Tryg – Q3 2018 results

Audio cast and Q&A 11 October 2018

Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations for Tryg. We published our Q3 results earlier on today. And I have here with me Morten Hübbe, Group CEO; and Christian Baltzer, Group CFO, to discuss the figures.

Over to you, Morten.

Morten Hübbe, CEO

Thank you, Gian. And we'll begin on Slide 3 with a technical result of DKK 761 million, which is slightly below third quarter last year, but clearly impacted by an increase of DKK 173 million in large claims. We show a slightly lower investment income versus last year, but still satisfactory and above a normal quarter. Equities are positive, while, of course, fixed income offered subdued returns.

We see a good progress to continuing in the underlying claims ratio with some 50-basis points improvement both on Private and on the group level. Expense ratio, 13.9%, in line with our ambition to keep our expense ratio at or below 14% for 2020. Dividends per share of DKK 1.65, as in previous quarters; solvency ratio of 291. Bear in mind, we still expect a solvency ratio of approximately 170 when Alka is fully consolidated.

On Slide 4, we elaborate on customer highlights. TNPS continues to improve, and this quarter particularly positive to see that Private Norway has a strong improvement. Amongst others, we'll see an improved access time for customers and also improved feedback to customers lifting the TNPS and also lifting retention rates.

Very positive to see retention rates improve across all areas. For the whole group, retention was 88.9% for the quarter compared to 87.8% year-on-year. Private Denmark actually had the highest level of retention for the last 9 years. And after a decline in retention in Private Norway in 2017, we've now seen improved retention rates also in Private Norway in all quarters so far this year. Also, Commercial lines, both Denmark and Norway show increased retention rates.

The awareness of the tryghed bonus continues to increase both for customers and noncustomers. Positive that for customers, we see an increase of 74%, also an increase for noncustomers, but still only at a level of around 22%, offering lots of potential to further improve in the future.

On Slide 5, we show a slightly lower technical result for Q3. As mentioned, clearly driven by the increase of DKK 173 million in large claims, but also, as Christian will elaborate on, an increase in runoff gains. We see broadly stable across the segments. Clearly, Corporate is the area hit by hard -- high amounts of large claims, partly offset by higher runoffs. We continue to have a very high focus on pushing the prices of particularly Corporate Norway upwards. That has been successful in '18 and will continue to do so in '19.

On Slide 6, we show our dividend per share of DKK 1.65 for the quarter, bringing us up to 9-months dividend of DKK 4.95. We aim at continuing to increase the annual dividend on a nominal basis. Clearly, the combination of high and stable returns and a rather limited growth means that increased capital consumption is quite limited, so we've been able to focus on returning cash to shareholders for a long period, and that focus will continue in the future.

On Slide 7, we've shown a new slide, elaborating a bit on the 4 strategic initiatives presented at the Capital Markets Day in November '17. You can see more elaborate notes on those issues in the report. But just a few highlights on claims. We see that in connection with agricultural fires this summer, our work with fire tracers and fire extinguishers have reduced the claims by approximately DKK 10 million. We see an increase in the number of fraud detected by around 25%.

In product, we see an improved trend that we put prevention into our products. We've seen in the last couple of years an increase of around 30% in house claims related to rats and now include a rat blocker into our products. No one likes to talk about rats, but it can actually take out 90% of the risk and more than 30% of our cost and must now accept this solution.

On digital full throttle, clearly, logins to our digital universe has increased 40% year-on-year. We launched a new tracker to reduce the number of non-value-adding calls. And already, more than 100,000 customers have used that, and claims reported online have now increased to 33%. And then we elaborate finally on a couple of distribution efficiency measures to improve margins and finance a number of our investments in digital.

On Slide 8, we've taken a snapshot of Alka's Q3 report. Alka continues to produce a strong financial performance with 9-month technical result of DKK 276 million and a combined ratio of 83.7% despite a 3 percentage points lower runoff.

So I just mentioned on September 25 that we've submitted nonstructural remedies expected to resolve authority concerns in the approval process and that the process is expected to be finalized by the end of '18. And for your information, structural remedies would, for example, include divestments, which is not the case.

The solvency ratio is expected to be, as I mentioned, around 170 when Alka is consolidated. And just to put the 9-months result into perspective, you may recall that we communicated an assumption of annual run rate for technical result in Alka of around DKK 300 million and synergies in 2021 of around DKK 300 million. And then you may recall we enhanced our 2020 technical result target from DKK 2.8 billion to DKK 3.3 billion. All of those targets, including the timing, is unchanged. But if we compare to the assumed run rate of DKK 300 million for a full year, of course, DKK 276 million technical result for Alka in the first 9 months is very comforting, but we have not changed our assumptions.

If we move on to Slide 10, we show a premium growth of 4.7%. Bear in mind that, that is helped by portfolio acquisitions. And excluding those, we see a premium growth of 3% organically. Private lines, a growth of 5.3%, particularly improvement now in the Norwegian part of Private and a continued positive trend in Denmark. Commercial now also improving, clearly seeing retention increasing and also price adjustments helping the equation.

Corporate Norway particularly a good acceptance of the price increases carried out. So far this year, we've carried out price increases of around 7% in Corporate Norway. And we actually expect an even slightly higher price hikes at the renewal 1st of January '19 in Norway to improve profitability. And then we mentioned that Tryg Garanti has been growing nicely at a combined ratio well below the group combined ratio.

On Slide 11, we show, as always, average price changes. Average prices are up in all products and segments. We are pushing through across-the-board price increases of around 3%, expecting inflation and claims of around 2%, 2.5%. In Norway, bear in mind that the regulation of one very large and very profitable partner agreement weighs on the overall pricing picture.

And then finally on Slide 12, we show a very positive trend in retention rates, continuing to improve, developed positively across all business areas. As I mentioned, highest level in 9 years in Private Denmark and now positively also increased in Private Norway. And you can see a positive trend across Commercial Denmark and Norway as well.

And over to you, Christian.

Christian Baltzer, CFO

Thank you, Morten, and good morning, everyone. So on Page 14, we are giving some highlights on the underlying claims ratio, and it has been improving 50 basis points for Private and for the group, in line with our recent trends. We expect the pace of the improvement to remain broadly around these levels. Of course, Private seeing more stable quarter-on-quarter development and whereas we have seen some fluctuation on the group quarter-by-quarter.

Private continues to develop satisfactory, while pressure remains, as Morten has been mentioning, on the Corporate segment where price increases has been carried out and will be carried out going forward. As Morten mentioned, we've been pushing through 7% increases year-to-date on Corporate and actually getting good results on that. There is no doubt that the stability of our underlying performance is important for us, and we are very satisfied to see the progress on this.

Turning to Page 15, which is an update on our motor story. In Denmark here specifically, where we kind of update some of the trends that we see, and one of the new ones we have here is kind of showing that the number of vehicles on our roads are increasing, and the overall number of accidents also are showing an upward trajectory.

Now the tech part of the claims mix is still increasing. And we do see that, for example, here shown as headlights, the technology that you put into this headlight actually are increasing our overall cost of replacement then. These are, as Morten mentioned, being pushed through as price increases also in this book.

Turning to Page 16, we're giving a short update on our Norwegian motor book following the Analyst Day in June and our previous communication. We expect price increases around 5%, whereas we kind of expect claims inflation of 4%, mostly driven by the higher repair cost.

On the upper-right graphics, you can see that Tryg over the last 6 months have been carrying out price increases. This is public statistic from FNO where you can see 2 of our other peers, one actually also carrying out these price increases and another one not really getting the traction on price increases. So we're very pleased to be among those that are carrying out price increases to have a sustained underlying performance of our book.

Turning to Page 17. As Morten mentioned, this has been a quarter with a higher level of large claims than what we have seen previously. Our overall large claim and weather claims expectations are unchanged. But there is no doubt, when we look at the first 3 months -- or this first 3 quarters of 2018, both on weather and on large claims, we are seeing a more normal level than what we previously have seen the last 2 years.

Runoff, relatively high in this quarter and the 9 months, 7.4% is a reflection of our robust reserve position and the capacity to absorb external shocks.

Turning to Page 18. As Morten mentioned, our expense ratio of 13.9% is in line with our target of around 14% by 2020. We do see a slight increase in the number of employees. Some of this is due to in-sourcing in our IT and also our portfolio acquisitions.

Turning to Page 20. We're giving a snapshot of our investment split, which is broadly unchanged and also an unchanged mix in our free portfolio.

On Page 21, a little dive into the investment return. We see the free portfolio is reporting a DKK 101 million return, driven by 3.5% return on equities, while overall fixed income return was negative. The match portfolio development positively is impacted particularly by the regulatory deviation, and this is driven predominantly by the yield between the Danish and European swap rates narrowing.

Other financial incomes and expenses is at DKK 47 million and slightly better compared to the recent guidance of above DKK 60 million quarterly expenses. Some do remain on this line. Total investment return of DKK 79 million is lower than in third quarter '17, but it's satisfying compared to our overall expectation of a normal quarter in Tryg.

On Page 22, a little highlight on our solvency position. The solvency ratio for third quarter is 291 or 207 adjusting for the Alka capital raise. Tryg continues to expect a solvency ratio of approximately 170 when the transaction is closed. Our funds moves -- is predominantly driven by the result and our dividend payout. And our SCR shows a very limited change compared to the second quarter 2018.

Turning to Page 23 on our capital and solvency ratio development. The Tier 1 issued during the spring has utilized the remaining capacity, as explained in our second quarter call. The Danish FSA, as we have mentioned before, has explained that a solvency ratio lower than 125 would result in an increased surveillance. Solvency ratio development remains primarily a function of net profits and the dividends, so we expect the underlying development to be somewhat stable.

On Page 24, we have an update on our solvency ratio sensitivity, and there's no overall change to the sensitivities pictures on this slide.

So back to you, Morten.

Morten Hübbe, CEO

Thank you, Christian. And just finally on Slide 25, we reiterate our financial targets: a technical result target of DKK 3.3 billion in 2020, including Alka; combined ratio at or below 86; expense ratio, 14; and ROE post tax at or above 21%.

We should point your attention to a slightly higher tax rate due to additions to the tax bill for 2017. And then as previously communicated, we expect, as part of the Alka closing, to book a one-off charge of DKK 200 million in Q4. But that has previously been communicated, so really nothing new there.

And then we just finish off with our old friend, John D. Rockefeller, on Page 26. And with that, ready to take your questions.

Questions and answers

Ida Melvold Gjosund - Carnegie
A few questions from me, please. Firstly, on premium growth, you reported solid growth of 3% when excluding portfolio acquisitions. How do you expect organic growth to develop going forward? Also, can you give us an update on the competitive environment in both Denmark and Norway? Then on claims inflation in motor in Norway, on Slide 16, you write 4%. Just to clarify, is this related to average repair cost alone? And if yes, what's the number on frequency? And then last, on your Norwegian combined ratio, I understand there is a single large claim impacting your numbers this quarter. Could you quantify the impact and perhaps also what type of claim this is?

Morten Hübbe, CEO
Ida, well, regarding your first question, clearly, 3% organically is slightly higher than expected. We continue to have an unchanged outlook of 0% to 2% growth. I guess, the picture we're seeing is quite clearly that our Private lines is improving with a very positive trend that is continuing that will pull up our group growth. I think the dark horse is really what the Corporate response to price changes will be. And we are working with the assumption that we will see some negative top line reaction to Corporate price increases, particularly in Norway. But so far, the market has been quite

willing to accept price increases of 7%. And that takes us really to your second question regarding -- or the question regarding competitive environment. I think we're seeing in Denmark a quite stable development. We have, of course, some tailwind from the bonus program, which is expected to continue for the coming years. But broadly, we see the competitive landscape in Denmark being quite stable. I think we see more change in the Norwegian competitive landscape both with a number of smaller players struggling, also a Corporate player struggling. And I guess, generally, you can see from the FNO statistics that pricing is unsustainably low on Corporate Norway for the past 3 years. We've increased prices by 7% this year. We're increasing them even more 1st of January '19. And generally, we see the Corporate Norwegian market all increasing prices. And it's quite clear from the data that the whole market needs to increase prices. So all in all, I would say an improved competitive landscape in Norway and an unchanged quite stable landscape in Denmark.

Christian Baltzer, CFO

And Ida, to your 2 other questions. So on Page 16, where we're showing the 4% repair cost development, I think you can look at it in a way that the 3% is an inflation expectation from comparable claims that you also see in the graph in the lower-right corner where you can see that trails around the 3%, which is repair cost. The 1% that we put in, in technology kind of bucket would be a mix of both some frequency, but also some other technology development. So the 4% is, of course, a expectation of the future, and that is the background of where we're pushing through those 5% of increases. Now this is an area that we monitor every single month. And if we don't see that we're pushing through enough price increases, adjustment will be made to that. But we believe that currently, the 5% increase is something that will give us a good tailwind going into 2019. And on your question regarding the single claim that we're writing in the report of DKK 130 million net, you have to be -- this is a property fire claim, actually outside of Norway, from one of our customers in Norway that we have taken the exposure with them outside of Norway. This is a claim that is DKK 100 million net. And then the reinstatement premium that we are paying in our reinsurance program to kind of top off the coverage is around DKK 30 million. So the net impact for

Tryg is DKK 130 million.

Ida Melvold Gjosund - Carnegie

Okay, perfect. Just to clarify, so you haven't seen any picking up in claims inflation in motor in Norway?

Christian Baltzer, CFO

I think we have seen -- so historically, we have seen someone taking -- or taking kind of a toll of that and pushing through price increases. Our expectation into '18 has been somewhat stable, a little upward -- or kind of frequency increase, so not something dramatic. I think some of the dramatic frequency trends we saw was actually in '16, '17 in Denmark. And we're also seeing that frequency to somewhat tailor off and flattening. Yes.

Morten Hübbe, CEO

Well, I guess, it's fair to say that the trends have been slightly moving in different patterns in Denmark and Norway because the trend of higher repair cost inflation in Norway has been there for a number of years now and is not a new trend. The trend of higher frequency has really been a challenge in Denmark, and we're seeing some early signs of that in Norway as well. But it's a thing we've been monitoring in Denmark now for the past couple of years, and we are sure to compare notes across the countries to capture both the repair cost inflation and the frequency trends.

Asbjørn Mørk – Danske Bank

A couple of questions as well. First, on your underlying improvement or the 50 basis points, if you could just elaborate a bit on how that looks in Denmark and Norway, a business-driven country. That would be my first question.

Christian Baltzer, CFO

Asbjørn, I don't think we actually guide on the different development between Denmark and Norway. I think we have the luxury of having 3 countries where we can take advantage of different environment and actually have a combined more robust portfolio because we have kind of some good legs both in Denmark, Norway and, of course, not as strong as Sweden. So I think you just should focus on the overall kind of group development and on the Private side, and then we'll be managing making sure that our underlying performance kind of continues to improve.

Asbjørn Mørk – Danske Bank

Okay, fair enough. Then if I may go to large claims. So besides the DKK 130 million from Norway, I guess there's a couple of larger claims in Denmark as well. So just one question being if -- as I understand, this is not correlated with the weather in the quarter. Could you just confirm that? And then if I look at your ceded business, basically reinsurance result for Q3, it's much better than in previous quarters. Is that driven by these large claims on the reinsurance that you have received from there?

Christian Baltzer, CFO

So you're right that the ceded is driven by the large claims and especially the DKK 150 million that -- or the DKK 130 million net claim has a bad impact. I think whether some of these fire claims that we have seen on large claim is driven by the drought that we had during Q3 is more speculation than necessarily is a trend that we have seen. So whether or not there's a one-to-one correlation with the weather we have seen or with the large claims, it's really hard for us to kind of get that gauge. I think one of the things we did see, and as Morten mentioned, was that in our agricultural business, we've actually done quite a lot of work on doing these fire tracing to kind of reduce the number of fires that we see now in agricultural area and thereby actually reduced what we would -- could have been much more damaging impact on our portfolio had we not done this prevention.

Morten Hübbe, CEO

I guess it helps the equation, Asbjørn. We had talked about weather versus large claims that our -- we're slightly below market share exposure to agriculture in Denmark, and we are significantly below our market share on agricultural exposure in Norway. And that clearly helps our equation relative to others. But it's quite clear that when you look at larger claims that in general, it comes from Corporate, it just highlights even more our work that Corporate lines across the board needs higher prices worse than Norway, but not only Norway. And that's why we are working very determinedly to find the right and the best path of ensuring our longer-term improvement of returns in the Corporate segment. And a big part of that is making sure you get high-enough prices to pay for the large claim risk. And a quarter like Q3 is a quarter that reminds everyone of that.

Asbjørn Mørk – Danske Bank

And now that you've seen the large claims pick up a couple of quarters in a row and, of course, this quarter in particular, is there any risk on your reinsurance costs going forward? Will -- should we see -- expect a rise here?

Christian Baltzer, CFO

I think that coming out of 2 quarter -- or 2 years with very low level of both large losses and weather claims has definitely been a help with our general kind of discussion with the reinsurers. Whether we'll see significant increases on our per risk, I don't expect so. We still have kind of okay weather coverage and weather results on a net basis. So I don't expect large movement in that area. But of course, the reinsurers will try to use the argument that once we have large claims, prices need to go up, and we kind of try to look at a longer history of claims.

Morten Hübbe, CEO
In addition to that, I guess, Asbjørn, that the general reinsurance market is still influenced by higher capacity than demand, which puts a cap on price development.

Asbjørn Mørk – Danske Bank
Okay, fair enough. Then on the fire risks, if you leave aside the agricultural business, which you were also out commenting a week ago, and look at the general fire risks in Q3, how do you see the development there from the drought and the weather?

Christian Baltzer, CFO
Not really something significantly that has, like, showed up in our books as spikes. So we're...

Morten Hübbe, CEO
I think it is really focused in Denmark on the agriculture. And it's actually not the buildings, typically, it's the machines. So you use the machines for harvesting, and that is why you typically have the fire claims and that's why we have this increase of 400%, which is really quite steep. Then we avoid the similar claims in Norway because we have almost no agricultural exposure. But there's no particular property linked to fire, and that is where we would otherwise see fire that isn't property. So it is really an agricultural phenomenon predominantly in Q3.

Asbjørn Mørk – Danske Bank
Okay, fair enough. Then if I may go to Slide 11, where you showed the price development and basically focusing on the motor insurance. So 2 questions really. First, if I look at Denmark, up 2.4%, which of course is solid. But if I compare with previous

quarters, it's a decline from 3% a couple of quarters ago, then slightly lower in Q1, and now lower again -- or Q2 and then now lower in Q3. Have you sort of done the actual repricing around the motor that you've been able to -- considering the TryghedsGruppen bonus and we should expect structurally lower repricing in motor in Denmark? That was the first question. The second question being in Norway, the 1.4% compared with the 5% price hikes that you're carrying through right now, so we should expect that line to improve quite substantially the next 12 to 18 months, I guess?

Morten Hübbe, CEO

I think it's important -- broadly, your logic is right. But bear in mind that the data we show here is the total portfolio exposure versus price, which means that it's price as one driver. It is, of course, also mix as a second driver. And then thirdly, it is also, for instance, partner agreements that often follow a different pattern than the direct business. So if you take the 1.4% on Norwegian motor, for instance, if you were to calculate that for the direct business or really everything besides one particularly large partner agreement, the number would have been significantly higher. But we show you the total. And as I mentioned, in Norway, there's a one particularly very large partner agreement with a very attractive combined ratio where we've seen actually price reductions in motor, and that pulls down the average of the rest. But in general, the expectation for the future trend on Norwegian motor pricing is upwards, where I would say in Denmark, it is more broadly stable. And also here, a few partner agreements pulls down the average, but only a little bit.

Asbjørn Mørk – Danske Bank

Okay, fair enough. Then a final question from my side relating to the Alka transaction or potential transaction. So you mentioned, Morten, that a nonstructural remedy is that basically means you're not going to divest part of the business. But I guess, all things equal, the remedies will leave you less well off than if they haven't been there, and you still reiterate your DKK 300 million guidance for the synergies. So could you just elaborate a bit on whether, in isolation, the remedies are expected to have a negative impact and whether the DKK 300 million was a conservative number you gave a year ago and that's why you can reiterate the guidance? So how should we see that?

Morten Hübbe, CEO

I understand the question. But at the same time, we need to respect that there's a process where we need to respect the time and the investigation of the authorities. I think when you look at -- so I cannot comment on the actual remedies that we're discussing because they are still being discussed, so we cannot give you a full picture of that. Some of you have question, what could be examples of nonstructural remedies? You've seen in other cases than ours, examples where, for instance, putting a cap on various fees could be an example of a remedy seen in other cases, just to give you a flavor of what is sometimes in the toolbox. We have no doubt whatsoever that we will deliver our synergies. We see currently underlying run rate results that actually are slightly higher than our working assumptions. And we have no changes to the timing of the synergies and results expected. I guess what we've tried to do is to make sure that we spent the time well in doing much more detailed planning of the integration, which means that we are more than ready to start the actual integration and process. And Asbjørn, I'm afraid I cannot comment more detail than that.

Mads Thinggaard – ABG Sundal Collier

This is Mads from ABG. The first one I have is going back to the battle for higher profitability in the Norwegian Corporate segment. I think you have been alluding to before a kind of a target to get a 10% ROE among the Corporate Norwegian customers. And now you are talking about, I mean, further price initiatives. Could you kind of put a bit of light on how far we are from the 10% ROE? And I mean, how long time this journey towards 10% could be?

Morten Hübbe, CEO

Mads, I don't think we have published an ROE target for Corporate Norway. But I guess, the general logic is not far off in the sense that the ROE of Corporate is significantly below the group. And if you look at the underwriting here, ROE in Norway Corporate is negative. So that's why we said that the expectation is really that we're looking at something like a 3-year journey of price increases in Corporate Norway. We've done 7% so far in '18. And we expect for the 1st of January '19 renewal actually a slightly higher price increase than 7% again. And we expect that journey to continue for some 3 years. Of course, we will see how the market reacts. The market has reacted positively so far. But that's also why we use a caution of the top line because we are willing to accept some loss of top line if necessary to carry out these price increases because we clearly want to achieve a higher long-term ROE in Corporate, also when we look at the underwriting year in isolation and do not take into account the help from runoff gains.

Mads Thinggaard – ABG Sundal Collier

Okay. Could you put a bit of flavor on how much you kind of moderated your top line guidance, I mean, due to the possibility of customer reaction in this segment?

Morten Hübbe, CEO

No, I understand the question. But I think in a big group with lots of moving parts, I think that would be more precise than we can actually control. I think when you look at the retention rate improvement with more than 1 percentage point just the last 12 months, that's clearly more positively than we've assumed. Clearly, if that trend continues, our assumptions are too conservative. On the other hand, just assuming that, that trend continues as probably being too naïve, so we try to be cautious and we've put in customer reaction in Corporate Norway as a negative, but I wouldn't want to specify that in more precision.

Mads Thinggaard – ABG Sundal Collier

Okay, understood. Then just one final question, on the Alka transaction, and that is just -- I mean, would it be a very big surprise to you if the deal were not approved by the end of 2018?

Morten Hübbe, CEO

That would be an extremely large surprise. And then to be honest, I don't have the fantasy to imagine that, that could happen.

Jonathan Urwin – UBS

Just 2. So firstly, just a follow-up on the claims inflation versus pricing dynamic, mainly in Denmark and Norway. Are there any areas you're finding it harder to price out claims inflation? And are there any trends that have surprised you? Secondly, retentions are very high, very good in Private. Is this mostly the customer bonus model, like, probably working through now? Or are there other drivers? And is there much benefit still to come from that customer bonus model?

Christian Baltzer, CFO

Jonny, so I'll just start with your first one. We haven't really seen any areas with surprising development compared to what we expected. There is no doubt that we often look at the portfolio more customer by customer, not necessarily like product line by product line. And carrying out price increases is more tried to be done as in a customer basis. So I think that we feel we have a pretty good handle on both pushing through the prices in the areas that we need to and also kind of offsetting the claims inflation, either by price increases or by the procurement and kind of initiatives on claims. So I think we are feeling quite comfortable with where we stand in the trajectory that we are having on the underlying development and profitability of our book.

Morten Hübbe, CEO

I guess on your second question, on the customer retention, I think it's fair to say that it's not only the bonus because actually, the -- we see one of the bigger jumps this quarter being Private Norway and also Commercial Norway that has no bonus. If we look at Private Norway, it's really positive to see that after a slightly more difficult period, we've seen, for instance, that our IT stability is much higher. We implemented new payment systems more than a year ago where we sort of completely screwed up that project. And there was a number of areas where we really were doing -- sending wrong premium calculations to customers and all sorts of challenges that gave negative response. All of that has been stabilized. We see that our accessibility in Private Norway is much higher. We've done very systematic work to reduce the number of negative customer experiences. And across Denmark and Norway, we are working very determinedly on the TNPS all the way down to individual employees so that now we see what is the -- when do we have negative response to individual employees from the customers, how do we handle that, can we train that employee, can we give them best practices, do some of them have to have other tasks, et cetera. So clearly, professionalizing the whole customer experience and avoiding negative customer experience is very much a systematic process. And then, I guess, when you look at the bonus, there's no doubt that, that helps in Denmark. We're now at least some 74% awareness amongst Danish current customers. When we get further away from the payout, actually, that number still trails down. Gjensidige is at around 90%, so there's still potential for the customers. And only 22% of the noncustomers realize that we have a bonus scheme. And to us, that is really a quite low number that we need to work up significantly higher. So we still see that journey having several years ahead of us, but clearly helping us also as we speak.

Wajahat Rizvi – Deutsche Bank

Wajahat Rizvi from Deutsche Bank. Two quick questions from me, please. Firstly, can you please tell us what is your market share in the car leasing segment? And can you help us explain the pricing and claims dynamic in this segment? And secondly, there seems to be some correlation between your large claims experience and reserve releases. Can you help us understand why the one would impact the other? Like I don't necessarily see why there should be a relation, or is it just some sort of claims equalization reserve you guys have, which you can release these small profits?

Christian Baltzer, CFO

So I'll try. On the market share on the leasing, I think we might need to get the IR to give you some of the details afterwards. But the overall dynamic you can see, I think Norway have more of the leasing market. And in Denmark, we have probably less of the leasing market than our market share in general. With respect to pricing, there are definitely some dynamics where you have either a 3-year lease and you have a little bit more of stability in the price or you have pricing or insurances through the actual leasing company. So -- but we can give you more flavor and color on that after the call.

Morten Hübbe, CEO

And I guess, when you look at the large claims versus reserve releases, you're correct that if we look at the quarter, we have more large claims than usual and we have more runoff than usual. I guess it's fundamentally, there should be no correlation between the 2. But of course, we're very pleased that we have a very strong and comfortable reserving position. And there's a general trend that we are being too conservative on reserves and we generally have too conservative assumptions, which means that we are seeing higher runoff gains than planned. We had our semi or annual walk-through of reserve positioning by our chief actuary with the board yesterday. And again, it showed a more positive level of claims reserves than previously issued. So I think that's what I can comment.

Per Grønborg - SEB

A couple of questions from my side as well. Back to the Alka deal and the remedies, you say that they have not been set yet. What's the timing, especially in the light of you, I guess, you still expect the approval before year-end? Secondly, when the remedies are set, should we expect you to communicate to the market, to us, what they are? Or should we -- or will we need to expect them from the participant in the market study? I will assume that it hardly can't be kept as a secret when the market study starts. That was my first question. My second question is on your top line guidance. You stated you delivered 3% year-on-year growth in -- or 3% organic growth in the third quarter. What are the organic growth for the first 9 months, just to get a flavor of where you are versus your 0% to 2% full year guidance growth? That was 2 questions from my side.

Morten Hübbe, CEO

Thanks for your questions. I think on the Alka timing, we said Q4. Quite clearly, we are not running the time schedule. So I think I would work with the assumption that it's Q4. That is clearly our expectation. I don't think we have enough insight to be more precise than that. But on the remedies question, you can clearly expect that once the remedies are final, we will communicate very clearly to you what those remedies are and how we see the potential consequences of those remedies. And then bear in mind that, that will be under the heading that the assumed run rate, the assumed synergies, the assumed target and the assumed timing is unchanged.

Christian Baltzer, CFO

Per, I will...

Per Grønborg - SEB

Can you try that you will communicate these remedies before the market study or if they are cleared by the -- or if they're on, will you communicate it when the deal potentially has been cleared by the competition authorities?

Morten Hübbe, CEO

You should expect us to communicate it -- yes, yes, just to clarify that, you should expect the communication to happen only after the approval has been achieved because there's still moving parts and uncertainties. So it doesn't make sense for us to communicate in the middle of the process.

Per Grønborg – SEB

Will we get that information from the participants in the market study? Is that...

Morten Hübbe, CEO

Well, I think that one should always be very careful to get more snapshots of information if you don't have the full picture. So if you choose to pick up small snapshots, that's of course up to you. I wouldn't expect that to give you a meaningful picture of the whole question. So if I were you, I would stick to 2 main themes: one, that the target and the timing is unchanged; and two, once the transaction has been approved and the remedies discussion has been finalized, we will communicate to you very clearly what those remedies are and how we see the potential consequence.

Christian Baltzer, CFO

All right, Per, on the top line organic part, I think it's around 1.8% that we have year-to-date on the organic growth. And then I think our guidance between the 0.2%, yes, we are probably at the higher range of that. I think one can read into this kind of higher ranges, but definitely, our retention rate in Denmark and Norway are showing very good improvements, and we're really pleased to see that. And the other one is the acceptance of price increases in Corporate Norway, and those 2 moving parts are kind of pushing us in the upper end of this band.

Kevin Ryan - Bloomberg

It's Kevin Ryan from Bloomberg Intelligence. I just wondered if you could share with us what the digital investment cost annual run rate is? And when you see this easing or is it a continuum?

Christian Baltzer, CFO

Kevin, so I think if you go back to our Capital Market Day we had in November, we actually alluded to the fact that we'll be investing quite significantly in digitalization in our portfolio over the next 3 years, so within '18, '19 and 2020, as much as where we'll be putting up DKK 0.5 billion on our balance as kind of CapEx. So I think the overall investment you can say in digitalization is increasing, but we'll also see the benefits from digitalization by better customer satisfaction, less manual processes and kind of efficiency gains in general in the core group. We communicated back at the CMD in November that we will be maintaining our 14% expense ratio around that. And what -- actually, if you open that up, then you'll have some larger investment in IT and you'll have efficiency gains in that so that we will maintain within 14%.

Morten Hübbe, CEO

So I guess, it's broadly trying to make sure that we finance as much as that investment as possible because clearly, you should for the foreseeable number of years see a higher run rate investment in IT. I think you see that in all financial services companies. But I think we're trying to make sure that we offset that with actual savings, particularly in distribution. And that's why we talk a lot about and work quite hard on cost of sales because if you look at Tryg in a sort of 5-year historical period, we have reduced most of our cost significantly. But the area where we have reduced cost the least is in distribution, and that is why that is the current -- currently a very big area of focus also to finance some of our digital investments.

Steven Haywood - HSBC

Just on your runoff releases this quarter, I know they're quite high. Could you give us any specifics and any kind of items or large items that closed and you gained specifically? Or was this all related to the board actuarial review? And when your auditors go through your reserving, what do they tell you? And how do you manage to continue to reserve at such a high level? Secondly, on your interest expenses. I saw on Page 22 of your report that your interest expense has gone up significantly, and they are DKK 113 million for the 9-months stage, I think around DKK 50 million for the third quarter stage. Can you explain what's happened here, please?

Christian Baltzer, CFO

Steven, so on the runoff side, I think if you actually go to Page 32 in our investor presentation, you can see it actually is split up, the runoff by product line. And here in Q3, a lot of it actually comes from motor and workers' comp. I mean, can I say, in general, it comes from our long-tail businesses where we have many years of kind of having to keep the reserves before we actually have to pay the claims. I think what we have seen kind of in general on the trend on the long-tail business is that kind of the conservatism that we've had 2, 3, 4, 5 years ago kind of keep showing up as more and more conservative. We have a quarterly review on the reserves and half annual with the board. And I think, in general, we feel very comfortable with where we are in the reserves. We feel that we are still continuing having a conservative view on this. And I think the discussion with the regulators in general is they're actually very pleased to see that we are running a conservative business and not trying to push too hard on the margins on the reserves here and actually having more cushion buffer than others might end up having.

Morten Hübbe, CEO
And I guess on the auditors, as you asked, Steven, clearly, the auditors and their actuaries continuously test that we have a healthy assumption and documentation of the various risks within the reserving book and that those risks can justify the margin that we work with. And we've also just had a review with the FSA that were satisfied with the way we are running our reserves. So -- and I guess, into perpetuity reserves will be an area where there's lots of risk, there's lots of fluctuation, and we're pleased to handle that in a rather conservative way. And we'll continue to do that.

Christian Baltzer, CFO
On your second question, if I did understand it right, on Page 22 in our report, you're seeing the expense -- interest rate expenses increasing from DKK 79 million in 2017 to DKK 113 million in 2018. The change here, I think, predominately is actually from our bonds issuing under Tier 1. So we're actually having some of that in there. Does that make sense?

Steven Haywood - HSBC

Yes. But I can't sort of square the circle here because the bond issuance was Q2, and it's only 3 months stable plus 2.5%, which isn't that much on a yearly basis, DKK 500 million.

Christian Baltzer, CFO

I can see Gian is waving at me and thinking that you guys should take this offline. So I think Gian will kind of help you square that circle to make sure you can get it into your model.

Youdish Chicooree - Autonomous

I've got 2 questions, please. The first one is just to go back on the dynamics in the Danish motor market. Your average price increases are moderating down, and this while accident frequency seems to be picking up. So I was wondering whether you are seeing a favorable development in other parts of the portfolio, for example, in bodily injury? That's my first question. And then secondly, just in terms of your retention rate in Norway Commercial, it has been improving for the last 2, 3 quarters. So is that just truly down to the smaller players struggling? Or is there something else happening here?

Christian Baltzer, CFO

Youdish, I'll take the first one. I think you're absolutely right that we have seen an overall general trend over the last 5, 10 years where MTPL is kind of decreasing in the risk per kind of per car per insurance. So there's definitely a trend -- long-term trend on that. I think the comprehensive trends that you're seeing here, which is roughly around 40% of the motor book, is something that is ticking up. And if you add those 2 together, then it is a trend where we feel that the price increases that we're pushing through is being suffice enough to kind of improve our underlying. And then back to a comment we actually also made a little bit earlier, I think we also see this as a portfolio. So product line by product line, yes, we do monitor it very strictly. But we also see other areas where claims inflation might actually be positive developing, not negative developing, and actually giving us more cushion to actually get an overall portfolio profitability that's much stronger. So yes, we do show you some product line specifics in our presentation, but bear in mind, we actually look at this as a totality portfolio and development as a totality.

Morten Hübbe, CEO

And then, I guess, on the customer retention rates in Norway, there is a number of moving parts. I clearly see that the fact that we left a year, as I mentioned, with a lot of IT and payment challenges where we made a lot of mistakes causing nuisance to the customers, that is helping the equation now because those challenges are over. But also, as I mentioned, the work with accessibility has enhanced significantly so that it's much easier for the customers now in Norway to get hold of us both on the phone, but also Norway is the area where we see the biggest increase in use of digital claim solutions. We're just getting very, very positive customer response. And then we work with this 1 to 10 scale of positive versus negative customers. And particularly, in Private Norway, we have worked with the negative customer responses in the range 1 to 3, the very negative ones, to make sure that we limit those and understand what they are and repair it and reduce the number. So quite deliberate work. And as I mentioned, we do this actually on an employee-by-employee basis, so we're getting very, very close to the detail of that. We're starting to see that work pay off. And I guess, finally, we do get some help from the fact that some of the smaller players in Norway are struggling more, so they are being slightly less aggressive than, say, a year or 2 ago.

Youdish Chicooree - Autonomous

Okay, understood. Can I just have one follow-up in terms of your response on the accessibility of your services in Commercial? I mean, could you just tell us, for example, when is the rollout of digital solution automation in your Commercial segment versus, for example, the Private segment, please?

Morten Hübbe, CEO

Well, there's no doubt that the Commercial segment is way behind Private lines in this area. Actually, we are seeing that a number of the both access automation, digital solutions we have in Private lines, we don't at all have in Commercial lines. But having said that, we've now -- we've invested more than DKK 100 million in Commercial Denmark where we're starting to see some benefits in Commercial Norway. We are now the first company with an online price and sales solution and more also online servicing, but we're still significantly behind Private lines. So I would rather say that in Commercial, we're at the sort of beginning of that journey.

Vinit Malhotra – Mediobanca

Just very quick, the underlying loss ratio trend, so just picking up on the comment on the pricing achieved by the group being 3%, claims inflation being 2.5% group-wide, that automatically gives sort of a 50-basis point pickup. But should we not expect some more, given that you are doing other stuff with all these initiatives? What do you say to that?

Christian Baltzer, CFO

Vinit, I think that you definitely have to view our 2% to 2.5% expectation. I think there's definitely some areas where we see frequency giving us some surprises or where we see kind of trend going the opposite direction than anticipated. So for us, there is definitely a cushion we want to maintain. And yes, if you were to do just a simple math of 3% and then 2.5% in our claims initiative, you should see a better improvement. I think, in general, we also do see that the inflation trend can surprise us, and we rather want to be 2 steps ahead of it than 2 steps behind it. So when we guide for the 50-basis point improvement on group, especially on Private, that is where you'll see that. Now if you also want to do a little bit of the math, definitely, when we pushed through 7% price increases in Corporate Norway, when we say a 3% overall on the group, you might get some of your differences on the Private underlying kind of only "being 50 basis points."

Morten Hübbe, CEO

And then, I guess, that as part of the equation where I guess we don't publish numbers on that or it's slightly difficult perhaps to monitor from the outside, but I think we've mentioned that we are pushing up the digital agenda quite significantly. So for instance, if you look at the claims area, we're investing heavily in digital processing and in IT. And of course, some of that flows through the balance sheet, but also a significant proportion of that flows directly to the P&L, which actually turns up not as cost, but as new claims costs because claims handling is part of the claims line. So that also flows into the equation. But I guess, the general historical learning, Vinit, is that we need to overshoot somewhat with the totality of the initiatives to make sure that we can handle the unknowns and the uncertainties and the negatives, while still being absolutely certain we can deliver what we have set out. But I wouldn't work with an assumption of significantly higher underlying improvement than the 50 basis points that we have set out. So that would not be our advice.

Vinit Malhotra – Mediobanca

Sure. And just quickly a follow-up, please. On the runoff, should we be viewing that the previous statement and guidances of 3% to 5% gradually reducing, given the light of what's being released this year, should we be viewing that guidance as still holding? Or should we be upping our numbers or not?

Morten Hübbe, CEO

I would work with the same assumption. I don't know if you recall that we had the discussion and maybe even you asked the question at the end of last year, if we hadn't been reducing the runoff faster than planned and whether that was a negative signal. And now, I guess, we have the opposite situation. I think we will continue to have volatility between the quarters on runoffs also in the coming years, but the overall signaling and messaging is completely unchanged.

Philip Ross – Berenberg

Hi, good morning. Vinit's last question just asked exactly what I was going to ask. So no questions from me, and thank you, Vinit.

Gianandrea Roberti, IR Officer
Well, thanks a lot to everybody for all your good comments. Christian is waving at you all because it's his last conference call. We will be around in London in 10 days. But Peter and I look forward to talk to you, and I'll be in touch. Thanks again.