Tryg – Q2 2017 results

Audio cast and Q&A 11 July 2017

Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published our Q2 results this morning. And I have here with me Group CEO Morten Hubbe and Group CFO Christian Baltzer to discuss the numbers.

So after a few words, over to you, Morten.

Morten Hübbe, CEO

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

We'll start on Slide 3, on the financial highlights, where we show a significant improvement in the technical result of DKK 810 million versus DKK 770 million year-on-year, an improvement of a bit more than 5%. And main drivers, the improved expense ratio level for from 15.0 to 14.3, which of course supports a rather tough target of an expense ratio of 14% for the full year. And also, we're quite satisfied with an improved underlying claims level for Private with 0.5 percentage points, which is in line with our expectations and our communications from the previous quarters. The group as a total has a slightly a slight improvement in underlying. And you can see that we have a slightly higher underlying claims in Corporate, and we will get back to that.

Pre-tax was DKK 915 million against DKK 934 million year-on-year mainly due to an investment result of DKK 130 million, which I guess was high from a historical point of view but also DKK 50 million lower than Q2 the year before. And then of course, we are pleased that we've been able to write to 850,000 Danish customers that they will receive an 8% bonus later this year.

On Slide 4, we talk about the customer highlights. NPS for the quarter was 22, therefore in line with the targets at level for the full year. Underlying, it's quite clear that we're seeing an increase in Denmark while a reduction in Norway. And we also see a 3-plus customer development, which on a group level has good momentum but again with a strong underlying development in Denmark and a challenge in Norway. In Denmark, we see a 2 percentage point increase. Denmark is at 59.5% 3-plus, which is quite close to the group target of a bit more than 61%. At this time, we can see that it's not realistic for -- on the group level to reach the 3-plus target. We think it is realistic for Denmark. And in particular, we're seeing our work with insurance packages really improves the trend. It is not realistic in Norway, but we will start to copy the package concept in Norway Private and in Commercial lines, which longer term will strengthen 3-plus across the board.

If we look at retention rates. I'll get back to that, but it drops a bit this quarter in Norway. We have seen a market trend in Norway where the churn has increased a bit, but we're quite satisfied that, while the market churn in Norway has increased to 19%, our churn in Norway is at around roughly 14%. Then of course, we follow our proportion of fully automated claims. We're quite satisfied with roughly 20% of travel claims in Norway being fully automated; and at the same time, in the Norwegian marketplace, satisfied that we have now integrated OBOS to the Norwegian business, which will strengthen our presence in the Eastern part of Norway, particularly Oslo, where we are underrepresented.

On Slide 5, we show the technical results with a very positive development in Private lines where we clearly see both the improved trend in underlying claims, an improvement of the 0.5% driven by both Denmark and Norway; and of course, a significant drop in the expense ratio, improved from 14.5 to 13.9. Really all of the other areas are quite stable in Q2 year-on-year.

And if we jump to Slide 7, we comment on premiums. Tryg will never be a company that is about high growth. We are about stability and strong customer satisfaction, strong margins and strong payouts, but nevertheless, we are satisfied that the 2% top line growth in the quarter is the highest-growth quarter in any quarter of the last 5 years. Clearly, the mother ship of the business, Private lines Denmark, pulls a lot of the weight with a growth of more than 3%, more challenging in Private lines Norway. If we look at Commercial lines as a whole, we see negative top line. We do expect that to improve in the coming periods both due to the acquisition of OBOS in Norway, but also we see the current underlying sales trend improving, but it will be a couple of years before Commercial is where we want it to be. We see in Corporate a positive development. Bear in mind that, particularly in Sweden, we've had a number of fronting business agreements come in to the numbers and also that guarantee on a Nordic basis has a strong growth of around 15% and a combined ratio of 65, so no complaints there. Corporate, slightly longer term, we expect a slightly more negative trend on top line because of areas where we do more price initiatives to improve profitability in Corporate.

Sweden really has both a positive underlying development. And then of course, the Skandia acquisition pulls up the numbers.

On Slide 8, we comment on average price development. It's very important that we continue to see a slight increase in average premium for all products, which reflects our focus on profitability. And particularly in motor, really Tryg was the first company to address the challenge of increased claims inflation, particularly in Danish motor. And while you may recall that, in Q1, we reported a 1% price increase after a long period of price reduction, a 1% increase year-on-year in Q1, and we're now happy to see a 2% increase year-on-year in Q2.

And then finally, on Slide 9, we show customer retention rate, which I briefly touched upon earlier, but it's clear that the retention rate levels are quite stable in Denmark, while we see some reduction in Norway, both in Private and Commercial. And the development in Norway, I think, is a combination of market churn, but also there are areas where we've increased prices slightly more than the market, and we are seeing some impact from that. We've had some internal IT challenges in billing where we've annoyed a number of customers through too many sort of practical hassles, which we're now more or less in control of. And we need to improve that in the coming quarters, but I think, if you step back a little bit, it's quite clear that, when you see the bigger picture, we have broadly stable retention rates across the board over the last 5 years.

Christian Baltzer, CFO
Thank you, Morten. And good morning, everybody.

Turning to Page 11, we are looking at the underlying claims ratio development. And as Morten mentioned, we are really happy to see improvement on the Private lines and also on group level. This is especially coming from the carried-out efficiency program and our price increases that – of around 3% for 2017. We do expect still for full year 2017 to have an underlying improvement, but do bear in mind that Corporate and Commercial do have some volatility from a quarter to quarter.

Turning to Page 12. We took a slide with our auto insurance claims frequency here again. And I guess, when we were looking at Q1 numbers, we actually saw somewhat flat frequency development, but here looking from January to May, we actually see a -- still a pickup in the frequency on auto claims in Denmark. We continue to monitor the development, and we'll carry out necessary price increases or adjustments and claims initiatives to mitigate these kind of tendencies.

Turning to Slide 13. The quarter has a level of large and weather claims that are somewhat benign for the second quarter. Do bear in mind that the second quarter often is impacted by very little weather claims. However, we have seen a little bit of heavy rain showers, though. The interest rates level has been coming up somewhat, helping the group about 0.4 percentage point. And as you can see, our run-off level at 5% is somewhat slightly lower than our current run rate, but there are -- and there are no changes to our full year kind of expectation of the run-off levels.

Turning to Page 14, on our efficiency program. We continues to work on our efficiency and to reach our target of 14% for 2017. We're posting a 14.3% this quarter, which is in line and towards our expected for 14% for the full year. As communicated previously, the number of FTE is slightly up. Some of this is due to OBOS that we have integrated into our portfolio and also the fact that we have hired some trainees in Denmark to help support our common customer- and claims-handling functions.

Looking at the investment and capital, turning to Page 16. As we kind of have taking a little bit of risk-off in our equity exposures, going from 19% down to an 18% on the free portfolio, but roughly, apart from that, the mix is somewhat stable. Do bear in mind that the property exposure will -- is below target; and will, during year-end, move up as we reinvest the proceeds from our property sales in the fourth quarter of 2016.

Looking at the component of the investment returns, you'd argue that on our free portfolio is somewhat in line with last quarter and where the large change between second quarter '16 and second quarter '17 actually comes from is from the regulatory deviation. It's about 14 -- a DKK 40 million difference. And bear in mind that the regulatory deviation, to a large extent, should be 0 on a long-term basis. We are happy to see that all our elements of our investment portfolio are supporting positive returns.

Turning to Page 18, on our solvency position. We're posting a 209 solvency ratio for second quarter, up from 202. And in these numbers are the dividend that we are paying out of DKK 452 million for the second quarter. Broadly, you can argue that our own fund is somewhat flat. There are some intangible assets that has affected the own funds, but a broadly flat development on own funds. On the solvency capital requirement, it's especially about our DKK 250 million reduction in equities that are giving us a reduced-market-risk solvency requirement and giving us a total of DKK 4.8 billion in solvency ratio.

Turning to Page 19. There is very little new on this slide but kind of just wants to highlight the stability in our solvency ratios. And you can see the Atier 1 is up DKK 1.1 billion from DKK 1.1 billion, and this is likely due to our core equity which is slightly up from second quarter.

And a little bit of new information on Page 20, where we have kind of tried to split out the bond portfolio into covered bond, corporate bond and government bonds to show the sensibility on those different assets classes. And as you can see, it is, unsurprisingly, our Corporate bonds that by far are the highest sensitivity, which is also our most important asset class for our portfolio. But broadly, a fairly stable and unchanged mix.

Back to you, Morten.

Morten Hübbe, CEO
Thank you, Christian.

And just briefly to round off. On targets and outlook, there are really no changes to the expectations. I guess, on the customer targets we expect and we're already at the level of 22 for NPS. On 3 plus, as I mentioned, we expect to reach the target for Denmark, particularly with the packages. We're not going to reach the target on Norway. We found a discipline with packages that we can work further on and copy to Norway and to Commercial lines. On the financial targets, we reiterate the return on equity at or above 21% post tax, the combined ratio at or below 87% and the cost ratio at or below 14%. I think, as we mentioned last quarter, clearly the 14% is a level very few companies worldwide have reached. It keeps us very busy, to reach it. We will just reach it. We will not be below 14%. We will be at 14%, I think, but we believe it is a very, very important driver for margins. It's a very important defensive mechanism also to make sure we can be competitive if newcomers try to enter our markets. And then it drives high payouts, and that is the last comment.

On the next slide, the famous Rockefeller quote on dividends, where we reiterate our focus on providing a stable and high dividend for our shareholders; again our -- the quarterly dividend for the quarter, which of course then also supports ultimately the customer bonus model, which we think will be an important driver for the next 3, 4, 5 years.

I think, over to questions, from that point.

Questions and answers

Asbjorn Mork - Danske Bank Markets Equity Research

Asbjørn from Danske Bank here. A couple of questions. First, on Norway, really a 3-in-1 question here, so I hope that's okay. First of all, on further price hikes in Norway, do you think you can get along with more price hikes looking ahead; especially relative to your peers, especially one of them having a significant customer bonus and, of course, doing very well? So how is the potential there? And then again on Norway, and if I look at the retention, as you also alluded to yourself, Morten, it's sort of the lowest in at least the 5-year history that you have on the slides. I was just wondering if we should expect any negative impact on your technical result from this. Previously, you've said that on a group level a 100 basis points low retention would be a DKK 50 million to DKK 150 million negative, so is there a sort of delayed impact in Norway here for the second half of '17 and into 2018? And then I believe you were quoted in an interview earlier today saying that there will be some years before Norway start turning around. Is that sort of a postponement relative to what you've said before? Or is it sort of just a reiteration of a previous communication?

Morten Hübbe, CEO

Asbjørn, I think that clearly there are areas in Norway where macro makes current environment somewhat more challenging, particularly given that we are stronger in the western part of Norway and weaker in the eastern parts of Norway. I think mainly it's a continuation of the communication we had in the first quarter. I think -- on your first question, on price hikes, I think there in Norway, where we see the most clear need is in Corporate lines, we've seen now for 3 years in a row declining rates in the high-end Corporate segment. And we've started to turn that around. That is likely to give us some element of negative development on the top line in Corporate Norway, but on the other hand, when we look at market rates and market combined ratios in Corporate Norway, this is a need that our peers have as well. So it's hard to judge, but I will think it likely that peers would increase prices in Corporate as well. I think, when it comes to Private and Commercial in Norway, we are more in line with pricing. That is not really where we see the issue. I think, on the retention rate, you're exactly right that, when the churn in the market in Norway has increased, we need to sell more. And of course, we are pleased that our churn is only 14% and the market churn is 19%. That puts us well ahead of the market quality-wise, but as you rightfully say, it means that we have to sell more. It means that we have to work even harder on the efficiency measures to finance a higher sale. So we are currently in a position where sale is actually above the target, but then top line is still slightly below the target exactly as a consequence of that. I don't think you will see any delayed impact on the cost ratio. You'd rather see an upfront impact because we pay for the sales before we get the earned premium. So it's rather an upfront impact than a delayed impact. As far as the "2 years concerned" quote, I think what I mentioned in a couple of interviews is that we expect it to be a couple of years before Norway broadly is at a top ratio -- or a top line or growth ratio level that we want them to be at, not 2 years before we start to see a turnaround. That was not the quote. So really not a change to what we said in the first quarter.

Asbjorn Mork - Danske Bank Markets Equity Research
Okay, if I can just go back on the impact from lower retention. Wouldn't there be sort of an impact on the claims as well that new customers on average have more claims than existing "gold" customers, so to speak? And would it be fair to assume that 40% of your premiums are roughly Norway, so a decline there would be 40% of the DKK 50 million to DKK 150 million sensitivity that you've guided for previously on a group level?

Morten Hübbe, CEO
I think the vast majority of the guidance was the actual distribution cost as such, which is the upfront. I think historically we saw also the trend of worse claims history for new customers, but we're seeing for the past couple of years that the more we work with life customer, lifetime value modeling, the better we select the new customers, the better the track record of claims ratio the new customers have. So this deterioration of new

customers claims ratio versus portfolio of claims ratio is not really an issue that I would factor into the numbers with any meaningful impact.

Asbjorn Mork - Danske Bank Markets Equity Research

Okay. Then if I can go on to the motor insurance business for Denmark. On Slide #8 you showed this quite significant increase to average prices. Now recently the FSA was out criticizing you for what I believe they call a negative contractual agreement so -- that you add on coverages where before the actual end-user demand those. Will -- do you expect any impact from this going forward? Or maybe to turn the question around, how much of the average increase that you've seen has come from these add-ons?

Morten Hübbe, CEO

I don't think we will see any significant impact from that, but it does mean a change of operational mode, if you will. It's been kind of a grey zone because historically it's always been allowed to add new coverages in a new version of a product. There's nothing new in that. And the issue here was the insurance of the driver which has a weaker cover than the passengers', and we wanted to add this driver cover into the package. At the same time, in a new sales situation you could opt to have it in or out. So that was the discussion. And what have happened since then is that, as you may recall, we introduced packages in Q1, which is really another methodology of selling several products at once. So I think it means that we will spend even more time on the packages and not be able to use add-on coverages in the total conversion of customers. And so I don't think, Asbjørn, you will be able to spot the difference in the numbers, but it means slightly different modes of operation on our side.

Asbjorn Mork - Danske Bank Markets Equity Research

Okay. Final question from my side, on the improvement program. You've delivered DKK 155 this year of the DKK 375 million target. So it seems like you're slightly behind the total target for this year. Is it just these quarterly fluctuations? Or is it an indication that maybe the low hanging fruits have been taken already?

Christian Baltzer, CFO

Asbjørn, it's Christian here. I'd -- according to our own kind of projections, we are very much in line with what we expected and where we expected to be here in during the second quarter, so we kind of expect the full year to reach our target of DKK 375 million. There are some of these that have effects that are coming a little bit later in the season than upfront. So no changes to the guidance.

Paul D'Ath – RBC Capital Markets

A couple, please. Firstly, looking at the -- sort of the underlying improvements, particularly within the Private portfolio of 50 basis points in the quarter. And clearly this is good news, and it's going in the right direction. When specifically looking at the Private area, do you expect that 50 basis point improvement to be sort of maintained in future quarters, or can we see that actually getting better? Obviously, it's gone from a negative to flat, now sort of improving. Should we expect that to continue to improve as the price increases get through in the numbers? That's question one. And then the second point is just on the run-off and obviously a slightly lower run-off than expected in the quarter. And you've alluded to the fact that the full year will be more in line with your ongoing run rate. Can you just kind of remind us what that -- what sort of guidance is for that run rate from here? And also, any kind of points on why Q2 has been particularly bad on a run-off perspective? That will be good.

Christian Baltzer, CFO

Paul, this is Christian. I'll actually answer almost both of your questions very maybe vaguely. On the Private underlying, I mean that we're definitely happy to see this 50 basis point improvement quarter-on-quarter. We don't guide on the full year, but as I also mentioned, there are a little bit of fluctuations but definitely we want to see a full year both on group and on Private having underlying improvements. So no specific guidance on what you can expect. The run-off level, more or less the same story. We have not guided for the full year. We don't usually guide on run-off. I think what we have said is above normal run-off. And it has been up at around -- it was 7.4% last year, and we have been coming slightly down this year and going towards more of a gradual long-term of 3% to 4%. So no guidance really on the full year run-off, but definitely the 5% is lower than our current run rate.

Jonathan Urwin – UBS Investment Bank
Two for me. So firstly, could you give us some figures perhaps on where claims inflation is running on key lines in Denmark and Norway, if you have these to hand? And secondly, I guess, just thinking big picture around strategy. Obviously, we're all very excited about you hitting these 2017 targets, but perhaps thinking a bit longer term -- I mean I know we've got an Investor Day scheduled for later this year. And I'm not asking for anything specific, but I just wondered if you could provide some sort of big picture thoughts on strategy beyond 2017.

Christian Baltzer, CFO
Jon, a little bit on the claims inflation. I mean we've normally broadly guided at 2% to 2.5% claims inflation. I think what we are seeing in our modeling is that, that holds true somewhat, but there are definitely fluctuation as you go through the product lines. Some has higher claims inflation than other. For example, on content insurance we are seeing a somewhat flat claim inflation, whereas on cars we are still seeing somewhat something higher than the 2%, 2.5%. So we continue modeling our claims inflation, and currently we are still within our expectation on claims inflation. And our 3% price increases will give us the needed underlying performance at the full year. And I'll let Morten answer the strategic question.

Morten Hübbe, CEO
And I think -- broadly on the claims inflation, just to elaborate on that, I think we had trouble last year controlling the claims inflation. Broadly, this year, we are in control. We still have outliers within that average where, for instance, iPhone repairs is up 31%. Sewage repairs were up 14% than in 2 years. So there are still several outliers that are challenging, but all in all we are controlling it well and the average is manageable. And

from a strategic point of view, I think you are trying to ask a cheeky question on -- pre CMD November, and -- but I guess there is no doubt that we are showing -- we will not become a completely different creature from November, surprise, surprise. So some continuation of what you've already seen and a recipe that we think works quite well. There is no doubt that working with new products, working with digitalization is something we're already doing. And of course, that will play a role. You're starting to see some of the impacts of early automation of claims, which is important. I think it's no coincidence that the Danish Private line starts to increase top line and bottom line in a period where we work with both packages and sales. We work with children's insurance et cetera. So clearly, having this sound level of being an efficient company with strong customer relations, working more and more with digital, working more and more with product development et cetera, those are themes that will continue. And then I guess payout is also an important topic, so I think that will also be important moving forward. I guess I've really told you no surprises, and I guess you'll have to wait to November for a more in-depth version of that answer.

Jonathan Urwin – UBS Investment Bank
We look forward to it.

Vinit Malhotra – Mediobanca
So I have 2 topics, please. Just one is on the whole underlying claims losses trend outside Private, please. So I'm just trying to square up. The Corporate area, for example, has quite rather benign large losses; and from what I can see here, one of the lowest quarterly prints in at least 2 or 3 years now, at least since 2Q '14. But the underlying was still weak. Is there a mid-sized claims element here which you have alluded to in the Commercial part of the report but not in Corporate? So just any commentary on what's going on outside the Private lines, please. And next question is on motor insurance. So thanks for providing this data so transparently on the frequency or rather number of claims, but I was just wondering. You've also launched a new product in motor targeting the under-30s. And isn't there a bit of a risk that you're targeting the very segment which is probably causing some of the distracted driving and those kind of frequency pickups?

Christian Baltzer, CFO

Yes, I'll talk to the underlying, and I'll let Morten talk to some of -- the distracted drivers. Outside Private, as you can calculate, that we've had a combined slight deterioration of the underlying performance. I think we haven't really tried to go into the segment. And it's been a conscious decision from us because there is so much volatility from quarter to quarter, but there is no doubt that, when we look at the rates on Corporate Norway or if we look in our Commercial book, we are not at the same kind of trajection as we are for the Private area that are a little bit ahead of that curve. But we are working hard on making sure that we get the kind of same kind of effects. And currently, it is Private that is driving our underlying performance for the group, definitely. So that's the kind of clarity I'll give it, but it actually fluctuates too much from quarter to quarter that we felt it was more confusing than it was necessarily helpful to discuss this.

Morten Hübbe, CEO

I guess, Vinit, as we've talked about in a couple of the other quarters, you could actually argue that underlying is not a meaningful concept in Corporate, but the challenge is, if we don't have underlying on Corporate, then we cannot talk about underlying for the group. And of course, for you guys, underlying for the group is very important. So that's why we keep underlying for Corporate, but the reality is that not only for the larger claims but also for the medium-size claims there's lots of volatility from quarter to quarter. I think the meaningful attribution or add-on you can make is what Christian comments on Norwegian rates in Corporate that have had a negative impact and that we are turning around. And that will be a big focus and is a big focus currently. And on the motor insurance, you're right. We're introducing Tryg Drive, which is a solution in the Danish market for customers below 30 years. To be honest, our market share in that segment is quite low. And historically, it's been clear that it's been unattractive from a claims of view and our pricing has deliberately been unattractive, but what we're seeing with Tryg Drive is that we measure the actual driving of the customer on a large number for (inaudible). And we are using experience from the Swedish market, where we've done this for longer, doing a slightly light version of the Swedish model in Denmark. In Sweden now the model is a true bottom-up pay-per-use model, where in Denmark it's up to 30% discount but depending on your behaviour. So you start with the full price, and then we measure every single journey you make. And actually, those measurements will show whether you're entitled to a reduction or not. Our expectation is that we can select a better segment of risk and drivers, and we will get very good data on this. It will not disappear somewhere in the portfolio because of distraction et cetera. We'll be able to monitor it very clearly from day one. And if we don't have improved behavior, then we are back to the rather high price we started with, but I expect we will attract some more responsible drivers; and that the app we have developed that will score every single journey, enable them to compete with their friends and family et cetera, will support more the more responsible drivers and move their behavior in the right direction. But I think, at the end of the day, we're speculating. We can see from Sweden that, that is the case, and we expect to get that impact in Denmark. And if that is not the case in Denmark, then we'll get the data very, very early on.

Per Grønborg – SEB

Two questions from my side. First of all, Danish Commercial and Corporate insurance, how do we see the competition developing out there? It seems like Protector has more or less redrawn from selling new business, Gjensidige clearly a need for getting prices up. That was the first question. My second question: We are now seeing the first sign of the OBOS deal in your numbers. What should we expect moving forward? Will this be sufficient to bring you to a stable portfolio in the second half? Or it is too early.

Morten Hübbe, CEO

Per, I'll take the first question. I think, when it comes to Danish competition in Commercial and Corporate, it is more benign than what we're seeing in Norway. We've had a good 1st of January renewal and a good development in the Corporate segment in Denmark. I'm not sure we are very typical for the Danish market because we are starting to get some traction from the customer bonus model, which of course the Corporate segment realizes the first. I think, to be honest, the Commercial segment is still slightly challenging. And I think our best-performing segment is not Commercial Denmark, but we're working hard to improve that. But I think, from a market point of view, you're right that the fact that we are seeing the likes of Protector that needs to work with our pricing and others that needs to work with the pricing is slightly helping the general Danish environment. But I wouldn't overestimate that impact there. We're not looking at sort of tremendously changed market conditions but a slight positive.

Christian Baltzer, CFO

And with respect to OBOS, I think that -- from a 2017 perspective, I think we might -- we will see some impact on our Commercial book and help put some help on the top line on the Commercial book. On the Private book I would expect more to see the impact during '18 as we start selling into a lot of these leads that we are getting from the OBOS portfolio. And then you have to bear in mind that, when you zoom out and look at Norway in total, we are currently having -- wanting to have rates coming up on Corporate side, which means that we will probably lose some contracts and also lose some top line. So total Norway might actually still be down, but it will be driven from, hopefully, a positive on Private and Commercial and a potential more negative on Corporate.

Youdish Chicooree - Autonomous Research LLP

I have 2 questions and both on Norway actually. And the first one is really on your price increases in motor. I mean, should we expect your average price development to actually trend up from the 0.7% to actually 3% in the coming quarters and the coming year? And then secondly, it's really around the comment on the Corporate side where you say retention might fall because of the increasing prices. So I was wondering, I mean. So where is the pressure coming from? I mean, are your main peers not increasing prices? Or do you think they might not increase prices going forward?

Morten Hübbe, CEO

Well, if I start with the second question, on Corporate. I guess comparing pricing on Corporate is a really difficult exercise because no 2 solutions between customers are the same. And the composition of the coverages et cetera et cetera is often very, very different. I think also that the Corporate segment in Norway is one of the areas that has had the largest -- or a large component of run-off gains, and that has been factored into profitability. And I think -- and at the same time, some of the corporate customers are struggling a bit -- little bit more, and therefore they are tougher in the negotiation space. So I would argue that it's really, first and foremost, a macro issue. And secondly, I think, over the past 3 years, we have seen Protector being quite aggressive in Norway; and hopefully, that is calming down. That seems to be the case. And then thirdly, you just know that the highest end of Corporate is the segment that reacts the most rapidly to price changes. And I guess we cannot predict what competition is doing in terms of repricing high-end corporate. We're just saying from historical experience you will lose some contracts, but of course, the more we see the market following, the more we will see that this is across-the-board impact, but we have to start from a planning point of view which is a slight negative top line impact and a positive bottom line impact. But hopefully, the whole market starts to reprice after 3 years of rate reductions in high-end corporate Norway.

Christian Baltzer, CFO

And with respect to the auto in Norway, actually when we are looking at some of the underlying development in auto in Norway, we don't see the same kind of pickup in frequency as we're actually seeing in Denmark. So I would expect the average prices in Norway to be maybe more flattish than we would see in the Danish area. We've also been out doing some price increases in the beginning of the year and at the end of last year, which also affected our retention rates somewhat. So we are kind of treading right now at a delicate balance, but auto currently in Norway is at a profitable level and the trends are not seeming as negative as we have in Denmark on the frequency side.

Janet Demir - Morgan Stanley

Just a couple left for me, please. I was wondering whether you could give us some guidance again on your solvency ratio and the potential for capital returns at the end of the year. I realize that you don't guide on a target solvency ratio range, but I was wondering whether we could consider last year as a good guide for that or whether you have anything else in mind that you need or you're holding that capital for. And then secondly, on your retention ratio target, I see that it has to improve by a further percentage point, and I'm assuming that will be driven by Denmark rather than Norway. Could you just give some more detail on how you expect that to improve? Is that just a result of the bonus scheme? Or is there any other initiatives that you've put in place?

Morten Hübbe, CEO

I think -- on the solvency ratio, I think -- I'm sorry, but you're getting the boring answer because every time historically we've been very clear on the solvency ratio target, then we start to jeopardize the development on the payout. And I think we're very clear that we want that the ordinary dividend should be stable; predictable; slightly, slightly growing. And we will continue to do that come hell or high water. That is extremely important for our shareholders. And then we will do extraordinary special dividends. And I guess we will not do that every year, and we've said that clearly and we need to continue to say that. And then you can also see, with a higher ROE target, we will do it reasonably frequently and it -- but it will fluctuate more than the ordinary dividend. I think, on the positive side, being at more than 200% solvency puts us higher than most peers with a lower-risk profile, which means that we can work with the capital position over a number of years, but we are quite deliberate in trying not to give you guys more guidance than that. I'm sorry.

Christian Baltzer, CFO

I think we need to answer Janet's second question. Sorry. Janet, you were asking about the retention ratio and then what our target. And I think, as Morten was alluding to on the customer target, this will probably be one of the ones that we will not reach on group level. But when we look at Denmark, I think both the packaging and the membership bonus is actually some of the things that we are seeing giving us improvements. There is no doubt that this KPI has been one -- that is not one that we at 100% can control ourselves, because it also depends on what's going on in the market and with the macro economics. But we expect on group level to miss on that customer target. And we expect in Denmark to see quite a significant improvement; and hopefully, also reach the target for 1 percentage point.

Morten Hübbe, CEO

And I guess it's also fair to say, Janet, just as a supplement, when we put up the retention rate target, we probably thought there was a more direct link between NPS and retention rate than there is. Secondly, when we put up the target, we didn't probably realize how much conversion of products we would be doing. Because when you do conversion of products, you also hit customers saying, "Wow, I didn't realize I had this product. I probably don't need it anymore," and then they cancel it. That, for instance, has been an issue for a lot of our elderly customers on travel insurance. So I still think from a group point of view there's more value in the conversion and being up to the new products. But as Christian said, a current positive development with the packages in Denmark, current negative development in Norway. And on a total, we will not reach the plus 1% and not within this time frame.

Ida Melvold Gjosund - Carnegie Investment Bank AB

Only one question left for me, looking at the combined ratio in Norway. It has improved around 4 percentage points year-over-year even excluding run-off gains. Could you elaborate on what the drivers of this positive development are specifically compared to the same period last year?

Christian Baltzer, CFO

The main positive drivers, I think, is definitely the lack of some of the larger claims that has helped us. I think we are also seeing that the pruning of portfolio and the work on claims controlling has also helped us on a positive level. So those are kind of like the highlights. And I think the – in Corporate, where we have been very prudent in our underwriting and in our pricing, I also see that as giving us positive help on that overall combined ratio improvement before run-off.

Iain Pearce – Berenberg

Two quick ones from me. Just on Norway, on the churn side of things, I'd just like to understand what's driving the high rates of churn in the market. Is that a pricing thing, or is that some of the smaller players being more active in the market? And do you expect that trend to continue? And then also on why your portfolio is seeing less churn than the wider market given that the large competitor in Norway have the customer bonus scheme. And then just a second question, on claims frequency in motor Denmark. I think you've previously said that you've seen claims frequency increases being driven by the higher car population. Is that something you're still seeing? Or is it more a case of the distracted driving? Or is -- the trend that you're seeing this year in claims frequency, it's still too early to narrow down exactly what's driving that?

Morten Hübbe, CEO

Thanks for your question. I guess, to be honest, to distill more precisely the drivers of churn is always very difficult. There's no doubt that in the Commercial segment competition from the likes of Protector has been an issue. I think, in Private lines, competition from the likes of Vardia and Nemi has had an impact on the market, but we're also seeing that these are players that really struggle to make money. So they've not necessarily had a positive experience of attracting customers. And they are also, as our -- as we can see from their accounts, some of the companies with clearly higher churn rates. I think one of the reasons why we have a 14% churn while the market has a 19% churn is the quality of claims handling. I think we've now, for the fifth month in a row, in Norway been #1 in terms of quality customer satisfaction with claims. And ultimately, that's a good place to be, and that helps churn. Of course, the challenge is for the customers who doesn't have a claim that might churn because there is competition with some lower pricing and -- but I guess, the way we see it, these are rather small movements. We have to continue to work with our new products. We have to continue to work on the high customer satisfaction, then improve our distribution a bit because churn is a bit higher. We had – we have now just seen recently all-time highs of our bankassurance distribution with Nordea in Norway. OBOS will strengthen our position in the eastern part of Norway, particularly Oslo. We see that our franchising sales of Commercial is increasing. And then we'll see how much stamina the likes of Vardia, Nemi and Protector has when it comes to pricing and growth. We're just pleased to see that sometimes there's a consequence of having slightly lower prices, which is lower technical results. And at least a few of these companies are struggling with negative bottom lines, but it's hard for us to guesstimate how that plays out over the next couple of years.

Christian Baltzer, CFO

Iain, with respect to the claims frequency in Denmark, I think that we haven't really found that smoking gun where we say this is the sole reason. I think there it's a combination of a couple things. And one of the things I should allude to is the number of cars and the miles driven on the road are just showing that, that gives more traffic incidents. And then there is also distracted driver, where studies have shown that you -- when you use your phone while driving, you have 6x more risk of actually getting into an accident. And from the last 5 years, we just know that more accidents have been occurred due to distracted driving. And that's not just a Nordic issue. That's a global issue, or global studies have shown this. So we haven't really found that smoking gun to say this is where we really need to make a big change. We are observing the total accumulation of frequency and seeing that there are some underlying inflationary risks that we need to take care of through pricing and through claims handling.

Morten Hübbe, CEO

And particularly on the last angle, just to elaborate, clearly we are pleased with the 2% increase year-on-year on Q1 in motor Denmark. Because we will never find the precise smoking gun, but we need to make sure we massage the impacts that we can see, amongst others, with this new Tryg Drive where we manage so the actual driving behavior of the individual customer. That's probably as close as we can get, and we've never been there before. And then making sure that we adjust prices as one of the firsts in the market to capture this higher frequency.

Jan Erik Gjerland - ABG Sundal Collier

It's Jan Erik. The bonus model, is that exportable, or is it just purely for your Danish clients? Secondly, the 3-product strategy you have in Denmark, why is it really not exportable to Norway? Do we not want any kind of discounting to Norway? And finally, the unprofitability of (inaudible) on the Corporate segment, you have talked about this quarterly fluctuation, but how is it really if we look at it year-on-year or year-to-date?

So, something like, more a different path. Is it possible to say something more about the Corporate segment in that respect?

Morten Hübbe, CEO

Very sensible questions. When it comes to exportability of the bonus model, I wish the answer was yes. And we've actually approached the authorities to investigate if that was possible, but we are told that, that would be illegal. And the logic is that the fortune of the foundation was originally built on the Danish policyholders. And then they bought business outside Denmark, and therefore doing bonus outside that geography would not be legal. If it was legal, we would like that very much. I think Gjensidige has exactly the same challenge, just vice versa. They can only pay in Norway and not outside Norway. So really that's a legal issue, but when it comes to your second question, can you export the work with packages, the answer is very much yes. We have now come to the -- it can both be exported from Private to Commercial, and it can be exported from Denmark to Norway. And we are now introducing the first packages in the Danish Commercial market. Very, very early stages, but we've just come to the market. We think that will improve Commercial. And then we are now working on also exporting the package concept to the Norwegian Private market; and after that, also the Commercial Norway market, where we have done some initial work on which parts of Commercial Norway packaging could be traditional sales channels, which parts could be online and which parts could be targeted towards specific segments of the SME segment in Norway. So very much exportable, and we're working very hard on that. I think it will take a while before you see the impact in the numbers, but we're working very hard on that export.

Christian Baltzer, CFO

The 3-plus strategy and exporting, did you...

Morten Hübbe, CEO

Yes.

Christian Baltzer, CFO

Yes. The Corporate, with respect to the Corporate, you can say we, I'm not going to give you the numbers on Corporate necessarily, but we have a couple percentage point higher here in 2017 compared to '16, but it's actually better than it was in '15 and even better than it was in '14. So if you look over a 4-year period, you actually have a better underlying compared to '14 and '15 but a slight -- a worse one compared to '16. And that's kind of the volatility that we are alluding to that kind -- from a communication and discussion perspective just becomes too volatile to give any meaningful kind of guidance to the actual profitability of our Corporate book. And back to Morten's comment about that underlying on Corporate is a little bit of a funky measure...

Gianandrea Roberti, IR Officer

Well, thanks a lot again for all your very good question. Have a great summer, when it comes down to it, yes. And if you have more questions, just call or mail at any time. Thanks.