Q1 2017 Earnings Call

Company Participants

- Christian Sagild, Chief Executive Officer
- Lars Thykier, Chief Financial Officer

Other Participants

- Jakob Brink, Analyst
- Jonny Urwin, Analyst
- Paul De'Ath, Analyst
- Per Gronborg, Analyst
- Steven Haywood, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Thank you for standing by and welcome to the Topdanmark's Q1 2017 Results Conference Call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. (Operator Instructions) I must advise you that this conference is being recorded today, Tuesday, the 23rd of May, 2017.

I would now like to hand the conference over to your presenter today, Christian Sagild. Please go ahead.

Christian Sagild {BIO 15093649 <GO>}

Thank you. Good afternoon, everybody and good morning to the USA, and thank you for joining us in this conference call. With me are our CFO, Lars Thykier and Steffen Heegaard, who is Head of Investor Relation and Group Communication. We're holding this conference, because earlier today we published our results for Q1 2017 and we are now ready to answer your questions. Please ask them one at a time and operator, please let us have the first question.

Questions And Answers

Operator

Thank you. (Operator Instructions) So we have several questions. The first one comes from the line of Jonny Urwin from UBS. Your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you. Hi there, good afternoon. Two from me please. So firstly, I noticed the underlying claims ratio adjusted for run-off whether large losses improved by around 2 percentage points year-on-year. I wondered if you could provide some detail around that improvement, which is a little surprising -- surprisingly good that is, given that the more adverse trends we've seen at this [ph]?

And secondly, please, could you walk us through the thinking behind the new dividend policy, I mean given limited capital requirements for growth and a strong starting point for Solvency II, I guess you could have gone higher than the 70% minimum payouts. I wondered if you're just building in some flexibility here. Thank you.

A - Lars Thykier {BIO 16427122 <GO>}

I think that you should be very careful with judging the claims ratio in one quarter. It is too sarcastic to some extent and if you do it just one quarter, there will be that by accident we have somewhat better claims ratio than our peers, but yeah, and we have done a lot to improve our claims ratio during the last couple of years. And we think that this is a trend of a better risk selection that we may see now.

A - Christian Sagild {BIO 15093649 <GO>}

Regarding the dividend policy, it has now been stated and I think it's important to say that the Board out of Denmark has maintained the disciplined approach to capital consumption, so that unnecessary buildup of capital should be avoided. When this is supplied with a statement of a payout ratio of 70%, you can say that it's a (inaudible) at least 70% that is, may be regarded as cautious, but we still are only one quarter ahead, but I think you should focus on the first statement rather than the last.

I think that it could end up being higher, but basically you can say if we don't have anything else other requirements in terms of increased solvency capital or increased need for other purposes, we don't want to accumulate the capital. So in that sense, you might say conservative.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you for that. Just a quick follow-up on the first question. Do you think that the prices you're putting through are enough to sort of offset claims inflation from it, so the better risk selection trends that you're mentioning should result in a sustained some sort of improvement in that underlying combined ratio?

A - Lars Thykier {BIO 16427122 <GO>}

This question is something that some of our competitors has related to motor business, not the least and we are seeing some different movements in motor. We do see an increased claims in comprehensive where it seems as if the cars tend to be more expensive to repair, because of technological gadgets and things like that. On the other hand, TPL has -- we've seen a drop in the risk premium of TPL. So, and since most customers have both TPL and comprehensive, that means that on average, we don't see a need for increasing prices more than the price development. So we think that altogether claims inflation will be in line with the price index. We don't see it any higher than that. So that should be -- we should be able to cope with that.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great, thank you very much.

Operator

Thank you. And the next question comes from the line of Paul De'Ath from RBC. Your line is open.

Q - Paul De'Ath

Hi, there. Thanks. And couple of questions as well for me, please. And firstly, just looking at the motor business again and obviously the average premium for cars, motor will come down a bit further. Is that simply due to smaller cars and paying insurance or -- and something on those lines rather than any change to the underlying claims inflation going back to Jonny's point?

And then the second question was just on the run-off. And the fact that you have got a small run-off north in the SME business and any additional color on that as to whether that's, and what's caused that and if it's a new trend and what we should expect going forward? That would be great. Thanks.

A - Lars Thykier {BIO 16427122 <GO>}

I think that the small run-off loss in SME, it is not a change in trend. It's just this quarter.

Q - Paul De'Ath

Regarding the motor?

A - Lars Thykier {BIO 16427122 <GO>}

Regarding the motor premium, I don't think that we did smaller cars anymore. We have seen flatting out of this trend and now we see a slight increase is size of cars that people buy in Denmark. But the changes in prices we have made early on, they have run through the portfolio during the couple of years and that means that when we changed our prices two years ago, then we've seen decreasing premiums until we increase premiums again.

Q - Paul De'Ath

Okay, thanks. And on the run-off loss in SME, what specifically was causing that this quarter?

A - Lars Thykier {BIO 16427122 <GO>}

I don't recall. Seeing what was, it was, yes, it was liability.

Q - Paul De'Ath

Okay, great.

Operator

Thank you. And the next question comes from the line of Vinit Malhotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Some of my topics have been addressed, but I still try to ask again just to get more clarity, please.

Just on the SME segment, the commentary in the report was very favorable and from your peers at least we are seeing that they are facing problems in commercial in Denmark. Is this an outcome of just what you mentioned as the risk selection being better or is it just you think that completely different kind of customer base that's driving this? So that's the first question.

And second question is, if I can ask on -- apologies on the motor. When we say that the comprehensive insurance costs are going up, is it just because those cars have more expensive technology or is it also some distracted driving frequency related phenomenon please? Thank you.

A - Christian Sagild {BIO 15093649 <GO>}

SME, I didn't get the question. (Multiple Speakers)

A - Lars Thykier {BIO 16427122 <GO>}

If we are looking on this first quarter and then looking on the SME, I must say that we are seeing a very positive outcome of sarcastic [ph] process. So I don't see that this makes a lot of difference compared to our competitors, it may change next quarter. We have noted that some of our competitors have stated that they probably, they have been hurt harder than we have on the commercial side in Q1. So to some extent you can say that we've been luckier than them.

When it comes to motor comprehensive, I mean whether an accident is caused, I mean we have seen it flattening out. We don't see any more decrease in the frequencies in motor, so that the -- and we do see or someone is trying to explain the flattening out of these frequencies that people tend to be more distracted during driving, but it is a fact that once the claim occurs, it seems as if we have some increase in the average claim, because of this higher technology, so it's a little bit of both.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you.

Operator

Thank you. And the next question comes from the line of Steven Haywood from HSBC. Your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. You stated very clearly about, obviously maintaining a disciplined approach to capital consumption, avoiding accumulation of any unnecessary capital, which is very explicit here, but obviously, you're going to be seeing an increase in the size of -- should we say capital over the course of the year as you aren't paying out a share buyback. So I think we've already started seeing this in your investments, your money markets investment assets have gone up considerably to about 4 billion.

Now I'm assuming this large increase is because you're not doing the share buyback and because you're seeing continued earnings and large premiums coming in the first quarter. Is there any particular plan that you, because your investment asset base is going to be larger. Are you going to invest these money market and funds in actual assets that yield higher returns or will it be a drag because it's only a negative yield on these money market assets at the moment? Thank you.

A - Christian Sagild {BIO 15093649 <GO>}

The main reason for having a lot of money market right now is that we have -- major part of the premiums are paid around 1st of January. On top of this, we think that some of the investments we might have chosen to have on the (inaudible) is that they are then on the expensive side and that means that we have little more on money markets and we usually would, the buyback of course that decreases (inaudible) previously we have, but it is not an important part of the -- not an important part in additions with the investment portfolio we have. But it's, of course you are perfectly right that the, I think we will accumulate liquidity during the year and that means that the solvency ratio will increase to maybe 200, above 200 for the year-end.

A - Lars Thykier {BIO 16427122 <GO>}

We are not getting more risky on our investment side, just because we can't keep more money this year. There should be a hand for the payout.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. I understand. Thanks very much.

Operator

Your next question comes from the line of Jakob Brink from ABG. Please go ahead. Your line is open.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you. I just have one more question, sorry, coming back to the motor. If I look at the risk premium as you mentioned on page four in the report, it actually looks like the improvement is somewhat larger than 30 basis points, you said 2.176, down from 2.22 last year. So I guess that's due to reserve leases being lower this year. Is that correct? And is that actually the underlying improvement in the motor segment closer to 2% rather than 30 or something else impacting?

And then also just on the dividends, you're mentioning that we should focus on the first bullet that you will not have unnecessary capital. I'm not quite sure I understand what exactly you mean then. So should we actually just like always put in sort of a Topdanmark capital model where you pay out basically net profit for the year, adjusted for just growth and issuance of employee shares or what exactly do you mean by that? Thank you.

A - Lars Thykier {BIO 16427122 <GO>}

To answer first one, you are completely correct that the risk premium is down by 2%, but the premium is down by close to 2%.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Yeah.

A - Christian Sagild {BIO 15093649 <GO>}

Well Jakob, distribution policy, the policy as I said -- is as I said, a disciplined approach to capital consumption. What I'm saying is that if you were, if someone were to state that we would only pay out 70% going forward, that would mean that we accumulated 30% capital over the years. And if I don't know what I should use it for, I'm not going to do that. So I can't tell you exactly year-by-year how this is going to fold-out, but I can definitely tell you that if we don't have any purpose for this capital, we will pay it out.

A - Lars Thykier {BIO 16427122 <GO>}

And just to add, there is nothing that points in this direction of increasing this year.

Q - Jakob Brink {BIO 7556154 <GO>}

Does not, sorry that points in what?

A - Lars Thykier {BIO 16427122 <GO>}

Points in the direction of increase in this year going forward.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay.

A - Lars Thykier {BIO 16427122 <GO>}

Our model is same in five years, as it is now.

Q - Jakob Brink {BIO 7556154 <GO>}

So basically the reason why you put 70% and not 90 or something, is that you don't want to see too big a drop in the dividend in case of a bad year or how should we interpret that?

A - Lars Thykier {BIO 16427122 <GO>}

You can interpret it as a conservative approach to the fact that at some point in time you might risk facing some other option, some other possibilities that you could then pursue without changing your dividend.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thank you very much.

Operator

Thank you. The next question comes from the line of Per Gronborg from SEB. Your line is open.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you. I have two questions. I hope it's okay if you take them one at a time. If I look at your quite big combined ratio guidance improvement, 2 to 3 percentage point. That seems to be more than can be justified by Q1. Does this also reflect that you are seeing maybe some improvements out on the marketplace could be on the commercial side, where you have wrote this quarter where you probably are seeing Protecta trying to restructure their business (inaudible) clearly having to look for profitability. Any signs of that or is the sales guidance solely related to the Q1 outcome?

A - Lars Thykier {BIO 16427122 <GO>}

It is mainly related to the Q1 outcome, but there is a slight improvement in our forecast as well. We have further [ph] usual Internet problem.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Then my second question is related to an issue that's been touched on a number of times on capital. You state that the payout will be minimum 70%. You state that you want to remain disciplined on capital. On your new board, with the new composition of the Board, how have the discussions been on capital? Are they solely been based on the Solvency II ratio or have they also been based on other measures?

A - Lars Thykier {BIO 16427122 <GO>}

I mean, the dividend policy has been approved by a uni -- a totally agreed board, so the discussion has not been very long.

Q - Per Gronborg {BIO 15910340 <GO>}

And would you have also only promised to payout 70%, that's not a big promise for a company that over the last four years and obviously have paid out clearly more than 100%?

A - Lars Thykier {BIO 16427122 <GO>}

That's why I emphasized the word, minimum or at least.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Any chance that, maybe at the next conference call the Chairman of the Board would be willing to participate and give us some more insight to where the Board is. I think one of the key concerns out of the marketplace is that the Board and the management of Topdanmark might not fully agree on future payout?

A - Lars Thykier {BIO 16427122 <GO>}

I'm pretty sure Per that you will not receive any answers different from what we are stating here. I think that there is a full alignment in the Board of Managers and Board of Directors on the policy and the understanding of the two points, meaning disciplined approach to capital consumption minimum 70%.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, thank you.

Operator

Thank you. We don't have any further question at this stage. (Operator Instructions) It looks like we don't have any further questions sir.

A - Christian Sagild {BIO 15093649 <GO>}

Well okay thank you. Thank you for taking the time to attending our conference. As you know, you're always welcome to contact one of us if you have any further questions. We'll be happy to answer them. Thank you and goodbye.

Operator

So that does conclude our conference for today. Thank you all for participating. You may now disconnect.