Q2 2016 Earnings Call

Company Participants

- Christian Baltzer, Group Chief Financial Officer
- Gianandrea Roberti, Investor Relations Officer
- Morten Hübbe, Group Chief Executive Officer

Other Participants

- Christian Hede, Analyst
- In-Yong Hwang, Analyst
- Jakob Brink, Analyst
- Jonny Urwin, Analyst
- Paul De'Ath, Analyst
- Per Grønborg, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. This is Gianandrea Roberti. I'm head of Investor Relations of Tryg. We published our Q2 results earlier this morning, and I have here with me Morten and Christian to discuss this. So after a few words, over to you, Morten.

Morten Hübbe

Thank you, Gian, and good morning to all of you. We will jump directly to slide three on financial highlights where, on the back of the first half, we pay out dividend per share of DKK 2.60 compared to DKK 2.50 last year. And we repeat that the half year dividend is approximately 40% of the total annual dividend.

We show this quarter a robust Solvency ratio of 206 or 193, including Skandia child insurance and bear in mind that this Solvency ratio already includes the first half year dividend and also the full year's buyback of DKK 1 billion, which is a change of method this quarter.

We show a pre-tax profit of DKK 934 million, up some 31% from year-on-year, clearly consisted of a slightly lower technical result and a substantially higher investment results. The technical result of DKK 770 million is slightly lower than last year, some DKK 55 million, and a significant driver is the currency between Norwegian krone and Danish krone, impacting negatively by DKK 35 million, but also, as expected, a continuation of slightly higher underlying claims ratio.

As we've discussed, we've been carrying out price increases since the beginning of this year. We've carried out a significant proportion of these. But we will start to see the early impact of that towards the end of this year, and as expected, the full impact in 2017.

Investment income, clearly, somewhat unusual this quarter, heavily impacted by falling rates in the free portfolio, and in the match portfolio, clearly, a flight to safety after the UK Referendum on EU membership.

If we turn to slide four, on the customer highlights, we show a positive development in NPS to 23, which is an all-time high, which is positive, continuation of a good trend, but we do expect some volatility in this KPI, but a structural (02:57) long-term positive trend. Customers with three products or more are important because the more products they buy, the more loyal they are and the higher the retention, which is the significant driver of bottom line.

3+ increases from 56.6% to 56.9%, with the most positive trend in Danish private, where 3+ is up 1 percentage point and a somewhat more negative development in Norway.

Retention rates are broadly stable despite the price changes carried out so far this year.

If we jump to slide number seven, we show that premiums are down 0.6% in local currency compared to minus 1.4% in the same quarter last year. Private and Commercial lines are up in terms of top line and Corporate is down. We see particularly Private lines as being important and positive, considering that average prices of motor and house in Denmark are down slightly although stabilizing.

If you look at Denmark as a total across all three business areas, top line is up 1.7%, which is positive, while Norway is down 3.5% in local currency, mainly driven by a reduction in the Norwegian Corporate premiums.

If we turn to slide eight, as mentioned, the technical result of DKK 770 million is impacted by the DKK 35 million from currencies. We see that the Corporate technical result was significantly better, but bear in mind that that is impacted by a single very large claim in the second quarter last year. And when we look at Sweden, clearly, a significant impact this quarter by a profit sharing agreement.

If we turn to slide nine, we still see that average price development is significantly different from Denmark to Norway, where average prices are slightly down in Denmark, both on car and houses. But if you look at the graph, you can see some stabilization in the two, whereas we see slightly upwards pricing in Norway.

In Denmark, carrying out the price increases as we've done since 1st of January is starting to offset the high property claims inflation, but as mentioned, we will see a more meaningful impact of that towards the end of this year and the full impact in 2017.

The fact that we see Norwegian prices up, for instance, in cars, still reflect somewhat different car fleet with bigger and more powerful cars in Norway.

On slide 10, we reiterate a bit on the retention rates that, as mentioned, are broadly stable. Worth mentioning is Private Denmark at 90.0%, same as last quarter, but the highest in three years, despite carrying out price changes. And of course, on the longer term journey, we expect the membership bonus also to support this KPI.

And over to you, Christian.

Christian Baltzer {BIO 19705595 <GO>}

Thank you, Morten, and good morning, everybody. So as Morten mentioned in the beginning of this presentation, we have seen an underlying group level that is slightly higher than we saw same quarter last year, and right now, I'm on page 12. It's important when we look at the underlying loss ratios, that we focus predominantly on Private since there are a lot of volatility both in the Commercial and Corporate and the Swedish segment. If you look at the Private lines, we actually see (07:17) the deterioration of 70 basis points, which is an improvement of the deterioration from Q1 this year.

We still reiterate our 3% price increases that, as Morten mentioned, will flow through the portfolio throughout the year and will improve our underlying loss ratio by the end of the year beginning next year.

Turning to slide 13. We actually have tried to bring an illustration of some of – details on some of our motor insurance claims. I think we can all agree that the frequency of bodily injury are decreasing in the motor segment, which is very positive in general that less people are getting killed on the roads. However, the safety features and the techniques that we put into the vehicles are actually getting more expensive for us to repair.

And we have here highlighted two areas that we see where some of the technical advancements are increasing our claims cost. One is under windshields where we actually see between – around roughly 20% improvement, if you compare apples to apples, from 2011 to now. And we also – the way that we have tried to mitigate that is instead of replacing the windshields actually to repair the windshields. However, we do see this trend continuing.

On the bumpers, a bumper – to replace a bumper that has a radar compared to a bumper and that is more old-fashioned. We actually see a two times to three times more cost to do that kind of replacement. So bear in mind, our illustration here is predominantly to kind of put a little bit more colors on the picture of the motor portfolio, to understand that it's not only risk is going down on the bodily injury, we can all agree on. But there's also trends in other areas that are increasing.

Turning to slide 14, where we illustrate the large claim and the weather claims. You can say it's been a benign quarter compared to last quarter where both large claims and weather claims are somewhat at the level that we would expect or same as last quarter. The weather claim is actually a little bit lower than expected. The run-off gains of 6.4% is higher than last quarter, however, it's still in line with our overall guidance for 2015 to 2017 period.

Turning to slide 15, I think, overall, in general, for Tryg, it's important for us to keep our competitive advantage. And the efficiency program set forth here a couple of years ago with the DKK 750 million in savings over a three-year period is going to reinforce our position as a competitive company.

We are in line with the efficiency program, are on track with all our savings. The second quarter we cashed in DKK 51 million in achievement, whereas DKK 36 million of it is from the claim side, the DKK 50 million is from the cost side. On the claims side, we actually very different kind of improvement. Everything from helping injured, personal accidents, coming back to work faster, minimizing our claims, to actually reselling or repo-ing cars so that they can get sold out instead of totaled (10:35).

On the expense ratio, if you can go to the next slide which would be slide 16, there is a more details on the development of the expense ratio. We're down 0.2 percentage point from Q2 last year. Our efficiency program is still on track towards our 14% or below in 2017. I think it's important to look at the numbers and the proof is in the numbers here with both our FTE and our nominal cost actually trending downwards.

We have this last couple of months announced some layoff in Norway, with about 60 jobs, which is more of a structural change in Norway versus where a lot of the FTE redundancy or redundancy have been more optimizing. It's important to understand that these numbers of the 60 jobs won't flow in until 2017.

If we move towards the investment income on slide 18, as Morten highlighted, the turmoil in the investment market has had a lot of investors move towards a safe haven. And our result of DKK 181 million, predominantly comes from the fact that our match portfolio is up. I think it's important to understand here that when we talk about the match and our regulatory deviation that in Q1 we actually had a negative regulatory deviation and the year-to-date is DKK 30 million on the regulatory deviation.

In general, on the free portfolio, we have taking off some risk which also is highlighted. You can see that we have reduced our equities from 6.3% to 5.9%. And in general, a lot of the – about 40% of our earnings on the free portfolio comes from our bonds and deposits which you can see on the 0.84% return on that area.

I think that if we go to the Solvency II ratio on page 19. As Morten mentioned, we have a strong solvency ratio of 206 or 193 if we adjust for the Skandia portfolio. The SCR is predominantly compared to last quarter flat. And, however, you see the movement on our own funds where you can here as Morten illustrated, highlighted that the own funds include both the cash dividend and the share buyback of DKK 1 billion and a dividend of

DKK 753 million. We also have our subordinated debt into our own funds. In general, you can say we have a DKK 345 million drop in our own fund from first quarter to second quarter.

The next slide which will be slide 20. We actually have brought this predominantly to illustrate for you guys that our Tier 2 capital has now been exhausted. And with use of subordinate debt, you will see than in our Tier 1, our Tier 1 percentage have reduced predominantly due to the dividend and the buyback. We still guide no range for the solvency ratio and just highlight that the FSA will be more interested in us as a company if we drop below 125. But bear in mind that for us, the ROE of 21% actually means that we need to have a very disciplined way of working with our capital in general.

On slide 21, which would be the last for me is just again illustrating the stability in our capital position where we here tried to use different kind of risk and see what actually happens with our ratios. And as you can see the spread risk is the most – the one that has the most impact on our capital ratio.

So, back to you, Morten.

Morten Hübbe

Thank you, Christian. And on slide 22, we basically just reiterate our financial targets for 2017, which is an ROE at or above 21%, combined ratio at or below 87% and expense ratio at or below 14%. We have, as discussed, worked with price adjustments throughout this first six months to mitigate the fact that claims inflation was higher than expected last year and that that underlying trend has continued this year, same as travel. And we expect, as mentioned, still that we will see more meaningful impact of that towards the end of this year, and then, a full impact in 2017.

We will clearly, as Christian mentioned, continue very high focus on our efficiency program, both on sourcing, digitization, et cetera. And clearly, the 60 FTEs in Norway taken out this quarter will help also our cost development going forward and into 2017.

We continue to expect top line growth between 0% and 2%, based mainly on the pricing initiatives. We reiterate that we expect to be towards the low end of that range. But we have a bit of help in the autumn from the Skandia child insurance and, I guess, longer term, the membership bonus in Denmark will improve that number going forward.

And then on slide 23, our favorite quote from John D. Rockefeller on the importance of dividends. I guess with the DKK 2.60 after this half year, we have increased our dividends slightly by some 4%, which I think is important. But bear in mind that the half year dividend is approximately 40% of the expected total annual dividend.

So, with that, I think we are ready to move on to questions.

Q&A

Operator

Please hold until we have the first question. And our first question comes from the line of Jakob Brink from ABG. Please go ahead. Your line is now open.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah. It's Jakob from ABG. I have a few questions, please. The first two, I guess, is sort of one combined about premium growth. I notice in Denmark, as you highlighted as well, you had quite strong growth of 1.7%, and then minus, was it 3.5% in Norway? Could you try and give us a bit more details on what should we expect for Denmark and Norway respectively for the second half of the year? I.e., how far are you actually with the repricing in Denmark and what kind of macro slowdown are you expecting for the second half of the year? And then finally, how does this all combine into your guidance of between 0% and 2%?

Then my second question is more detailed, I guess. I don't know if you could – I guess, given what has happened with the yield curves and also your issue of subordinated debt, could you give us some kind of indication of what investment income we should actually be looking for in sort of a more normalized scenario annually?

And then finally, the third question is about your 60 employees in Norway. Have you already taken the restructuring cost for those layoffs last year or is this something that will be gradual when people actually stop? Thank you.

A - Morten Hübbe

Good morning, Jakob. If I take the first and the last question, you're right on the premium growth of the 1.7% positive on Denmark is actually slightly higher than expected and positive. I think Private lines Denmark business is roughly an underlying trend that is continuing in a positive way, and where the premium increases will gradually improve that further. I think Commercial lines Denmark is helped by the fact that the premium in Q2 last year was a bit unusually low. So, I think actually Commercial lines Denmark is probably the last one to succeed in the Danish market, but 1.7% as a total is positive. And we can see that Corporate Danish customers are receiving the membership bonus well.

I think for Norway, clearly the 3.5% is a slightly high number. You can see that Corporate Norway is down almost 10%. So, that is where the big driver comes from and then Commercial Norway as well. I think, to be honest, that the negative macro will continue. I think sort of minus 9%, 10% on Corporate Norway is unusually high and shows a few larger accounts that have left us and then really a picture of macro going forward. But we do have the attitude that if we need to let go of a few Norwegian Corporate customers because of pricing, then we will do that.

So, I think if you take the rest of the year, as you asked, and next year, we will continue to see a continued improved development in Denmark. We will continue to see a negative development in Norway, but a less negative development than what we saw this quarter and particularly Corporate Norway will be less negative. But we reiterate that we expect to be at the low end of the 0% to 2% range including the Skandia in the autumn.

As far as employees is concerned and the 60 people, generally, we made a provisioning for redundancy last year. So, we have the provisioning in place depending on how structural the layoff is, and some of this is very structural, then we used the redundancy provision. And for others, we'll let them work until they either leave the company or move into another position. But generally, you should not expect a negative impact from that, but you should start to see a positive impact.

A - Christian Baltzer {BIO 19705595 <GO>}

Yeah. Hi, Jakob. I'll try to answer your second question here. Overall, you can say on our match portfolio, we actually don't expect too much of a return from that. If you look in our report, you can actually see the split up between the regulatory deviation and the performance deviation. And as you might have seen there, the regulatory deviation, about DKK 69 million is something that we will expect to flow back as the spread increases between the Euro swap and the Danish swap.

Generally, on our free portfolio, we would expect about DKK 200 million returns on a annual basis. And then depending on performance and market, that will fluctuate. With respect to your question about the subordinate debt, you will also see that is about DKK 200 million negative on the other financial income and expenses. So, hopefully, that answers your question.

A - Morten Hübbe

I guess that all ties in to sort of a normal expected investment income at the moment of DKK 160 million per year. But I guess, it's hard to talk about normal total investment come in these quarters.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah. Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Paul De'Ath from RBC. Please go ahead. Your line is now open.

Q - Paul De'Ath

Yeah. Hi there. Couple of questions for me, please. And just on the price increases that you're putting through and the impact of that is, I think, you're now saying towards the end of this year rather than necessarily Q3. So, firstly, clarification would be do you expect to see any boost in Q3 from the price increases?

And then secondly on that really is the extras I suppose (23:20) you've given on slide 13 around the car cost or motor insurance cost and increasing in certain areas. Is that – to give us some indication that perhaps the price increases will be above inflation, but not very much above inflation or, it's kind of a slightly mixed message because you're saying you're definitely going to be pricing above inflation, but we should be careful because actually it is part of the business but the inflation is probably higher than we might have thought. So, I guess a bit more around the thinking there will be great? Thanks.

A - Christian Baltzer {BIO 19705595 <GO>}

Hi, Paul. I'll do your first question and I'll have Morten take the latter one. The price increases that we're talking about here and the improvements that we'll expect to see, when we went from 90 basis point deterioration in Q1 and 70 in Q2; we expect basically that to be the improvements of deterioration so to speak. I think it's important to understanding that this underlying and the projections are something we look on every single quarter and we reestablish our outlook for the performance of the portfolio, and there, we expect right now the improvement to come at the end of the year.

A - Morten Hübbe

I think it's important to say, Paul, that if you just look at the underlying dynamics, when we start price increases 1st of January, it takes 12 months to hit the renewal date of all customers. Then it takes from that renewal date 12 months to earn the premium from all customers. So, yes, we will see an impact in Q3 but you just shouldn't expect all of a sudden a big boost in Q3. So, you will see a slight impact in Q3, you'll see some impact in Q4, and then, you'll see the full impact in 2017. So, that is the sort of 12 plus 12 month dynamics of every time you do a price change. So, hopefully that is understandable.

When it comes to the car cost, you're right that these are slightly mixed messages. And I guess the jury is still out when it comes to the net impact of these drivers. I guess, what we're trying to say is mainly that in a scenario where everyone is very concerned and focused on the fact that bodily injury drops, liability claims drops. And what does that mean for the future of car insurance? What we're basically trying to illustrate is that we think that a significant opposite driver which everyone seems to be underestimating a little bit in the dialogue which is that the price of these improved safety measures is significantly higher than the price of the similar set of spare parts previously.

So, what we're basically just trying to say is that there are two drivers moving in different or opposite directions. And we will monitor both to make sure that we carry out the right price increases for the spare parts that become more expensive and then over time, became cleverer and cleverer on the net impact of the two drivers. And as I said, the jury is probably still out on that. We see that as an important input into the total development of cars into the future dialogue.

Q - Paul De'Ath

Okay, great. Thanks.

Operator

Thank you. Our next question comes from the line of In-Yong Hwang from Goldman Sachs. Please go ahead. Your line is now open.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Good morning. Thank you for taking my question. And I've got two. Firstly on the runoff, I think on slide 30, there seems to be a DKK 33 million negative development on the Commercial fire & property. So, I'm just wondering what is driving that.

And my second question is on the Norwegian business a little bit more detail. I think you mentioned that the Corporate Norway segment is down about 9% to 10%, so it'd be helpful to kind of know how much if any of this at all are oil-related companies or clients.

And kind of linked to the Norway part, I was under the impression that the Commercial business in Norway might have turned a bit of a corner, but your comment seem to suggest otherwise. So, just a bit more on the Commercial side as well in Norway. Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

All right, In-Yong, Morten. I think I'll try to do the first one with the property runoff. You can say runoff in general, is not that it's always going to be coming from one specific product line. I think right now as you were mentioning on the property side, we have seen some runoffs here in the second quarter. Don't take that as a – this is what's going to happen, going forward also. I think that runoffs is a view of where we believe that the level of claims obviously what you call it, reserves are high enough. And we actually do believe that we did have one hotel that is one single claim called Anna's Hotel (28:34) that actually had a runoff loss on that one which also then flows through the numbers.

So, you can't – it's important to understand where the runoffs come from, but, again, the slide 30 is more of an illustration of how it's put together. But you will see fluctuation from quarter to quarter where it comes from.

A - Morten Hübbe

It's fair to say that in Commercial and Corporate, single large claims can play a role. We see this hotel this quarter. We also see in other quarters that the changes to large claims can drive runoffs. But fundamentally, these are small volatilities around generally a high and stable predicted run off game.

When it comes to Norway, In-Yong, you're right that on Corporate Norway, I would say that it's not directly oil but some of it is related. You might remember we talked about a large customer in seismic water surface investigations that went bankrupt. And some of these customers pay DKK 40 million, DKK 50 million in premium, so you don't have a lot of these to change before you move the numbers around. And then I guess there had been a couple of larger workers' comp accounts where our view is that the ROE on workers' comp is always the most challenging.

So, if we find larger accounts where pricing is not right, then we would rather not have that customer, and then free up the capital and improve the ROE. But as I said, at the current pace Corporate Norway is actually more positive than what we see in the earned premium numbers. So, I think the 9%, 10% is unusually high and not something you should expect going forward.

As far as Commercial Norway having turned the corner, I think that it's too early to assume to be honest. I think that of our business in Norway, clearly Private and Corporate is structurally the strongest where Commercial SME is structurally the weakest. We're doing a lot of right things. We have taken out a significant proportion of the 60 people we're taking out in Norway comes from Commercial Norway. So, we've become a lot more efficient. At the same time, we're doing a number of structural initiatives on pricing, segmentation, distribution, et cetera, all of which will make Commercial SME in Norway stronger, but we haven't turned that corner yet in Commercial Norway. That would be too early to assume.

Q - In-Yong Hwang {BIO 18784369 <GO>}

What the premium development in the Norway Commercial was, just a very rough number?

A - Morten Hübbe

What that number was? I don't think we have published that.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Okay.

A - Morten Hübbe

So, you can see the total Commercial Nordic number, but that's not a dramatic deviation like the Corporate number. That's why we mentioned Corporate Norway.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Okay. Okay. That's clear. Thank you.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Thank you. So just on the – I think there's – on the investment side, I noticed a comment, Morten, that you said there was some de-risking done on the free portfolio. Were you referring to something you've done post the quarter or is it – could you just guide as to what were you trying to suggest there or which areas?

And secondly, I was just noticing the retention rates in Denmark Commercial, and apologies if this was addressed in an earlier question, I might have missed that. But isn't the effect of the customer dividend – or shouldn't it have already led to some kind of a retention step valuation, if you like, in the Danish Commercial space? Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

Hi, Vinit. I'll give it a shot on the first one. The de-risking that I was mentioning and they are on slide 18 is, basically, that you can see compared to last quarter, we are taking (33:08) down equities, 0.4 percentage point of this full (33:12) portfolio. And you'll also see a flow from a high-yield area into investment grade bonds.

So those are kind of the two initiatives or activities that we have done in order for us to kind of take some risk off the free portfolio. So those are kind of the indications that we've highlighted during the walkthrough of the material.

A - Morten Hübbe

And on your second question, Vinit, if you look at retention Denmark, I guess the positive is that retention Private Denmark is up slightly despite the price changes, so that's very robust and very positive. And I think, to be honest, that the longer term impact from bonus, you shouldn't expect that in the numbers yet. I think (33:58) that was sort of a four-year, five-year journey. We're sort of a few months into the journey. So I think, to be honest, that that is ahead of us. Then you're right that on Commercial Denmark, the retention is down a little bit.

And I guess when we do our sort of price elasticity analysis, we see that there is a slightly higher reaction to the price changes in Commercial. And what we see is that particularly that goes for very new customers in the Commercial portfolio. So there is less of a link to the actual size of the price change and more of a link to whether that is an older existing customer or very new customer. And all of that flows into the way we work with price changes in the future, and I think be positive from retention from the membership bonus that is ahead of us and that is a sort of two-year, three-year journey, and hopefully, a positive journey.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And second follow-up, you also said that, sorry, the NPS scores are likely to be volatile. I mean is that also part of your conservative view about the effect of the bonus going to take longer time?

A - Morten Hübbe

Well, I think that the thing is that the most of the KPIs we work with have a very clear financial impact, and you can explain and investigate, et cetera. NPS has a lot of small (35:30) things in there like psychology and what's said in the press and et cetera, et cetera. So I think that's why we see this quarter, for instance, NPS in Norway improved significantly whereas last quarter, it was less positive in Norway.

That's why we use as a, perhaps, better indicator, our underlying SMS or text messaging scores because there, we are getting closer to more than 0.5 million response, which is a more stable indicator than NPS, which fluctuates more. But the general journey is that the NPS is increasing and that's positive. It's just a more soft parameter from a smaller group of respondents, and that's all you need to bear in mind.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. All right. Thank you very much.

Operator

Thank you. Our next question comes from the line of Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. Thanks for taking my question. I've just got one left actually. It's around claims inflations. They're still running at an elevated level as you guys have been saying, and we've heard a lot about the pricing increases that you're putting through to counter this. But I just wondered if you had any sort of luck in trying to manage those claims trends through enhanced claims management functions and things like that. I remember last quarter, you guys said that you put in two new heads of the claims management department and they were looking to sort of put through some measures and you gave us some pretty good examples of the sorts of things you're doing. So I was just wondering if we could have an update on the progress there, please.

A - Christian Baltzer {BIO 19705595 <GO>}

Yeah. Jonny, this is Christian. Let me try to dive a little bit into that. I think when we talked about the house claims department, we actually have had two areas where we've seen some adverse development. One was on the pipes inside the houses, and the other one was on the kind of the pipes flowing out of the house.

And I think under pipes inside the houses, we've actually through a much more enhanced process handling seen a quite significant drop over the last couple of months. So the early indicators that this extra focus on the processes actually are working. I think very early indications would be that we almost have a 20%, 30% drop in the average claims in that process.

Now, on the pipes kind of flowing out which would be the sewers that are leading into the houses, we are still trying to find the right measures to kind of get a grasp around that claims development. So we still see that being at a somewhat elevated level. So yes, we do have success with at least housing pipes inside.

A - Morten Hübbe

I guess it's fair to say, Jonny, that on the house question, as Christian pointed to, we can do most of the improvement on our own whereas in travel, for instance, we see that this has to be solved through pricing, because it's hard for us to massage the claims down.

But clearly, it's very positive that the early signals are that the measures we've done on the pipes is improving.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Per Grønborg from SEB. Please go ahead. Your line is now open.

Q - Per Grønborg

Yes. Good morning. A couple of questions from me as well. First, on the cost side, last year, you had clearly lower cost in the second half compared to the first half if you adjust for the special items last year. Is it related to see a cost ratio in the level of 14%, 14.2% for the second half? Is that a reasonable level or don't you see the same seasonality as there seems to be in your historical numbers? That was the first one.

The second one was on the investments. We're now guiding for long-term normalized return of DKK 160 million. The other financial items, what are the run rate on that one as you're putting into the DKK 160 million? I'm just curious.

Finally, it has been talked upon on a number of the previous questions, but if I look at the country numbers, Denmark is doing very well both underwriting and volumes. Norway is doing exactly the opposite if we take into account that there was a huge prior year gain again this quarter. Looking forward, yes, you have some price increases coming to Norway, but you don't have the same tailwind as the client dividend in the Danish business. What's the outlook for Norway? Will you be structurally less profitable compared to what you see in your key peer against you (40:06) or how should we look at your Norwegian business a bit longer term?

A - Christian Baltzer {BIO 19705595 <GO>}

All right, Per, I'll try to do the first two ones here. On the cost ratio, you're right that we are at a somewhat higher level compared to last quarter, if you can take out the one-off effects. I think it's important to know that second half, yes, we will have a lower cost ratio. I also think it's important to reiterate here that we have a lot of initiative here in 2016 that are going to help us push us down to the 14% level in 2017. So you can expect a kind of linear line down to 14% – from 15% to 14% in 2016. So do bear in mind that in these layoff cost and restructuring cost, there are good amount of cost in actually doing so.

The run rate on our other financial income, you can say 2015 was about DKK 240 million. I think it would be around that level in that number that are not the (41:08) subordinated loan from the Swedish portfolio. But I do believe that there are some other initiatives there. So roughly around DKK 200 million in other financial income and expenses would be the expectation.

A - Morten Hübbe

And on your last question, Per, you're completely right. If you look at the quarter in isolation, Denmark looks significantly better both on top-line and underwriting than we do in Norway. And a good question is, how does that develop? Well, I guess if you go back a couple of years, you could have made the opposite conclusion that we did better in Norway on both top-line and underwriting. And I guess that's one of the advantages of being more conscious that they offset each other.

If we look into the future, I think that the top-line in Norway will be difficult, but better than what we see now. If you look at the minus 9%, minus 10% top-line in Corporate Norway, and I look at the current pace of the business, I can see that in May and June, for instance, we won more clients than we lost. So that will ultimately flow into the premium. And I guess that is why we think the minus 9%, minus 10% in Corporate is not a new run rate that will climb closer to zero and that will help total Norway top-line run rate.

When it comes to the bottom line run rate in Norway, which, of course, is significantly more important, I think that if you look into the Danish cost ratio numbers versus the Norwegian cost ratio numbers, for instance, in Private lines, but also on Commercial lines, clearly, we are significantly more efficient in Denmark.

So it's not a coincidence that the 60 headcounts this quarter all come from Norway. And clearly, the potential to reduce our cost and become more efficient in Norway are greater than in Denmark and that will help the run rate of results in Norway. So I guess, you're going to argue that there's actually more we can do on the efficiency side in Norway internally than in Denmark, but we will have less of a helping hand in Norway because of macroeconomics, but also because we don't have the membership bonus.

So hopefully, that puts a little bit of color on your question.

Q - Per Grønborg

It did. Can I come back to Christian's answer on the other financial items? You said – you started by saying DKK 240 million, and then, you said DKK 200 million on the other financial items.

A - Christian Baltzer {BIO 19705595 <GO>}

You're right, Per. And I guess I was just mentioning in 2015, we were at a DKK 238 million level. We don't guide on that number. Specifically, there are a lot of different elements in other financials that we don't really guide on. So if I were to give you kind of a guesstimate guidance for your spreadsheet, I think we would say roughly the DKK 200 million going forward, but there will be some fluctuation in there also.

Q - Per Grønborg

Of course. Perfect. Thank you.

Operator

Thank you. Our next question comes from the line of Christian Hede from Nordea. Please go ahead. Your line is now open.

Q - Christian Hede {BIO 18642300 <GO>}

Yes. Good morning. It's Christian from Nordea. I only have one question left and relates to your increase in the share of 3+ customers with more than three products. Is this increase due to you actually getting more clients with 3+ customers -products? Or is it that you actually are losing clients with (44:45)?

A - Morten Hübbe

It's actually – good morning to you, Christian. It's actually both. The number of customers with one product is being reduced, and the number of customers with three products is increasing. So I guess that helps both sides of the equation. But it's fair to say that, I guess, this is one of the KPIs that we have been a bit slower to improve than we thought we would. But when we look at the current pace, it's increasing well in Private Denmark, and it should continue to increase well over the next 18 months.

And then, we are not satisfied with the development of 3+ in Private lines Norway. Particularly, we see that our car dealer distribution brand in Norway has too many single-product customers and the development is not positive, and that's why, in Q2, we've actually integrated the car dealer organization into the total Private Norway organization. And we are running a number of initiatives to cross-sell and improve and broaden the scope of a number of products, because to reach our group target on 3+, we need to move the Norwegian Private lines numbers and that will be the core initiative.

Q - Christian Hede {BIO 18642300 <GO>}

Perfect. Thank you very much.

Operator

Thank you. And as there appeared to be no further questions, I'll return the conference to you.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Thanks a lot everybody for a very good set of questions. We will be in London tomorrow for the ones of you that will join our analyst presentation. Otherwise, we will talk to you after the summer. Have a great summer. Thanks.

A - Morten Hübbe

Have a great summer. Thank you.