish Private portfolio, where the stronger growth amongst bank customers and also the Danish motor association agreement. Both of those group have slightly higher ages and lower risk mix than our average Private portfolio, which pulls down the average price in Denmark a little bit but actually improves overall quality and future earnings.

On Slide 13, we show that our customer focus is extremely important, and monitoring that [through to] the retention rate. And of course, as mentioned, we're pleased to see improved retention rates across the board in Q4 and record high levels in several areas. Of course, Denmark is helped by the customer bonus model, and therefore, we are particularly pleased to see the improvement in Norway, which has happened without this help.

And over to you, Ulrik.

Ulrik Andersson, Interim CFO

Thank you, Morten. And on Page 15, we take a closer look at the underlying claims ratio, where, as you know, we adjust for the more volatile elements in the claims ratio, the large claims, weather claims and runoff. And as you mentioned, Morten, we see a positive development in the underlying claims ratio in the order of magnitude of 0.4% or 40 basis points, which is in line with our expectations. Especially, we see in the Private segment, an improvement of 0.5%, which is also in line with expectations. And we expect this improvement to continue in both 2019 and '20. If we turn to Page 16, we'll look at those more volatile elements in the claims ratio. Large claims, as you see, more or less are in line with the expectations, around annual expectations of DKK 550 million, and we arrived at DKK 490 million in 2018. Q4 was, in general, a benign quarter in terms of large claims and weather claims. And we have, as you can see, experienced a total of DKK 384 million during 2018.

In connection with the acquisition of Alka, we adjusted the anticipated weather claims level from previously DKK 500 million on an annual basis to DKK 600 million. Whereas, we leave the expected large claims, they were unaltered, as Alka is not generally exposed to large claims.

Looking at the runoff, it was relatively low at 4.1% and was impacted by runoff -- a negative runoff of some large claims from previous years in Corporate. Additionally, our runoff level has also been affected by a provision of DKK 100 million in connection with the bankruptcy of Danish insurer AlphaGroup, and AlphaGroup's liabilities in connection with workers' compensations are to be split among the market participants in the Danish market. And with the -- our estimate of the total cost of that, it might end up in the order of magnitude of DKK 100 million. We assume this to be a conservative estimate.

Turning to Page 17, we look at the expense ratio, which for the full year was 14.1% and in line with our guidance for our 2020 targets of approximately 14%. You should expect some variation in the expense ratio between quarters due to volatility in the booking of expenses during the year. Q4 was, of course, affected by one-off costs in connection with the Alka acquisition, as you mentioned, Morten.

Turning to Page 19, we look at the investment portfolio, which stood at approximately DKK 40 billion, with the asset mix broadly unchanged during the quarter. As you remember, the free portfolio constitutes the equity and sub-debt in our balance sheet, whereas, the match portfolio is invested in accordance with the claims reserve, and is used to match the payment patterns of the reserves.

Taking a closer look at investment return on Page 20. We, as it's no secret to anybody, had a tough fourth quarter in 2018. We had a total investment result of -- an investment loss of DKK 330 million in the quarter, driven by this very poor development in the equity markets. Additionally, almost all fixed income asset classes also posted negative results, hitting both the free portfolio and the match portfolio. We did, however, also reevaluate some of our investment properties and which added DKK 75 million to the results in Q4 on the property investments.

In the bottom section of the slide, you can see that we have disclosed and improved our disclosure on the rating category on our fixed income book. And the fully -- the full ratings split is shown to the left, and the part which is included in the free portfolio is shown to the right. I apologize for the colors, it might be a bit confusing in this, but it's hopefully possible to figure out the distribution.

We continue to have a low-risk profile in our investment book. But in a quarter like Q4, there's, of course, almost no place to hide in the market.

And also remember that our investments are booked marked to market. In the annual report, you can see some more disclosure on the result of the match portfolio, which was minus DKK 42 million in the quarter, mainly due to Danish rates widening compared to the euro rates, which is a consequence of the yield curve used to discount. The claims reserves is not -- it's different from the yield curve that is -- that we are able to invest our match portfolio in.

Turning to Page 21. Morten, you already mentioned the solvency position at Q4 standing at solvency ratio of 165. Main moving parts of the own funds are the net profits and the dividends but also the increased tangibles coming from inclusion of Alka. The SCR is positively impacted by market risk [module] reduction, which means that the volatility in the value of the equity portfolio is to, somehow, some extent dampened by the calculations -- in the calculations of the solvency capital requirement.

Some long-term further adjustments to the Alka investments portfolio is [baked in] to bring down the SCR from the current DKK 396 million in connection with Alka to the previously mentioned DKK 350 million.

The solvency ratio is, of course, also affected by the fact that the approval process of the Alka transaction took a bit longer than anticipated. If we assume that the transaction had been approved end of June and the investment result had been more in line with normal development, we would have seen a solvency ratio around 168.

On Page 22, we look at the capital part. There's not much new on this slide. Our overall Tier 2 and Tier 1 capacity has been fully utilized, but this, I think, has been disclosed previously on several locations. More importantly, the solvency ratio should bring a function of earnings and dividends going forward, so the state of the underlying business is a determining factor in this.

Turning to Page 23, we show some sensitivities on the solvency ratio. And the main sensitivity remains spread risk, which is a part of our covered bond portfolio. And this is, of course, our biggest asset class by far, since it constitute the largest part of the match portfolio. This should not be major surprise to anyone.

Yes. I think that's all for me, Morten.

Morten Hübbe, CEO

Thank you, Ulrik. And just rounding off, on Slide 24, we show our unchanged 2020 targets, particularly the DKK 3.3 billion technical result target for 2020, combined ratio at or below 86%, expense ratio of around 14% and the ROE after tax at or above 21%. And as explained, expecting Alka to play a strong role in those targets, both with a very strong current run rate and the synergies starting to flow in.

Then of course, we finish with our famous and favorite quote from John D. Rockefeller on dividends. And with seventh year in a row of increased dividends, we are pleased that, that is our key focus. And with that, we'll turn to your questions.

Questions and answers

Asbjørn Mørk – Danske Bank

A couple of questions from my side. If I start with the Danish business, your combined ratio year-over-year up 110 basis points. If I adjust for runoffs, it's up 180. I was just wondering if this is, you can say, technical adjustments to Alka. Because it seemed like, Morten, you were mentioning that the Private business in Denmark was still developing very nicely in Q4. So is it just the technical issues? Or is there a part of your Danish business that has seen a slight deterioration since Q4 '17?

Morten Hübbe, CEO

We see a strong development in both the Danish Private business and the Danish Commercial business. When we look at Corporate, of course, we see a group-wide impact, not addressing your question on the large claims, but of course the booking also of the DKK 100 million on Alpha impacts the Danish business as a sort of coincidental stochastic external factor with DKK 100 million in the quarter.

Asbjørn Mørk – Danske Bank

Okay. Fair enough. If I then turn to your Alka slide. So basically, 1% lower combined ratio for '18 versus '17, but 5% lower runoffs, quite a significant improvement year-over-year. So my question is really, is there -- have you taken out costs or has Alka taken out costs or other measures during 2018 to deliver this improvement? And then should we sort of deduct that from the DKK 300 million of synergies you expect looking ahead?

Morten Hübbe, CEO

Well, I think, first of all, the main story is an improved performance in the business, of course, helped by benign weather. You should bear in mind that we have this little asterisk explaining that the runoff definition on this slide is actually the Danish FSA definition, which is related back to the opening reserve and not actually the premium. So it's a slightly different definition than in Tryg, which we, of course, will adjust going forward. And then you do see that there was a reduction in Alka's costs during 2018, particularly some of the innovation areas were reduced during 2018. And there is a slight overlap of that linking into the synergies, but the bulk of the synergies are unchanged. So I probably wouldn't adjust for that if I were you

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Asbjørn Mørk – Danske Bank

Okay, fair enough. Then if I look at your Norwegian business, the improvement that you have year-over-year, it seems, I guess, some of this is weather and large-claim related. But could you just maybe touch upon how do you see the underlying Norway. I know that you could say that your Corporate business is still having some issues but the underlying trends in the remaining part?

Morten Hübbe, CEO

Well, I guess, it's fair to make an overall assessment that, I guess, we've been talking about the quality and the trend of our Norwegian book in the past couple of years. I think we broadly see improvement in Norway. We see it both on the claims and on the top line. We see a stronger growth on price development in both Private and Commercial. We've seen improvement in the underlying claims and in Private. And then we see, actually, improved pricing in Corporate as well, but still at a way too high claims ratio level. So one of the interesting -- so we're very pleased with the general improvement in Norway, both in the Customer section and premiums and in the claims. But we are very keen to continue to improve the Norwegian Corporate business, and it will be interesting to see how much this will impact the top line of Corporate Norway in 2019. You will see in Q1 a loss of top line in Corporate Norway at the 1st of January renewal, but that is particularly planned as we need to improve earnings in Corporate Norway, but very pleased to see the improvements in Private and Commercial.

Asbjørn Mørk – Danske Bank
Okay, fair enough. And then a question on your Slide 9 on the Danske Bank distribution agreement. If I look at sort of your indexation of the development, it basically seems as if you don't really expect a net positive impact from this until what looks to be 2022. So basically you expect quite a significant churn from your Nordea customer portfolio. I guess that relates mainly to Norway, or where do you see the main risk?

Morten Hübbe, CEO
I guess it's -- not working with a conservative assumption on churn would be dangerous, so we've chosen to be quite conservative in that assumption. Clearly, we would have a stronger hold in Denmark given our customer bonus program. And I guess the honest answer is that we cannot completely predict this. So I would see this as a rough indicator of expected trend. And of course, we've tried to be slightly conservative on the churn assumption because we don't want to get caught by surprise.

Asbjørn Mørk – Danske Bank
Okay, fair enough. Then on your Slide 7, the strategic initiatives. So the gross figure, DKK 475 million of sort of improvements you've seen so far, could you just maybe elaborate a bit on how is the net impact from this going forward? And how has it been so far?

Morten Hübbe, CEO
Well, I guess, the most important driver so far is really the tangible impact on claims.

And if you summarize the 4 categories, you get to a DKK 200 million, with a number of specifications underneath that. DKK 150 million of that relates to claims. And that is then again split to what hits the underlying claims supporting the 40 basis points. And then we see every time we improve the claims procedures that, of course, a number of the claims we handle are actually treated as runoff because they're from prior years. So actually, a number of the initiatives carried out here in the DKK 150 million would fall in the runoff category.

But I guess money is money, and it basically supports our longer-term high level of runoff gains, so that gives you an indication of the net-net. And I guess when you take the full function of what we do on the claims procurement areas and what we do on price changes, you also see that we need to do more than the net impact we're looking for because there's always competition and there's always adverse development also in other areas. But here, you see this sort of individualized impacts from each of these 4 drivers.

Asbjørn Mørk – Danske Bank

So it is fair to assume that you get around 1/3 of the gross impact on a net basis.

Morten Hübbe, CEO

Well, that is if you look at the underlying only, but then you are missing the point of improving the runoff.

Asbjørn Mørk – Danske Bank

Yes, okay. But the underlying...

Morten Hübbe, CEO

So on the underlying, you're right. On the full P&L impact, that number would be too low.

Asbjørn Mørk – Danske Bank

Okay, fair enough. Then a final question on your Solvency II ratio, the 165, now you also have quite a lot of intangibles and goodwill on your balance sheet. How do you look at -- I know maybe this is a bit premature, but how do you look at your extraordinary dividend capacity looking ahead?

Morten Hübbe, CEO

Well, there is no doubt, when you do the math and you look at our 2020 earnings targets, if you assume stable investment returns, then it's quite easy to see how we get to a territory where the equity grows too much, and we actually have no ambition of increasing our overall Solvency level. But having -- and that would result in a return to extraordinary dividends. Having said that, I guess it's pretty hard to predict the timing of political stability and normalized returns in the investment book. So I would hesitate a bit to be precise on that. I will probably leave that to you. But normalizing investments, adding the target, set insurance results for the coming years, you see how we get to a position where we would need and want to do extraordinary dividends.

Youdish Chicooree - Autonomous

I've got 3 questions, please. The first one is really on your guidance and the outlook really. I think for the past couple of years, you have guided to a claims inflation in the region of 2, 2.5 and pricing of 3. So I was wondering how that changes in the coming year. And also, whether with – now that the acquisition of Alka is complete, but what is your guidance really on your underlying loss ratio? And then finally, on -- again, on Alka, I mean how aligned are your capital model at this stage? And should we be expecting some refinement in your capital model going forward?

Ulrik Andersson – Interim CFO
Yes. I can start with the last question. As I mentioned in -- including Alka in the Tryg solvency capital model will lead to a lower capital charge in -- with Alka being part of Tryg as compared to the previous standalone. And as you can see on Page 21, we right now have included Alka with an amount of DKK 396 million. And as I mentioned, adjusting the Alka balance sheet and the Alka -- adjusting for Alka in the model, so to say, this amount is expected to be lowered to around DKK 350 million, which will then translate into around 1 percentage point on the solvency ratio. So yes, we are still in the early stages. As you know, we got the approval in November. And until November, we were not able to work in detail with -- including Alka. So there's still some work to be done, but that will definitely result in a lower capital -- solvency capital requirement for the Alka book.

Morten Hübbe, CEO
And as far as the guidance is concerned, from a guidance on claims inflation and pricing point of view, there's really no change. But when you look within the synergies of DKK 300 million, you see, of course, that one of the major roles is played by procurement. And of course, procurement will ultimately hit the claims ratio. But we choose to count that in the solvency bucket -- or sorry, in the synergies bucket. We've gone through some 700 contracts in Tryg and Alka on procurement. We've started to see the early result of that procurement already. 1st of January we've negotiated reinsurance, for instance, on behalf of Alka and Tryg together, actually with a net reduction in reinsurance costs, which is slightly higher than assumed in our synergies plan.

So the factor of the claims development should be stronger, but we have -- you will see that in the synergies accounting. I guess you can argue that with the current run rates, the guidance we've given on top line seems quite low. I guess, it's fair to say that Private and Commercial lines is expected to have a higher growth rate than the announced 0% to 2%. The question is, of course, what happens to Corporate Norway? There is a likelihood that we're too conservative on this, but we don't want a pressure to keep top line in Corporate Norway because we have a very, very keen and determined view that we need to improve earnings in Corporate Norway, including letting go of some customers, and that could pull down the otherwise higher growth in Private and Commercial.

Youdish Chicooree - Autonomous

All right. Just one follow-up on Corporate Norway. You mentioned that the price increases at 1st of Jan this year was higher than the 7.2% the prior year. So I was wondering, I mean, how far are you, do you think you are in terms of sorting out the profitability there?

Morten Hübbe, CEO

I think the reality is that we see areas where the price increase should be as high as 20%. We actually see a few areas where it's as high as 40%. So if you take fish farming, for instance, our price increases are already more than 20% in just the previous year. But when you do the math and see that we did 7% on average last year, we're doing a bit more than that 1st of January, you are looking at a sort of 3-year period, and then we need to take care of also the current year's claims inflation. So it could be 3 years plus. And of course, in the case of Corporate, it's not just a matter of increasing prices, it's also actually a matter of leaving exposure behind where the large claim risk is too high. And we are spending a large amount of resources on securing that to create a longer term, more sustainable higher return on Corporate. And that will result in some loss of business, and we see that 1st of January already.

Youdish Chicooree - Autonomous

Okay. Sorry, when you say 3 years, do you include last year as well or is it 3 years starting -- including this year?

Morten Hübbe, CEO

I guess, if you assume 0 claims inflation, you could include last year and then make a 3-year period, and then you could get to somewhere around 20%. Then of course, the question is, what happens to current inflation? So all in all, it's going to be a bit more than 3 years including last year. But I guess, a big driver is how good are we at identifying the exposures we should leave behind because that is really a much more important driver in Corporate than in the retail business.

Jonathan Urwin – UBS

Just 2 from me. So just focusing on the capital return potential from here. So obviously, the solvency ratio has landed a bit below the guided 170. I'm just trying to think about how we think about special dividends in that context. I mean, it sounds like from a previous question that you're still relatively confident in specials for 2020, but less so for 2019. Is that fair? And I guess, theoretically, would you be comfortable paying a special dividend at the current Solvency II level? Secondly, still on solvency. So obviously, there's a bit of Alka investment portfolio rebalancing to come, which will help your solvency ratio modestly. In addition, you target another 10-point reduction in the SCR, as you announced at the Capital Markets Day, and that could increase the solvency ratio further. How quickly can these measures be implemented? And can that help you rebuild a buffer through 2019? I'm just trying to think, does those -- do those actions help you sort of increase certainty around 2019 special dividend?

Ulrik Andersson – Interim CFO

Yes. I can start with the second question. The changes -- as we've mentioned, the changes to the capital model correctly that Alka will be included and we will, as I said before, adjust the profile of investment book coming from Alka to Tryg, and that will in itself reduce the capital requirement. Concerning the changes that we have announced to the model, which will potentially also increase the solvency ratio, we are working on those right now. It's -- I don't think we've given any guidance on when exactly, but during the next year, we will definitely work hard on that. And it's quite obvious, as Morten said, that the driver for our dividend going forward will be the result of the business and going back to a more, call it, a more normal investment result and following the track on the technical results, as we have shown so far. I think that's more or less the drivers for that.

Morten Hübbe, CEO

And I guess on your first question, Jonny, it was, as I heard it, I understand what you're trying to achieve. But I guess, in all fairness, it's a slightly cheeky way of trying to ask what is the precise timing of specials, '19, '20 or not and what is the more precise target solvency ratio level. And I guess you know us well enough to know that the answer is that we don't give that specificity. So I guess in our own models, we look at targeted earnings, we look at normalized investment returns and then we look at how the equity grows, and then we look at how that drives us towards a position of paying specials again. And then trying to figure out how far will investment return deviate from that normalized path, as we said before, that is anyone's guess. So I'll leave that to you. But you can see from the normalized numbers how we grow in specials territory again, but we will not be specific on the timing or the size of that.

Ida Gjosund, Carnegie

A few questions from me, please. Firstly, on net premium growth. You report a growth of 4.5%, excluding currencies and Alka. What is the number excluding all acquisitions? And then going back to a previous question on your Danish business, could you quantify the impact on the Danish combined ratio from the bankruptcy of Alpha in Q4? And then lastly, on Slide 15, I can see that the underlying claims ratio seems to be picking up in Corporate. Is Norway still the main driver of this? A bit color here would be great.

Ulrik Andersson – Interim CFO

I can start with the last one. You said on Page 15, what is shown on the right is not the underlying claims ratio net, which includes all the volatile elements, as I described, both the runoff, the large claims and weather claims. And we have seen some large claims in Norway. I think we talked about those in Q3, which is the main driver of the Norwegian part of the Corporate book. So that's the main part of that. It's not the underlying claims ratio that is shown on the right. Concerning your question on Alpha, as I mentioned, we have a provision of DKK 100 million, so you can calculate, that's around 1 percentage point on the Danish book. It is, of course, booked under the runoffs as it relates to prior year's claims. And as I said, the amount is uncertain as the bankruptcy case is ongoing. So we've made an estimate based on the data we've -- has been made available to all companies in the Danish market to assess the liabilities of AlphaGroup, and we've made this what I would regard as a conservative assessment of that liability.

Morten Hübbe, CEO

I guess, Ida, you can do the math on the quarterly impact if you want to do that. It is booked in Q4.

Ulrik Andersson – Interim CFO

Yes, it's booked in Q4.

Morten Hübbe, CEO

Yes, yes. All of it. When it comes to premium and the underlying, you're right that the growth excluding Alka is 4.5% on the top line. We've previously commented throughout the year of an underlying organic being at around 3%. If you look at the quarter in isolation, underlying organic is around 2.3%. Bear in mind that, particularly in Private lines, when the combined ratio is so low in Q4, we have a number of partner agreements where we share some of the result with the partner. That partner is then booked as a reduction of the premium, so there is a higher-than-expected reduction of premium in Q4 as the combined ratio of Private, particularly Denmark, is even lower than expected. So that is pulled out of this growth area, that's why we get to 2.3%. Without that, the underlying would be higher.

Mads Thinggaard - ABG Sundal Collier

This is Mads Thinggaard from ABG. And I have just 2 more questions left. And the first one is on the time frame for the Alka synergies in 2019. You state DKK 75 million in synergies. Could you kind of elaborate on which lines we should kind of see being impacted by the synergies here in 2019?

Morten Hübbe, CEO

Yes. Well, first of all, we stick to the -- I think we've had a number of questions on when we saw a later-than-assumed approval process, would that mean a later-than-announced synergies plan? And the case in -- or the answer to that is no. We stick to the time frame of that. What we see already now is that there's a number of areas where the costs, which would hit the cost line, are lower and starts to be reduced already in '19. There's also a reduced reinsurance cost, which has just been negotiated, which would hit the claims ratio line. And then gradually, during '19, you start to see the impact of the biggest driver, which will be the procurement area, but that will start to happen in the sort of later part of '19 and into '20, but already now it is starting to be implemented and being approved, and that's why this study and plan of 700 contracts across Alka and Tryg has an extremely detailed plan of that. So costs and reinsurance first, and then you start to see procurement ticking in.

Mads Thinggaard - ABG Sundal Collier

Okay, great. And then just a small follow-up on -- I mean, on the drop in one-off gains. It would just be -- it would be a bit helpful if you could kind of confirm that the things that lead to the low one-off gains in Q4, that is not kind of something that extends into the future. It is more, I mean, a kind of one-off like items.

Ulrik Andersson, Interim CFO

We can confirm that. I mean, our longer-term communication on one-off is completely unchanged. There is, as mentioned, a couple of older, very large corporate claims that resulted in one-off losses. And then there is this one-off booking related to the bankruptcy of Alpha insurance, which actually has nothing to do with Tryg at all. We just have to put DKK 100 million to the good of someone else, and that is booked as a one-off loss. So we can completely confirm your question.

Jakob Brink - Nordea

Just coming back to the Solvency model, maybe actually asking a bit differently. So the credit spreads have widened quite significantly in the first month of the year. Could you give us some kind of status on how the solvency would look now with the spread widening that has already happened? That was the first question. And the second one, Morten, if I heard you correctly before, also on the solvency, you said no ambition of increasing overall solvency level. Does that mean the 165 or did I mishear you? And then finally, the DKK 200 million that you have realized on efficiency gains in 2018, how much of that do you calculate actually hit the bottom line?

Ulrik Andersson, Interim CFO

On the solvency, we cannot comment on developments after December 31, so that's -- that will not be commented. We will not comment on that. But you -- of course, you can look at the sensitivity of the solvency ratio, which is shown in Page 23, and do your assessment based on that.

Morten Hübbe, CEO

I guess when it comes to the comment, you're right, Jakob, I commented and I am of the opinion that we have no ambition to increase the solvency level. When I talk about a solvency level, in my view, that is not pinpointed to a specific number of 165. And in my view, that represents a new level where we came from 210, 211. So we don't make our decisions based on 1 or 2 or 3 points on the solvency. But the general level we are at now, we're comfortable being there and we have no longer-term plan of building a higher solvency level than that. So I stand by that comment.

When it comes to the efficiency gains of DKK 200 million, first of all, there's a split of DKK 150 million to claims and DKK 50 million to costs. And we see the impact of 40 basis points of the underlying for the current year on claims for the group, and then we see an improved impact also on one-off gains. You can say that it varies a lot from product to product, but there is an overall sentiment that approximately half flows to the bottom line. But there is a lot of variation in that number. And it is also important to say that a number of the efficiency measures that we carry out on the cost side, for instance, is reused to invest heavily in IT.

And we see, for instance, if we just -- we distinguish between the IT strategy and the business IT, and the IT strategy has its own investment program. If we look at the business IT investments -- the business IT investments just in the past 2 years' period has actually been doubled in a number of areas. So clearly, working with new digital solutions, new automation, new product, et cetera, et cetera, at a much higher speed than before requires more IT investments, which actually consumes a lot of the cost reduction carried out and that's, of course, why we have communicated the stable

14%, a model-reduced 14%, because underneath that is significant savings but also significant investments in IT. And then, as mentioned, be aware that claims impact both the underlying and the runoffs.

Steven Haywood - HSBC

You've talked about these Corporate price increases, is there any reason why you're not telling us, average, what the price increase is that you put through recently?

Morten Hübbe, CEO
Well, I guess, if you -- I guess in an ideal world, when you'd pass 1st of January, you would push a button and then you would know the precise number. Unfortunately, if you look at the complexity of corporate policies and pricing, it's not as simple as that. So what actually happens in January is that you do a first count, which is not fully complete. And then you do an estimate on account of that. And then when you're a little bit further into Q1, you would know the final number. So that's why we've given you the precise 7.2% for last year, and we'll give you a precise number for '19 as well. But if -- we only have an estimate at this point, so you'll hear a precise number later. But the estimate shows us that we're slightly higher than the 7.2% from last year. So that's the more practical reason.

Steven Haywood – HSBC

Yes, that's good to know. And on the Corporate reserve additions you did, were any of these because any cases settled finally or could there be further provisions coming?

Morten Hübbe, CEO

The majority of those few cases have been settled.

Steven Haywood – HSBC

Okay. And on the -- on Slide 16, I think you mentioned something about conservative estimates here. Can you remember what you're talking about? Was it for the weather claims or large claims, or for something else?

Ulrik Andersson, Interim CFO

No, that was on the Alpha provision, for the bankruptcy of Alpha.

Steven Haywood - HSBC

Okay, I apologize. That's fine. And then finally for me, on the volatility adjustment, there were some changes that EIOPA did to the Danish volatility adjustment last year. Has this impacted your Solvency II ratio or is there an impact to come?

Ulrik Andersson, Interim CFO

No, it hasn't impacted, and we don't expect any impacts from that.

Per Grønborg - SEB

I still have a few questions left on my note. I probably should take them one by one as they are pretty specific. The match portfolio is down from DKK 33 billion to DKK 29 billion despite your insurance reserves are up q-on-q. What's the background for that? Did you hide the money for Alka in the match portfolio? Give us a little bit background.

Morten Hübbe, CEO

Just to make sure I get your point, you said the match portfolio does not include Alka, is that what you're...

Per Grønborg - SEB

No. I'm just wondering that the match portfolio is down from DKK 33 billion at the end of Q3 to DKK 29 billion at the end. One should expect that the acquisition of Alka would add money to the match portfolio.

Ulrik Andersson, Interim CFO

I'll come back -- we will come back to that, Per. It seems there's a...

Per Grønborg - SEB

Okay. Then also a technicality. Your statement that you are doing some tax adjustments for the first 9 months, can you put a number on the tax adjustment for the first 3 months? I guess, that is explaining why your tax rate is within a normal range in Q4, where I guess it should have been materially above a normal range due to losses on equities.

Ulrik Andersson, Interim CFO

I think if you look at the nominal figures on the tax in Q4, it's quite low. And as you know, when doing the book -- booking at the year-end, we do reassessments of some of the taxes used. And even though they're nominal not very large, they do have an impact on the tax percentage, so the nominal amounts are quite low.

Per Grønborg - SEB

So shouldn't -- the percentage have been very, very high due to your losses on equity is not being tax deductible?

Ulrik Andersson, Interim CFO

It should, but as you mentioned yourself, they are offset by some adjustments for previous quarters. And the nominal amounts are quite small since the pretax result in the quarter is quite small. So nominally, these amounts are small.

Morten Hübbe, CEO

So you're -- in isolation, you're -- the driver you're looking for is correct, Per. And it's fair to say, I used to be the CFO and once a year spent a day going through the full tax return, that's an interesting exercise. And when you go through the details of that, there's just a lot of very small moving parts. And making the predictability of tax, very, very difficult also in a year with a lot of moving parts like '18. So apologies that the transparency on that has been somewhat less than we would have liked.

Ulrik Andersson, Interim CFO

I think they sum up to around DKK 40 million in total, and it's a number of smaller items that sum up to that amount.

Morten Hübbe, CEO

Yes.

Per Grønborg - SEB

Okay. But the key issue remains that we should look at your taxable income as your profit, excluding any value adjustment on equities.

Ulrik Andersson, Interim CFO
Right.

Per Grønborg - SEB
Great. Okay. Just to be sure that we're doing it correctly going forward. My final question is the Corporate segment is hit by some large claims. Can you give some indication on cases where they have hit geographically? Sweden, I guess that's the key reason why Sweden is coming out as bad as it is on the country result this quarter. But also, how does this split between Denmark and Norway?

Morten Hübbe, CEO
There's no doubt that when we look across the Nordics, we see on property that Norway has been hit by a couple of very large claims: One, actually being a 2018 claim in the autumn, a factory in France; two, being an adjustment to a property claim, which is actually from '17. And then we've seen, in Sweden, a couple of very large liability claims. So those have been the main drivers. And Denmark has had, of course, large claims as well, but less so in 2018.

Per Grønborg - SEB
you are talking about the fourth quarter, is that the same picture?

Morten Hübbe, CEO
Well, no, I was giving you the full year. The factory in France was Q3. The adjustment to the property claim in Norway was Q4. Sweden is split between Q3 and Q4.

Ulrik Andersson, Interim CFO

I think if you look at Corporate, Q4, the large claims ratio is 9.5, it's around DKK 90 million of claims and it's a number of claims. So there's none -- it's not very large claims in that respect. It's claims, DKK 10 million, DKK 20 million number, and then -- and they are evenly split across the 3 countries.

Morten Hübbe, CEO

Well, I guess, Per, when you look at it from a sort of more helicopter perspective, the challenge in the Corporate segment, both in Sweden and Norway, but particularly Norway, is that the price you get for the small and medium-sized claims is actually okay, but the price you get on average for the large claim exposure is not high enough. And that's a main driver of the price increases carried out. But also, particularly in Sweden, we have substantially started to change our exposure and we have let go of a number of exposure types. Some product types we've left altogether, and some product types, we have reduced. So in Sweden, the exposure reduction has played a major role so far. And in Norway, the price increases have played a major role so far. But all in all, with the clear plan to increase returns and reduce large claim exposure across Corporate.

Per Grønborg - SEB

So this implies that we should expect a clearly low premium income in Sweden going forward.

Morten Hübbe, CEO

Well, I guess the -- I think the largest impact in '19 will come from Norway. I think it's likely that Corporate Denmark will be -- will have a more healthy development because the bonus scheme supports this segment, whereas the main negative driver on top line in Corporate will come from Norway.

Jan Erik Gjerland – ABG Sundal Collier

Jan Erik Gjerland from ABG in Oslo. Just a follow-up on Per's recent question on premium hikes in Norway and Sweden. What is -- is it really the churn you're afraid of in Norwegian Corporate as you have [approved] price hike very much? And secondly, what kind of products are you really leaving in Sweden? Is it the small niches you have been into or is the niches really where you find the profitability?

Morten Hübbe, CEO

If you take the Swedish question first. We have left, for instance, a number of commercial vehicle segments in Sweden where it's simply impossible to make money. And all of our structural analysis suggests that it's not just a pricing issue, it's a longer-term lack of quality in the market in the segment. So commercial vehicles, we have left. And then we have, in a number of examples of international liability exposure, made clear decisions on areas that we have left as well. Particularly, there are areas where the Swedish corporations have a lot of liability exposure to the U.S. market. And in such cases, we have chosen not to insure those corporates because U.S. liability is simply too unattractive from a large-claim exposure point of view. I think in Corporate Norway, the acceptance of price hikes in '18 was high. We see a lot of competitors increasing prices in Corporate Norway in '19 as well. But we also see some individual -- very large customers in Corporate Norway not accepting our 1st of January price increases that were very significant. And as such, the net-net top line development of Corporate Norway 1st of January has been negative but with significantly higher prices. So hopefully, that gives a bit more color to your question.

Jan Erik Gjerland – ABG Sundal Collier

Okay. Very well. Just who are taking these unprofitable Corporate customers in your view then?

Morten Hübbe, CEO

Well, I wouldn't want to...

Jan Erik Gjerland – ABG Sundal Collier

Would you know?

Morten Hübbe, CEO

I wouldn't want to name. Of course, we know, customer by customer, who's the new carrier. I don't see a very clear trend that they are all ending up with the same customer or same competitor. I think if you go back a couple of years, the growth in Corporate Norway of Protector was quite dominant, but that is, it's much more stable or down-toned at the moment. So we don't see a clear trend that it all ends up with one provider. But we do see a trend that, on average, most of the players in Corporate Norway are increasing prices at the moment, and it's clear from the data that, that is necessary.

Gianandrea Roberti, IR Officer

Well, thanks a lot, everybody, for your good questions and listening to today's call. Peter and I are around if you have more questions, and we will be in London tomorrow. So thanks, and are looking forward to talk to you.