Tryg – Q1 2013 results

Webcast and Q&A on 30 April 2013

Presentation

Lars Møller – *Tryg*

Good morning everyone and welcome to this presentation of Q1 2013. Today with me I have our CEO, Morten Hűbbe, and our CFO, Tor Lønnum, with me. Morten, please.

Morten Hűbbe – *Tryg*

Welcome to all of you. I think we are very pleased to be able to see that our results continue to improve in this Q1. We see that our technical result improves by some 39% in Q1 or roughly DKK 140 million and new is that for Q1 we see that roughly two-thirds of the improvement is due to the efficiency measures that we announced at our Capital Markets Day last year, which will make our cost and administration more efficient and also our claims purchasing more efficient. As you know, we have targeted an improvement of DKK 1 billion by 2015 and we see now that roughly DDK 240 million of those have been carried out.

Now our combined ratio improves some 3.5% YoY despite roughly 0.5% negative impact from interest rates but, of course, it is [not] being helped by the fact that large claims and weather claims are slightly above last year but clearly below what is expected from our side in Q1. If you look at the investment side, clearly below last year but at the same time rather high compared to expected, driven by a high equity return and, all in all, that [takes us] for a pre-tax result of DKK 760 million or some 8% higher than last year despite the lower investment income.

Now again in Q1 we have had a high level of activity; clearly the strongest focus on our DKK 1 billion efficiency measurement. Also we have announced a new Norwegian head of our Nordic Commercial business. Trond Svestad started his career in our old Norwegian business but actually has worked for the last many years in If. We focus on becoming the company that helps customers prevent claims. We are providing now, in conjunction with the locksmiths, what we call "Tryg Indbrudstjek", helping customers see how they can actually improve the safety measurements of their houses and flats and also providing basement checks for our customers in order to help them avoid flooding in the future.

Now we have, as you have seen, carried out the replacement of our sub debt and also started our DKK 800 million share buyback program although, as you may see, in Q1 we have only carried out DKK 35 million of that so far. Now if you look at the numbers, clearly you see that the top-line has a slight drop, roughly 2.5% in local currency, a bit less in reporting currency. Roughly 1% of that is due to what we call bonus schemes. So if our larger group agreements have really great results, we give back a share of the result to them as a bonus. That is subtracted from the top-line. That is roughly 1%. Then we see that new sales in corporate and commercial are slightly lower than before. On the other hand, we see that in private lines the average quality of the new customers we take on board is substantially better than a year ago, showing that our increased price differentiation is clearly starting to improve the mix of quality of our portfolio further.

You may also see that the cost ratio not only drops but actually the expenses in nominal terms are lower than the same quarter a year ago, absorbing inflation and a bit more, and at the same time you see the expense ratio dropping from 16.6% to 16.0%, a very substantial reduction compared to last year and well on our way to getting below 15%. Of course, all of that contributes to the increase of DKK 140 million in our technical result but bear in mind, of course, that Q1 last year was the worst of the quarters last year so probably also the quarter where we needed to improve the most YoY.

Now three out of four business areas contribute significantly to the improvement. In the bottom right-hand corner you see Sweden with an improvement of 15% to the combined ratio and really the first time Sweden has a positive bottom-line in a Q1; at the same time an improvement of roughly DKK 50 million to the technical result, which (given the size of Sweden) is a substantial number. We also see in the commercial in the upper right-hand corner an improvement of roughly 2%. We see an improvement of roughly 13% to the technical result and also for the first time we start to see a noticeable reduction in the cost ratio in commercial. Private lines clearly where the improvement is the strongest, almost DKK 100 million or more than 60% improvement to the technical result and at the same time the cost ratio improves from 16% to 15.3% in private lines, getting closer and closer to what we believe is a really strong and efficient level of cost ratio.

Then, of course, you may notice a slight deterioration in the corporate business, combined ratio below 90 but still a slight deterioration. Last year we had hardly any large claims. Last year large claims and weather claims in corporate were only around 2% and this year it is around 8%, which is a more normal level. Then I guess we saw clearly strong improvement and strong help from the efficiency measurements. You see an achievement of roughly DKK 75 million improvement in costs and we are roughly 230 employees less YoY. Also we see further improvements, roughly DKK 45 million improvements, in Q1 of claims initiatives and then, of course, the knock-on effect from the improvements claims last year and an important improvement and trend on the headcount numbers.

As I mentioned, clearly the top-line of -2.5% is rather low, as expected. The bonus schemes that we pay out, a small proportion of that was actually related to Q4, so I guess we could have handled that a bit better but really we see that economic growth is low in commercial and corporate and I think we shall expect rather low top-line development also for the remainder of the year. It is very important for us to continue to improve the customer retention rates and in Q1 we see in commercial Denmark, commercial Norway strong improvements in the retention rates. In private lines we see a stable development in Denmark in Q1 and a clear improvement in the retention rate in private lines Norway. Then we will start cross-selling more in Sweden to improve the slightly lower or somewhat lower retention rates in the Swedish market. It is very important to see that on the DKK 500 million of technical results a good contribution from all four business segments.

Over to you, Tor.

Tor Lǿnnum – *Tryg*
Thanks, Morten. I guess if we move further on into talking about the premium level, you can see here that there is still continued growth in terms of the average premium, both in motor and in the house product, although at a lower level than what you saw last year. Of course, this is the effect of a lower impact of price increases but at the same time, as Morten has mentioned, we see an improvement from the other profitability enhancement initiatives, so it fits rather nicely.

If we look at the retention levels, as Morten mentioned, you can see there is a flattish development in retention, both in Denmark and a small increase here in Norway, but I think most pleasing is the fact that you can see that the retention level is increasing again in commercial. We also see good track here in terms of sales. So it looks at least like we have been able to stabilise and slightly improve the situation in commercial, which I think is rather good.

If we move on to the Swedish segment, again you can see a clear improvement here in terms of the retention rates although, of course, more in line with the Swedish market, at a lower level than what you see in Denmark and Norway.

Morten Hűbbe – *Tryg*
I think it is important also to say that historically our strategy in Sweden has really been to sell single products in various niches and we need to cross-sell those customers. It is only something we are starting now.

Tor Lǿnnum – *Tryg*
So I think in terms of retention levels here in Sweden, hopefully, we will continue to see improvement. At least there are a number of initiatives started that should enhance this situation. If you look at the average premium level, both in house and motor insurance, there is still healthy growth and in line with the ambition to improve the underlying profitability.

If we move a bit further into the claims development, as Morten mentioned, clearly there is a lower impact of weather-related claims and large claims than we had expected although we are, in terms of large claims, at a higher level than last year. I guess, in particular, if you look at the underlying claims ratio, it is important to look at both the improvement that we see in the corporate segment, which is close to 7%; of course Sweden, as Morten mentioned, with an improvement of about 14% underlying. I guess it is also fair to mention if you look here at the difference between the gross and the net claims ratio, of course, that reflects the fact that when there is a lower impact of large and weather-related claims, clearly we are paying more to the reinsurers than what we get back.

Again looking at the large claims impact here, you can see about DKK 50 million higher than last year but, as I said, lower than expected; also here on the weather-related claims, lower than last year although only DKK 50 million. I guess one should have expected perhaps slightly higher impact on weather-related claims but I guess there is more an element of luck in that respect. If you look at the run-off levels here, it is at a flattish level.

In terms of investments, we have had good returns again in investments although lower than last year. I think, in particular, it is important to look at the equities, which have had a good run in Q1. If you look at the benchmark over in the CI world, it is slightly less than 10% and you can see that we have had lower returns. That is, in particular, due to two things. One is that there is a value tilt in the portfolio but also the fact that we have slightly higher emerging market exposure.

If you look at the bond side, I guess it is fair to say that the development in the quarter has been risk-on, risk-off and risk-on again and the volatility, both in Denmark and Norway, has led to a good and healthy return here on the bond side, primarily due to how the asset managers have handled the portfolios.

On the capital side rather healthy growth in terms of margin on the solvency or the individual solvency and also here on the Solvency II standard model. As Morten mentioned, of course, we have only just started the buyback program but you have seen sort of the weekly announcement in terms of what is going on in terms of buyback. I guess just to mention the fact that we did a sub debt issue in the Norwegian market with a very healthy demand for the loan, which was really good and I think that is a very nice and healthy strengthening of our capital situation where we are shifting equity to subordinated debt, which is, in my mind at least, a good construction for the equity side.

Morten Hűbbe – *Tryg*
I guess to summarise, as you may recall, we have said we want to target from Q3 2013 and onwards a combined ratio at or below 90%. We want to target a cost ratio below 15% in 2015. We want to target DKK 1 billion worth of efficiency measures to achieve an ROE post-tax of more than 20%. I guess if you look at Q1, which is traditionally one of the worst quarters of the seasonal pattern, to be at 90 for the combined ratio and above and a ROE of 20 in Q1 is slightly better than expected, showing that our efficiency measures are slightly ahead of plan but, as Tor said also, weather claims and large claims are lower than we expected.

At the same time, the run on equities is hardly predictable but, if you look at the efficiency measures, we have only achieved DKK 240 million so far out of a program of DKK 1 billion. So clearly the majority of the program is still ahead of us and, given that we want to further improve our results, also given the continued low interest rates, it is very important that we continue to produce and improve our efficiency measures but, for us at least, Q1 marks the first time that the majority of the earnings improvements can be derived from our own efficiency measures program, which is truly important also for the future periods.

I think that finalises our presentation and we are ready to take Q&As. I think we will start with questions here from inside, so please.

Questions and Answers

Per Grønborg – *Danske Equities*

Yes, thank you. Tor, you mentioned that you are changing equity with sub debt. Your top line goal is negative. You are paying out not 100% but less than 100%. It is what you promised going forward. Does this imply that we should expect also a buyback for 2014?

Tor Lǿnnum – *Tryg*

Yes, it's a good question. I think, as I said, you can clearly see a good strengthening of the capital position this quarter. I guess it is fair to say that, as you saw from the charts, we have just started the buyback program for 2013 and I think that is really what we can discuss now and then we will have to look at the capital situation again at a later stage.

Morten Hűbbe – *Tryg*

We see it as a positive sign that you are asking the question.

Jakob Brinck - *ABG*

Any thoughts about giving any capital targets like you did in the old days?

Tor Lǿnnum – *Tryg*

But I guess I will mention one more thing because I think what we said when we did the subordinated debt is the fact that we are in principle filling up to the maximum level and, of course, the fact that the top-line development is an element in calculating the maximum sub debt, so it doesn't really increase our possibility to do subordinated debt when the top-line is flat.

Morten Hűbbe – *Tryg*

But clearly, as we discussed earlier on, the ROE target should be above 20% post-tax. This interest rate environment means that we cannot build capital buffers that are too large. So I guess you have that confirmation but let's get the current buyback program underway. That is what we are focusing on.

Jacob Brinck – *ABG*

Okay. I just want a bit more details around this profit-sharing in private lines. If you could give some more details there, it would be great. Thanks.

Tor Magne Lönnum – *Tryg*

Yes. I guess the fact is that there are affinity agreements where you take into consideration how the profitability of the agreement is – what is the result of the agreement and then that is split between the affinity organisation and ourselves and, as Morten said, clearly this is partially what happened in Q1, is that there is distribution of [all] profits but also we are setting aside the debt for further profits so to speak. So it is a combination of two issues related to Q1 which makes the impact let's say rather high.

Morten Hübbe – *Tryg*

And I think to give you two live examples of that but they are many, for instance, most Danish civil servants are insured by us and when that group has a very positive result development, they get a bonus back, which from our point of view is a very strong tool to keep loyalty and a strong tool to keep the focus on earnings as well but also a change you may recall that we did in new Nordea distribution contracts, where the old distribution contracts had a high upfront commission payment which was part of the cost ratio. The new distribution agreement has a low upfront payment, so it lowers the cost ratio but it then has a bigger component of profit-sharing which is taken from the top-line. So a big part of the Nordea payment has also moved from cost ratio to top-line, so that is part of the equation as well.

So basically you also said that there was kind of a one-off extra large impact in Q1 that you are setting aside for future profits or how should I understand that?

Tor Lǿnnum – *Tryg*

No. What you should understand is the fact that, in principle, we are saying that part of the provision that was made here in Q1 is related to the payments for Q4 and then the other part is related to provision based on the nice profitability that has been in Q1. So in principle you can say that we are trying to strengthen the way that we do our accounting for these kind of contracts.

Jacob Brinck – *ABG*
Then just a second question. You mentioned that retention in Commercial lines had improved in Denmark and I wondered if you could maybe give a bit more details on exactly what happened.

Tor Lønnum – *Tryg*
I guess, in principle, you can say that I think we will accept that we are still in a macro situation here in Denmark which is difficult but you have seen a drop in the number of bankruptcies, you have seen sort of perhaps not an off-take but at least a stabilising environment in terms of small and medium-sized enterprises and finally I guess we have done sort of a few measures in terms of making sure that the customers actually you can say feel that there is a better service from Tryg in the commercial area. So I guess it is a combination of what happens in the macro but it is also what we are doing in direct measures on the portfolio both here in Denmark and in Norway. So it is a combination of factors.

Morten Hűbbe – *Tryg*
Then I guess we saw just a few years ago a combined ratio on commercial that was significantly above 100%. So we have carried out very significant price increases in commercial, in some areas 15%, 20%, even more percent and clearly with the distressed economy some customers reacted on that and left the business. We are now seeing a strong improvement in the combined ratio in commercial and we see that our efficiency measures can do more of the further improvement measures and thereby the need to do substantial price increases in commercial is less than say a year or two ago and, of course, that supports the improved retention rate. Then I guess we have seen, as you said, that historically our servicing (not selling, but servicing) of commercial customers was not as strong as it should be. We started to make more continuous service measurements towards that segment.

Simon Christensen, Nordea

I have two questions. Both are related to the top-line, down 2.5% in local currency. What is your – I mean you have said this is pretty much in line with what you have communicated before, that it will be lower than usual but would you rule out a negative top-line for 2013? My second question is related to the moves we have seen from both Lærerstandens Brandforsikring and also ALKA with their new product launched on motor. What do you see the consequences of that?

Morten Hűbbe – *Tryg*

I guess, first of all your first question, would we rule out negative top-line for 2013, I think clearly no, we would not rule that out. I think the likelihood that we have a negative top-line for the full year is fairly high. Whether it is negative or just low, we will see but I think likelihood is that we will have a great top-line the rest of the year is very close to zero. Clearly when we see that the commercial and corporate customers are not expanding but rather reducing their activities a bit, then their insurance needs get reduced a bit as well. Clearly we are improving the quality of our customers in private lines. We want to improve it further in commercial lines and that also means saying goodbye to some customers. I think we saw for the last two and a half years we said goodbye to roughly 6,500 commercial customers. Only roughly 1,500 of those we would have liked to keep. The rest were of lesser quality and that journey has not ended yet. So clearly we would expect a low and even slightly negative top-line for the remainder of the year.

I think on the ALKA pricing question, clearly the focus is on multi-insurance in Denmark. I think if we rule out Norway first, inflation is high enough to still carry price increases and that is necessary because salary increases are round the 4% mark. In Denmark clearly earnings are high on multi-insurance and inflation is low on multi-insurance and I guess what ALKA is saying is that some customers will get cheaper motor insurance and some customers will get more expensive motor insurance, if you read all of the text. I think if you look at Tryg's portfolio in Denmark, since 2008 the price on motor insurance is very close to being the same, which in effect means that five/six years of claims inflation has been eroding a bit the pricing on motor insurance. So clearly there has de facto been a price reduction in motor for the last five to six years and I guess it is not surprising to see that they want to move that further are the small players and there is an unbalance in the [unclear] earnings. It is higher on motor and lower on house and content. So I think there's a likelihood that we will not see price increases, if anything a slightly downwards trend, on pricing and motor but then companies will need to further improve earnings on house and content.

Simon Christensen - *Nordea*

Maybe just a follow-up: how do you view the distribution power of these two players?

Morten Hűbbe – *Tryg*

Well, clearly we have seen for the last 20-30 years that the small players have weaker brands and clearly weaker distribution power and clearly weaker efficiency on the cost side and on the claims procurement side. So the ability for them to really move the market, both in terms of volume and in terms of earnings, is a bit more difficult. I would though say that you mentioned Lærerstanden and ALKA. I would say Lærerstanden have very little distribution power. ALKA is a bit bigger but at the same time I think show that they deliver strong results as well, so clearly announcing lower pricing is part of a media strategy as well. They are de facto delivering quite strong bottom-line results so I am quite sure they will focus on that also in the future.

Giandrea Roberti - *Carnegi*

Good morning from me as well. Just to come back on what you said, Morten, about the earnings distribution in Denmark for motor and house, I suppose the problem from our perspective on Tryg is that I can't see that because in the [unclear]... how we look at the Group figures but if I take your [unclear] out of Denmark, at the end of 2012 motor combined was 82, housing contents is 90 both in private and commercial. So it has come down, meaning improved big time from 2011 to 2012. So it doesn't seem that there is a big disproportion as it was a couple of previous years and obviously this is probably driven by the total absence of [unclear]... but if you can elaborate a bit more on that, it would be interesting.

Then the second question is on the weather because on your slide you show you had DKK 140 million weather claims and, Tor, you sort of say with a bit of luck and everything else but when I look at the three [no life] insurers that have reported so far, it seems like winter doesn't exist for [no life] insurers. So I was actually surprised to see that 140. I would have thought it was 50 or something and, by the way, the 140, if I divide 500 by four quarters and I don't know if it is correct to divide it equally, but it would be 125. So your weather claims in Q1 are actually above a normal run rate. So if you can elaborate on that as well, it would be interesting.

Morten Hűbbe – *Tryg*

I think on the housing content, you are perfectly right that the mismatch between combined ratios on motor and house content is less evident than it was a year ago. I think it is fair to say that, if you compare ours to Top, our measures to improve house and content claims ratio is probably a couple of years behind theirs. If you look at our efficiency measures on claims procurement, clearly we started with motor. By now our motor repairs are roughly DKK 700 apiece more or cheaper than our peers whereas we don't have the same advantage on house and content. We have also had I think challenges on getting the risk right. Our procurement program will now focus a lot more on house and content for the next two years. We have had a new content product. We want to do adjustments to our house product. So I think clearly we need to improve house and content further and that our mismatch is still larger than the one you are referring to in Top.

Tor Lønnum – *Tryg*

Just to supplement Morton on that, I think you know we have talked about that before as well. When you look at the measures in terms of procurement savings, you see that we have started with motor and then our ambition is to improve in the house and content part as well. You know that we implemented a scale point system in Q4 last year and, of course, we do think that that will give us some healthy effect in 2013. Then I guess sort of the weak spot is still on the house side where we need to improve further in terms of our measures and that is probably where we are as well, as Morten said.

If you look at the weather-related claims, I don't think it is fair to take the DKK 500 million and divide by 4 because typically you will see higher impact in Q1 and to a certain extent in Q4. So it is not evenly distributed between the four quarters. Of course, you can always sort of debate the method that we are using for calculating the weather-related claims because, in principle, what we are doing is look at sort of an average or a normal in terms of frequency and then we look at where we are above that normal. I think, at least as I said, our own expectations were that it would have been at a higher level in Q1. I guess when I said with a bit of luck, I think, in particular, when you look at what has happened in Denmark, at least it doesn't seem like we had the kind of impact that you would have expected if you were looking out the window, with the snowfalls, etcetera. So, in principle, you can say that we are pleased with the developments in Q1 and we think we have actually expected it to be at a higher level.

Lars Møller - *Tryg*

Operator, we are now ready to take questions from outside please.

Operator

Thank you. As a reminder, it is *1 if you have any questions on the phone lines. Your first question comes from Hakon Fure of DMB Markets. Please ask your question.

Hakon Fure – *DMB Markets*

Hi, good morning guys – two questions from me please. Firstly, coming back to the pricing discussion, if I understood you correctly, you expect motor prices to increase by the wage inflation in Norway and some pressure in Denmark. Is that correct? Secondly, on housing contents, if you could provide some thoughts on how you see these prices evolving this year in Denmark and Norway. Then on [reserved leases], if I look at run-off gains for the last six years, it has been fairly stable at level 2% above sort of your long term guidance. My question is, is there any reason to expect the current [reserved leases] to drop significantly going forward? Thank you.

Morten Hűbbe – *Tryg*

Well, I can start by answering the last question. I think it is fair to say that we are sort of guiding at 2.5% to 3% over time. I think I have said for the last couple of quarters at least that you should expect us to be at a higher level in the near term future. I don't want to say that that is something that will go on indefinitely because it is not but at least in the near future I think that we will continue to see run-off gains at the level that we are seeing today.

I guess on the pricing side your question or your assumption on pricing on motor was about right, even house and content but I only want to add that our Norwegian colleagues are teasing us a bit that the Danes are buying all the small Brazilian-produced cars that no one else in the world wants to drive and what we see currently see is that roughly 75% of car sales in Denmark is now smaller cars, which is great from a risk point of view because they drive slower and the repair is less expensive. They are cheaper but at the same time their average insurance price is a lot lower, so that will also put a significant downwards impact on the average pricing on motor insurance in Denmark and that trend will continue. That is not negative from a bottom-line point of view but clearly a drag on the top-line. Then housing content...

Tor Lønnum – *Tryg*

Yes, then I think, in general, if you look at the picture, you see that there is index price increases in Denmark on the housing content side, from 1.8% I think. Then if you look at Norway, it is a slightly higher level, close to 3%, and I guess that should cover the underlying inflationary pressure. If you look at the building cost index in Norway, I think it was at approximately 3% last year but, of course, I think I have said before this is a scenario where we need to monitor the development very closely because, of course, it is important that we don't lose ground in terms of the underlying development on the building plans. That said, of course, I think, going back to the profitability enhancement initiatives that we talked about, it is clearly very important for us to be able to have a development which is below the building cost index based on the initiatives that we are making.

Morten Hűbbe – *Tryg*

And I guess there, Tor, we can mention that we have made a country-wide agreement with Stark for Denmark and Norway, delivering all repair materials at a lower price. We have introduced what we call fixed price repairs in house to make sure that similar repairs have a fixed price and not a variation of what the various carpenters, etcetera, want us to pay and then we want to further expand the use of auctioning during 2013. So clearly those measures should pull in the right direction but, realistically speaking, it will take two to three years to get house repairs to the level that we want it to get at. It is not something we will finalise in 2013 but we will take a big step in 2013.

Hakon Fure – *DMB Markets*

Excellent, thank you guys.

Operator

Thank you. Your next question comes from Matti Ahokas of Handelsbanken. Please go ahead.

Matti Ahokas – *Handelsbanken*

Good morning. A question on Sweden, which is a fairly small market for you but a big market otherwise. On the private side it looks like things are improving quite nicely but then again on the commercial side things seem to be pretty bad and that has continued for a while and you are not the only ones seeing this. I would like to hear some of your thoughts regarding the Swedish commercial and corporate market. Is there a structural problem and how do you see that evolving going forward? Thanks.

Tor Lǿnnum – *Tryg*

I guess it is fair to use another term for the Swedish business because, in principle, you can say that we have a private business and then we have a corporate business. I guess when you look at the combined ratio for the quarter, which I guess is what you are mentioning, it is 102.5 I think for Sweden and clearly that is impacted by a couple of large claims. I don't think necessarily that that is a structural problem for us. I think it is an element of let's call it coincidence, the fact that we have had two large claims in Sweden this quarter. Of course, then you can see very clearly that the large claims that we have had this quarter have been in Sweden but I don't think it is an expression of any sort of structural issue that we have for the Swedish business.

Morten Hűbbe – *Tryg*

I guess we can say that usually the large claims we would have would be corporate Denmark, corporate Norway. This quarter the mix is different because, as you say, it is two large claims in Sweden and it is a large claim in what we call the bonding or guarantee business, so it is a clearly different mix to what we are used to.

Matti Ahokas – *Handelsbanken*

Great, thanks.

Operator

Thank you. Your next question comes from Vinit Malhotra of Goldman Sachs. Please go ahead.

Vinit Malhotra – *Goldman Sachs*

Hi, morning, thank you. Most of my questions have been answered but one still remains in my mind. When I hear the commentary today, there seems to be less of a focus on future price increases as you mentioned that in commercial as well it has been done and in motor as well there will be lesser price increases but if I remember the investor day, that was mentioned as one of the value drivers and the last two to three years or four years Tryg has benefited from the price increases being put in place back in 2010 or even 2009 and I am just wondering if this understanding is correct, that now the price increase focus is much lower in the Group. The second thing is that you still had a recent management change in an area which has done quite well actually on the claims side and I was just wondering if you could comment on that a bit more. Thanks.

Morten Hűbbe – *Tryg*

Well, I guess the general comment is that for the coming years earnings improvement will be driven more by the DKK 1 billion program and less by price increases. I think that is what we, hopefully, have said very clearly since the Capital Markets Day in June. I guess if you, all other things equal, improved claims procurement and cost by DKK 1 billion, it is 5%, all other things equal, to the combined ratio. If you just improve that and at the same time increase prices like mad, combined ratio would be fantastic but then probably we would have very few customers afterwards. So clearly what we said is that we believe that we can strongly continue to improve operations and earnings through the DKK 1 billion program. Then we have monthly assessments of claims inflation and monthly assessments of price increase requirements.

So clearly we will not accept lower price increases than inflation and the number one priority on our strategic list is to improve our pricing differentiation. So that is the biggest project we are running currently, is to further and further improve our pricing differentiation and our ability to pick the right risks. That is one of the reasons why we see now that our new customers in private lines this quarter on average have a substantially lower expected claims ratio than the new customers we took onboard a year ago. So clearly the improvement on quality and risk selection and catching up continuously to claims inflation is unchanged and very high but you are right that the bigger, broad price increases have been replaced by the DKK 1 billion efficiency measures. That is completely right.

Then I guess on claims, in the last three years we have replaced two-thirds of the Management Board and when you want to take a high quality business and make it more efficient and you want to achieve bigger results, you have to sometimes make replacements in the Management Board as well. Our claims department has always delivered high customer satisfaction but also been an area we wanted to elevate on efficiency, on procurement, on making sure processes are more aligned and more efficient.

Our head of claims has done a fantastic job on that but also realised that that was a very tough job and now she wanted to move on to less demanding things in her life and we have put a replacement on that task. He has also previously been the head of claims so he is very experienced in that area. He is extremely strong in project management and he will make sure that we achieve the measurements also in the future and he will take the job until the end of this year, meaning that we take our time to make sure we have the right replacement on board. I guess that's an advantage of having 4,000 employees, that we more often have someone standing in line and can take over.

Vinit Malhotra – *Goldman Sachs*
Okay, thank you very much. Thank you.

Operator
Thank you. Your next question comes from Hans Pluygers of Cheuvreux. Please go ahead.

Hans Pluygers – *Cheuvreux*
Good morning gentlemen – two questions from my side. Going back on the price impacts, could you give us a breakdown on the premium developments in Q1 from the price at a Group level and also what the impacts on Group level were from the bonuses adjustments. Secondly, also going back on Sweden, you mentioned focus more on cross-selling. Could you maybe elaborate what you are doing there and what kind of retention rate target you have there for that market?

Tor Lønnum – *Tryg*
I guess perhaps if we start with Sweden, I think there are two major elements. One is that we are introducing a loyalty program, which kind of stimulates the customers to have more than one product, as Morten mentioned earlier. I guess it is a similar concept to what we use for the Norwegian market. The other is to introduce a bonus model for the sales force which is stimulating people to cross-sell more than just sell one new product. So I guess that's the two most important initiatives.

I guess the other question was related to the premium split on the business areas. I am not quite sure if I follow the question, Hans, but I will try to say something about it. I guess when you talk about the surplus sharing agreement that was described earlier by Morten, that is primarily for the private segment. So if that was your question, of course...

Hans Pluygers – *Cheuvreux*

No, no, my question is at Group level...

Tor Lǿnnum – *Tryg*

More about the Group? It is primarily driven by what has happened in the private segment. So if you look at the top-line development per business segment, you can say we have a flattish development in Sweden, a small increase. If you adjust for the profit sharing agreement in private, then it is a flattish to a small increase in private. Then there is a drop both in commercial and corporate. I think to a certain extent, of course, the larger part of the drop is related to the corporate side where we do see that new sales have been more or less zero over the last 12 months and, of course, that is the area where we need to look at how we can handle the top-line going forward. On the other side, of course, it is extremely important for us not to focus on getting new contracts on the basis of a discounted price. So it is a balancing act in terms of looking at the profitability side.

Morten Hűbbe – *Tryg*

And I would only add that in Sweden there are two structural important issues on the top-line side. One is that we have now ended the contract with Nordea who was a big part of our distribution in Sweden and, of course, you notice that on the lack of growth in Sweden. On the other hand, the combined ratio of that business was substantially above 100%. So you are missing out the top-line contribution from those sales channels but clearly the improvement to the combined ratio from not having it is very evident.

Secondly, we are closing down our sales office in [Dudero] and instead we are building up a new outbound call centre in [Melby] so that the cross-sales initiative that Tor mentioned is where from Melby we will contact the single product customers we have already in Sweden and do add-on sales to those but it means our sales is down in Dudero and towards the end of 2013 we will start to increase from Melby. So that was the only addition.

Hans Pluygers – *Cheuvreux*

May we come back on the premiums? If you look at the impact from increase in prices on average in the Group, should we think about 1.5% impact? Could you give some number there what the impact of price increase was on Group level, the premiums?

Tor Lǿnnum – *Tryg*

I guess if you look at if the question is on average on the total, perhaps by around 2%.

Hans Pluygers – *Cheuvreux*

Okay, clear, thanks.

Operator

You have no further questions on the phone lines at this time. Please continue.

Morten Hűbbe – *Tryg*

Thank you,operator. Do we have any further questions from inside here? Otherwise, we thank you all for participating. As you can see here, we will be around in the next couple of weeks, starting in Stockholm and London next week on a roadshow from the Q1 results here. So thank you everybody for participating here this morning and have a nice day.

Operator

That does conclude the conference for today. Thank you all for participating. You may all disconnect.