Q3 2019 Earnings Call

Company Participants

- Barbara Plucnar Jensen, Group CFO
- Gianandrea Roberti, Investor Relations Officer
- Morten Hubbe, Group CEO

Other Participants

- Asbjorn Mork, Analyst
- Derald Goh, Analyst
- Jakob Brink, Analyst
- Jonny Urwin, Analyst
- Kevin Ryan, Analyst
- Mads Thinggaard, Analyst
- Per Gronborg, Analyst
- Steven Haywood, Analyst

Presentation

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations of Tryg. We published our Q3 results earlier on this morning, and I have here with me Morten Hubbe, the Group CEO and Barbara Plucnar Jensen, Group CFO, to present the figures. Over to you, Mort.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Gian and good morning to all of you. And we start off on Slide Number 3 with the financial highlights of the quarter. We reported Q3 pre-tax result of DKK779 million, slightly lower than last year's DKK825 million, positively impacted by the core business, where the technical result of DKK870 million is up 14.3% compared to the same quarter last year, and negatively impacted by the capital markets movements, resulting in an overall investment loss for the quarter. Quarterly dividend of DKK1.7 per share is announced and a solvency ratio of 169.

If you look at the technical result of DKK870 million, it's driven by a stable combined ratio of 84.4%. This includes large and weather claims weighing for 3.3% compared to 6.8% last year, while on the other hand, run-off gains were lower at 5% compared to 8.7% in the same quarter last year.

More importantly, the underlying claims ratio continues to improve, 70 basis points for Private and 60 basis points for the Group, while the expense ratio was flat at 13.9% for the quarter, despite very significant investments in IT development. We continue to expect the full year underlying claims ratio, which will be better than last year's underlying. The investment result of minus DKK29 million is actually split in good returns on nearly all asset classes in the free portfolio and a loss on the match portfolio after a quarter that saw a lot of volatility, particularly at the long end of the interest rate curve and also movements in other financial income and expenses, broadly in line with guidance, but perhaps we can elaborate on the moving parts in Other.

If we look at Slide 4 on customer highlights, we're very satisfied to see that we continue to improve in this area. Customer targets might seem soft, but there is a very strong link to customer loyalty and retention, and thereby a very strong link to expense ratio and earnings. This quarter, we are particularly pleased to see a continued improvement in retention rate, not only in Denmark where we have the support of the bonus scheme, but also in Norway. Of course, we continue to see a good help from the bonus scheme in Denmark. You can see that particularly the non-customer knowledge of the membership bonus scheme continues to improve. In Q3, it's up almost 40%, but bear in mind, still only 29% now of the non-customers in Denmark realize that we have this bonus scheme. So there is further room for improvement.

On Slide 5, we elaborate on the composition of the technical results. Clearly, the overall technical result has improved due to the inclusion of Alka business, but also the improved underlying claims ratio. The Private segment, of course, being the largest, helped by the inclusion of Alka, but also a strong, continuous improvement in the underlying claims. Bear in mind that it is in the Private segment that we see a very high growth in the quarter, as we've seen in previous quarters, but now helped more by Private Norway as well. And bear in mind that this is our most profitable segment, which actually improves further the business mix for Tryg, and overall improve profitability and return on capital longer term. Be aware that the total run-off on Private lines is approximately 5 percentage points lower than the same quarter last year.

In Corporate, we saw an underlying improvement, primarily based on price initiatives in Norway. But in our view, we still have to significantly improve profitability in all three countries for our Corporate business. We have started well with price increases of 14% in Corporate Norway this year. We need that to continue and these include Corporate Denmark and Corporate Sweden in further improving, particularly underwriting year profitability before run-offs. In Private Sweden, we've initiated profitability initiatives to mitigate that motor claims inflation that's slightly too high, but it does take some time to get the full impact of that.

On Slide 6, we elaborate on the synergies of Alka. Alka is doing extremely well. We see in the third quarter DKK23 million of synergies from the Alka integration and for the three quarters now in total, we've reached DKK66 million out of the DKK75 million promised synergies for the full year. Roughly half of the synergies are related to costs. And as you may recall, this is in line with our expectations that these cost synergies will show up in the P&L first. But the largest synergy driver remains the claims area, but it does require harmonization of processes and routines.

You may recall that we started on capitalizing the agreements we have with motor repair shops in Tryg. That is moving along nicely. And now we're moving on to the agreement that Tryg has with craftsmen, which will particularly improve property claims and we will see that in the coming periods. We remain confident in our ability to achieve the 2021 synergy targets, and in general are very satisfied with the process of integration.

On Slide 7, on shareholders' remuneration, our focus here remains extremely high. We are announcing a third quarter dividend per share of DKK1.7, in line with the previous quarters this year, and in line with having a policy of flat quarterly dividend throughout the year. Our business continues to produce very strong profitability. And of course, the overall low growth implies limited increase in capital requirements. And then you should bear in mind that we are quite deliberate in growing our Private lines and SME businesses, as these are areas where we have the highest profitability, but lowest capital requirement. And overall, that change of mix also reduced in Corporate, will produce an even stronger and more healthy business mix and stronger capital returns.

If we jump to Slide 9, we elaborate slightly on the split of growth. Organic growth, excluding Alka, was 6.8%, clearly higher than usual and carried by growth in all areas. We do prefer to grow in the Private segment, where profitability is the highest. And we are quite satisfied that Private Nordic has a growth of 8.6%, excluding Alka. Commercial was helped by Alka and had a growth, excluding Alka, of 4.8%, partly driven by improved retention rates, which we saw in Private lines as well, a small net inflow of customers, but also we are starting to see price initiatives in Commercial Norway to improve profitability. The last is a trend that we expect to continue in the coming periods as we further want to improve profitability in Commercial Norway.

Corporate showed a growth of 4.5%. There is, of course, a high impact from price hikes in Norway Corporate, where price hikes so far this year has been 14%. As a result, we've also seen some reduction in the portfolio, that is to be expected and to be accepted. In Denmark, of course, the renewal rates are high, helped by the membership bonus, but we do see in the coming periods a necessity that we want to improve further pricing and profitability also in Corporate Denmark and Corporate Sweden. And we do expect some impact in the top-line growth of the entire Corporate area in 2020, due to higher profitability initiatives in the coming period.

Sweden showed a relatively high growth, driven primarily by pet insurance and accident insurance. We see, as mentioned, that motor insurance, the profitability is not quite where it should be. So we are pushing through initiatives that might reduce the Swedish growth going forward.

On Slide 10, we show the normal figures on price increases, and clearly adjusting prices in accordance with inflation continues to be extremely important and we have further tightened our close monitoring to see all developments as -- at as -- early stage as possible. Profitability initiatives are, of course, often price, but also combined with a number of claims initiatives to further improve earnings in several areas.

The development on Slide 11 on customer retention rates is very positive. Clearly, extremely important, not only for a customer experience point of view, but also from a quality and earnings point of view. And actually customers' view of Tryg is best monitored through the retention rates. So very pleased to see the positive development in Q3 compared to same period last year for all areas. Clearly, Denmark is helped by the bonus model and continues to improve, but also actually we see continued improvement in Norway without the bonus model.

And over to you Barbara on claims.

Barbara Plucnar Jensen {BIO 17487867 <GO>}

Thank you very much Morten. Let's move to Slide Number 13 for more details on the development in our claims ratio. In Q3, we saw a continuation of an improved underlying claims trend. The Group's underlying claims ratio improved by 60 basis points, Private by 70 basis points. Please note that all the quarterly figures for 2018 have been adjusted to include Alka.

Price adjustments and the claims excellence program, including claims synergies related to Alka are the main drivers behind the improvement, but also the rebalancing that Morten spoke about of the portfolio to its more Private business supports the overall improvement for the Group. Tryg expects the improvement in the underlying claims ratio to continue for the rest of 2019 and into 2020.

Please turn to Slide 14 for the large claims and weather claims. When it comes to Q3, it was a very benign quarter in terms of (inaudible) claims with only DKK46 million compared to DKK228 million in the third quarter of 2018. The opposite was true for the weather claims, which were much higher in Q3 '19 compared to Q3 '18, which was mainly due to cloudbursts in Norway. The discounting impact in Q3 '19 was much lower than the same period prior year, given the much lower interest rate level in Q3, 2019 across all countries.

Morten Hubbe {BIO 7481116 <GO>}

That is perhaps an area where everyone should be aware and look into the numbers, because really the change for the quarter is quite steep.

Barbara Plucnar Jensen {BIO 17487867 <GO>}

Exactly. The run-off result was much lower with 5% of the combined ratio compared to 8.7% in the same quarter last year, primarily due to a lower run-off in the Private business.

Please turn to Slide 15. Here you can see the development in the expense ratio, where you can see that for Q3 '19, it was stable at 13.9%, which is in line with our guidance of an expense ratio of approximately 14%. The underlying dynamic continues to be that an improved efficiency should support our investments in digital solutions, which is important for us to maintain the momentum and be ready for the future.

Recently, we saw an increase in the number of FTEs. This was primarily reflecting continued insourcing of our claims handling related to the health insurance in Denmark and continued expansion of the Guarantee business in Germany. As a reminder, the jump in the number of employees from 17 to 18 is of course driven by the inclusion of Alka.

Please turn to Slide 17 for an update on our investment capital and target. This slide should be well known. We show the split between the match portfolio of DKK30 billion and the free portfolio of approximately DKK11 billion. Asset allocation on the free portfolio is roughly unchanged, apart from small adjustments in the fixed income portfolio. However, for the development in the two portfolios, we should look at Slide Number 18.

The third quarter of this year was again a very, very volatile quarter, where we saw a lot of impact from the movements in the financial markets. The overall investment result was a loss of DKK29 million, split [ph] between a positive result on the free portfolio of DKK97 million, a loss of DKK69 million on the match portfolio and other financial income and expenses at DKK57 million, in line with the broader expectations.

The free portfolio produced good performance across all asset classes, while positive fixed income returns were the key driver this quarter due to the falling interest rates. The match portfolio produced a loss, which was primarily driven by the regulatory deviation, which turned negative in the quarter that experienced a sharply increased volatility intra-quarter, especially if you look at mid-July to mid-August, where swap rates for 20-year maturities moved sharply for all the relevant currencies, so Danish kroner, Norwegian kroner and Swedish kroner. And just looking at the Danish 20-year swap, it was down 70 basis points, which has only recovered modestly in the last part of the quarter.

At times of such big movements, the sensitivity of the interest rate risk in long-dated liabilities may change more of the corresponding sensitivities of the assets. And this drove the negative result in our latest quarter. When it comes to the other financial income and expenses, this was in line with our expectations, where roughly half of this amount is driven by interest expenses on our loans.

On Slide 19, you can see an overview of our solvency position. At the end of Q3, the solvency ratio was 169 compared to 171 at the end of the second quarter. Own funds were broadly flat, as the net profit was offset by the dividend payment and by an actuarial loss on pension obligations booked under OCI due to the falling interest rates in Norway.

The SCR was slightly up, driven by increased market risk, again, impacted by slightly increased duration in the Corporate bond portfolio and a small increase in the insurance risk, driven by the favorable topline development.

Please turn to Slide 20. This is a limited -- or a slide with limited amount of new information. And I think the most important highlight on this slide is that, as we have talked about previously, we have currently more or less fully utilized our Tier 1 and Tier 2 capacity. More importantly, on Slide Number 21, you will see the sensitivities to our solvency ratio. This is very similar to what you have seen in previous quarters. And again, the biggest sensitivity is to the covered bond spread, which should not surprise anyone as covered bonds are our largest asset class by far in the total investment portfolio. Sensitivities to equities and interest rate movements are relatively low.

Please turn to Slide 22 for our targets and our outlook. We will conclude this presentation by repeating our well-known financial targets for 2020. We repeat that we remain confident that we can deliver a technical result of DKK3.3 billion, a combined ratio at or below 86%, an expense ratio around 14%, and finally an ROE at or above 21%.

Moving towards 2020, our Private and Commercial segments are likely to continue to show a good top-line development, while Group growth is likely to be negatively impacted by the profitability actions across the entire Corporate segment, which Morten also mentioned earlier in this presentation.

Morten Hubbe {BIO 7481116 <GO>}

I'm glad to repeat here Barbara that those initiatives will be stronger across all three countries than this year, where it was primarily Norway.

Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yeah, exactly. In general, the lower level of interest rate is making our life harder as we discount the claims reserves, which are much lower rate compared to just a few months ago. Just to give you a few proof points of that. We were looking at 0.5% at the end of Q3 '19 versus 1.3% at the end of Q3 '18. This creates an important headwind to us, but we expect to be able to mitigate this by the additional work and profitability initiatives that we have in place, and therefore, our DKK3.3 billion technical result guidance for 2020 is firmly repeated.

With that, I think I can refer to our favorite quote from John D. Rockefeller and open up for our Q&A session.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Asbjorn Mork of Danske Bank. Please go ahead, your line is open.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Good morning from my side. If I may refer to your favorite quote from Rockefeller, if I look at the solvency ratio for Q3, 169, of course, slightly lower Q-over-Q. Now it's not so far, so you need to look at extraordinary dividend potential for the full year. So I was just wondering if you could give us any flavor on how do you look at the capacity to pay an extraordinary dividend at the year-end, also considering that you've utilized your Tier 1 and 2 capacity. Thanks.

A - Morten Hubbe {BIO 7481116 <GO>}

Morning Asbjorn. As you know, we don't guide on the extraordinary dividends. And I would be disappointed if we didn't get the question, but we still don't guide on extraordinary dividends. But clearly on a serious note, we will of course take a careful look at our solvency position at year-end. And together with that look at our internal forecast for the coming periods, both of earnings and on capital consumption.

If we do accumulate too much equity, it does cause problems for our 21% post-tax ROE target. So we don't have an interest in that. And then also bear in mind that compared to where we start now, we still see that we are in the process of getting Sweden into our internal model, which is a longer-term positive driver, where we're not completely in control of the timing because it needs to be approved by the FSA. Bear in mind also that the business mix we're working on between Private lines and Corporate lines, longer term, will have a significant impact on the solvency and dividend capacity. But all in all, I can assure you we will return to the matter after carefully taking a look at all of those issues.

Q - Asbjorn Mork {BIO 17028219 <GO>}

So if I understand you correct, Morten, it means that you would not have any issues being slightly below whatever your actual solvency target is for the short term if you can see a steady progress for mid-term?

A - Morten Hubbe {BIO 7481116 <GO>}

That was a cheeky variation of the question, Asbjorn. As you know, we don't have an explicit solvency ratio target, but what I did say and where you are right, is of course, for us, it's not just a matter of a one-second picture of the world, for us, it's a matter of making sure that we have a long term healthy view on the development on the business mix, the capital consumption, the earnings capacity and the dividend capacity. And, of course, we do take a longer term view on that because we are in this for the longer run.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay, fair enough. If I may ask on your actual underwriting, the 60 basis points underlying claims improvement in Q3, of course very nice time to get that when you get the low rates hitting your underwriting as well. Is this sort of the level that we should expect you to run at going forward? I mean now that you have turned your business -- turning your business to more private-oriented growth area. So should we expect your Q2 -- the next couple of quarters beat your 30 basis points to 50 basis points guidance? And is this solely your own operations, or is it a matter of pricing discipline in the market given the low rates?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I guess you can say that with 60 basis points and the 70 basis points, we are slightly higher than normal. And I would be cautious just to assume that that then continues for all of the quarters going forward. There is no doubt that we do see a longer-term trend of continuing to improve underlying claims. We do see areas where Corporate should be able to contribute more, because I guess we have been through a long period now where

Private lines have delivered most of the improvement and Corporate lines has been behind the curve. Corporate lines should improve more.

We have seen that Alka and the processes around Alka also helps the underlying development. And to be honest, for us, we see underneath a -- the Group-wide underlying development, which is positive. Lots of pockets that are either better or worse than what you see on the reported total entity. So we think the -- we've slided on the higher side this quarter. So don't just assume that, but there are lots of pockets we can continue to further improve, and the composition of those pockets will change over time. And this is an area where we spend a lot of our time, because it creates a lot of value.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay, fair enough. On the growth side, in Q3, especially within the Private lines, the 8.6%, it doesn't seem that that actually is coming from the Danske Bank agreement, which I guess is starting slowly to get some sort of traction. So is that correctly understood, this is your -- more or less solely your current agreements that you have that is driving this growth? And should we expect that then to potentially continue to 2020 and then when you get the next material distribution agreement, this really kicking off?

A - Morten Hubbe {BIO 7481116 <GO>}

To a large extent you are correct, but if you look at the actual movements on the portfolio day-to-day at the moment, which comes prior to the earned premium, we do see now that we get portfolio growth from both Danske and Nordea at the same time for a short period of time. That will of course stop as the agreement with Nordea stops and they start cooperating with their new partner. And I guess, we should expect also some more laps from the Nordea portfolio as that portfolio gets no new customers and potentially more activity from a new Nordea partner.

So you're right that there is limited impact from Danske in the earned premium numbers for the quarter. We see a positive development in the portfolio numbers, but we will get some more headwind from the Nordea portfolio moving onwards.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay, fair enough. And then...

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

So Asbjorn what we should focus on is the other growth drivers that you see in Private right now, which is very much down to the product innovation that continues. Remember, over the last 18 months, we have launched around 60 products in this time span. You see you can, say, cross-sell and up-sell to existing customers with very high retention at the moment. So there is a number of growth drivers other than the partnerships as well.

A - Morten Hubbe {BIO 7481116 <GO>}

And elaborating on that Asbjorn, I still think we see a slight improvement that Norway pulls some of the product growth weight, but the reality is that the main pullback comes from Private lines Denmark. And we are working very hard to export that to both Private lines Norway and Commercial lines Denmark and Norway. And these areas are starting to wake up from a product expansion point of view, but the majority of that potential is ahead of us and not behind us.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. I guess that brings me to my final question, because if I look at the development in Q3 and the communication that you have on improvement potential going forward, the fact that you're able to mitigate most of your headwind from lower rates in Q3 and the fact that you get higher synergies from Alka already now and another at least DKK75 million for next year, it looks like you're still -- even with low rates, you're still on your way to beat your guidance for next year, the DKK3.3 billion with some margin. Isn't that the case?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think there is a good chance that we will meet the target. But what you forget in that equation is the messaging we gave around the Corporate segment. On the Corporate segment, we see that there is a need for us to continue to work not only with, you can say, the risk assessment and the work on prevention with the large customers, but in particular also with price increases. And we know that will have an impact on the top line for this particular segment. So yes, you can say when you see a positive trend in the Private and also starting to be in the Commercial segment, that should be counterweighed by the actions that we're taking on the Corporate segment.

A - Morten Hubbe {BIO 7481116 <GO>}

And then we'll see -- I guess we did not have in our plans that the discount rates would fall as much as they did this quarter. That does create more work for us. Will we be able to mitigate that? Yes, that is clearly the plan. We do also see that we need to be able to handle larger amounts of large claims than we've seen in this quarter, for instance. And then we do see that in time the run-off gains will stabilize at a slightly lower level than what we've seen historically. So just make sure that you don't count all of the positives and no negatives when you try to do the math. Our signaling is that we have a high target of DKK3.3 billion. We will deliver that target also with lower discount rates, but we're not signaling any strong over-performance to that target.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right, fair enough. That's all from my side. Thanks a lot.

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 going a bit back to what Asbjorn discussed about premium growth before. Could you -- I mean, now you are kind of -- you're rolling out I guess the price initiatives in the Corporate segment from Norway to Sweden and Denmark. Could you put a bit of light on if that is already not 2020, but Q4, that we could see an effect there? And also on the very high Private premium growth, you are talking about pluses and minuses, but what about -- I mean what kind of potential is left in the portfolios, where you are cross-selling from (inaudible)? I mean have you come to a point where we will -- we actually could see, I mean, less potential lift, meaning a lower run rate of the organic Private premium growth?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I guess if you take the first question, first Mads that -- I don't think you should expect any impact from Corporate in Q4. Q4 is not a very big renewal season for corporates. The biggest renewal season is clearly Q1. So a lot of the changes will happen starting from Q1. So it is going on with the customers now. Both from a reporting and P&L point of view, Q1 is really the first quarter where you will see some of that impact.

I think from a penetration point of view in Private lines, if I were to look at our growth for 2020, I would clearly include a negative impact from Corporate. I think the Norwegian Corporate book is down a bit more than 4%. This year, we will see some similar impacts in Corporate Sweden and Denmark, but as regards Private, as you asked about, I don't really see that -- that pocket is emptying anytime soon. We see that NITO is growing significantly. We see that OBOS continues to grow significantly. We're actually now testing -- as Alka is selling more than 40% online and a lot of the online sales is single product, we are testing to use franchise concepts and other concepts to contact the single product customers in Alka to add more products to the portfolio with very strong success, but it's very early days.

We are also seeing that the rollout of taking some more of the Private lines product ideas to Norway is really not very far in the process. We see that Commercial lines has almost not begun. And if you do the Private lines Denmark, where we've come the furthest, we have still only sold new products to the customers that are either new customers or coincidentally are in contact with us on the phone. We have still not found a way of rolling out the new products to the broad portfolio of existing customers. Not exactly easy, but it means that all of these examples are areas where we see lots of potential to continue to work with the new products. So for us that work has not stopped in any way. That is something we will spend a lot of time on in the further coming years.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Okay. I get it. So Private is still -- actually not that much of headwinds for Private currently. So -- yes, then my second question is on -- I mean on other income and costs. I mean it is minus DKK62 million this quarter and of course, there's goodwill component in there, but probably not changed. I mean what are the moving parts here? Is this I mean before your deal with Danske gets fully up and running that you have a -- a kind of more of a drag from that or could you explain a bit how that works?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Well, you're definitely touching the right parameters there Mads. The two biggest components of the movement in this quarter is of course the goodwill related to Alka, which is around DKK32 million, and then obviously, we don't have the income from the Nordea agreement that we used to have. Right now, we are building the Danske collaboration. So you can say that is impacting us in this quarter.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. And then, I mean it is not like that it's portfolio based, but it's more new sales based, this one. So it comes back relatively quickly. How do you expect that to...

A - Morten Hubbe {BIO 7481116 <GO>}

You're right that it is more new sales based than it is portfolio based. So you're right, but it does come back. In my experience, saying fast and new partnership in the same equation is often not clever. So it does take some quarters to get back to the level. And of course, we are also looking at when is the rebuilds that income becomes the same, and when is the rebuild that some of the costs need to be lower. And we do look at a combination of both to get to the right balance again. So I would expect a few quarters before we are where -- at least before we are where we should be.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay, perfect. Understood, thanks.

Operator

Thank you. Our next question comes from the line of Jonny Urwin at UBS. Please go ahead, your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there, good morning. Just two from me, please. So firstly, where is pricing running roughly in aggregate across the whole book and where is claims inflation? It sounds like you're just calling out a bit more claims inflation activity in places, obviously Sweden in particular.

Secondly on Corporate. So I guess the language is more negative today around remedial action versus the language in the second quarter. What exactly are you planning for the reshaping of that book next year? Are there any lines of business in focus, and just any more detail there would be great. Thank you.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think if we start with the Corporate segment and the actions planned, obviously, those are large customers and we look at every individual customer looking at what products do they have, what is the risk profile and so forth. So it will be looking at a combination of price adjustments to reflect inflation movements to inflect the risk profile of the individual customers, etc., etc. So it's a quite thorough work that is going on and it's not to say that it's one size fits all, because that doesn't fit with a segment like that.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess we can elaborate slightly further joining on that and say that it's only natural that we took the first step in Norway, because Norway was clearly the biggest part of the Corporate challenge. I think we should be quite satisfied with 14% so far this year in Corporate Norway, but more structurally, we have reduced our exposure to fish farming in Norway quite dramatically. We have also reduced our exposure to commercial buses quite dramatically. Out of Sweden, we are reducing our exposure to international liability quite significantly, particularly the exposure to US liability out of Sweden has been a challenge and continues to be a challenge. A lot of Swedish corporates have activity in the US, but liability lawsuits, etc. in the US, even small from a Swedish entity, are just a nightmare. But also larger commercial vehicles in Sweden we are more or less exiting completely. But I guess when you look at all three countries and now particularly Denmark and Sweden, the main challenge is really that the pricing component that goes to large claims exposure is not strong enough, and it means that when you have large property claims and you have the large liability claims, the return on capital simply becomes too low.

And when we see that in combination with an ability to grow the retail business with much, much higher capital returns, we do see that it makes a ton of sense for us to reduce the exposure to large claims and volatile areas in Corporate, so average pricing up, most large claims exposed to lines down and then an acceptance of lower top line and then rather shift more the weight of the portfolio to Private and SME, which is performing and growing extremely well.

Q - Jonny Urwin {BIO 17445508 <GO>}

Makes sense.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess when it comes to pricing, there is a general -- I mean, I guess you asked the question in a shape that doesn't really concur with the way we manage it, because I guess the overall answer is that we're always 0.5 point, 1 percentage point above perceived inflation. Perceived inflation is, in those periods, higher in Norway than in Denmark, higher in the craftsmen-related products, more stable in Sweden. But Sweden is higher in motor, but what we have -- the way we handle it is actually that we are in every business segment, in every single line of business, we have work to further and further and further improve the group of people across procurement, across claims, across actuarial and across product development that monitors all of the small bits and pieces moving every month, so that we see actual developments as fast as possible and react as fast as possible. And there are sales in this area where price increases are 20% or 25%.

So I guess we are moving further and further away from the just broad price changes to much, much more accurate price changes and all the time targeting that those are slightly higher than the inflation we see. So I think we are becoming more sophisticated in that area, but it is an area I think we can further develop in the coming years.

Q - Jonny Urwin {BIO 17445508 <GO>}

That's brilliant. Thank you.

Operator

Thank you. And 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 very much. Three questions please. The first one, I think you said Morten that Norwegian Corporate premiums were down 4%. I don't know if I heard that correctly. But if you could then maybe also tell us what has happened to technical profit on Corporate Norway in the same period?

A - Morten Hubbe {BIO 7481116 <GO>}

And as a first question, I think we look at it -- you're right to get the specifics. Pricing in Corporate Norway is up 14%, a bit more than 14% actually. Total volume, including the price increases, is down 4%. We look at it on a reported level and on a risk ratio level where we sort of normalize large claims, etc. to see the actual quality of the book. We are seeing in almost all lines that the risk ratios are dropping well. We still have two, three lines of business in Norway where the actual claims inflation continues to be even higher than this price increase. And then we have still had large claims in Corporate Norway, particularly in the beginning of '19. I guess, Q3 in general is quite benign from a Corporate large claims point of view, but a single quarter's reported earnings in Corporate really doesn't tell you anything about the quality. And the reality is, if you look across all three countries, and if you look at underwriting year profits with a -- or combined ratio with a normalized large claims level, we are at combined ratios at or above 100%. And Norway is actually the worst of the three. So we are still at above 100% levels if you take out the one-off gains and if you normalize large claims. So risk ratios are improving, but I mean not enough yet.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. And just to follow up on that, so in Denmark and Sweden, do you expect sort of -- I guess you said that actually. So you expect sort of the same reaction on volumes, 4% down, or is worse [ph]?

A - Morten Hubbe {BIO 7481116 <GO>}

That's a very good question Jakob, because the reality is that in Norway the price reductions, to begin with, were much bigger, and I guess Protector [ph] was a lot of -- played a big role in driving that (Technical Difficulty]. I think there's been a strong acceptance amongst customers and brokers that this was necessary to improve. I think in Sweden and Denmark as the price reductions have not been anywhere close to Norwegian levels, and the earnings challenge is not as strong as in Norway, it's a little bit more of an open question what will be the reaction in the market. So I would hesitate a bit to predict that. But I would expect that top line in total for Corporate Denmark and Corporate Sweden in 2020 will be negative, but it's really, really tricky to guesstimate the volume as a few single customers can move the needle quite significantly.

So that's why we would plan for a strong growth in Private and Commercial and a negative growth in all three countries of Corporate, but with a large uncertainty as to the volume. But on the other hand, we are very certain that this will improve earnings in Corporate and it will reduce capital consumption in Corporate. So we have no doubt that it will create value, but predicting the top line is really tricky.

Q - Jakob Brink {BIO 20303720 <GO>}

I'll just try to do the math in Norway then, it looks like you must have lost around 16% of your sort of starting volumes, which has then increased 14%, to give you the minus 4% [ph]. What would be sort of the threshold where it starts to be an issue for scale in the segment, which is offsetting the expense ratio...

A - Morten Hubbe {BIO 7481116 <GO>}

Well, actually the -- I think you're asking the right question. But in reality, the math is not right, because the issue is, first of all, we haven't reached the renewal date of all customers. So we haven't earned 14% across the entire portfolio yet. Then also there are pockets within the reported numbers that are actually not our premium, but other companies' premium. So for instance if we have fronting where we administrate business for an international company in Norway, then we get a cost fee, but we have nothing to do with premiums and claims. So we don't do price increases on those customers, because they don't relate to us. So there you're actually taking out of the equation when you try to calculate the net-net impact. So actually the net-net loss is lower than what you're trying to calculate. So I think your logic is right, but I don't think you have the numbers to do the math correctly, and that leads you to overshooting on the actual lapse.

But having said that, our view is that of course we need to control this in a thoughtful way, but also that longer term, having a portfolio with much stronger Private, much stronger Commercial SME and somewhat smaller Corporate, that does create value. We just need to steer that process in a mindful way.

Q - Jakob Brink {BIO 20303720 <GO>}

And then just on the solvency, and again regarding the Corporate, what is that again -- I mean how is the sensitivity on your SCR from Corporate premiums?

A - Morten Hubbe {BIO 7481116 <GO>}

Yeah, I think the -- if you answer that question from a lifetime of a Corporate customer angle, then it's really quite simple, because the capital consumption of a Corporate customer is often twice as high as that of a Private customer. But bear in mind that the SCR is a function of both the premium and the exposure from the premium and the claims and the liabilities. So while you get a positive almost straightaway from the lower premium, then it does take a number of years for the actual claims liability to run out of your books and thereby out of the SCR. So there is a short-term, long-term view to this. And of course we are monitoring both, because they both impact our earnings and they both impact our longer-term capital consumption and dividend potential.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

And then also looking at the -- you can say the composition of the products with the Corporate business that is lost, it makes a huge difference whether it's the long-tailed products compared to the short tail. So it's not easy to just make a like-for-like comparison.

A - Morten Hubbe {BIO 7481116 <GO>}

So you could say that if for instance Norwegian workers' comp is a big part of what we lose, that is one of the worst drivers on the capital consumption. So that's great. If, for instance, when we cede away, taking out international liability insurance out of Sweden, that is also one of the worst capital-consuming, low-return lines, so that is very positive. On the other hand, it does take a while for the tail of these liabilities to roll off. So longer term, the math is very clear, but it's not just done with the taking out the premium.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. And then very final question, coming back to Asbjorn's very first question on the solvency ratio and an extraordinary dividend, so I understand you don't want to guide, but -- on the solvency ratio, but last year, would you have done an extraordinary dividend? The way I can calculate it, the solvency ratio would have been 155. This year, if I get, of course, Q4 and everything else right, it will be 161 or something, so 5 basis points, 6 basis points above what it would have been last year where you did not do an extraordinary dividend. So is that 5 percentage points, 6 percentage points really the difference or have something else changed, i.e. if you will do an extraordinary dividend?

A - Morten Hubbe {BIO 7481116 <GO>}

I appreciate the creativity of the question. I think to be honest that we don't do the math of 5% or 6% and then we make a decision. We try to look at where is the business headed from an earnings point of view and from a capital consumption point of view, and where is it headed from an internal model development point of view. To include Sweden, what is the impact of that. To reduce Corporate, what is the impact of that, what is the speed of that impact, how does our prognosis look from an earnings and capital consumption point of view. And then we take all of that into the equation, and then we make an intelligent choice based on that. And that is more forward-looking than just a mathematical calculation of 5% or 6%.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yeah. And I think on top of that obviously last year that was the timing, where we just went to the market to fund the Alka acquisition. So you can say it would be a little bit difficult to go out and argue why we should then on top of that also pay out extraordinary dividend.

A - Morten Hubbe {BIO 7481116 <GO>}

Yeah, agreed.

Q - Jakob Brink {BIO 20303720 <GO>}

Fair enough. Many thanks.

Operator

Thank you. And our next question comes from the line of Kevin Ryan at Bloomberg Intelligence. Please go ahead, your line is open.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thank you very much. I just had one question, some clarification really, which leads on from the recent questions as well. You mentioned that low interest rates were clearly not helpful. I was just wondering whether you are building low interest rates into the rates you're trying to push through [ph] in Norway and elsewhere in your portfolio, because clearly it's got a solvency issue, particularly on the larger Corporate side if we carry on, as it would appear, we will do with these extremely low interest rates. Perhaps you could offer some insight into your thinking around that. Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

There is no doubt that when you look at what are appropriate rates in the Corporate segment, you need to be quite careful about the capital consumption, because it's very high, you need to be quite careful about the volatility assumptions, because that actually moves the needle on the capital consumption quite significantly. And then you need to be quite careful on the assumptions you make on interest rates and discounting because a lot of the longer-tailed lines do sit in Corporate.

We have been gradually building the continued lower interest rate level into our assumptions on future rates. We didn't predict how much rates would fall in Q3, to be honest. So it's not like we have the perfect model that says now Q3 has this adjustment and then this is the driver for 1st of January pricing. But I think in broader terms, we have captured well the lowest interest rates and built that into the rate requirements for Corporate. But when we look at the current pricing, we mentioned the 14% price increase in Norway, which is not enough. So the journey from improving where we are now to getting to the right balance in Corporate in all three countries, it's a several years project, so we cannot get the right pricing in one go.

So the fact that we see continued lower interest rates is not really a challenge, because we have generally built in low interest rates and we have several steps of price changes to get to the ultimately correct price. So -- but there's no doubt that we do punish Corporate from the point of view that we are seeing more volatility on the large claims, for instance, in Corporate Sweden, but also Corporate Norway, both on property and liability, and we are seeing a lower discounting rate, and both punish the earnings of Corporate more. So it is also some of the drivers that makes the decision of rebalancing even clearer.

Q - Kevin Ryan {BIO 1814771 <GO>}

Brilliant. Thank you.

Operator

Thank you. And our next question comes from the line of Per Gronborg of SEB. Please go ahead, your line is open.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you. Good morning. A clear case in question left on my table. On the Corporate, you said that Norway was -- have been minus 4% [ph] in volume this year. You were uncertain whether the impact would be worse or bad than Denmark and Sweden. But is it fair to assume that your price -- that we should expect Corporate volumes next year to go down by -- in the magnitude of DKK150 million to DKK200 million? That seems to be the magnitude or approximately 1% of Group premiums coming from the pricing initiatives.

A - Morten Hubbe {BIO 7481116 <GO>}

Well that's -- I would hate to give you the wrong number, Per. I think in some ways, you can argue that the steepest reduction should come from Sweden, because there we have a weaker starting point market position. In Denmark, the bonus scheme should help the journey more. I wouldn't rule out that the reaction could be higher than the number you mentioned. So -- but it is extremely tricky to see what is the net impact. It is -- I would estimate a negative from all three countries. I would not be surprised if the number is as high as you mentioned, and the number could be higher.

So I wouldn't give a guesstimate here, because it's -- some of these customers pay DKK30 million, DKK40 million in premium. So we'll just shift a handful of them to either the positive or the negative. You can easily move another DKK200 million. So I really don't want to guesstimate that.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Also taking the competitive landscape into consideration, because if you see in Norway, there we can see that our peers are also increasing prices as it is.

A - Morten Hubbe {BIO 7481116 <GO>}

Yeah.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

So we'll have to see what happens in Sweden and Denmark.

Q - Per Gronborg {BIO 15910340 <GO>}

Right. I'm sure that your --

A - Morten Hubbe {BIO 7481116 <GO>}

(Multiple speakers) that there is a -- some component of coincidence and some component of timing, because as you may recall, we did high price increases in

Corporate Norway in both '18 and '19. In '18, we saw quite a low customer lapse as a result of that. In '19, we've seen more of a lapse as a result of that. It is not easy to predict the sort of short-term impact of that. And our hesitation comes both from the uncertainty, but also from the fact that if we are too keen on protecting the top line on Corporate, then our efforts on carrying out the profitability initiatives and price changes becomes too weak. And as we see it, the current growth in Private lines and Commercial lines are so strong that we can capture also a significant negative component from Corporate and whether we look at earnings or we look at capital consumption or we look at ROE or we look at dividend potential, all of those KPIs improve when we improve Corporate. So we really should do that even if the result could be higher or more negative than what you mentioned.

Okay. I was just a bit confused on the profit impact. As I noted, Barbara earlier on the discussion of how easy it was to reach the DKK3.3 billion, she talked about headwind from the pricing initiatives, but you are talking about this being a positive. I assume it's the latter and not the first outcome.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

The headwind was predominantly from the discounting impact and then obviously, as you can see, as Morten was saying, the pricing impact will have an impact on the top line.

A - Morten Hubbe {BIO 7481116 <GO>}

(Multiple Speakers) talked about the headwind on top line and help on the earnings and then we talked about headwind on the discounting. So, if we've got some of that mixed up and apologies, but that was the messaging.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, thank you.

Operator

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

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you. Sorry if I missed this earlier. But is there anything specific going on in Swedish motor, driving up the claims at the moment? Anything industry specific or is it just a one-off quarter? Thanks.

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I guess, we can say that we all know that there is a general trend of new cars with new equipment causing a high inflation. I think we're managing that quite well. I think, then there has been the master of the Teslas in the expensive or high horsepower electrical cars in Norway, I think we've managed that quite well.

I think, to be honest that the moving parts on motor Sweden have been sort of fairly small. So in a Group context quite small. I don't think it's an industry-wide issue. There are some pockets in motor where the exposure we have priced have not been priced completely accurately. It does impact our Private Sweden numbers. It is more to do with our own -- to be honest, slightly too slow reaction. Every time you do a new tariff then you need to make sure that you re-calibrate very often and very frequent, because we always need to do that and there are some pockets in motor Sweden where we've been a little bit too slow on that. We have now reacted and the numbers are really quite small from a Group point of view, but a little bit more meaningful from a Swedish point of view.

Q - Steven Haywood {BIO 15743259 <GO>}

I see. When you say too slow, you're talking about weeks, months or year?

A - Morten Hubbe {BIO 7481116 <GO>}

I would say that we've been a couple of quarters reacting [ph] on something, I think we should have spend a couple of months reacting on, and that actually back to the comment I mentioned earlier that I think over time insurance has always been too slow to react on the most recent changes in patterns and we've always used sort of more traditional extra-error methodology of waiting to see the longer trends and the bigger movements. And I think from a certainty point of view, that's great. But you get behind the curve in two seconds. And I think that's why we're working quite hard and we've been in most areas, quite successful in firming up, the timing and the time of reacting to new trends are much, much shorter period and Sweden Private is not up to speed on that yet. So, we are further improving on that area.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. I mean we obviously seen a problem of not reacting quickly to trends in motor in Norway in the past as well. So, are we on top of the case in Sweden?

A - Morten Hubbe {BIO 7481116 <GO>}

I can promise we're on top of the case in Sweden, and I think what made the Norwegian case more difficult was the extremely high growth in Teslas and the like. I think in Sweden, the total portfolio of cars have been much more stable. So we're talking about much more smaller moving parts than in Norway.

Q - Steven Haywood {BIO 15743259 <GO>}

Yes, yes. And can I just ask -- I don't know if this has been asked earlier as well, sorry. But on the Corporate side of things, was there any change in the trend that meant that you want to increase prices significantly in Denmark and Sweden? Or is it just the fact that the strategy is that you don't like Corporate as much as you used to in the past?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, to be honest, I don't think that there is any sort of large new pieces of information out there. I think that the worry on Corporate profitability and capital returns has been there for a while. The biggest challenge was in Norway. We reacted to Norway first, and you're always trying to understand how much profitability can you improve with how much of a top-line impact. And I think it's becoming clearer for us, so the challenge has been clear for a while.

The lower assumed longer-term runoffs do not help the equation. The lower discounting rates do not help the equation. And -- but generally I think the need has been there for a while. We have just become clearer and clearer on the willingness also to let more top line go in the process, and are also seeing quite clearly how much that impacts, not only P&L, which is in the obvious place to start, but how much it actually impacts capital consumption. And through capital consumption also the ROE and the future dividend potential. And if you may recall, if you go back to the Capital Markets Day we had in 2017, already back then we started talking about the rebalancing. And actually if you do the math from 2017 to now, you can already now see how the retail component is becoming bigger and bigger of the Group, and you will see that trend continuing as Corporate strengths and as Private and SME grows. So it is really a longer-term trend where we are becoming slightly more harsh in the next 12 months, but it's not a new trend.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

And I think just to finalize that, it's also a question of not liking or disliking the Corporate segment. I think it's just a matter of pricing the right risks at the right price.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. And just a final one for me. And do you have a timeline on your internal model application for Sweden? I know it sometimes takes up to six months to get approval. So if you can give us a sort of timeline on that that will be great.

A - Morten Hubbe {BIO 7481116 <GO>}

I think our experience on guesstimating timeline of authority approval has proved quite poor. And as it's completely out of our control, I don't think we will try to do that.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, no problem. Thank you very much.

Operator

Thank you. And we have one further question from the line of Derald Goh of Citigroup. Please go ahead. Your line is open.

Q - Derald Goh {BIO 20775137 <GO>}

Good morning, everyone. Just a quick question, please. It's on the run-off gains in Private. So conscious that you've been running at sort of a 3% to 4% level in the last few quarters. Could you explain kind of the drivers behind this drop that we've seen to-date, please? Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I guess, the -- actually if you go through the various quarters, you can actually see on the reported Group level fairly stable trends on total run-off levels. I guess, this quarter, the large claims have been quite benign and the total run-offs level is also lower than we've seen, for instance, last year. But actually if you dig into the individual quarters, you see a lot of variation on the composition of that run-off, and in particularly Private lines, has a significantly lower run-off, almost 5 percentage points lower run-off compared to last year. I wouldn't read too much into that; that is quarterly volatility in the composition of the run-off. And I think we expect that to continue also in the future that from quarter-to-quarter the composition will jump, and you will see more stability on the Group numbers.

Q - Derald Goh {BIO 20775137 <GO>}

Thank you.

Operator

Thank you. And with that, I will hand back to our speakers for the closing comments.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Well, with those words, I'll say thanks to everybody. Thanks for your very good questions. We are around the next few days. So there will be chance to discuss more if needed. Thank you.