

Q2 2015 Earnings Call

Company Participants

- Christian Sagild, CEO

Presentation

Christian Sagild {BIO 15093649 <GO>}

Welcome to the presentation of Topdanmark's results for the first half of 2015.

Profit for the first half this year was DKK647 million, down from DKK945 million in the first half last year. The combined ratio improved from 85.9% to 85.7%. Excluding runoff, the combined ratio improved marginally from 89.7% to 89.6%.

Premiums decreased 0.9% in nonlife and increased 33% in life. For the full-year 2015, the assumed growth in nonlife has been adjusted from around minus 1% to between minus 1% and minus 2%. In life, the assumed growth in regular premiums has been upgraded from around 5% to more than 10%.

The assumed combined ratio has improved from around 90% to between 88% and 89%, excluding any runoff profits or losses in the last half of the year. And the profit forecast model for 2015 has been upgraded by DKK50 million to between DKK1,150 million and DKK1,150 million.

Similarly, the share buyback program for 2015 has been increased by DKK50 million to DKK1.95 billion, representing a buyback yield of 9.6%. These are the main points in my presentation.

Pretax earnings declined DKK361 million to DKK837 million in the first half of 2015. The technical nonlife profit declined DKK5 million to DKK638 million.

Low interest rates resulted in a decline of around DKK50 million in the first half of 2015 compared to the first half last year. Accordingly, the underlying technical result improved. I'll touch on this when commenting on the claims trend on the next slide.

The investment return declined DKK301 million to DKK129 million, partly due to an extraordinarily high investment return in the first half of 2014 and partly the negative impact on investment return of a significantly higher increase in interest rates on mortgage bonds than on the interest rate curve used to calculate the value of provisions. Profit in life insurance declined to DKK68 million mainly due to a low investment return.

Overall the claims trend deteriorated 0.2percentage points to 69.7%. As compared to the first half of last year, lower interest rate impact of the claims trend negatively by 1.1percentage points. Accordingly, the underlying claims trend improved. Moreover, weather-related claims impacted the claims trended negatively by 0.4percentage points.

On the other hand, there were relatively few fire claims, particularly in personal and agricultural areas. And the trend in fire insurance improved the overall claims trend by 1percentage point. Furthermore, the favorable trend in the level of theft claims continued. And run-off gains increased DKK6 million, representing an improvement in the overall claims trend of 0.2 and 0.1percentage points, respectively.

Premiums decreased 0.9% in nonlife, reflecting a 0.1% decline in the personal segment and a 1.9% decline in the SME and industrial segment.

Topdanmark's mantra is profitable growth, in that order. We have implemented a number of measures in order to strengthen profitability which have resulted in negative growth in the first half. Topdanmark's focus on profitability-promoting initiatives for less profitable customers in the SME and industrial segment has generated a loss of major industrial customers, representing a 1.4percentage point adverse effect on the Group's premium growth in the first half of the year.

The personal segment was affected by the implementation of a new strategy for sales made by our sales representatives in the personal segment. In order to improve the quality of new sales, the representatives now make more individual risk assessments. This change causes a loss of momentum. But is expected to improve the quality of the new customer portfolio in the future.

Additionally, the level of Topdanmark's new sales through bank distribution was lower than in the first half of last year, due to Danish banks generally having allocated considerable resources to serve customers refinancing their mortgage credit loans because of declining interest rates. As a result, Topdanmark has received fewer referrals than normal.

Finally, competition in motor insurance in particular continues to be intense. Developments in motor insurance continue to reflect a decline in claims frequency and an increase in the sale of smaller and safer cars, which has resulted in the trend with declining risk and declining average premiums. But maintained profitability.

For the full year, we have adjusted the assumed growth from around minus 0.1 to between minus 1 and minus 2percentage points. As mentioned, the combined ratio improved 0.2percentage points to 85.7%.

For the full year we have adjusted the assumed combined ratio from around 90% to between 88% and 89%. This improvement is due to run-off profits, better than assumed weather-related claims in Q2. And a higher interest rate compared to the previous forecast data.

Profit in life insurance declined to DKK68 million in the first half of 2015, primarily due to a lower investment return. For 2015, the assumed profit on life insurance is unchanged, between DKK140 million and DKK170 million.

The life company holds a good competitive position due to relatively high investment returns and low administrative costs. This was reflected in an increase of 33% in gross premiums in the first half, split between a growth of 54% in single premiums and 13% in regular premiums. Due to the high growth in the first half, we have upgraded the assumed growth in regular premiums for 2015 from around 5% to more than 10%.

The investment return in the first half of 2015 for Topdanmark Group excluding life was DKK141 million, representing a return on investment of 0.7%. Furthermore, the result of Topdanmark's asset management company was DKK31 million, giving a total investment return of DKK172 million.

The investment return after transfer to the technical result was a loss of DKK40 million in Q2. The return on the bond portfolio had an adverse impact on the overall return.

This was due to the quarter's significantly higher increase and interest rates for Danish mortgage bonds than the increase in interest rates for the Danish FSA's interest rate curve used to calculate provisions. Danish mortgage bonds represent a significant share of the asset used by Topdanmark to limit the interest rate risk. On the other hand, the investment return for the quarter benefited from a gain of DKK111 million on the disposal of two rental residential properties.

The profit forecast for 2015 has been upgraded by DKK50 million to between DKK1,050 million and DKK1,150 million excluding run-off in the second half of the year, representing earnings per share of DKK11. The share buyback program for 2015 has been increased from DKK1.9 billion to DKK1.95 billion, representing a buyback yield of 9.6%.

To date in 2015, we've bought back owned shares of DKK982 million, which leaves a buyback of DKK968 million for the remainder of the year. Since 1998 when we introduced the buyback program, we've bought back and canceled owned shares representing 74.5% of the share capital. The average buyback yield from 2000 to 2014 has been 9.5%.

Thank you for taking the time to watch this presentation of Topdanmark's report for the first half of 2015. If you want to know more about Topdanmark, you're welcome to contact our Head of Investor Relations, Steffen Heegaard.

Following the announcement of the Q2 results, we will hold a number of investor meetings. Today, we'll host a conference call at 3:30. You can find more details of our roadshow schedule on our website in the events calendar. Thank you. And goodbye.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.