

S1 2019 Earnings Call

Company Participants

- Lars Thykier, Chief Financial Officer
- Peter Hermann, Chief Executive Officer

Other Participants

- Jakob Brink, Analyst
- Jonathan Denham, Analyst
- Mads Thinggaard, Analyst
- Per Gronborg, Analyst
- Phil Ross, Analyst
- Steven Haywood, Analyst
- Youdish Chicooree, Analyst

Presentation

Peter Hermann {BIO 20507411 <GO>}

Good afternoon, everybody, and good morning to the USA, and thank you for joining us at this conference call. With me is Lars Thykier, the CFO; and Steffen Heegaard, the Group Communications and IR Director. We are holding this conference because earlier today, we published our results for the first half year of 2019. So we are now ready to answer your questions. Please ask them one at a time. And operator, may we have the first question, please?

Questions And Answers

Operator

Thank you very much. (Operator Instructions)

And our first question comes from the line of Youdish Chicooree of Autonomous Research. Please go ahead. Your line is open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good afternoon, everyone. I've just -- I've got three questions, please. The first one is on your life result. If you could help us understand why it's so high and whether there were any one-offs we need to be aware of?

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And secondly, it's on your guidance for the rest of the year. You're guiding for a range of 200 and 300 for the year, which means that even at the low end of the guidance, you're suggesting a quarterly result of around 40 million [ph]. I was wondering, are you just being very conservative here? Or are you anticipating any impacts going forward?

And finally, on your underlying claims ratio, I just wanted to know whether you actually adjust for discounting impact or is it stated before those changes for the year? Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

Sorry, I didn't get the last one.

Q - Youdish Chicooree {BIO 17430923 <GO>}

So you reported that -- you reported a claims ratio before run-off, whether and large claims of 69.3 in 2Q and 69 for the half year. Does that adjust for the changes in the discount rate on claims reserves or not?

A - Peter Hermann {BIO 20507411 <GO>}

So I'll answer the last one first, yes, it does.

Q - Youdish Chicooree {BIO 17430923 <GO>}

It excludes or it does not exclude, sorry?

A - Lars Thykier {BIO 16427122 <GO>}

It does. It is made up taking into consideration how the discounting rate changes.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. So if the discount rate was stable this year, so the improvement you would have shown for the half year would have been all at 2 points instead of 1 point, is that right?

A - Peter Hermann {BIO 20507411 <GO>}

That's right.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. All right. Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

And in the forecast we'll make for the rest of this year, the impact is actually 1.2 percentage points from -- different from what it would have been three months ago.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Yeah, understood. Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

And then investment on life equity, that was your question?

Q - Youdish Chicooree {BIO 17430923 <GO>}

Yeah, yeah.

A - Peter Hermann {BIO 20507411 <GO>}

We have had a very good run. There has been some asset classes. It has performed unusually well. There is no specific one-offs. But we certainly do not expect this to continue that is -- that this year investment stochastic sort to speak.

Q - Youdish Chicooree {BIO 17430923 <GO>}

So just a follow-up on that. In the first quarter, the result was very similar, but in the first quarter did have strong recovery in market, so in the second quarter, I'm a bit puzzled to see this the same level. So that's why I was wondering what asset class did perform well?

A - Peter Hermann {BIO 20507411 <GO>}

Yeah. There is a -- the fact that the Danish market branches actually performed well. And since we don't have the liability side one which [ph], so we need investment income in life, the income hasn't been heard for -- from the changes in discount to rate, On top of this, we have had -- we have had some very steep increase in price and index-linked bonds.

Our CDOs have come back. It has performed well in the quarter and so on. We have built the property, which is now finalized and every all apartments are did out. That means that the contingency, we have had in this -- under this clipping has been cancelled.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Okay. Understood. Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

And then the difference between the change in expected combined ratio and the forecast, I remind you that when we use intervals so in principle, if the expected combined ratio moves some from 86.1 to 85.9, then we might change in (inaudible). So the change in combined ratio of -- from 86 to 87 and to 85 to 86, is not necessarily a full percentage point.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Fine. Well, that's the --

A - Peter Hermann {BIO 20507411 <GO>}

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That's the first thing. And the other one is that we -- with the very low interest rate, we are having now, we expect the investment income to be somewhat lower than we did three months ago.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Understand. But my question on the guidance was specifically with respect to the Life segment and the fact that you've already recognized 220 million in the first half and you're saying, you're going to -- it's going to be in the range of 300 to 330 for the full year, so that suggested that the results would be like in the region of 40 per quarter, which is very low compared to even last year?

A - Peter Hermann {BIO 20507411 <GO>}

I admit slight conservatism in this context.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Now, I understood right. Thank you. Thank you.

Operator

Thank you. Our next question comes from the line of Jakob Brink of Nordea. Please go ahead. Your line is open.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you. Actually, coming back to the same question about life insurance, to what extent did customers get same good return as you got for shareholders' equity in the quarter? And I guess to follow on that, what is the sensitivity for you to be able to book the full year risk allowance when the year is over? How far are you from being able to do that or how is that calculated? That's my first question.

A - Peter Hermann {BIO 20507411 <GO>}

It depends on which customers. I can't [ph] really give to you one answer to this. There are customers in our linked environment. They have had a very good result in this quarter. While the customers we have in the interest rate groups, they are not very exposed to shares, and that means that they get more or less a hedge of the guarantees that they have bought, and that means a pretty low result.

The sensitivity, again, we have 9, 10 interest rate groups and sensitivities are different from one group to the next. You may remember that there was one group in -- at year-end '18 that did manage to -- Steffen is going to say something? Well, we didn't get the return we should have had or the administration fee that we should have had. If you are concerned about whether the interest rate changes as such should bring the solvency in danger, the - in general, we have hedged the interest rate risk in the interest rate groups.

Q - Jakob Brink {BIO 20303720 <GO>}

So with the current interest rate levels, you should be able to book full risk allowance at the end of the year?

A - Lars Thykier {BIO 16427122 <GO>}

If this was the end of the year, we would book for risk loans.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay.

A - Peter Hermann {BIO 20507411 <GO>}

But it'll also depend on the development on equities, of course.

Q - Jakob Brink {BIO 20303720 <GO>}

Yeah, of course. And then, I guess secondly, on the termination of the Danske Bank agreement, you're guiding that it's less than 10% of new sales, but of course, it's also around 10% of the back book. If -- now it's only 2.5 months or three months away from you having to give a premium growth guidance for next year, at least if you give us normally, what would you -- so maybe take sort of a small prime around that, what would be the expected impact next year?

A - Peter Hermann {BIO 20507411 <GO>}

Now, we need to see how things are working out for the next three months, and we don't really know what kind of initiatives that Danske Bank are going to show. So I would rather not give an impression now of what is going on to happen next year. But obviously, we have told you that we expect this to be around 0.5% slower growth this year, and if you double that, it is 1 percentage point. But what I don't like to guess is, what is the consequences of the initiatives we may need.

Q - Jakob Brink {BIO 20303720 <GO>}

Fair enough. Thank you very much.

A - Peter Hermann {BIO 20507411 <GO>}

Welcome.

Operator

Thank you. Our next question comes from the line of Jonathan Denham of Morgan Stanley. Please go ahead. Your line is now open.

Q - Jonathan Denham {BIO 19972914 <GO>}

Thanks very much. Just three questions from me, if I may. And firstly, your SME premiums grew by almost 2% -- sorry 5% in 2Q. Just quickly, what was that excluding the indexation of workers' comp? Secondly, you said the life premiums wouldn't --

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A - Peter Hermann {BIO 20507411 <GO>}

Jonathan, the line is pretty bad. Could you repeat slowly, please?

Q - Jonathan Denham {BIO 19972914 <GO>}

Sorry. And the SME premiums grew by almost 5% in 2Q. What is that excluding the 9% indexation of workers' comp?

A - Peter Hermann {BIO 20507411 <GO>}

That is -- we made a couple of agreements that has been a bit large, an anomaly.

A - Lars Thykier {BIO 16427122 <GO>}

(technical difficulty)

A - Peter Hermann {BIO 20507411 <GO>}

Okay.

A - Lars Thykier {BIO 16427122 <GO>}

Most of the indexation on the 9% is actually happening in the start of the year. So it seem [ph] just focusing on Q2, then the indexation of 9% has actually not had that much of an impact.

A - Peter Hermann {BIO 20507411 <GO>}

That's right.

Q - Jonathan Denham {BIO 19972914 <GO>}

Thank you. Secondly, you said the life premiums were negatively impacted by the implementation of the new IT platform. Should we expect ongoing reduction in the inflow of new single premiums or is that all in ticket?

A - Peter Hermann {BIO 20507411 <GO>}

You should not. We still have some problems with the implementation and this may slow things down to some extent. But we expect to be in full speed within a couple of months.

Q - Jonathan Denham {BIO 19972914 <GO>}

Thanks. And just finally, you highlighted that the VA fell to 6 basis points at the end of 2Q. Where is it now and what have you assumed in your say forecast model?

A - Peter Hermann {BIO 20507411 <GO>}

It has increased somewhat. There are different ticks on how high it is. It is made up by the regulator. It is made up by Danske Bank, and is maybe made up by Nykredit and they

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don't agree. But something like say between 10 and 15 basis points now, and I think that it will probably increase a little bit more during the quarter and everything else equal.

Q - Jonathan Denham {BIO 19972914 <GO>}

And is that included in your profit forecast model?

A - Peter Hermann {BIO 20507411 <GO>}

No, it's not.

Q - Jonathan Denham {BIO 19972914 <GO>}

Okay, perfect. And just the guidance for 5 million for every 1 percentage point change in the VA still stand?

A - Peter Hermann {BIO 20507411 <GO>}

Yes.

Q - Jonathan Denham {BIO 19972914 <GO>}

Perfect. Thank you very much.

A - Peter Hermann {BIO 20507411 <GO>}

Thank you.

A - Lars Thykier {BIO 16427122 <GO>}

I guess, 4.5% -- 4.5 million, that's after-tax.

Q - Jonathan Denham {BIO 19972914 <GO>}

Brilliant. Thank you.

Operator

Our next question comes from the line of Per Gronborg of SEB. Please go ahead. Your line is open. Hey, Gronborg, you may go ahead and ask your question. If you have your line muted, please unmute.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes. Hello.

A - Peter Hermann {BIO 20507411 <GO>}

Hi.

Q - Per Gronborg {BIO 15910340 <GO>}

Can you hear me?

A - Peter Hermann {BIO 20507411 <GO>}

Yes.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Perfect. Two questions from my side. In Q1, we saw your bonus risk in the -- in your solvency numbers going up quite a lot. I would -- why is it only moving marginal this time taking into account that the VA is continuing its downtrend. That's the first question.

A - Peter Hermann {BIO 20507411 <GO>}

Yes. That's of course we had a very good run on non-equities, which means that the loss absorption capacity here for our customers has increased.

Q - Per Gronborg {BIO 15910340 <GO>}

So it's offset by equity gains, primarily.

A - Peter Hermann {BIO 20507411 <GO>}

Yes.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Perfect. My second question, can you put some flavor on the gap between your return on your more plain vanilla bonds and the revaluation of your liabilities, the gap is pretty big. I know, there is a 60 million from the VA. But the fact that, something else must have gone quite wrong this quarter?

A - Peter Hermann {BIO 20507411 <GO>}

Yeah, you may say so. It's an -- an inherent problem, when you -- when we or whenever you are trying to hedge DHENA [ph] liability with a curved asset profile. The things -- the way things work, when we are tuning this hedge is that, if interest rates stay stable, I mean, we have an extra income that of course, had written options on the interest rate level. When interest rates changes up or down, we'll always lose money. And in this case, we saw very difficult markets and very strong fall in interest rates. And that means that we are -- every time, the interest rate ticks down, then our hedge is too small. We had to find -- buy more bonds. And the market has been squeezed, so it has been very hard to buy this bond at a reasonable price. So yes, it has been one of the worst quarters concerning hedging for many years.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. That explains it. Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

You're welcome.

Operator

Thank you. Our next question comes from the line of Phil Ross of Mediobanca. Please go ahead. Your line is now open.

Q - Phil Ross {BIO 20618440 <GO>}

Hi, good afternoon. Two questions from me, please. Just looking at the slides from the roadshow presentation, the Slide 9 shows your trend in average premiums and motor starting to pick up again, and I guess more so in Q2 of this year. Can you talk about why that is? Have you made some deliberate price increases? Or is the market becoming a little bit easier for you?

And then secondly on, I think, it's Slide 23, the break-down of run-off profits. They are materially higher this year, but you also have a negative 91 million impact. I wonder whether that is a function of discount rate? Or is there sort of an area where you've had to strengthen some reserves? Thanks.

A - Lars Thykier {BIO 16427122 <GO>}

Yeah. The first one about cars is that, this is the comprehensive start of cars actually coming up, and also people buying larger cars.

Q - Phil Ross {BIO 20618440 <GO>}

Okay.

A - Lars Thykier {BIO 16427122 <GO>}

So that's (inaudible) some of the reasons for the average premiums going up on the motor side.

A - Peter Hermann {BIO 20507411 <GO>}

We had a change in taxation of cars a few years ago -- two years ago, and this means that people are buying larger cars now than they did before. We have not increased prices.

Q - Phil Ross {BIO 20618440 <GO>}

Okay.

A - Peter Hermann {BIO 20507411 <GO>}

And on the run-off, we have -- yeah, we have negative run-off on house. We have a negative run-off on the contents, including consequential losses, negative run-off on the professional items. And in total, it is -- and half [ph] actually -- some little unusual run-off costs. On the -- yeah, you can see on the other side that we have had run-offs on workmen's compensation and third-party liabilities in motor. Especially the -- concerning

the workmen's compensation, we had a long time where the public body that handles workmen's compensation of disease [ph] or accidents covered by workmen's compensation, where they didn't decide anything, so we were in darkness when we tried to make up where the right stable of things were.

Q - Phil Ross {BIO 20618440 <GO>}

Yes.

A - Peter Hermann {BIO 20507411 <GO>}

And that has been thrown some light on this now, so we have a better idea about this. We have been able to release some of the serves we've made.

Q - Phil Ross {BIO 20618440 <GO>}

Okay, thanks. Very helpful.

Operator

Thank you. (Operator Instructions) And our next question comes from the line of Steven Haywood of HSBC. Please go ahead. Your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Hi, thanks very much. I wanted to ask two questions, please. One is on the core [ph] agreement you have still. I wonder if you can give us any sort of potential update or insight on what this agreement is providing in terms of premiums, how that's developing going forward, and the potential really here to offset the sort of Danske Bank termination agreement.

And then secondly, now that the Danish government bond, the tenure is negative, I wonder if there is any implications for your life business here and if there is any convexity issue on your solvency capital requirement here? Thanks.

A - Peter Hermann {BIO 20507411 <GO>}

I'm going to answer the last one. Yes, there is a kind of convexity. It is kind of leveraged in the Shipt [ph]. But we don't really use Danish government bonds for this hedge. We use swaps. And it is not a matter of specific concern that the government bond yield is very low. On the --

A - Lars Thykier {BIO 16427122 <GO>}

On the core side, we have actually -- this half year, actually delivered five new products to the core platform. It has been content, travel insurance, (inaudible) and cat, and also accident insurance. And this fall, we will also deliver our house products. Actually, I don't have a number for you to -- like what are we going to see in terms of premium, but we are saying that we expect around 8,000 [ph] to 10,000 policies on the core platform after this

year. But it will not be core alone that can actually be take off the effect on the Danske. So it will not be 0.5% on the premium on the core for this year.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thanks very much.

Operator

Thank you. Our next question comes from the line of Mads Thinggaard of ABG. Please go ahead. Your line is open.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yeah. Hi, this is Mads from ABG. Thank you for taking my questions. The first one is on, I mean, on the life income, where we're behind you the last quarters, how should one think about Life pretax profit in 2020. Would that be like checking '19 and then the detecting [ph] 100 million, would that be kind of the standard view here.

A - Peter Hermann {BIO 20507411 <GO>}

I'd say yeah, you just look at the forecast we made before '19 and then there is [ph] anything, very far away from this.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay, thanks. Then just to understand correctly, the VA component. Now you say it's a bit back here after Q2 to 10 to 15 basis point, but if it were to trend downwards again, could it go below CBOE [ph] or will stop at zero?

A - Peter Hermann {BIO 20507411 <GO>}

Technically, it can go below zero, but we don't need to use it. So if it goes below zero, we drive it.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. And then just a bit of add on question that is not that much related to Q2 here, but your competitor Tryg is talking a lot about fraud detection potential in their business. What kind of the potential, are you flagging here on fraud detection over the next years.

A - Peter Hermann {BIO 20507411 <GO>}

We don't work exactly as Tryg does. As you know, so we have not stated, how much we intend to find or how much we hope to find. But we have, by our machine learning team developed our own fraud detection protection model, which seems superior to the models that can be bought in the market. So we expect this to have reasonable impact, so to speak.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Thanks for that.

Operator

Thank you. (Operator Instructions) And there are no further questions at this time. Please go ahead, speakers.

A - Peter Hermann {BIO 20507411 <GO>}

So thank you, for taking the time to attend our conference. As you know, you're always welcome to call one of us if you have any further questions, and then we'll be happy to answer them. But otherwise, have a good summer.

A - Lars Thykier {BIO 16427122 <GO>}

Bye-bye.

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