Tryg – 2015 results

Audio cast and Q&A 21 January 2016

Transcript

Presentation

Gianandrea Roberti, IR Officer

Good morning everybody. This is Gianandrea Roberti – I am head of Investor Relations of Tryg. We are here to present our Q4 full-year results today. We published them earlier on this morning. I have our CEO, Morten Hübbe, and CFO, Tor Lønnum so with a few words over to you Morten.

Morten Hübbe, CEO

Thank you, Gian and if we turn to slide no. 2 in the deck we continue as promised to focus on a stable and increasing dividend. We have announced this morning an extraordinary buyback of DKK 1 billion for 2016, which underlines a strong capital position improved by the new Solvency II regime. If we look at the technical result of 2.4, clearly down from the year before, it is impacted by large claims and particularly weather claims, which in combination is 210 million more expensive than the year before, also impacted by one-offs which in 2014 were positive due to Norwegian pension of 135 million and this year negative of 120 million due to restructuring charges to reach the 2017 target. It is very positive that in 2015 we reach the target of an expense ratio below 15 % before one-off costs. We see a drop in the top line of 0.8 % but we see a positive trend in Private lines and particularly Private lines, Denmark whereas our Commercial business is more challenged and generally a positive development in Denmark whereas Norwegian macro is turning to more negative development.

If we turn to slide 3, in the fourth quarter we show a pre-tax profit of 704 million. We then show a post-tax profit of 721 million where clearly there is a high investment income and a surprisingly low tax rate. Bear in mind that there is a change for the Norwegian tax rate, which is what influences the fourth quarter numbers. Clearly for the quarter also we see that the technical result is impacted by higher claims level in property and although some of this is more stochastic, we also see an underlying trend where a number of products have a slightly higher claims inflation, which we will mitigate through price and claims initiatives in the new year.

If we turn to slide no. 4, we show a strong development in customer satisfaction where our 3-year target to double the NPS score has been achieved already after 2015. We also see particularly in Denmark and Sweden that our retention and 3+ targets are increasing whereas they have developed slightly negatively in Norway, which we intend to improve in the coming year. We continue to drive price differentiation as an extremely important project and in 2016 we will be converting a large number of customers to our new improved products and then of course the spring of 2016 is the first time we implement and carry out our new customer bonus scheme in Denmark which we expect to have a positive impact.

If we turn to slide no. 5, as expected the efficiency programme has a lower run rate in 2015 than in 2014 with total savings of 165 million for the year to date and 47 million for the quarter in isolation. Key drivers in cost reductions have been outsourcing, reorganisation in Commercial and digital communication. For claims, in the fourth quarter we have increased the focus on collection from third-party insurance companies when they are responsible for claims and then the continued implementation of In4mo system to reduce property claims. Clearly, looking ahead the efficiency programme will be the main driver to improve the expense ratio in 2016 and 2017 to reach the below 14 % target in 2017 and the total efficiency measures will be 225 million for this year and 375 million for 2017.

Now, if we turn to slide no. 6, we show that we have reached our expense ratio target of below 15 % in 2015. The main driver has been reduction in headcount, which has dropped some 240 FTE heads during the year but also outsourcing of IT. When you do your modelling, please bear in mind that seasonality-wise Q4 is often the lowest in terms of cost run rates. We are on route and on target to reach our 2017 target to have a cost ratio at or below 14 % but when you do your modelling, please bear in mind that we are not expecting to be significantly below the 14 % margin. And over to you, Tor.

Tor Magne Lønnum, CFO

Thanks Morten. If we move on to slide no. 8 (actually 9) and look at the top line development we do have a positive top line development in Private as you can see at the top of the slide but keep in mind that it is impacted by lower premium discount impact this year so it is not as positive as you can read from the 1.1 % isolated. It is important to say that if you move on to the Corporate you can see that there are some movements in terms of top line but that reflects that there will be some volume changes between the quarters and I think it is more important to look at the flattish development Y/Y. As Morten highlighted initially, if we look at Commercial it is still challenged on weak development in Norway and to a certain extent also in Denmark but clearly, I mean the worry point in our own mind is related to the Norwegian business and the macro that Morten highlighted. Sweden is somewhat challenged from a large affinity agreement that has been terminated and I think we have talked about this before. If we talk about what is going to happen in terms of top line for 2016 and as something that Morten will address at the end as well but based on what we see in terms of claims inflation we have set in order some price increases in the portfolio in 2016 and that will be about 3 % across the portfolio and it is of course something that we think will help both our top line but also adjust for the increased claims inflation. So about 3 % in terms of price increases across the portfolio.

Moving on to slide no. 9 (actually 10), you can see that we have a less satisfactory technical result. The reported combined ratio increased 4.7 percentage points to 88.4 %. It is impacted by a lower run-off this quarter but also higher weather related claims and large claims of 220 million. There is an underlying weakening of approximately 1.3 %, which is helped by the improvement in cost ratio that Morten mentioned but a 2 % deterioration in claims ratio and this of course reflects back on the price increases that I mentioned earlier.

If we move on to slide no. 10 (actually 11), you can see that in Denmark average price in motor is down 2.6 % and 1 % in housing. We do think that this should be positively impacted by price increases in 2016. In Norway, average prices in motor are increasing again from 0.5 % last quarter to 0.8 % in Q4. Housing continues to increase but at a lower level than last quarter are is up 0.6 % and that is one of the areas where we will see price increases in 2016.

If we move on to slide no. 11 (actually 12) and look at the retention levels, we think it is actually very, very good that we are able to achieve a retention level in Private Denmark at 89.9 % in Q4 which is the best level in two years, slightly better in Private Norway, at 86.4 % this quarter but still slightly lower than at the end of last year. Commercial retention is slightly weaker than in previous quarters impacted by the competitive situation in Denmark but also macro/competition in Norway.

If we move on to slide no. 13 (actually 14) and look at the underlying claims ratio as I mentioned we see that the underlying claims ratio is impacted by – is up about 2 percentage points impacted by higher than expected claims inflation. It is particularly related to property claims but also travel insurance and a general negative claims trend. The Private segment has a weakened underlying of 0.8 percentage points and we are concerned about underlying claims inflation pressure in Denmark which is in general, as I said, higher than expected for 2015 and thus the portfolio price increases will be crucial for reaching the improvements expected in 2016 and as I said on average 3 % across the portfolio.

If we look at slide no. 14 (actually 15), we have highlighted already that there is an increase in large claims and weather and it amounted to more than 1.2 billion on 2015 in total, which is about 180 million higher than the annual expected level. Now keep in mind that we have not adjusted our expectations upwards for 2016 and we do sort of see the above expectation as a normal deviation in terms of large and weather claims. In Q4, large and weather related claims amounted to a total of approximately 370 million, which is a 50 million increase compared to last year. In our mind, the elevated impact in 2015 – as I said – does not require a model adjustment. Total run off effect for the year at 6.7 %, which is an increase of 0.6 % since last year, slightly lower in Q4 at 5.5 %, but keep in mind that as we have talked about before that it had been at a slightly elevated level previously in 2015. The run off position is still supported by a strong reserving position.

If we move on to slide no. 16 (actually 17) and look at the investment return, we had a total investment return in Q4 that ended at 201 million which is significantly higher than last year and it means that the full year ended more or less at zero in terms of return, which of course is a significant drop compared to last year but still if we compare to what happened in Q3 it was a good performance in Q4. We have the best performance in high yield emerging markets and property, slightly weaker in equity as compared to benchmark. At the end of 2015 we have a slightly lower equity exposure and of course it is important for me to say that we have had a weak performance so far in 2016, but I guess that is something that we can all observe in the markets these days. There are no other material changes in the portfolio. And then finally, I would like to highlight the fact that we do mark all assets – we do have all assets marked to market which is different from any of our Nordic and international peers. This is not for us to choose but we do follow the Danish regulations so all assets are marked to market.

Slide no. 17 (actually 18) when we look at the solvency ratio ended at 154 % at the end of the year impacted by profits, buybacks and full-year dividend. You do know that the internal model was approved by FSA in Q4. It is also important to say that for the natural perils pool there is still some uncertainty because it is pending finalisation but we do expect this to come through in Q1 and everything looks according to what we have communicated earlier.

Now, on slide no. 18 (actually 19) we have chosen to give full disclosure on what happens after we go over to the Solvency II rules and the solvency ratio changes to 176 % at the beginning of 2016. There are relatively significant changes. Among other things, we do include expected future profit of 0.6 billion in the capital. There is a negative effect of changes in the discount curve of about 0.2 billion. We will be able to include or to reduce the capital requirement by about 1.2 billion related to being able to utilise a tax loss carried forward or a tax asset. There is additional subordinated debt capacity in the balance sheet of approximately 1 billion and of course that will be utilised to support the 2016 buyback.

Now as I said we do expect the natural perils pool to be eligible as tier 2 capital according to the suggestions by the Ministry of Justice in Norway. Keep in mind that the solvency ratio will be to a large extent unaffected by large equity market swings as a potential fall in available capital is offset by a reduction in capital requirements; i.e. a dampener effect. And with that I think I will leave it back to you, Morten.

Morten Hübbe, CEO

Thank you, Tor, and just for a few concluding remarks on slide 19 we reiterate our 2017 targets to have an ROE at or above 21 %, combined ratio at or below 87 % and an expense ratio at or below 14 % and then our target to double NPS to increase retention and increase our 3+ products with our customers. We also show an expectation of 2016 top line growth between 0 and 2 % in local currency. Clearly, the main significant focus will be on delivering our efficiency programme, from 165 million in 2015 to 225 million in 2016 and 375 million in 2017. We continue to have a significant focus on price differentiation to improve our products and improve our risk selection and also a significant effort to converting old customers into the new products and then as Tor has mentioned we increase our focus in 2016 to secure average prices that are slightly higher than the development in claims inflation. There is a general historic risk that when claims inflation increases the insurance industry comes behind the curve whereas when inflation reduces they benefit from that. And we do see that the wheels are moving slightly faster, particularly in the Danish society and particularly in property and to some extent travel but across the board it is important that we are slightly ahead of the inflation curve and not slightly behind. We focus on nominal stable to increasing dividends, which is more important to us than the actual payout range and then we finalise on slide 20 with a quote from John D. Rockefeller on the importance of dividend and dividend yield and then of course adding to that the planned buyback of a billion DKK in 2016 to result in a high total yield. And I think with that we are ready to take your questions.

Questions and answers

In-Yong Hwang – Goldman Sachs

Hi, good morning this is In-Yong from Goldman Sachs. Two questions from me. Firstly on the new 176 solvency ratio – I appreciate you are doing specific guides at what you are aiming for here but it is significantly higher than the 150 % you used to keep historically so would you comment now for yourselves as overcapitalised or do you see that increase of the solvency ratio as just model changes and 176 in some ways kind as the new normal or roughly the level you are going to keep it at so just your thinking around that would be helpful, and secondly on the Commercial segment, I think on the slide it says you know structurally challenged and you are talking about finding the right balance between increasing retention and increasing sales. Is there a sense where.. you know do you get a sense of which is a kind of more problematic area – is the retention too low or is the sales too low – you know one area or the other you are focusing on more and this relates to that there is quite a lot of reorganisation, especially in Norway in 2015 – I was wondering what your thoughts are on that whether that is coming in place now and will no longer be a drag on premium as much. Thank you.

Tor Magne Lønnum, CFO
Yes good morning – I will address the first question and then Morten will answer on the Commercial segment. First and foremost, we are very pleased to be able to give you the numbers now in terms of the solvency ratio and you are quite right, I mean the solvency ratio increases quite significantly. Now, keep in mind that when we have been at around 150 % in the past that has not been any sort of particular threshold communicated and as you know we are very explicit not to communicate any surplus capital or surplus capital thresholds in that sense because it is relatively important for us to be able to maintain that flexibility. What we do promise is a stable to increasing nominal dividend and as you can clearly see from what we announced today we will continue to support our shareholders with distributing capital when we see that there is flexibility in terms of our balance sheet and clearly going over to the solvency II regime now in 2016 opens up for an additional buyback and that is why, as you can see, we do have a capital distribution which is significantly higher than the earnings generated in 2015 so I think it clearly states Tryg as a company that wants to be a shareholder friendly company, that wants to keep a capitalisation that is okay but we should not be overcapitalised. We want to support our shareholders with dividend and we keep to the promise of a stable and growing dividend and with that I am sure that there will be further discussions, questions and comments related to the solvency ratio through 2016 as well but for now I think I will just stick to the comment saying that we feel very

comfortable with a solvency ratio of 176. We feel very comfortable with a distribution of DKK 1 billion through an extraordinary buyback in 2016.

In-Yong Hwang – Goldman Sachs
So just to follow up, so the 176 you would not see that as an overcapitalised position?

Tor Magne Lønnum, CFO
Well, I mean, I did not say that. On the contrary, I said that we don't really want to disclose what will be sort of our view in terms of a standard or normal capitalisation. We are simply saying that, as we have said in the past, you know that the capitalisation has to be at a certain level above 100 % in order to make sure that the FSA is happy and anything above that is of course discretionary and something that we need to consider at all times but I think, you know, the practise that Tryg has shown over the last two years speaks for itself because we have been extremely disciplined in terms of the capital approach and we have distributed annual buybacks of 1 billion for the last three or four years so, you know, I think it is better to let the practice of the company speak for itself.

In-Yong Hwang – Goldman Sachs
Sure, right, thank you.

Morten Hübbe, CEO
And if I return to your I think quite important second question on the Commercial segment, clearly there is a very significant difference between Norway and Denmark, Commercial in Tryg. Norway Commercial is clearly our smallest portfolio. It means that we are working on a number of issues like professionalising our customer segmentation, professionalising our distribution. We have moved from mainly an own sales force model to now using more franchising distribution, which has been very successful in our Private lines in Norway that will be growing significantly in importance in the future years. We are working significantly to enhance the customer retention rates from the

NPS. When we started the NPS focus a year ago, Commercial Norway had the weakest NPS in the Group with an NPS of -21. That has now turned into a slightly positive NPS, but clearly it has a significant further journey to take and on top of that the negative oil price development means that there is more pressure on Norwegian macro which will impact the Norwegian Commercial segment. The Danish Commercial segment, on the other hand, is more than double in size to our Norwegian Commercial business. Our retention rate is actually increasing, our sales increased some 2 % for the full year and some 6 % for the fourth quarter so both are developing in the right direction. Sales still have to improve slightly further and I guess here we have a more supportive macro which is starting to develop slightly positively and hopefully the Danish membership bonus will be slightly supportive as well. So I think Commercial as a whole will still be behind Private lines in 2016. We will still have periods with negative top line development, but clearly Denmark is improving and has better prospects in the short term whereas Norway is more structural. We have made significant changes to the organisation of both so both Commercial Norway and Commercial Denmark have a new head of business and significant new organisation from 1 January.

In-Yong Hwang – Goldman Sachs
All right, thank you.

Jonny Urwin - UBS
Good morning all, thanks for taking my questions. I have got two. So firstly, it is around claims inflation. You made some very interesting comments this morning, particularly around Denmark, I mean, I would just be interested to get a bit more colour around what claims inflation is doing, perhaps by line in Denmark, and if you could give us any more colour by markets as well that would be great. I mean, I appreciate that you want to put through an average of 3 % pricing increase so that gives us some context but just a bit more granularity there and also, I mean, I take it from your premium guidance that you are guiding us to at least flat premium on local currency. That sounds like you are pretty confident of being able to put through these price increases without losing any material volume so just comments around that would be great. And then, finally, just around net promoter scores, I mean, I appreciate your comments around the

Norwegian lag but from what I can see, you know, the net promoter score is zipping along nicely and you have already hit your 2017 target but we are not really seeing any improvement in the cross sale or the retention – is that all the drag from Norway or is it just a time lag there? Those are my questions.

Tor Magne Lønnum, CFO

I guess I can start by commenting a bit on claims inflation and then Morten will complement some of the comments afterwards. But if we start and I think I will make the comments more by market. It is fair to say that we do think that we are moving in two different directions for our key markets, i.e. we do think that the claims inflation in Norway should come down somewhat but it is still at a higher level than Denmark. So I think the expectation, as I said, is coming down a bit but still at a somewhat higher level than Denmark. And then of course it is important to say that the challenge is to actually forecast what is going to happen in terms of the Norwegian economy now with an oil price below 30 USD/barrel, that is of course continuing to hurt the Norwegian economy to a certain extent. So in principle we do expect claims inflation in Norway to come down a bit but it will still be in the area of 2 %, perhaps even a bit higher. Now, in terms of Denmark, we do expect claims inflation to come up, and as I said on the slides earlier, we have seen a slightly higher claims inflation in 2015 than what we had expected and that is really why we are pushing through with price increases in the portfolio. And keep in mind what Morten said earlier, that we... since TryghedsGruppen are introducing the membership bonus this year expected in the area of 5-8 %, that will of course in our minds mitigate to a certain extent at least impact that price increases may have related to the retention levels. So we have seen a bit more claims inflation in Denmark than what we had expected. And I think we said in Q3 that it is in particular related to the property lines of business and that is both in Private and in the Commercial lines. We saw an increase in travel insurance claims although that is a relatively small line of business. And then, as I said, there is kind of the general uncertainty around the claims trend and the claims inflation as the economic activity in Denmark picks up. So that is, in my mind at least, a bit more flavour on the markets, on the lines of business. And I don't want to become too granular in the question. It is important to say that it is a general worry about the claims inflation in the Danish portfolio that we are trying to address with the price increases.

Morten Hübbe, CEO

And I guess there is the traditional time lag issue that when we decide to do a price change it takes 12 months to hit the renewal date of all customers and it takes another 12 months to earn the premium. So part of it is what we have already seen and part of it is also guesstimating the more short-term future because history just shows that we always get behind that curve. And then if you look at the NPS, I think your question is right. Clearly we see that the strongest NPS improvement has been in Denmark where also we see an increase in the 3+ customers and we see an increase in the retention rate. The weakest development in NPS has been in Norway, in particular in Norwegian Commercial, and that is also where we actually see a slightly negative development in 3+ and retention rates. Clearly, in Norway one of the challenges is our car channel business where the number of products is very often one and where actually the retention rate is developing negatively. That is one of the areas where a cross sales initiative needs to improve that significantly in 2016 and 2017. We do see some distribution channels like call centre Private Denmark, the degree to which new customers buy more than three products has already increased more than 7 % which is above the 5 percentage points target but there are other sales channels where it hasn't increased at all. So it is broadening the number of channels where we are successful with more cross distribution and then it is an initiative to contact existing customers to do more cross sales to them as well. Both are required to hit our 2017 target because yes, 3+ is improving, yes retention is improving but actually both need to improve more during 2016 and 2017.

Tor Magne Lønnum, CFO

And then finally I think in terms of the question about the premium price increases versus premium I think I answered that at least indirectly when I talked about claims inflation.

Jonny Urwin - UBS

Yeah, for sure. Thanks very much.

Christian Hede - Nordea

Yes, good morning, this is Christian from Nordea in Copenhagen. I have a couple, maybe only one question actually, we can start with that at least. I think, Tor, you were mentioning that the Tier 2 was kind of a buffer for issuing Tier 2 capital would support the 2016 buybacks. Can you give some more detail on that, do you see it as I guess you have a one billion buffer, you have a one billion buyback it is not 1:1 but it is half of the Tier 2 capital that needs to be issued or how do you see it?

Tor Magne Lønnum, CFO

Yes, good morning Christian. I think it is not that I wanted to make the 1:1 relationship in principle, I am just saying and I think that is more or less in line with what we have communicated earlier that we really want to utilise the opportunity we have in terms of issuing Tier 2 capital and as such, of course, we will take out the Tier 2 capital here in the first half of 2016 or issue that Tier 2 capital here in 2016. And then I don't really think, Christian, that I want to make any more comments around buffer and capitalisation than what I already did because I mean in our mind, as I said earlier, we feel relatively confident in terms of our capital situation. We are doing an extraordinary buyback again so I mean again utilising the balance sheet to distribute to the shareholders so I think there are some moving parts we feel very confident about the 176 % solvency ratio. It is perhaps not spot on in terms of your question, Christian, but…

Christian Hede - Nordea

Alright, thank you. It makes sense, I guess you need to keep down the equity level to reach the ROE target or to be sure to do that. And another target of 2017 you still have the below or at 14 % cost ratio. I guess that is obviously under more and more pressure due to very low growth. So how do you see that, have you done extraordinarily much? Maybe you did answer it earlier, I came in a bit late, so thank you.

Morten Hübbe, CEO

Well, I guess we haven't talked about earlier today. I guess it is very important to say that we did our restructuring charge provisioning during the autumn to make sure that we can manage the headcount reduction for the 2017 programme. So far we have talked to you about the outsourcing in finance and IT. From week 42 in the autumn of 2015 we started the outsourcing processes of a number of business tasks and they have gone live and they are then increasing in numbers and that process is continuing. Our automation initiatives are continuing where we launched the first automatic sort of web claims reporting processes in Denmark in December that will continue during the spring of this year. So clearly, we have a large number of initiatives lined up to continue to lower head count and improve the process automation and outsourcing and clearly that is the root to reach our 2017 target. And as you mentioned, in Norway, I think, we will actually have less help on the macro and top line whereas in Denmark we will probably have slightly more help in the next two years. But all in all we have to do most of the hard work ourselves and that is what our plan says. A few analysts have guesstimated significantly below 14 % cost ratios in 2017 and we mentioned earlier on in this call that that is not our expectation. Unchanged is our expectation to reach the at or below 14 % but not significantly below that number. To my knowledge there is hardly any insurance companies in the world below 14 % so that is a very steep ambition to begin with and I think we are quite clear that we will deliver that but also we don't expect to deliver significantly more than that by 2017.

Christian Hede – Nordea

Thank you that's very clear…

Steven Haywood – HSBC

Hello, good morning everyone. You mentioned in your results that the match portfolio result is going to be a bit more volatile going forward. Could you provide a bit more kind of clarity on how wide the range might be or how much volatility will come through this line? And then you say that the credit risk adjustment impact is always going to be negative but do you know by what amount here? And then I think in your fourth quarter income from associates there is a significant large positive one-off, could you explain where this one has come from? Thank you.

Tor Magne Lønnum, *CFO*

So the first question was about volatility in terms of the match portfolio and the reason is simply that there will be the discount, the new discount curves will create a bit more volatility in particular related to I guess the Swedish and the Norwegian book. But to quantify it, I don't think that is really necessary and I mean we have had the ambition for now the last five years to sort of stay within the plus/minus 50 million and I wouldn't sort of think about it as significantly higher than that going forward. Now the loss question you had was about associates, I am not quite sure if I caught that question. Perhaps it is better to take that offline later. And then you had one more question which was, Steven…

Steven Haywood – HSBC

On the credit risk adjustment impact.

Tor Magne Lønnum, CFO

Yeah and the question was how much or?

Steven Haywood – HSBC

Yeah, sort of why is it always negative and how much negative will it impact?

Tor Magne Lønnum, *CFO*

I think that's a question that.. I will have to get back to you on that so I think we will just send you or distribute something by e-mail. If it is a question that is more of general interest it is something that we will put out on the webpage.

Steven Haywood - HSBC

OK. Thank you very much.

Per Grønborg – Danske Markets

Hello, it is Per Grønborg from Danske. Two questions from my side. First a clarification. The 176 Solvency II ratio you say it includes Scandia book and the H2 dividend. Does this also include the planned 2016 buyback? Should we take that first?

Tor Magne Lønum, CFO

No, it does not.

Per Grønborg – Danske Markets

Okay, I just wanted to be sure. Secondly, you are addressing price hikes and you are addressing competition less. How have you seen the competition develop over the last 3-6 months? And do the competitive situation in the market allow you to hike prices especially in Norway where you don't have the tailwind from the client dividend.

Morten Hübbe, CEO

I guess the best indicator, Steven, or should we call you Per as we are used to, I guess the best indicator is the retention rate. And I guess we see also this quarter a continued increase in the Danish retention rate. We see support from the Danish membership bonus and we see clearly that every time we do a conversion or a price change that the reaction is very much linked to the magnitude of that price change. As long as we are sort of at or below the 5 % mark in price change, usually the churn rate doesn't change significantly to the sort of average churn rates. If we move to the 8-10+ rate there is more difference. We contacted a number of customers with price changes in November 2015 with fairly little reaction, then we did higher price changes in travel claims which had a slightly higher reaction sort of emphasising the point I made before. I think if we move to Norway we see a slightly negative development in retention rates currently.

Actually if you open up those numbers slightly more there is a negative retention rate development in the motor car dealer channel, as I mentioned earlier, but actually the rest of the Private lines portfolio has a slightly positive retention rate and actually we expect to be able to push through the price changes there without any significant change. I think the dark horse is Commercial Norway where our slightly weaker market position combined with a more difficult Norwegian macro situation for these Norwegian Commercial customers. That is where we might have a slightly bigger challenge in terms of pushing through the changes. But overall in the bigger portfolios we are comfortable that that's possible to carry out, also in Private Norway.

Tor Magne Lønnum, CFO
And keep in mind that when you look at the Norwegian book it is more challenged if you get to the Commercial and Corporate segment that Morten mentioned whereas of course we feel relatively confident in terms of the Private lines in particular and it is fair to say that we do, we have seen bankruptcies in Norway now related to the oil service sector so of course that is one of the challenges that we see in 2016 but as I said the important thing is really how we are able to handle the general price increases across the Private and the SME portfolio.

Per Grønborg – Danske Markets
Okay, thank you.

Jakob Brink – ABG
Hello, it is Jakob from ABG. Two questions please. The first one is coming back to Per's question just now on competition and especially in Norway. I get the impression that we still have quite a lot of companies in Norway that are eager to grow their market share, also some of the larger ones which have been losing share for a long period of time. How do you see that, is that sort of calculated in your outlook for competition in Norway? And then secondly, I think Tor, you had a bit of detail on the run-off gains in 2015. I think you said that you had communicated it would be slightly above normal. But could you just give us some more details on what level actually to expect, one of your

competitors has been out and been quite precise on what we should expect over the next two years. Any chance you could just help us a bit on the way there? Thanks a lot.

Tor Magne Lønnum, CFO
Yes, good morning Jakob, if I take the last question first, I mean, you are quite right. We did say that the run-off levels would be a bit higher than what you had seen in the last few years and in 2014 overall the run-off releases ended at 6.1 %. In 2015 slightly higher again at 6.7 %. Now, I know as you say that some of our peers are more detailed in terms of runoff guidance. I think, what I would say is that for 2016 the run-off releases will stay at an elevated level but then of course when you get after the strategy period as we have said before we must expect a gradual normalisation of run-off releases and as you know that is in the area of 2.5 – 3 % and I am not really eager to be any more precise than that.

Jakob Brink – ABG
Just one follow-up on that. You said also that you had a strong reserve position at the end of this year, but is it better or worse than last year?

Tor Magne Lønnum, CFO
It is still strong.

Jakob Brink – ABG
Okay

Morten Hübbe, CEO
I think on your first question, Jakob, on competition in Norway, I guess, as I said, we always think that the best indicator of competition is the retention rate and as the retention rate is slightly negative that shows you that yes there is competition. We have

seen the likes of Nemi and Protector for instance being quite aggressive. I guess we have seen Protector move more outside the boundaries of Norway to do broker business, to do workers comp. business. They are doing some of it in Denmark. They have talked about doing it in the UK etc. And clearly, I think that will probably continue. We see in some cases that their pricing is 20-30 % lower in for instance brokered workers comp. business than the bigger players and I guess together with that you also see a company like Vardia, I think that both Nemi and Vardia are struggling with financial results. They have to some extent been struggling with their capital positions as well. Protector seems to be doing well in terms of results regardless of the lower prices and you might see a dramatically lower reserve ratio. I will ask you to sort of figure out what that means in the longer term. In terms of the bigger players I guess we have seen that Gjensidige Norway is doing slightly better in terms of top line and I think they are utilising their membership bonus well and they are actually utilising a higher average price increase than we see in many of the other Norwegian players so I think that is a serious and successful approach on their side and then I guess the Norwegian banks are struggling with significantly higher capital requirements, which might put a slight, slight dampener on their insurance growth focus, but yes, I think clearly also when the Norwegian economy moves into more difficult territory that usually means slightly tougher competition and it probably usually means that some of the customers in Commercial and Corporate will have a focus on achieving a lower price because their own P&L is challenged so I think it is right to be alert about the competition situation in Norway, but we don't see any dramatic changes there.

Jakob Brink – ABG
If you should add it up in Norway do you think it is likely that the Norwegian market as a whole will see positive growth in 2016?

Morten Hübbe, CEO
Yes, that is our expectation. We think that it will be less positive and the macro will pull it slightly downwards but I think still that the price development means that the whole Norwegian market as such will have positive growth.

Jakob Brink – ABG
Okay, thanks very much.

In-Yong Hwang – Goldman Sachs
Hello, just one more question. On travel insurance. In Q3 I think you said there was a market-wide problem and you expect to see significant price increases across the board so is that what you are seeing in the market? Are people behaving rationally and increasing prices substantially?

Tor Magne Lønnum, CFO
I think it is too soon for us to say what is happening more generally in the market. In principle, as Morten said, what we have done is that we have looked at our own portfolio and we have behaved accordingly. And the price hikes were introduced to the customers in the last part or here in Q4 so of course it is really too soon for us to say how that is going to impact the total market but clearly, as Morten said, we saw a bit elevated – or a certain drop in retention level in the beginning but now it seems to be more normalised so…

Morten Hübbe, CEO
And then I guess it is fair to say that travel insurance is not the largest and most expensive product so we are looking at price increases of say DKK 200-250 for a travel policy for sort of an average customer so it is not an amount that ruins a typical Danish family. I think we should expect some differentiation in terms of timing on when the various insurance companies increase prices but from the pattern we see we would be surprised if the others would not eventually have to do something similar.

In-Yong Hwang – Goldman Sachs
All right, thank you very much.

Jonny Urwin – UBS

All right thanks for a very quick follow-up question. I was just wondering given the large level of volatility in large losses that we saw in 2015 have you made any changes to the reinsurance programme or is that just a sort of acceptable level of volatility that you are happy to run with?

Tor Magne Lønnum, CFO

Well, first and foremost as I said during the presentation we do feel that the deviation we have seen is within sort of the normal deviation related to the large claims. There have not been any particular changes related to the reinsurance programme except the fact that we have increased the cover on top, i.e. that it is a slightly higher cover in terms of our total exposure but other than that it is renewed the same way that we saw the year before.

Jonny Urwin – UBS

Any indication on pricing move on that?

Tor Magne Lønnum, CFO

A slightly higher pricing level because, as you indicate, we have sent quite a lot of – quite a few large claims on to the reinsurers so we saw a bit of a price increase related to the large claims cover. On the other hand, we saw a drop in pricing related to the catastrophe programme.

Jonny Urwin – UBS

Thanks very much

Tor Magne Lønnum, CFO

Yes, I will just make one more comment related to the question about the match portfolio – and sorry for being a bit off. I guess, first and foremost it is important for me to say again that although we do expect a bit more volatility related to the match as reduced clearly state it is not significant. That is number one. Number two is related to the credit risk and that is something that is added to the discount curve. Not deducted.

Morten Hübbe, CEO

And if I might make a final additional comment. There was a question from Steven on associates and income from associates and what that related. That relates to a single property which we own in conjunction with others, an investment property which was increased in terms of value and that is why – it is a normal property income, but accounting-wise it comes through the associate's line.

Gianandrea Roberti, IR Officer

Well, thank you very much for participating in the call today and thanks to Morten and Tor. Peter and I are around all day to answer questions or mails but we will also be at roadshow for the next few days, so hopefully we can see you all, thanks a lot.

Morten Hübbe, CEO

Thank you