



Tryg – Q3 results 2014

Audio cast and Q&A 10 October 2014

Transcript

Presentation

Lars Møller, Head of IR

Good morning everyone. Here is Lars Møller from Tryg, Head of IR, and welcome to this presentation of Tryg's Q3 results. With me here this morning I have our CEO Morten Hübbe and our CFO Tor Lønnum, so Morten, please.

Morten Hübbe, CEO

Thank you, Lars. And if we turn to slide 3, we are very pleased this quarter to be able to deliver a return on equity of more than 21%. In a quarter where in fact investment income is very close to zero, and we've had heavy cloudbursts resulting in some 2,500 more claims, or DKK 150m higher weather claims costs than the same quarter the year before. Delivering 21% ROE under those circumstances, I think shows a lot about the robustness our business has come to. We also show on this slide, that technical result is up with 3.5%, again despite the DKK 150m of cloudburst, with the main positive drivers being efficiency measures of DKK 95m in the quarter and run-off gains, which are some DKK 50m higher than the same quarter the previous year. As I said, investment result is some DKK 150m lower than the same quarter last year, which of course impacts the pre-tax result. Cost ratio is down to 15.1% or 0.4% down, which I think is a strong improvement. Again, bear in mind that Q3 is seasonality wise the quarter with the lowest cost ratio of the year. And as you can see, the topline is for this quarter -0.8%, for Denmark and Norway actually completely flat, and of course that is an improved trend compared to the -3.4% in the similar quarter last year.

If we turn to slide 4, we comment on the cloudburst in August, but I think it is important to see that it has had less consequence on our results this time around, because of the increased focus on claims prevention measures. We mention again the strong focus on our new price-differentiated initiatives, and we see that it continues to reduce the claims ratio of new customers that we bring on board. We've purchased a



small company called Securator this quarter, which will improve earnings while at the same time strengthen our leading position in extended warranty business. The efficiency programme continues to be the main driver of earnings, almost DKK 100m this quarter, and then we've announced a Capital Markets Day for 5 November this year.

On slide 5, we show how the various business areas contribute. You can see both the quarterly data and the year-to-date data. In year-to-date, we see that Corporate and Sweden delivers a combined ratio of around 90%, whereas Commercial and Private deliver a combined ratio of 81-82%. But bear in mind of course, that that includes the positive one-offs in the second quarter. If we look at the third quarter, we see that Private Lines continue the underlying improvement of claims. We see in Commercial Lines importantly a reduction of some 2 percentage points in the cost ratio. This is, as we've announced several times, the area where we needed to bring down the cost ratio the most, and we're starting to achieve that. In Corporate Lines of course, you see a rather large reduction of some 9 percentage points in the combined ratio year-on-year, but of course bear in mind that we had a rather large claim in our bonding business last year. In Sweden you see a slight increase in the combined ratio, which mainly contains slightly higher frequency in content claims, and also a bit higher large claim ratio.

On slide 6, we reiterate the efficiency programme, DKK 95m this quarter. DKK 65m from claims and DKK 30m from costs. It means that we're now some 127 people less so far this year, compared to the beginning of the year. And the procurement programme continues to drive lower claims ratio, both through Scalepoint and our craft network. It means that to date, we've now realised some DKK 835m of our total target of DKK 1bn.

If we turn to slide 8, we show both how all four business areas contribute to the technical result of DKK 793m for the quarter, and we show also the development on topline. As I mentioned, an improved trend from -3.4% in the same quarter last year to -0.8% this year. Clearly, Private and Corporate have now turned slightly positive on the topline, whereas Commercial has improved from -4.7% last year to -1.6% this year. And then you can see that the most significant number is in Sweden, with a topline of -8.4%. That actually comprises an underlying, organic, slightly positive growth in Sweden, but also that the Nordea portfolio is running out of the portfolio, which of course has a significant negative impact. We see that actually by now, that our cross



sales to existing customers in Sweden mean that we're actually selling slightly more without Nordea, than we were previously with Nordea. So an important trend that we continue to improve earnings, and also see an improved trend in the topline. And over to you, Tor.

Tor Magne Lønnum, CFO

Thanks, Morten. If we continue on slide number 9, and look at the development in average premiums, you can see that the development in Norway continues to be positive, both in the housing prices and in the motor prices, slightly lower than what you have seen in previous quarters. The slowing off in terms of price increases, stems more from our portfolio shift in that respect. If you look at the Danish development, you can see that it's a negative development in terms of house and motor prices, which is a combination of competitive pressure, but also an unimproved risk in the portfolio shift. And I think it's important to say overall in terms of the premiums, that the effects stemming from for instance competitive pressure, is mitigated significantly by the improved selection that we see through are new price-differentiated tariffs, so all in all a relatively good progress in this area.

If we continue to slide number 10 and look at the customer attention, it's an improved trend in Private Denmark. It's more or less flattish, slightly negative in Norway, an over-all improved trend in Commercial, both Denmark and Norway. I think the over-all picture here is that the retention level is stabilising, and actually improving slightly, which I think is relatively good.

If we look at slide number 11 and continue with Private Sweden, you can see that the retention level has actually leveled off, although at a relatively low level, but as Morten mentioned you have seen that the Nordea portfolio has impacted the retention level in Sweden, but you can now see that it's actually coming slightly back, although from a low level.

If we move on to slide number 13 and look at the underlying claims ratio, there is an over-all improvement of 2.6 percentage points, which I think is quite healthy. Primarily driven by Corporate this quarter, and I should stress again that Corporate will typically

fluctuate, so it shouldn't be considered to be a continuous trend in terms of the Corporate improvement. I would highlight though, that we do have a 0.7 percentage points improvement in Private, which I think is really good.

If we continue to slide number 14 and look at the large items for the quarter, Morten has mentioned the impact of weather this quarter, and it's a 3.1% impact over-all in the quarter. I think again, if you look at the claims and compare to the 2011 effect, it's been significantly lower, which I think is good. I would also highlight here, the run-off which is slightly higher than what you saw the previous quarter and I guess it more or less signals that we have a relatively strong and favorable reserve development, as I think we have indicated previous quarters as well.

If we move to the next slide, slide number 15 on the cost side, I in addition to the comments mentioned about the cost ratio, I would also highlight the fact that we do have a nominal reduction of DKK 40m in expenses this quarter, which I think again underpins the strength in the efficiency programme. If you look at the development in FTE's, this quarter isolated it's down by 63 FTE's on comparable basis.

If we continue on slide number 17 and look at the investment results that was the area that was perhaps more disappointing this quarter. It was a zero investment income, and down from DKK 152m last year. And of course, it was represented by weak performance in high yield emerging markets. That and equity, so over-all sort of negative performance in some of the assets that have yielded good in previous quarters. I think I'd like to stress again, that if you look at investment income it is there to support the over-all insurance operations, and as such I would say that it's after all a healthy development.

If you look at the capital structure, it is on slide number 18. It's a more or less stabile development in terms of the capital buffer. It is at 64%, of course impacted by the results for the quarter but also the development in terms of the buy back, I guess it is no news related to the other capital issues for the quarter. And I guess with that, I hand it back to you Morten.

Morten Hübbe, CEO

And actually, I think we just need to jump back shortly to slide number 15, where we have a good example I think on the cloudburst side, because clearly analysis show that we are likely to see more cloudbursts in the future, and I think very importantly in this quarter we've seen that our work with experience from the 2011 cloudburst, have actually improved our ability to manage cloudbursts at lower expense. We see for instance Tivoli, the game park in Copenhagen, was actually hit by roughly double the amount of water compared to 2011, but actually the claims cost was only about a third of the experience in 2011. And it just shows, that when the customer and we together work very hard to prevent claims from happening through security measures, wiser containment and storage of valuables etc., we can improve both the financial impact and also the customer experience. And clearly, we should continue in that direction.

And then I think finally before we take your questions, on slide 20, the financial targets. I think, where I started out we're quite pleased to be able to deliver a 21% return on equity in a quarter where we've had heavy cloudbursts, DKK 150m more in weather claims and roughly zero investment income. That is quite robust, and it shows that our efficiency programme is moving us in the right direction. And the efficiency programme allows us to both expand our margin, while at the same time making sure we also manage some slight market competitive pressure in Denmark. An important also improved trend in our topline, while our selection continues to improve through are price-differentiation. So, we reiterate our targets of the 20% ROE post-tax, and the expense ratio below 15% next year. And with that, I think we are ready to take your questions.

Questions and answers

Sami Taipalus – *Berenberg*

Hi, morning everyone. Thanks for taking my question. I want to ask a few things about your guidance on various different items, and I wanted to start with reserve releases, actually. Now, if we look a reserve releases over the last few years, they've consistently been quite a fair bit above your guidance as 2.5-3 percentage points on the combined ratio. Do you think this is something that you, in your guidance, that you need to revisit?



Do you think it is valid anymore? It doesn't sound like there was anything too exceptional in this quarter from what you said, basically. And on this note as well, could you give us a little bit more detail about what actually drove to higher reserve releases in Q3? The second bit I wanted to ask you about was the NATCAT guidance, where at least looking at the media the losses in Q3 seems to have been quite significant, or should have been quite significant. But you've actually come in within your kind of normal NATCAT budget. So, do you think your guidance here is too conservative? Do you think this is something that you need to revisit? And I guess this ties back to what you said about what you've done on claims prevention as well. And then finally, on investment income we've seen quite significant fall in Danish interest rates over the year, I think about 80 basis points or so. Do you think you need to revisit the investment income guidance here? Thank you.

Morten Hübbe, CEO

Well, I think to start out that on the reserve releases side, it's fair to say that in the previous number of year we've been about the 2.5-3% mark. I think it's to be expected that we will be above that mark also in the coming years, and I think to some extent that we will revisit the guidance on that area, and return to you on that question. But I think, for now you can assume that the future is more in line with the more recent history than it is in line with the 2.5%. But we'll revisit that question with you in the future. I think on the NATCAT side we are clearly above last year, we're also slightly above the budget for the quarter. So I think it would clearly be too ambitious, or more too optimistic, to lower the NATCAT expenses. I think, if you look at the demographics and the analytics with the weather experts, they're pointing towards an increased risk, so I think we need to continue to work with the claims prevention, to avoid having to increase the expectation. But I think for now we are comfortable with the expectation where it is. And I think over to you Tor, on the investment side?

Tor Magne Lønnum, CFO

Yes, I think I'll just add to the question about the reserves that as we did two years ago, we are in the midst of a review of our reserves this quarter as well, by an external actuary, so we are actually revisiting our reserve position, and I think of course that

means that we'll have to look at the reserves again, when we come to our capital markets day.

In terms of the investment side I think it's fair to say that yes, you're right. The interest rate level in Denmark has dropped, and in terms of guidance on the investment side I think we will just try to revisit that guidance here before year-end as we traditionally do in terms of the 2015 guidance. But as you know, it's not really that significant Sami, as long as we have the matching portfolio, which is really the major driver in terms of interest rates.

Sami Taipalus – Berenberg

Okay, thank you. Then just on something that we talked about a little while back, which was that you mentioned that you might start disclosing the actual cash that's coming out, the realised gains and the interest return and dividend earned from your investment portfolio rather than the market-to-market movements. Is that something that you're still considering doing, and could we maybe see that coming into force?

Tor Magne Lønnum, CFO

I don't have a clear timeline on it, but yes it's something that we are considering.

Håkon Fure – DnBNor

Good morning guys, two questions from me. Firstly on the very strong Norwegian combined ratio this quarter. Could you provide some more details on what is driving that? Is it merely sort of good luck in terms of a few large claims in Norway this quarter, or is it more a continued, benign underlying claims trend? And secondly, you've been making some smaller acquisitions of companies and small portfolios in recent quarters. Do you view these as one-off events, or do you see room to do more similar acquisitions in coming years?

Tor Magne Lønnum, CFO

Good morning, Håkon. I'll start by answering the first question. Yes, you're right. It is a very strong combined ratio in Norway. I think, bear in mind – and you've heard me say this before – that the Q3 result for Norwegian insurance should be really good, because that is by far the best quarter. And of course that seasonality becomes even stronger when you look at the Norwegian business isolated. I think the best comment to make is really that yes, we did have a benign development in Q3 and yes, that is to be expected. But you're also right in your assumption that it was a low level of large claims impact on the Norwegian business, but first and foremost I'd highlight the strong earnings potential in the Q3 numbers in Norway. I think it also signals something about the diversification and the business model, because we had the cloudburst impact in Denmark, and of course that shows up here in the geographical numbers. So, I wouldn't highlight it as anything extraordinary.

Morten Hübbe, CEO

I think on the small acquisitions Håkan, you can argue that in Q2 we purchased the renewal right of Codan's Danish agricultural business. That was some 1,600 potential customers, where we do not take over detail or the portfolio, but we take over the renewal right. And we have obtained some 90% acceptance from those 1,600 customers, and then as you mentioned we've purchased a small company called Securator, which does mainly Danish market extended warranty business. I think clearly that we've shown that we are extremely disciplined when it comes to topline. We've accepted topline losses because we believe that that was necessary to drive the earnings improvements. We will continue to have a very disciplined view on topline versus bottom-line in the future. I think, if you look at those two specific cases, in the agricultural example our efficiency means that we can run that business with a significantly lower cost ratio than Codan could, and therefore it is significantly more value creational in our business. If you look at the Securator purchase, it actually is in an area extended warranty, where our Swedish business already has a market leading position on the Nordics scale, and when we add Securator to that market leading position we become an even clearer number one, with a significant synergies potential and with a significant value creational potential. So, I guess we should signal that could

it happen again that we would look at smaller portfolios? Yes. But we would have a very, very strict attitude to the value creation of that, and be very clear that synergies and RE impact is a strong value driver, and if not we would not look at such cases.

Håkon Fure – *DnBNor*

Okay. Do you have any set M&A rules?

Tor Magne Lønnum, CFO

Before you get to that Håkon, I'll just add to Morten's comment that if you look at the strength of the product appliances insurance, it's actually combining the existing business with the Securator portfolio. It actually brings our market share above 30% on the Nordic scale, if you look at this area isolated. So of course, it really enhances our market position. Now in terms of metrics that you asked for Håkon, I'll just say that if you look at the Securator portfolio it's a portfolio of more than DKK 200m in revenues, and the price that we have paid is less than one year premium. If you look at how it enhances the earnings, it's a positive contribution after year three, or in year three a positive return on equity of 20% or more.

Jakob Brink – *ABG*

Thank you. I have two questions, please. First one is just coming back to the run-off gains. You mentioned that, or basically it sounds like you might increase that guidance in connection with the capital markets day. I just want to know, have the fact that you overprovisioned sort of 7% on each claim, is that what has changed? Or will a potential change to the guidance, is that more led by the fact that you have some buffers from old Supreme Court rulings that are no longer necessary, or how should we look at the fact that you might change the reserve guidance, run-off guidance? That was number one. The second one is that on page 16 in the report you mention that the Danish FSA has postponed both the expected future profits to be including capital but also the potential to increase subordinated debt until 2016, but also you mention that potentially there could be some temporary allowance to do that anyway. Does that include both the

expected future profits and subordinated debt, and what is your conviction level on the potential, that there will actually be a new sort of a temporary legislation? Thank you.

Tor Magne Lønnum, CFO

Yes, good morning Jakob. I think to the run-off gains it's a very valid, very good question you're raising there in terms of where is actually the gains stemming from, and I think we haven't altered our reserving practice. You can't sort of build into the model that we will see sort of run-off gains in the area of 5-7% into perpetuity. I guess, what is really important to understand is that there are really good result coming out of the old advantages in terms of the portfolio, and that's really what is driving the beneficial development in terms of run-off gains. But as I said, we will of course revert to the reserves and talk a bit more there in terms of guidance, and open up a bit more. Now, if we go to the latter question related to the capital, I think it's fairly important to say that in terms of the question related to how can we handle the new legislation, I don't really want to say anything about sort of our conviction in terms of the FSA, because as you know that's really an exercise which is really difficult, probably more difficult than running a hundred meters against Usain Bolt, but I'd say that in terms of the usage of subordinated debt i.e. gearing in the portfolio, of course we do at least have some expectations in terms of that being opened up already in 2015, and it's something that we expect to address as an issue on the Capital Markets Day.

Jakob Brink – ABG

Just getting back to the run-off gains, you said that 7% was still what you're aiming at. How about inflation, the fact that inflation has been coming down quite significantly over the past 4-5 years? How have you accounted for that in your reserving policies? Is all of that in the numbers so far, or is that part of the reason why you have excessive run-off gains?

Tor Magne Lønnum, CFO

That depends on how you define inflation, because there is no doubt that when I talk about claims inflation of course that means that you include what happens in terms of the size of the claim or in favor of the claims. We have through the model of course



build in expectations about claims inflation based on regulation and also legal rulings, so of course if you don't get the development that you have expected, that is a positive contributor to the reserves.

Gianandrea Roberti – *Carnegie*

Yes, good morning from me as well. I have three questions. If I can start from the underlying development, I was looking at the percentages of weather and large claims for the nine months, and I think that I'm calculating that this number around DKK 700m for the nine months versus DKK 787m which I should expect just taking your full-year guidance for these two items, and divided by four times three, basically. So, there's a little DKK 87m, which is around sixty, better than expected on the nine months combined ratio, but I have the slight feeling that these here, if I look at underlying frequencies particularly in the second and third quarter, has been quite better than normal, and I'm struggling a bit to capture it, just looking at the large and weather claims, so I don't know if you have any comments on this point or we should really believe that compared to a normal year it's really just these DKK 87m that has gone in your favor. That was my first question. The second question is how you see the topline development going in the next two years? Are we still supposed to look at a very flattish development in 2015 versus 2014, and perhaps a bit better in 2016? And the final question is regarding the buy backs going to next year. If I remember correctly, last year you announced the buy back programme in December. I'm just wondering if your plan is to do the same, or you will just wait until the end of January when you report Q4 to publish dividend and buy backs? Thanks a lot.

Tor Magne Lønnum, CFO

Yes, I can try to answer the first question Gianandrea, good morning. What you did, as far as I understood from the calculation, is that you take the guidance of the 500 plus the 550, divided by four and times three? But, keep in mind that the weather related impact is now sort of accrued for in four equal portions, so we do have deviation related to the expected, seasonal pattern. So if you look at the picture year-to-date in terms of expectations related to weather and large claims, we are perhaps slightly below expectations year-to-date. Now, the question related to what does it mean, in terms of the underlying, I guess what we look at is an underlying improvement as you have



indicated, and for the year so far it looks, as you indicated yourself, pretty healthy. I don't think I'll describe it as any sort of particular luck in the numbers. If you look at the frequency development, of course it's a continues, positive development on the cars, and then it's a more mixed picture in terms of house and content.

Morten Hübbe, CEO

I think on your second question on the topline guidance, we expect 2015 to be somewhere between slightly negative and zero, and then we expect 2016 to be around normal inflation-like topline. And clearly, in 2015 we'll still see an impact where particularly Sweden pulls down the total topline, whereas we see that Denmark and Norway has a slightly further improved trend. But also, bear in mind that this quarter, being the best topline quarter in two years, has a bit of help on premium discounts being slightly lower than the similar quarter last year. So the trend is improving, but we will still struggle, particularly with Sweden, in 2015. I think reverting to something like inflation in 2016 is reasonable.

Gianandrea Roberti – *Carnergie*

Thank you. What about the last question on the buy backs? Do you have any comment on that at all?

Tor Magne Lønnum, CFO

That was avoided deliberately, Gianandrea.

Daniel Do-Thoi – *JP Morgan*

Hi, good morning, two questions from my side. The first one is on cost savings, and the second one is on Danish home and content insurance. On the first one, you've achieved an additional incremental of DKK 95m in the savings this quarter again, sort of in line with your recent run-rate. And so, if I do my complex analysis, and if you continue at this pace you'll have achieved nearly DKK 1bn sometime in the first quarter next year, so I just want to know how we should think about this going forward? Is there an element of front loading, or are some of the initiatives yielding greater results? Or have



you maybe uncovered more cross sales as you go along? That's my first question. The second one is on Denmark, and in particular if I looked at the average premium development in the home insurance on page 9 of your slides. It seems to me that throughout 2010-11 there was sort of bad weather, which includes the 2011 cloudburst. It helped justify the increasing premiums in Denmark in particular. And so, if the weather having been consistently milder since then, and as you mentioned in your slides the growth claim cost from the cloudburst being as what they were in 2011, just wanted to sort of get your thoughts on how you see the average premium development going forward? I mean, would it be reasonable to assume that these come under pressure going forward? Thank you.

Tor Magne Lønnum, CFO

Yes, good morning Daniel. I can start by answering about the cost savings. Yes, we are very pleased with the development, both in terms of expenses and in terms of procurement gains, so I think it's been really a good and healthy pipeline in terms of initiatives. And you're right, some has surprised us positively, but there have also been areas where we haven't been able to achieve as much as we would like to see. I guess in terms of the cost savings, bear in mind that when we set out with the DKK 300m we were sort of talking about efficiency gains based on a topline that was at least in balance and perhaps even slightly positive, whereas we have been looking into a relatively different development, so I think you should sort of add to the thoughts that in addition to the savings that has been achieved on the back of the savings programme, we have done additional sort of housekeeping to make sure that the costs are kept down. And that's really why I highlighted the comment for this quarter alone, where we have a DKK 40m drop in nominal expenses. So I think, yes there's no doubt that we have see pockets or areas where we've been able to achieve more than we had expected. There are areas where we have been surprised negatively, as well. But over all, of course it has been according to plan, and even more so based on what we have done on that side.



Morten Hübbe, CEO

I think on home in Denmark, this is actually a product which has undergone significant changes so far, and is going to undergo significant changes also the rest of this year and next year, because if you go back just four years, our combined ratio in Danish house was more than 110, so actually no earnings at all. Now, we've achieved a situation through price increases where we're now actually making clearly positive earnings in the home product. If you look at what is going on at the moment, we are actually in the process of doing a completely new house product, and clearly that will change the coverage's and will change pricing etc., and we believe that in the coming years we will continue to see a trend where we will make improved earnings in house, or home, in Denmark, whereas we will probably see slightly reduces earnings in motor in Denmark. So that is likely to be the trend. How that actually impacts the average premium, I think will be influenced by a change on the product side, so the comparison might be a little bit difficult during this period. But clearly, weather risk plays a bigger and bigger role in the house product, but expectation of slightly higher earnings in house in the coming years.

Daniel Do-Thoi – *JP Morgan*

Okay, thank you. Can I just follow up on the cost savings again? Just one thing, in terms of what we should expect going into the next quarter and 2015, whether the pace of incremental cost savings are expected to come down, or whether we should expect, perhaps you to update us on additional cost savings in absence of the one billion, perhaps on the capital markets day or later on in the year? Thanks.

Tor Magne Lønnum, CFO

It's a nice try, Daniel. I think I'll just say that it's natural that we look at the efficiency programme when we come to the capital markets day, and I don't really want to give any more guidance on that.

Per Grønberg – *Danske Markets*

Yes, thank you. It's Per from Danske, a couple of questions from me as well. Last quarter you gave us the growth in local currency excluding the Nordea portfolio. I was not able to find this figure this time, can you give it and can you also give us what the impact will be if you excluded the acquired portfolio from Codan? The second question is on the last client industrial part, the renewal season has started, can you give any indications of what directions you are seeing currently on rates? And finally, a topic that has been touched a number of times before, the prior year gains, how much of the gains you are harvesting these days is coming from the liability product, and can basically be referred to the 2004 change in the liability law? And the material higher price than you did compared to the actual claims experience? That was my three questions, thank you.

Morten Hübbe, CEO

Just to be clear on the first question Per, was it the group growth without Nordea or was it the Swedish growth without Nordea?

Per Grønberg – *Danske Markets*

The group growth without Nordea.

Morten Hübbe, CEO

Well, if you take the group growth, which is -0.8% and you disregard Sweden completely, you get to 0.0% for the group. And actually, Sweden without Nordea was slightly positive. So the group growth without Nordea only, would be zero point something small, 0.1-0.2, something like that, positive.

Per Grønberg – *Danske Markets*

How big is the positive impact from the Codan portfolio?



Morten Hübbe, CEO

Well, it's actually to the largest extent very marginal by now, because bear in mind that we're not taking over the portfolio, we're taking over the renewal right. So what is going on is, that we've achieved the acceptance of more than 90%, but actually very little of that has come into force. So in the actual earned premium very, very little. So nothing worth mentioning, but it will start improving, the earned numbers, during the next twelve months.

Tor Magne Lønnum, CFO

On the question related to the prior year gains Per, I guess yes you're right. There's no doubt that there is impact by... That there is prior year gains to be had from that change, but on the other hand you should of course note that the run-off gains are more or less, not entirely, but more or less equally distributed between Denmark and Norway, so there are significant run-off gains in the Norwegian portfolio as well, and I think that sort of the over all picture is more or less in line with what you've seen the previous quarters, i.e. that we see gains from workers' comp, that we see improvement from Motor – TPL, but also to a certain extent, as we talked about, the liability product.

Per Grønberg – *Danske Markets*

Okay, the renewal season?

Tor Magne Lønnum, CFO

The renewal season, I think it's fair to say that there's no doubt that there's still and continued rate pressure in the market. On the other hand you can say, not that we are overly optimistic, but I think we are balanced on the renewal season. It seems to be okay in terms of the direct side. I guess the broker side is more under pressure, as usual. But, how should I say it? Not overly optimistic but no too negative, either.



Christian Hede – *Nordea Markets*

Yes, good morning gents. Most of my questions have been answered, so I just have one question on the equity performance in the investment activities this quarter. I think you've previously guided that you tried to benchmark your equity investments against the MSCI world in Danish kroner and obviously that has not been this quarter, so could you give us some more details on what you have done and what you haven't done this quarter? Thank you.

Tor Magne Lønnum, CFO

Yes, good morning Christian. I guess that's a good question, and there might be some misinterpretation or misunderstanding in that number. There's no doubt that what we do, is that we benchmark against the MSCI world. What we do, is that we hedge the equity exposure 100%, so our benchmark for the quarter shows a performance of 0.3% I think is the correct number, so we have had a performance which is slightly behind the benchmark.

Vinit Malhotra – *Goldman Sachs*

Good morning, just one question on private lines and one on commercial. Just on private lines I noticed that you mentioned 0.7% improvement underlying, and obviously it's in the report it's attributed to the expense and claims initiatives, but Tor you also mentioned portfolio mix and selection. Is it possible at all to give an idea of what will be negative on the competition, the off-set on the portfolio as well, apart from the claims initiatives? I just want to understand the 0.7 split between portfolio and expense initiatives if it is possible. Just an idea will be useful. And just on the commercial lines, I noticed several things. Your Norwegian retention has gone up a lot, also you mention in the report that the broker channel is now part of commercial and not corporate, so there seems to be a lot of changes and I remember from previous goals, a lot of mention of new products. Could you just discuss some momentum that is in this commercial business? Thank you.



Morten Hübbe, CEO

Well, I talk on your latter questions Vinit, I think on the commercial side, and then Tor can comment on the underlying. Clearly, we're doing a lot of changes in Commercial. First of all we have changed the split between corporate business and commercial business. It means that 80% of the smaller medium-sized corporate customers have actually been moved to commercial segment, and that is why commercial segment now also has a broker channel as they are the consequence of that change. So that is one important change. I think you point to a very important area, which is the retention rate because clearly two of the areas we wanted to improve in Commercial was one: the cost ratio, which has dropped 2 percentage points this quarter, and two: we wanted to improve the retention rates. And one of the things we've done so far is that we have implemented what we call a pre-renewal date contact, where we actually contact the Norwegian commercial customers prior to renewal, to make sure that we have a positive dialogue and expectation and updates, prior to renewal season, in stead of doing nothing and risk that the customer walks away. That is starting to improve and give positive results. We're also updating our, you could call it our ongoing service concept, to make sure that we have a more frequent dialogue with these commercial customers. And then a third point that we're working on is, that we significantly want to further improve our selection process in commercial, where it's fair to say that we've done significant process in private, whereas in commercial lines we're slightly more behind the progress of private lines. So I think, important improvements in commercial along the lines that we have actually been targeting.

Tor Magne Lønnum, CFO

Yes, good morning. To the question about the private lines, I think I unintentionally said 0.7% and it should be 1% in terms of underlying improvement so, sorry about that. I guess it's important to say that, if you look sort of at the historic numbers that we are reporting, there's no doubt that the main driver in that respect is the internal efficiency programme, i.e. both the claims procurement and the cost efficiency. When I did make the comment related to the average premium it's because there are some portfolio shifts going on, for instance we see an increased retention level in the housing product, i.e. that the customer retains more of his or her risk. But there is also an element of being able to set the right price for the right customer that I mentioned during the



presentation. But of course, that is important if you look at future expectations in terms of earnings, more than sort of the recent history that we're looking at here.

Morten Hübbe, CEO

I guess Tor, it's fair to say that historically in private lines Tryg has had clearly lower self-retention levels or deductible levels than our peers. So we're likely to see, in the next couple of years, that deductible levels or self-retentions levels will be slightly higher, and of course that pulls slightly downwards on the average price. But it's actually a healthy development, both for the customer and us.

Vinit Malhotra – Goldman Sachs

Can I just follow up quickly on these two points, please? Just to get it right; the competition must have had some kind of a negative effect, and then there was a positive effect from the initiatives and the net is up 1, right? Is that the way to look at it? All competition was not really impacting, and everything we see on the 1% is... so I just want to understand the negative force, as well. And just on the Norwegian Commercial, I just want to clarify this is not being done in Denmark, only in Norway, these pre-renewal contacts? Just to clarify that? Thank you very much.

Morten Hübbe, CEO

If we take the last one first, the pre-renewal contact we plan to do in both Norway and Denmark, but we have started the process in Norway, so that is correct. And the split change between corporate and commercial has actually been done in both Denmark and Norway, so hopefully that's clear.

Tor Magne Lønnum, CFO

Yes, I think that to the follow-up question, it may be that we are sort of talking about two slightly different things, because yes there's no doubt that if you look at sort of the car product, there is a portfolio shift, there is competitive pressure in the market. And there are the smaller cars, for instance, to the portfolio shift that I mentioned earlier.



What's important to understand of course, is when I talk about the development in terms of the average prices, is also says something about the future earnings power, and that's really why I mentioned sort of the selection process, which really improves the underlying profitability and it won't be that visible in terms of the recent quarter alone.

Morten Hübbe, CEO

I guess you can argue that we monitor what is the claims ratio of new customers, compared to previously and what is the trend on that. What is the claims ratio of customers leaving us, compared to previously and what's the trend on that. But as only 10-11% of the customers are replaced every year, it takes a fair amount of time before that has any impact on the total portfolio, and thereby the total accounting numbers as you see them. So that is why that trend is not something that is very visible to you.

Lars Møller, Head of IR

Thank you very much, and thank you to Morten and Tor for taking us through this Q3 presentation. I want to remind you all that we will be around here from week number 43 and in London, Edinburgh and Tokyo in the coming couple of weeks. So looking forward to see you all around there, and then of course the capital markets day on 5 November, where it's still possible of course to sign up for this event, so with these closing remarks have a nice day and thank you for participating this morning.