Tryg – Q3 2013 results

Webcast and Q&A 10 October 2013

Transcript

Presentation

Lars Møller, Head of IR

Good morning everyone and welcome to this presentation of Tryg's Q3 Results. With this morning I have got our CEO, Morten Hübbe, and our CFO Tor Lønnum, and with these words welcome and over to your, Morten.

Morten Hübbe, CEO

Thank you, Lars. And welcome to all of you to the third quarter results where we believe we report a strong third quarter with a pre tax result of DKK 900m for the quarter and almost DKK 2.4bn for the first nine months; the quarter broadly consisting of a technical result which increases by some 17%, while the investment income is lower than last year's high bond income. Clearly, mainly carried by an improvement in the combined ratio of roughly three percentage points, which can be almost entirely attributed to the efficiency measures, improving both the claims ratio but also to a large extent the cost ratio to around the 15.5% mark.

Now clearly you should bear in mind that roughly one percentage point of the improved combined ratio is due to lower weather claims and larger claims than last year and although we would like to take the honour for that, of course, that is probably not the right solution. And also you can see that clearly the business areas private lines and Swedish lines are the areas where the improvement is the strongest.

Now if we look at the next slide and what has happened during the quarter; well first of all I think it is very important that we deliver on our three year targets for the combined ratio. You may recall that in 2010 we had a combined ratio of 99, upon which we set out a three year target to achieve at below 90% combined ratio from the third quarter and onwards. And I guess we are pleased to see that we are delivering upon that target and with a margin as well and of course we have reiterated that also in the future we will target this below 90 combined ratio. I think what is also important is that while the beginning of the journey from the 99% combined ratio and downwards was largely driven by price increases. In the last period we have seen clearly that our efficiency programme targeting DKK 1bn in efficiency gains by 2015 has been the main driver of the improved results. And it is very comforting to see that that programme is moving according to plan, both on claims procurement and on costs.

You can also see from this slide that we have introduced a number of new products and tariff criteria during the summer and also a new customer concept in both Norway and Denmark. And you should be aware that this changing of products and tariffs is actually part of a three year programme where we expect to replace and enhance the pricing and tariffs of all major products in our portfolio. And we do expect that gradually that will enhance our risk selection and thereby the quality of our portfolio and gradually it will also enhance the hit ratio and the sales in the segments that we find the most attractive. But we do expect top line to be low, both in ’13 and in ’14 while we expect that in ’15 and onwards, we will be more in line with inflation on the top line. And then you see also that we have had now a new Head of our Commercial business which has joined us in this recent period.

Now if we look at the four large business areas, it is positive to see that three out of four areas we believe develop in a strong and positive manner, particularly private lines, Swedish lines, we see an improvement of the combined ratio of 2.5 to 3 percentage points. Now given the sheer size of our private lines business in a sense that is what drives the total group numbers and we see a positive and strong development there. But also I think it is fair to mention that in the Swedish business actually the year to date results are roughly double what they were last year and I guess Sweden has moved from being a drag to the total earnings to being clearly a much stronger supporter of total earnings. Commercial on first hand is actually a slight deterioration of the combined ratio but if you look at the actual level of the combined ratio we are below 80% for the quarter and clearly a very strong combined ratio there.

A single worry point on this slide is in the corporate section. I guess the combined ratio, some 92% for the quarter, 89 for the year to date, is not half bad, but actually when we look beneath the numbers we are slightly worried that the—what we call small to medium sized claims, particularly in our Norwegian Corporate book are somewhat higher than we expected them to be. And clearly given the risk and exposure to large claims in corporate it is always important to keep the small and medium sized claims to a moderate level. And given that inflation is higher in Norway, it is important that we manage that well.

And clearly as I said a main driver, the main driver of the results improvement is the efficiency programme. You may have seen that now—until now, so far, we have delivered DKK 445m in the total efficiency programme of both claims procurement and cost reductions, which means that we still have another DKK 550m to go, which would clearly support our earnings in the years to come. You see the claims procurement programme delivering some DKK 90m in the third quarter, clearly we have seen during the year that motor has been the strongest driver and motor is the part of the procurement programme that is ahead of plan but we are now starting to see that property, which has been behind the plan, is starting to support procurement as well and should continue to support it further in the coming two years. In costs you see an improvement of some DKK 20m due to the programme itself in the quarter, but of course we have also reduced cost to cater for the lower top line and manage that as well.

And if we look at the next slide, you clearly see the impact from this. A cost ratio of 15.7% for the full year, 15.5% for the quarter and clearly we believe a very strong reduction according to the plan we have set to achieve below 15% cost ratio by 2015. If you dig within the numbers, it looks as if the nominal costs have dropped 100m, but when you look at that number you need to bear in mind that in the third quarter last year we set aside 60m for restructuring, so the nominal drop is more like 40m. Nevertheless you clearly see from this graph that during 2013 alone we have reduced headcounts by some 150 people without unnecessary violent layoffs and largely driven by planning and retirement and solutions like that, so clearly a strong development in the cost ratio and more to come in the coming periods.

Yes. And then I think will hand it over to you, Tor.

Tor Magne Lønnum, CFO

The top line I guess it first and foremost reflects the fact that we continue to focus on the profitability. But it is of course important to note that there are relatively high fluctuations in terms of top line this quarter and first and foremost it is driven by a relatively large drop in terms of the Norwegian krone, which of course impacts the top line significantly. But in addition to that you see that there is an impact from profit sharing agreements that Morten mentioned and if you take all these effects into consideration you end up with a drop in top line of about 2%.

If you look at sort of the split of the technical result between the business areas, you can see that it is roughly the same as last year, slightly improving in Private, but a strong development really in all business lines and then I will get back to Corporate that Morten mentioned.

If we take the next slide, if you look at customer retention, first and foremost it is a positive development in the Commercial area, both in Denmark and Norway. If you look at the private lines you see that there is a small drop in Norwegian retention. Of course this is in our mind at least a relatively small fluctuation and it is still at the relatively high level if you look at it in historic perspective. If you look at the Danish private line's retention level, you can see that it drops slightly and in our mind it reflects the fact that the competitive pressure is slightly higher in the Danish market, which we also mentioned last quarter.

If we take the next slide; if you look at the development in terms of the average premiums, you can see that there is still a healthy development in terms of average premiums in the Norwegian market, both in motor and in housing. If you look at the housing development in Denmark, you can see that it is slightly lower than what you have seen before and of course it reflects the fact that we had a very low index, i.e. price increase 1 January this year and it reflects the underlying inflationary pressure in the market. If you look at the motor development, you can see that the average premium is around zero and of course again it reflects two things; both sort of the underlying inflationary pressure, but also the fact that we have seen a shift in portfolio that we have mentioned before. The fact that you see that people are switching from more expensive to relatively speaking cheaper costs and you have probably seen that the number of new cars registered in Denmark is at a very high level, so there is a significant shift in terms of buying pattern in terms of cars in Denmark.

If we move to the next slide and if you look at Sweden, you can see that the retention level is dropping a bit and it reflects first and foremost the fact that the Nordea agreement has been terminated and of course that leads to a shift in terms of the portfolio. One of the mitigating effects that we have introduced is the new customer concept programme in Sweden and we think that this will give us a more healthy, better development going forward.

Morten Hübbe, CEO
We are also working on introducing new partnerships in the Swedish market to add to our distribution, but clearly cross sales will be a main driver.

Tor Magne Lønnum, CFO
Yes. And I guess importantly as Morten mentioned initially as well combined ratio is below 90 this quarter, which we think is a very strong profit development.

If we take the next slide in terms of the underlying, clearly there is improvement in the underlying claims ratio for the private lines, very strong development. If you look at the Commercial segment on the Swedish segment it is flattish, slightly up, but I guess it is important to say that we come from a very low level in Q3 last year and finally I guess if you look at the Corporate segment, as Morten said, we see a higher frequency in small and medium sized claims in Norway. We also see a slightly more challenging environment in the Swedish market and this is the main drivers for the change in the underlying for Corporate. But again bear in mind that if you—when we compare to Q3 2012, 2012 was a very very benign quarter in terms of claims.

If we move to the next slide, if you look at what happened here in terms of large claims, weather related claims and run-off, we had a drop in terms of large claims of 1.8 percentage points for this quarter compared to last year, so some tailwind from large claims. We see that the weather related claims dropped by 1.1 percentage points, so also some tailwind from weather related claims. You can ask why we have negative weather related claims in the quarter, but this is a technical adjustment from last quarter only. And then you have seen that we also have a slightly higher run-off gain this quarter than last year. And that is really the main drivers in terms of adjustments for the underlying.

If we take the next slide, in terms of investment results we had an investment result this quarter of DKK 152m, which is down from DKK 338m last—the same quarter last year. Two main drivers, one is the fact that we had a negative mismatch on our match portfolio this quarter, primarily driven by the fact that we have seen that spreads on Danish and Norwegian bonds have increased slightly compared to the rest of the euro and the reason is of course that investors don't seem to value safe havens the same way that they did last year. If you look at the development in terms of the free portfolio we have a 2% return, which we think is quite nice. It is primarily driven by equities of around 6% and then we also a nice performance on our high yield and emerging market debt portfolio.

If we take the next slide, in terms of capital, you have all seen that the capital buffer is increasing and we are now at 81% compared to the minimum requirements by the Danish FSA. Of course the main driver related to the capital buffer, it is the fact that we have had significant results, profit this year. But in addition to that we see that we have some one-offs related to the pension obligation in Norway where interest rates have increased slightly and thus given us a small impact on the equity. The buy backs continue as planned and we are now done with slightly less than 70% of the total buy back programme.

And I guess with that I leave it back to you, Morten.

Morten Hübbe, CEO
Yes, and before we take your questions just a short summary. I guess we are very pleased to deliver upon our three year combined ratio target. When we set out the below 90% target and we were in fact close to 100% that seemed a rather steep ambition. I think we are proud to deliver that with some margin and I think it is very

important that in the last year or so, the main driver has been our own efficiency programmes, because really that is what drives bottom line efficiency and also competitive position and longer run.

And I think pleased to see that that programme is following the schedule, but also that we have a remaining 550m outstanding of that efficiency programme until 2015 and that will allow us to pursue also in the company years a below 90% combined ratio while of course continuing to pursue our 20% post tax ROE and a target to take our cost ratio to below 15% in 2015. As we have said the top line is a necessary adjustment when we are pursuing earnings also in Commercial and Sweden where we had losses just a few years ago and we accept and expect a low top line in ’13 and in ’14 and then a more normalised level again from 15 and onwards, but clearly we have no target to achieve a large number of growth but a top line more with inflation and then the financial targets that we have set out.

So I think that concludes our presentation and we are ready to take some questions.

Questions and answers

Vinit Malhotra – *Goldman Sachs*

Two questions please; firstly on the comment around the corporate midsized claim frequency which you mentioned in Norway. Please could you comment on which sectors? And secondly on that same topic, this is a business where you do partnership with other companies as well and are these claims in your side of the book or is it in where the partnerships sit? And the reason I ask is because some of these corporate partnerships can give you claims in far off lands as we have seen not so long ago. The second thing is just on the expense and claims initiatives which are clearly driving the result. So in your view what is the reason for continuing to push? Is it the competition that you mentioned, say in private lines, or is it the claims frequency which you are seeing a bit of an uptick in corporate? So where is the pressure more, which you are trying to offset? If you could comment qualitatively? Thanks.

Tor Magne Lønnum, CFO

First and foremost, I guess it is important to say that it is not any partnership agreement or any sort of a corporate exposure far away that drives the claims that we talk about. In fact it is relatively simple, related as I said particularly sort of the Norwegian business but also partly the Swedish business. And in our mind it is relatively simple, straight forward claims, but as Morten said, the fact is that the frequency of claims is slightly higher than we had expected and what we see compared to last year. And as such of course it is important for us to monitor the situation and see if we need to make additional adjustments in terms of pricing etc.

Morten Hübbe, CEO

I guess on your question, what motivates the procurement pursuit. Well you may recall that at some point two years ago, we made an analysis showing in a given calendar year how many suppliers of claims repairs did we use. We used 46,000 different companies within 12 months, which of course is a ludicrously high number and the sheer opportunity to make that much smaller, much more efficient is clearly something we see will drive both bottom line but also competitive position because we have more bargaining power than our smaller competitors.

And clearly we started out with motor being the—call it the easiest route but also the area where our position is the strongest. We have now implemented a strong solution for contents insurance. We have made a customer satisfaction survey on both motor and contents, showing that our customers have a very high satisfaction with these new processes and now the target is to move the programme on to have further benefits in the property area where we still need to attract more benefits in the programme. But I think given our size and bargaining power, this is an area where we should excel compared to smaller peers. And that should drive both the bottom line longer term, but also the competitive position longer term.

Vinit Malhotra – *Goldman Sachs*

On the property, the e-auctions are...?

Morten Hübbe, CEO

The e-auctions has—after a slightly slower than we wanted start, it is developing very nicely in the Danish market and we have very large benefits in the individual cases. The handling is a big hard, but the benefits are very high. In Norway we find it is slightly more challenging to get the craftsmen to participate because clearly their pipeline of jobs to begin with is a lot stronger than their Danish colleagues. But I am sure we will get around to solving that in Norway in due time as well.

Sami Taipalus – *Berenberg*

Just a quick question on your capital; I think there is new regulation being introduced in January, which will allow you to move to your individual capital model to be assessed on that. Is that the one that we can see there on slide 18, the DKK 6.4bn with the requirement? And what kind of target ratio would you aim for there?

Tor Magne Lønnum, CFO

Well to the latter question I think again we haven't really tried to give you any target ratio and we are not going to start now. But in terms of where we are, in terms of legislation, as you say there will be introduced some new requirements by the FSA 1 January. The model that we have shown here in the booklet is related to the old individual solvency calculation. In terms of the new adjustments, which we expect to be relatively small, is not in our opinion at least from what we see so far, going to affect our calculations significantly. There may be some minor adjustments, but in our opinion so far it is not going to be significant changes to what we have today.

Morten Hübbe, CEO

I guess the individual solvency, both the old and the new captures the matching strategy on the investment side and therefore the total capital requirement for liabilities and for bonds is low and that is part of the benefit, but we will see. I guess there are still debates about the final adjustments in the programme.

Tor Magne Lønnum, CFO

Yes. But when I say significantly, what we are talking about is sort of adjustments in the area of DKK 100, 200m on the capital side, so relatively small adjustments up or down.

Daniel Do-Thoi – *JP Morgan*

Just two questions on my side. Firstly, some of your peers have been picking up—opportunistically picking up portfolios over the last few months. I just wanted to hear your thoughts on whether that is something that you would consider? And then secondly as a buyer of reinsurance I just wanted to ask whether you had noticed any sort of developments in terms of pricing on that side?

Morten Hübbe, CEO

Well I guess if you look at the last ten, 12 years the number of M&A transactions we have done I think is one buy in Sweden and one sale in Finland. So we are not exactly very trigger happy in that department and I guess we will continue to have that strategy. Clearly the area where we are smaller than we would like to be is in Sweden, so if a quality portfolio came along in the Swedish market, we would clearly look at it but there not many portfolios out there and our requirements to make sure that that would accretive to earnings wouldn't make us a very necessarily attractive buyer. So I wouldn't hold my breath on that, but of course we are surveying it as we have done for the last many, many years.

Tor Magne Lønnum, CFO

Just to sort of elaborate a bit on what Morten said, clearly I mean if there are bolt-ons it is something that we would consider, but as Morten said we don't see the likelihood to be very high.

In terms of the reinsurance market, clearly we do think that the reinsurance market will be slightly softer than what we have seen in the recent past at least. So in our mind that means that in terms of reinsurance procurement, we feel that we are in a comfortable situation. However, I think it is important to note the fact that when we look at sort of our guarantee business and the fact that we had the large claim related to this contractor in Denmark, clearly we do think that that will have an impact on our reinsurance procurement on the guarantee business. But as Morten said of course, we do think that we should be able to offset those effects with price increases in the market.

Morten Hübbe, CEO
Because in general you can say that all bonding or guarantee companies in the market participated in that claim. So that is a challenge for the entire market.

Håkon Fure Reistad – *DnBNor*
Two questions this morning. Firstly on the bonuses and the premium discounts. Is there any reason to view these effects as nonrecurring? I.e. were there any special items this quarter or should we expect these levels to remain as long as the profitability levels are stable going forward? So that is the first question and then on run-offs where I always have a question, this time around let's say that the run-offs normalised back to where you have guided for say 2.5%. In that event, do you expect to be able to offset this through other initiatives or would that be a net negative for your combined ratio going forward?

Morten Hübbe, CEO
You asked whether that was one off on the bonuses and the premium discounts. No, I don't think you should view it as a one off. If the bonuses and discounts disappear again it is because we are making less money. So I seriously hope that that is not going to happen. I guess what you can say is that the immediate impact it has relative to the year before has a one off character because the earnings improvement increases the bonus and discounts, which has, compared to the year before, significant impact. But of course the target is to make these current earnings a more structurable, sustainable issue and thereby also come to a situation where the bonuses and discounts are at a sustainably more stable high level like the current and thereby the comparison to the

year before will be less of a challenge. But the level I think you should expect to remain there as we expect to keep on making money.

Tor Magne Lønnum, CFO

Yes, I think and just to stress the last part of what Morten said, it is really important and when I mentioned sort of the impact on the top line, it is actually the change of impact of bonuses from last year. So the 1 percentage point that I mentioned is related to the change from last year. It is not the actual impact.

To the other question in terms of normalisation of run-offs, it is correct as you say, Håkon that we have guided on a long term basis between two and a half to 3% in normalised run-offs. And of course that is really what we are aiming for in terms of pricing. However in the short to medium term as we have said several times, we do expect the run-off level to be higher and that means that we will see a relatively high level of run-off for the rest of 2013 and also in 2014.

Jakob Brink – *ABG Sundal Collier*

I just have two questions. The first of them being on the premiums and how it has been sort of a quite weak for the past three quarters; is there any kind of limit to how much it can — I realise it is very much due to the Norwegian krone, but still you also mentioned Tor that there is a fairly big sort of underlying negative impact on the premiums this quarter again. Is there any sort of level of how much you can take and how do you feel about this? And then secondly on the capital, I know we discussed that as well, but if I try to backtrack your S&P model from when you last reported it and given the very weak premium or the very high premium decline and also the high interest rates in Norway, I calculate a fairly high buffer on the current equity and the new hybrid capital. So could you maybe give us some indications of how should we look at this big buffer in connection with buy backs for 2014 please?

Morten Hübbe, CEO

Good morning to you, Jakob. If I take the first question, I guess you are right we have—that shows a top line premium of minus 3%. As Tor said the change in bonus and premium discounts cater for roughly 1 percentage point, so minus 2 percentage points is a more real number. If you dig within that number and approach your question, I guess it falls in two categories. First of all the area where the reduction is the highest is in Sweden and in commercial lines. Sweden and commercial lines only two years ago had combined ratios significantly higher than 100%. And they are now doing below 90% combined ratios, Commercial now even below 80 this quarter. Clearly we have to clean up a number of loss making parts of the portfolios in Sweden and Commercial. We have stopped two of our distribution parts of Sweden because they were not making any money and clearly we think that longer terms and earning wise that was the only right decision to make. And clearly we accept that for Commercial and for Swedish lines it means that it will take a while before we get to a more normal top line development. And for those two areas we are perfectly willing to accept that because we needed to build a sound foundation.

Now the area where we would probably like decreasing top line the least is in private lines. Private lines has a decreasing top line of around 3%. This is the area where the premium discounts is the largest, so actually if you take out the change in premium discounts, the reduction was around minus 1%. What we are seeing there is actually that we have implemented a handful of new products where we have significantly enhanced the number of pricing and tariff criteria and therefore completely rebuilt our pricing matrix with a much higher degree of price differentiation. And we see now that the first month of these new products, we have a clearly higher sales hit ratio in those products than in the old products. And that we have a higher quality of customers in those sales. That is the methodology we will use to get also the top line and private lines to move to sort of more like inflation. But it will take a couple of years for us to implement it and we are not trying to rush to any sort of quick fix solutions, but rather stick to this higher quality, higher price differentiation, helping sales, helping earnings, helping the total long term development of the business. And that requires a bit more patience, but we think it is more sustainable and that is what we will stick to.

Tor Magne Lønnum, CFO

And just to elaborate a bit on what Morten said, of course it requires discipline. And I guess it is also fair to say—which I mentioned briefly in my presentation—that we do see that the Norwegian portfolio is developing okay, whereas it is in the private lines in Denmark that we see the competitive pressure is slightly higher. And I think it is important again as Morten said that we actually stick to the course that we have set out, that we focus on the profitability side and focus on that.

In terms of the capital I think it is fair to say that when we are at the third quarter as mentioned, it would be strange if we didn't have a capital buffer because in principle what we are talking about at this point in time is what is going to cater for the normal and growing dividend that we want to deliver to our shareholders on the basis of the 2013 results. So yes clearly there is an increased capital buffer and as such it reflects the profitability of the business and we are going to disclose what will happen on the dividend side after Q4. And in terms of buy backs that is something that we will have to get back to, but you know the variables in terms of our calculation. It is focus on the combined ratio below 90 on a sustainable basis. It is the 20% ROE and it is aiming for the stable and growing nominal dividend.

Jakob Brink – *ABG Sundal Collier*

If I can just follow up; I do realise that you should have a buffer at this point in time due to the dividend, but even if you would pay out a fairly high percentage of your net profit, i.e. in the upper end of the range, as far as I can calculate there must still be a fairly large capital buffer left. And regarding your last part of your answer with 20% return on equity, I guess given that premiums are coming down so much, to make sort of EPS grow in sort of the midterm future I guess we need more buy backs, so how aggressive are you going to be? I mean will you like in the old days go all the way down to sort of the S&P requirement or will you need a buffer? I mean how do you see that compared to the fact that premiums are falling and that will hit your earnings per share going forward if you do not buy back shares?

Morten Hübbe, CEO

I think, Jakob, we realise that you would like us to come up with a number for a buy backs programme and announce where we—when we will do it. That is not going to happen at this moment, but I guess you also know that we have moved from a scenario where we targeted a capital position and therefore the dividend became the residual to a new regime where we say we abandon the clear see through with the clear capital target and a clear buffer target and instead we have implemented a very strong commitment to a dividend policy with a stable to slightly nominal growing dividend. And then we will use buy backs occasionally when we want to adjust the capital position. And clearly as you point out, if the capital becomes too high we will not reach our 20% ROE target. And that is a as committing target for us as our other financial targets. So I think you can rest assured that we will balance this in order to make sure that we both deliver the combined ratio target, the cost ratio target, the nominal to stable and growing dividend and the ROE target. And therefore, from time to time, we have to adjust our capital position. And then you will have to see when and where and with which amounts that would happen.

Per Grønborg – *Danske Bank*

I have three questions. Going back to slide 14 in your slide package you are showing the underlying claims trend which is developing quite nicely on Private and not that nice in Commercial and pretty bad in Corporate. You commented a bit on it, can you put a bit more on it and especially the Corporate development which looks very, very soft this quarter? My second question, maybe it is the same reasoning, if I compare your Sweden country result versus your Sweden segment result I see that outside the Sweden segment result you have DKK 150m roughly in premiums and you are making a loss of 50m on the technical profit from that business, is that industrial business that has been usually loss making in Sweden this quarter? My final question is just a clarification; on the claim the DKK 30m for own account, was that taken already in the first half when you took the first quarter claims or has all 30m been booked in the third quarter?

Tor Magne Lønnum, CFO

Yes, the last one is that the 30m has been booked in this quarter. In terms of the Swedish book, as you mentioned Per, clearly there is no doubt that there are two things that impact the Swedish profitability and it is related to the Corporate book. One is the fact that we have some DKK 25m in large claims. It is related to some transportation and the other is related to the same issue that I mentioned earlier. I.e. the fact that we do have some small—high level small and medium sized claims in the Swedish book and it attributes to the underlying development that you see here and that is really why I mentioned both the Norwegian book and the Swedish book on the Corporate side.

I do think it is important again as I said during the presentation to stress the fact that when you do the comparison on the Commercial book, on the Swedish book, on the Corporate book it is important to say that Q3 2012 was a relatively benign quarter and I think we mentioned that at that point in time also when we did the presentation.

Morten Hübbe, CEO

And then I guess, Per, it is not unusual for us to see am more volatile development in the Corporate book. There is also the business segment where reacting on such development has the shorter lead time because it is bigger individual accounts, so we are just choosing to stress it to make sure that we actually manage the development and make sure in both Norway and Sweden that we get the small to medium sized claims ratio down to the level that we require. So that when we see the larger claims we are able to manage that and still keep the combined ratio of Corporate at an attractive level. And you may recall that we have said we actually don't believe that we can achieve a 20% ROE in the Corporate business but in achieving a sort of high end combined ratio in corporate we can get to around a 15% ROE and that is really the area that we want to attract in order to make sure that corporate is an attractive part of our business longer term.

Gianandrea Roberti – *Carnegie*

I have three small questions, a couple of them are more statements. I would like to hear your view on it. If I look at the combined ratio year to date I think you have at nine months it is 87.3 and that is basically around DKK 150m in total better than expected large claims or weather claims on the nine months. So that is around 100 bips on the combined, so you would be at 88.3 underlying. Is that how should I see this year; any other special offsetting factor or too good to be true or anything like that? That is the first question.

The second question is on the savings programme. I think you did DKK 445 right now. Let's assume you will be doing a bit above 500m at the end of this year, right? So there is another DKK 500m which is a very sizable number to hit the P&L in the next year which should actually improve performance even further. But I am just interested from an execution point of view, would it be fair to say that the second half to some extent should be easier if I want to use this word than the first half, simply because probably for the organisation the starting of this DKK 1bn was somewhat of a shock. Probably I am exaggerating a bit but I just want to hear your view on that.

And the last question, I actually recently considered buying a summer house in Denmark and now I am seeing you are asking 14 questions to potential customers to insure that and now I am being a bit put off. It seems like a bit of a high number, 14 questions, can I ask you what you are asking these people?

Morten Hübbe, CEO
Well if I take the last question because that was the easiest. Previously, Gian, we asked actually only two questions for some houses. One was, what was the number of square metres in the house and the second question was does it have a thatched roof or not, which basically means that you could have an old shack at 100 square metres with no pipes and no water and no toilets and no television and no nothing and you would have the same insurance price as a very, very high tech fancy leisure house of 100 square metres where lots of things could get broken, lots of things could get stolen, etc. And clearly we have, as you say, significantly upped the number of questions for leisure houses and I guess that travelling from two parameters to 14 is not unusual in the process we are currently doing in price differentiation, but we do in most products make sure that we get external data to support the parameters and not have to ask the customers all these questions. But clearly that is one of the reasons why we are hitting

the risk a lot more precisely in the new products and that is one of the reasons why we see that it will gradually improve the risk selection and the quality of the book, but also that we gradually get a slightly higher—or I guess somewhat higher hit rate in our sales in the segment we want to attract. But as I said we try to keep a lot of these questions away from the customer because there is a limit to how many questions they want to answer. But please go ahead, buy the summer house, answer the 14 questions and pay your premium and—

Tor Magne Lønnum, CFO
- We will be very happy. The first question was really a statement and I think the simple answer to that is that seems about right. There is no other sort of significant factors that should be considered.

In terms of the question related to the savings programme; I think—I am not going to give any guiding, but clearly you see the pace that we are actually able to achieve savings both on the claims side and a cost side is at a relatively good pace, so it develops quite nicely. I think you are right in terms of the fact that the organisation actually sort of is moving up the learning curve. Of course it adds to the development, makes it slightly easier to introduce the measures. On the other side, which of course is a slightly offsetting factor is that you tend to sort of take some of the easier parts in the beginning. So I guess from an overall perspective I would say that—and of course this is something that you would expect me to say as well. It will be challenging to realise the last half a billion as well, so—but yes we are of course confident that we will be able to reach our targets as expected and as promised.

Morten Hübbe, CEO
And I guess I would just add that as we saw in this third quarter for instance we had more small and medium sized claims in Corporate than we thought we should have. And I guess for the next two years we will also encounter areas where there is a development that is not as positive as we thought it should be. So clearly it is important to have a pipeline of improvements that is strong and then also stronger than you might immediately think that you need because clearly you will from time to time encounter

negative developments and you need something to cushion and encounter that. So I think we are happy to be in a position where the half a billion is ahead of us and then surely we will also have areas developing in some quarters and we need some cushioning on that. So I think all in all we think that will balance out nicely.

Simon Christensen – *Nordea*
I have three questions. The first one is regarding your rise in your underlying combined ratio of roughly 1 percentage point. Could you perhaps elaborate a bit on how much of that is related to the higher frequency on small and medium sized claims that you mentioned and whether you expect this frequency level to continue? The second question is regarding your gross picture for 2014. My impression was that Q2 that you expected the first half of '14 to be in negative territory and perhaps a second half in slight positive territory. Is that something that has changed? And the third question is related to the e-auctions in Norway. 25% of your cost and claims procurement programme is related to property, perhaps could you share with us how much of the 25% is related to Norway?

Morten Hübbe, CEO
Well I guess if I take the second and third question, Simon. I think it is fair to say that we do still expect— There is really no change to the fact that we expect a rather negative development on the top line in the first half of '14 and we expect some improvement of that in the second half of '14 or we expect to be in 2015 before we see a top line more in line with inflation. And clearly it takes a while before particularly Sweden and Commercial starts to move in the right direction.

And then I guess on the e-auction side and on the property side it is fair to say that currently on the property benefits and the procurement programme, I would say that some 75% of the impact currently comes from Denmark and a rather small proportion currently comes from Norway. And I guess what we are trying to do now is to figure out what sort of persuasive measures does it require to get the Norwegian craftsmen more interested in participating in these programmes? So far we have perhaps naively assumed that we could use exactly the same methodology in both two countries and given that the craftsmen in Norway are simply less hungry than the Danish craftsmen. That is not correct. We need to find different incentives to sort of get them into our procurement programme on property. I am sure we will get around to doing that, but we will probably see the impact there clearly later than in the Danish market.

Tor Magne Lønnum, CFO
Yes and just to follow upon the last question that Morten mentioned that is where we see sort of the split of the savings today in terms of ambitions related to the savings. On the claims procurement it is roughly 60% Denmark, 40% Norway. That is in total. That is the overall ambition. And if you go back to sort of the first question related to the underlying performance, yes you are quite right in your assumption. We do see a continued improvement in the underlying for the private lines. We do see that Commercial and Sweden are slightly up to flattish, but the main driver in terms of the underlying for the quarter is related to the small and medium sized claims that we have mentioned in Norway and Sweden and we continue to monitor the situation. It is difficult to say what kind of expectations we have for Q4 in that respect but we do observe a development that we need to monitor and see if we need to introduce mitigating effects.

Vinit Malhotra – *Goldman Sachs*
A quick follow up on this midsized claim frequency in Norway. In the past there has been a focus on the portfolio pruning. I remember the municipalities, the energy sector was mentioned by you two years ago, one year ago. Is there something on the sector level that you could guide to where this claim is coming from or is it randomly oriented?

Tor Magne Lønnum, CFO
It is the latter and so it is no particular pattern in that respect and that is why I say it is important to bear in mind again and I think that should be a concluding remark. The fact that if we compare Q3 2012 to Q3 2013 there is no doubt that 2012 was a very benign quarter and that is what we are comparing against here.

Morten Hübbe, CEO

And then I guess it is fair to say that we are doing significantly higher price increases in Norway, both in commercial, private and corporate than we are in Denmark and Sweden, simply due to the fact that inflation is a lot higher in Norway. So we need to monitor and see how many adjustments do we need in order to make sure that we get the small and medium sized claims to the level where we want them. But it is not surprising that it is in that area that we see a development and we also believe that it is manageable.

Lars Møller, Head of IR

I would like to thank you all for participating this morning. Now we have opened the reporting season here for the third quarter and that is the first one again, so that is nice that all of you would like to join this meeting this morning here. We will be around here for the next couple of weeks starting in London today and Copenhagen tomorrow and the US a couple of weeks from now and then in Asia. So hopefully we will meet some of you around there and have a nice day to all of you. Thank you.