Q2 2014 Earnings Call

Company Participants

- Lars Møller, Director-Investor Relations
- Morten Hübbe, Chief Executive Officer
- Tor Magne Lønnum, Chief Financial Officer

Other Participants

- Daniel A. Do-Thoi, Analyst
- Gianandrea Roberti, Analyst
- Jakob Brink, Analyst
- Niccolo C. Dalla Palma, Analyst
- Per Grønborg, Analyst
- Thomas Eskildsen, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Lars Møller

Good morning, everyone. This is Lars Møller, Head of IR at Tryg. Welcome to this presentation of Tryg's Q2 and First Half Results 2014. With me today I have our CEO, Morten Hübbe; and our CFO, Tor Lønnum with us. And with this just short introduction, I will hand over to you, Morten.

Morten Hübbe

Thank you, Lars. And if you turn to slide three, we're very pleased to announce for this quarter strong financial results with a pre-tax earnings of DKK 1.15 billion and a combined ratio of 80.7%.

Now when assessing the quality of earnings this quarter and how that may impact the future earnings, it's very important to realize that we've had positive impacts from one-off results. We've seen a positive impact from our pension scheme in Norway, and vice versa a negative impact from IT costs. And the net of those two is a positive up DKK 135 million or an impact of some 2.8 percentage points to the combined ratio and the cost ratio.

Also we've seen in this quarter a significant tailwind from fewer large claims and an unusually strong investment return for the quarter. So actually, the most important is perhaps what is going on in the underlying earnings where it is very satisfactory to see an improved trend on top line customers from a negative top line of 2.6% in the same quarter last year to a negative of 1.2% in the second quarter this year which makes this the best top line quarter in six quarters.

Also we see a very important continued positive trend in the cost ratio which drops 0.2% if we disregard the one-off positives. And also we see a continued positive underlying trend in claims.

Now if we turn to slide four, we highlight a few important news. On the earnings side, I think it's fair to say that the efficiency program continues to play the lead role in improving our results and that we're pleased to see almost DKK 100 million in the second quarter. And still you may recall another DKK 260 million remaining for our DKK 1 billion program.

On our product and customer side, we have launched another three new price differentiated products. We've launched a number of initiatives to enhance the quality of our customer service. And we're progressing well in the integration of Codan's agricultural portfolio in Denmark. Then we've been pleased to see the FSA report following their survey of Tryg with a positive view of capital and risk and a clear confirmation of our reserving margin strength.

On slide five, we show an improved combined ratio on all four business areas, of course positively impacted by the one-off effects. If we look at the underlying claims, clearly the improvement comes particularly from Private in Sweden, which Tor will elaborate on a bit more. Whereas in Corporate, we actually reported improved combined ratio. But when you take into account underlying the positive one-off impacts and the positive from fewer large claims then the underlying development is actually a slight increase.

And on the cost ratio side, clearly, the largest improvement is in Commercial with an underlying drop of around 1.3%. And bear in mind we've announced several times that Commercial is one of the areas where we need to improve cost the most.

On slide six, we elaborate a bit on the progress of the efficiency program, some DKK 28 million in the quarter improvement on expenses, and some DKK 65 million improvement on claims. Well, of course, we're very pleased to see that now building and content is becoming more of a driver, whereas previously this area was trailing behind a bit compared to motor and health insurance, for instance.

If we turn to slide eight, we show how the various business areas contribute to growth and technical results. As I mentioned on the growth side, clearly, we still have a slightly negative growth, but the best quarter in six quarters. In Private and Corporate lines, we have turned negative top line year-on-year into a slightly positive top-line development.

And Private lines, clearly, helped by improved sales of the more price-differentiated products both in our own channels, but also in our bancassurance with Nordea. On Commercial, we still show a negative top line of 3.9%. If you disregard higher premium discounts, the underlying development is minus 2.4%. And we do see a positive development both in retention and in sales although sales are still slightly too low in Commercial.

In Sweden, clearly, the negative impact is from the lapse of the Nordea portfolio whereas the underlying portfolio has a slight positive top line development. Clearly, on the right-hand side, you see that the technical result has been improved in all four business areas, but as I said, bear in mind that you need to normalize for the positive DKK 135 million.

And with that, over to you, Tor.

Tor Magne Lønnum

Thanks, Morten. If we move on to slide number nine related to the average premiums, you can see that we have more or less a flattish development in the Danish business lines and there's a slightly lower growth than last quarter in the Norwegian business lines.

There are really three drivers. It's related to a change in the business mix. We see, for instance, in the house product that there is an increased retention level. And we also see to a certain extent that there are some competitive pressure in the market, i.e. that you see some level of falling prices.

If we move on to slide number 10, you can see on the customer retention, it's actually relatively positive both in the Commercial lines and also in the Danish Private lines. You see that there is a small decrease in the Norwegian retention, but relatively small difference. I think from our side, we'd like to highlight the fact that there is a continued positive development in commercial which supports the turnaround in that area, as Morten mentioned. And I think if you look at sort of the Private lines in Denmark despite the portfolio conversion going on, we're glad to see that at least it seems like it's leveling out.

If we move on to slide number 11 and looking at Private Sweden, there is no doubt that there is a continued issue related to the portfolio development in the Swedish portfolio. Morten has mentioned the Nordea portfolio which continues to have an impact.

Although we see that customer retention is leveling out, but still at relatively low level, so we feel that, as Morten said, there is a stabilized underlying portfolio. There are still issues related to the Nordea portfolio, and we see some pressure on the existing contracts in the portfolio, which is why Sweden needs to be a focused area going forward as well.

If we move onto slide number 13, there is no doubt an underlying improvement in the underlying claims ratio, which we're pleased to see. Roughly 50% of that underlying stems from one-off effects related to the pension and IT expenses that Morten has explained, which means that the underlying improvement is more or less in line with what we have seen in the previous quarters.

If you look at the business segments, there is a flattish development in Corporate and improvement in the other segments.

If we move to slide number 14, as Morten mentioned, it's significantly lower impact of large claims both related to Q1, and if you compare to Q2 last year an impact of 1.7% this quarter. If you look at weather-related claims, it's at a relatively low level, as you can see. And run-off is perhaps worth mentioning which is slightly lower than what you saw last year in Q1, but it brings it more or less in line with what we have seen in previous years, if you look at the year-to-date. And as Morten said, no doubt it confirms that there is a strong reserving level in our reserves.

If we move on to slide number 15 and talk a bit more about – in detail about the expenses, I guess. It's important, first and foremost, to recognize the fact that we had mentioned that there would be some one-off effects in Q2 related to the IT transition agreement. However, we have not mentioned anything related to the pension change in Norway, which is due to the fact that the negotiations were, in fact, terminated or finished actually in Q2.

I guess, it's fair to say that we do recognize that that of course have created some differences in terms of how the one-off should be interpreted. But I think it's fair to say that, first and foremost, we are extremely pleased that we're now able to take a significant part of the volatility related to the pension agreement out of the future balance sheet and P&Ls going forward.

I guess, the final comment I'd make is that if you look at the nominal, there is a nominal reduction of about DKK 50 million in the quarter and, of course, it underpins the continued efficiency focus that we have in the company.

If we move on to slide number 17, as Morten said, strong investment return. Overall gross return of 1.5% or 6% annualized. More than 50% of the result is driven by equities, which I think we have highlighted in the report as well. We have seen beneficial returns or movements in the interest rate markets as well, which have yielded about DKK 80 million. High yield and emerging market debt of about DKK 40 million, so a lot of positive factors.

And then I guess which is probably a bit more of a surprise is that you see that there's about DKK 100 million on the match portfolio as well. And there's two drivers, one is that there is a technical change related to the benchmark and the other is that we have a significant exposure on AAA-rated covered bonds, which have performed actually better than benchmark in the quarter.

Finally, on slide number 18, in terms of capital, you see that there is a capital growth in terms of surplus, about DKK 600 million and plus this quarter. Equity is slightly down due to the dividend payment this quarter and buyback.

And I guess the final comment I'd make is that you have – I guess, you have all seen the recommendation from the Norwegian FSA to the Ministry of Finance that the Natural Perils Pool fund and the guarantee scheme fund will not be counted as capital under Solvency II implementation, which in our mind is a relatively big surprise and, of course, is something that we need to work proactively with going forward.

However, we do know that there are some upsides, some positives related to the Solvency II implementation as well. And one is that we can utilize expected future profits and the other is subordinated capital or full inclusion of that. It will not have a full mitigating effect, but it will, to a certain extent, mitigate some of the effects should the Norwegian FSA recommendation be taken, be accepted by the Ministry of Finance.

And back to you, Morten.

Morten Hübbe

Yeah. Thank you. And let's hope that the Ministry of Finance realizes that they shouldn't accept it, but clearly, it is a risk. And if we look at slide nine scene, I think we should just confirm that we're very pleased to have reported a strong result for the quarter. If we look at the future, it's very important to distinguish between the continued positive underlying trend in the cost ratio, 0.2%, and in the claims ratio, as you explained, Tor. And that we do not take the one-offs on costs or the tailwind on large claims and investment income into our expectations of future results.

We continue to be very committed to our financial targets to a combined ratio at or below 90%, to an ROE of about 20% post-tax, also in periods with less helpful investment results and let's face it, we'll probably face more of the more normal periods than the slightly unusual period we've seen in Q2. And the target of reaching a cost ratio of below 15% in 2015, where our efficiency program of DKK 1 billion continues to play a key role.

And with that, I think we are ready to take some questions.

Lars Møller

Yes. Operator, please.

Q&A

Operator

Yes. Thank you. We will now begin the question-and-answer session. [Operator Instruction] Our first question will come from Mr. Jakob Brink from GBD. Please go ahead, sir.

Q - Jakob Brink {BIO 7556154 <GO>}

It's from ABG. Good morning. Just two questions, please. The first one is regarding the Norwegian FSA letter, you're right and you've just mentioned that this was a big surprise to you. So how could this impact your 20% ROE guidance?

Also, I mean if we look at 2014, I guess you will make 20%, but at least partly driven by the adjustment of the Norwegian pension obligation as well as very strong investment profits. So I guess next year, it will be difficult to make it without similar positives. So could you give us some details around that, and especially the Norwegian FSA letter, how that could impact you, given that it was a big surprise?

And then secondly, could you give us a bit more detail on the Norwegian pension obligation, please? I mean, what exactly is it that is being changed? Thank you.

A - Morten Hübbe

Yeah.

A - Tor Magne Lønnum

Do you want – yes, again, good morning, Jakob. I guess I can start with the latter, related to the pension obligation. And principally you can say that there has been an obligation related to the Norwegian-defined benefit scheme to adjust the future payment with a so-called Norwegian base amount. And that is a relatively heavy, so to speak, interest rate guarantee related to the defined benefit. And that is actually what we have now changed in the Norwegian pension scheme. So it's now reduced to being based on the actual investment return in the pension funds. This is a change which, I guess, more or less, all the other companies – financial companies in Norway already have introduced. So it brings Tryg in line with the other defined benefit schemes in the Norwegian financial sector.

A - Morten Hübbe

And I guess on your first question, Jakob, on the FSA letter on Norwegian Natural Perils Pool, the reason why this is a surprise is that for more than a decade, all of the Norwegian insurance companies has been reporting their part of the Norwegian Perils Pool as part of their capital.

This was confirmed in 2005 when Tryg was IPO'd. It was confirmed in 2010 when Gjensidige was IPO'd. And for the Ministry to potentially come to the conclusion that they would now all of a sudden decide that it was not part of capital would be a very unusual conclusion. Borderline and expropriation debates which I tend to think that hopefully the Norwegian Ministry will not come to that conclusion as it would be very unusual and very surprising.

It is something that, if carried out, would have an impact on 2016, not 2015. As Tor said, they will be mitigating factors in the other drivers that have positive impacts, although slightly smaller. But we will participate in the debate with the FSA and the Ministry and hope that they come to the right conclusion and know that there's a period of time until this has an impact.

And then I guess – you can add to that, Tor, if you want, but then I guess on your question on the ROE, clearly, we expect for the remaining part of 2014 and for 2015 less of a tailwind from investment income to support our 20% ROE. And we remain of the view that we need to continuously improve our underlying insurance results in order to deliver more than 20% ROE also in low return investment environments.

A - Tor Magne Lønnum

Yes. So just to enhance what Morten said related to the ROE, there's no doubt that the overall target is to deliver an above 20% ROE. And, of course, that is something that we will have the attention to deliver on that target no matter what, I mean, in terms of investment return or one-off effects.

I would just like to highlight one more issue related to the Natural Perils Pool fund that Morten mentioned because I guess in our mind, at least, it's relatively unclear still what the Norwegian FSA actually means. Because if you define that the Natural Perils Pool fund and the guarantee scheme is to be viewed as a – as actually a debt then, of course, that may have an impact for the accounting treatment of those funds as well because today they're recognized as equity.

So, I think in our mind, it's a bit unclear and it doesn't really seem consistent, the assessment that the FSA has made. So I think it's still early days for us based on the recommendation that the FSA made.

A - Morten Hübbe

And the Ministry has the final call.

A - Tor Magne Lønnum

Yes.

A - Morten Hübbe

Yeah.

Q - Jakob Brink {BIO 7556154 <GO>}

I guess the final thing on this is what is the Standard and Poor's will think, I guess, if the regulatory side won't approve it, isn't it fair then to assume that S&P won't either or do you have any insights on that?

A - Tor Magne Lønnum

No. I guess that it's a very valid point, Jakob, so I think that's – it's clearly a risk related to that.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thanks a lot.

A - Tor Magne Lønnum

But bear in mind, again, as Morten said, that we mentioned sort of here the DKK 1.2 billion effects related to these two lines in our equity statement, but bear in mind that there are some positives as well related to implementation of Solvency II, which I'd say that it will have at least a substantial mitigating effect.

A - Morten Hübbe

Yeah.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah. Sure.

Operator

And our next question will come from Mr. Vinit Malhotra. Please go ahead, sir.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi there. Good morning. Just three topics, please, quickly. The competition issues that you have been raising in the past and this quarter we saw the Privates lines also on an FX adjusted showing a positive bend, a small positive bend. Could you just update us on how much those concerns are less or more now versus maybe six months ago or three months ago? So that's on the competition.

Secondly, just to clarify if the positive effects could be substantial, could you just clarify a bit more because these future earned profits are more a life business phenomenon usually, and I was just wondering how that could be a substantial offset? And I think that's the two topics I would raise. Thank you.

A - Morten Hübbe

Well, I guess on your first question, clearly, you're right that the Private lines turns a negative top line second quarter last year to a slight, slight positive this year. And as Tor showed, positive development and customer loyalty and somewhat higher sales. And I guess that shows a fairly stable competitive environment, but with some pressure on particularly car pricing where you also see a drop of 0.5% in our Danish car average price development, so a combination of a mix change towards the smaller cars with less risk, but also slightly higher competitive pressure.

But I think with the development of our new products with more and stronger price differentiation, slightly stronger distribution, we're able to show some improvement in the top line. And to be honest, we're not targeting a dramatic improvement in that area at all, but a slight and patient gradual improvement in line with the development with the better price-differentiated products. So I wouldn't say that's a big change two months, three months ago until now. We're roughly at the same area of market competition (25:22).

A - Tor Magne Lønnum

Yeah. And so I think it's – I think, Vinit, in terms of sort of the top line going forward, we will expect sort of negative development in the top line for the remaining quarters of 2014 as well.

A - Morten Hübbe

Yeah.

A - Tor Magne Lønnum

And we do expect, at best, sort of a flattish development in 2015 because as we have mentioned, there are some positives, as Morten said, related to the price differentiation, et cetera. But there is competitive pressure in the market no doubt. And also we do see that there will be a new wave of conversion in 2015, which, of course, will have an impact. Although, we do see that the conversion now in 2014 is at least progressing relatively well, so.

A - Morten Hübbe

And while we see the trend shift in Private lines and Corporate, we do expect that there will be a substantial period of time before we see a strong improvement in Sweden. So there will still be, clearly, negative impact from Sweden also in this year and next year.

A - Tor Magne Lønnum

And then to the final question about sort of the positive effects, you do know that there is a part of our subordinated debt that is not eligible for Solvency II purposes, so that will have a positive, as I said, mitigating effect. And then the other is that we will be able to take in parts of the calculated future profits as a capital element. And those two will have, as I said, a mitigating effect. It will not mitigate the full effect should the Norwegian FSA recommendation be sort of the final verdict. But let's say more than half of it, at least, will be mitigated.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. Thanks. A second follow-up, quickly. The competition question was not top line question. I was more worried about progressiveness in the marketplace leading to ultimately combined ratio effect, but I've seen that you are still in a stable position, so, yeah. Okay. Thanks.

A - Morten Hübbe

Well, I think our view is that the way we manage it is by making sure that our efficiency program continuously drive underlying improvements because clearly, as we're not seeing any significant price increases, we need to drive earnings improvements from elsewhere and that is from the efficiency program.

A - Tor Magne Lønnum

And I think to the latter, as Morten said initially, you can now see that 74% of the DKK 1 billion is actually sort of coming through the account. And I guess, we're relatively pleased with that development.

A - Morten Hübbe

Clearly (28:23).

Q - Vinit Malhotra {BIO 16184491 <GO>}

And is that likely to continue that rate or...

A - Morten Hübbe

I think we'll have to stick to the fact that we've announced DKK 1 billion and we'll deliver DKK 1 billion. And then you can do the math and see that we have DKK 260 million remaining.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you.

Operator

Our next question is coming from Mr. Per Grønborg from Danske Markets. Please go ahead, sir. Per Grønborg, you're up now. Please go ahead, sir.

Q - Per Grønborg

Yes. Good morning. It's Per from Danske. Starting off in Norway, we saw all the announcement from the Norwegian FSA, they addressed the Perils Pool, but they also addressed the claims reserves that new (29:11) Norwegian companies have provisioned too more so (29:14) claims compared to what they were allowed to under Solvency II. How does that impact your business, I guess you are primarily regulated by the Danish regulator also on your Norwegian business. In this context, you'll of course, also have the Danish FSA review by at least (29:30) like the Danish FSA thought that your security margin in your provisions were too high. What are the thoughts on these topics?

The second question is your main shareholder, TryghedsGruppen, was out with an announcement in an interview and they're basically saying that they were considering a client dividend. What are the timing, when should we expect any announcement from your main shareholders if you have any insight into that – their process? Thank you.

A - Morten Hübbe

Good morning to you as well Per. I think clearly, we've had, as you said, announcements both on the Norwegian and Danish FSA. Clearly, we are as a group regulated by the Danish FSA. And as you said, the Danish FSA has pointed to the question of our strength in claims reserves. I think the wording was that they would ask us to reconsider how we see the strength of our claims reserve, as they were pointing to the fact that they saw the strength as being very high. And I'm sure we will have an evaluation of that, and I'm sure we are very comfortable that the assessment is that the strength is high. It's a bit unusual to have the FSA confirming that it is high, but I guess that is a comfort both for us and for you, as analysts and also shareholders.

There is no wording in their document saying that it is too high and that we have to take it down. But they point to it as an area of focus and something that we should continuously evaluate as it is rather high. But as we see it, that's probably a positive.

On TryghedsGruppen, you're right, Per, that our 60% shareholder is considering whether they should pass on dividends from Tryg to Danish policy holders as part of their future operating model. And there is a process on their side where it needs to be debated amongst the group of representatives. So that is some 70 people representing shareholders. To be honest, I don't think there's any strong link or change to what we do in Tryg. But, of course, we follow that with interest and I think they will debate this first time during the autumn. But it is probably likely to be 2015 before they make any clear decisions. But as I said, this is their task and not ours, but of course we follow it with interest.

And then I guess on the Natural Perils Pool, was anything new on that?

A - Tor Magne Lønnum

No. I guess, just to follow up on Morten's comment related to the FSA – the Danish FSA, Per. I guess they stated relatively clearly, actually that they did not consider our reserves to be too high. They just stated the obvious that it will be – that the likelihood is that you'll see a positive reserve release going forward. And in my mind, there's nothing new in that message because as you know we do, in principal reserve with an additional margin that should come in through the numbers going forward. So I guess, in our mind it's a relatively clear statement of, as Morten said, that the reserves are strong, but not that they're too high and that has been relatively explicitly said from the Danish FSA.

Q - Per Grønborg

Tor, can I rephrase my question slightly? The Norwegian FSA is basically saying that Norwegian companies, they are provisioning too much compared to what they are allowed to under Solvency II. The Danish FSA is saying that you are well-provisioned. What's your impression, are Tryg (33:43) provisioning more or less conservatively than you would have been if you had been on the Norwegian regulation?

A - Tor Magne Lønnum

That's a difficult question. Per, I guess, I think I'd stick to the statement saying that we are sort of – we are comfortable with our own reserve position. We do think that we do on a regular basis, internally, benchmark our reserves against our competitors both in Denmark and Norway. And we do feel that our – as I said, we have a comfortable reserving position.

Q - Per Grønborg

Okay. Thank you.

Operator

Our next question is coming from Mr. Gianandrea Roberti from Carnegie. Please go ahead, sir.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good morning. This is Gianandrea from Carnegie. I have a couple of questions here as well. All this discussion are on the Natural Perils Pool and the development from the regulatory side in Norway, just really prompts me one question. Is there a risk that your dividend buyback policy can be changed on the back of this? That's my first question.

Second question is around the run-offs, this quarter were only – highlight only 340 bps on CR, were 730 bps in Q1 and above 500 bps, if I remember correctly, for the last two years. So it's quite low. And I assume there's less need of that also looking at the already pretty strong level that you're printing. I'm also intrigued a bit by the split of this run-off because it seems like in Denmark you have almost nothing and everything is coming out of Norway in this quarter, or almost everything, right? While you had a very high number on a consistent basis for quite a few quarters in Norway. I'm not sure if you can add any comment on that but it would be highly appreciated.

And finally, I'm just wondering if your thoughts on the top line developments are anything different compared to Q1. I guess it must be pleasing to see the Private lines growing, although by 0.1% in a quarter after quite a few quarters. Thank you.

A - Morten Hübbe

Yeah. I can start with the last question and Tor can add on the two first questions, Gian (36:19). No, we don't see that this quarter's development on the top line changes our view on future top line. I think we've said for the past year or so that we are patient about the process of turning the slightly negative top line into a slightly positive top line.

We're seeing the first signs in this quarter of Private lines and Corporate lines moving into slightly positive territory which confirms that we're on the right track. I think the higher customer loyalty and the higher distribution or slightly higher sales confirm that we're on the right track as well. But as Tor said, we'll continue to see the two next quarters this year with a negative top line. We'll have a rather flattish development next your. And we'll continue to see that Commercial and in particularly Sweden will struggle to deliver positive contribution to the top line.

So there's really no change, but I guess a confirmation that the steps we've taken is moving us gradually and slowly in the right direction. And we feel very comfortable that this slightly higher sales is done on the back of new and more price-differentiated products where we see a higher quality and a better risk selection of the new customers.

And then on the two first questions, Tor.

A - Tor Magne Lønnum

Yeah. I guess, Gianandrea, on the Natural Perils Pool question, I guess there is no guarantees given, but the way we look at it at the moment, at least, there is no plans to change our dividend policy or the thoughts around the capital structure. So, as I said, no guarantees but at least we don't have any plans in that respect.

In terms of the runoff, yes, you're correct, there is a slightly lower runoff this quarter and it brings it more, let's call it, to a normalized level year-to-date as I mentioned. And I guess to a certain extent, you will see some fluctuations in the runoffs without putting too much into that. I guess, in principle, you can say that if we look into sort of there are some movements in the reserves this quarter, and that is also the reason why you see some differences between Norway and Denmark, as you mentioned, because there is a change related to the workers' comp reserves in Norway.

So we have seen some relatively positive developments in the motor segment and then we have had actually some strengthening related to the workers' comp business because there is a likelihood that there may be a change in the interest level – interest rate level used for compensation. So, yes, there are some, as you mentioned, some relatively large movements this quarter isolated. But you shouldn't read too much into it in terms of the longer term view of the reserves.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Hi. Thanks for that. I actually have a very quick final question that I forgot. On the – again, looking at the geographical split, the Norwegian combined ratio ended up at 65.9%. But I guess that's heavily impacted by the change in the pension scheme that you mentioned previously. You didn't disclose the impact of that, but would it be fair to assume that adjusting for that Norwegian combined ratio would have been anywhere between 75% and 80% this quarter?

A - Tor Magne Lønnum

Yeah. It's – we haven't, as you said, disclosed it, Gianandrea, but it's 13 percentage points related to the effects on the Norwegian combined ratio. So as you mentioned, a relatively significant impact on the combined ratio in Norway this quarter.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thank you very much.

Operator

Our next question is coming from Daniel Do-Thoi from JPMorgan. Please go ahead, sir.

Q - Daniel A. Do-Thoi {BIO 17019775 <GO>}

Hi. Good morning. Two very, very quick questions from me. The first one is relating to the cloudburst in Denmark which, you say, was covered by your reinsurance program. Could you just give us the gross loss attributable to this cloudburst, i.e., what you would have – the cost you would have incurred if you were not in the money on the sideways reinsurance.

Secondly, on the match portfolio, could you just help us understand the performance within this, particularly when you split it out into the two components, the regulatory deviation and the match portfolio performance? And if you could just – I mean, in the past you always guided to sort of return to zero over time, does that still apply? Or how should we think about particularly the match performance component of that line? Thank you.

A - Tor Magne Lønnum

Yeah. I can answer both of them. As you said, Daniel, on the cloudburst on a gross basis, we're talking in the area of DKK 50 million, so not a very significant amount. But as you said, there's no doubt that it's been covered by the sideways reinsurance.

But also what is mentioned in the report is related to actually how we account for the sideways cover which makes it slightly tricky to understand the accounting, but that's why we have shown the weather impact and you'll find the coverage on the reinsurance program on the runoff side.

Q - Daniel A. Do-Thoi {BIO 17019775 <GO>}

Okay.

A - Tor Magne Lønnum

Related to the match, the match portfolio is, yes, you're correct in your assumption. The regulatory deviation should over time more or less be equal to zero. I guess, the most important factor to mention there is, as I said, the DKK 50 million, which we'll call match performance which, in principle, is that we see that we have had a very favorable development on the assets that we have held in the match portfolio, i.e., that there is a substantial amount on Norwegian and Danish AAA-rated cover bonds that has perhaps performed better than benchmark, and of course that is something that at least a substantial part of that is a profit that we expect to keep.

Q - Daniel A. Do-Thoi {BIO 17019775 <GO>}

Okay. So it's a function of spreads tightening? Could there be (43:42) performance component of it?

A - Tor Magne Lønnum

Well, you can say it's on the basis of specific papers that have (43:49) performed better than benchmark.

Q - Daniel A. Do-Thoi {BIO 17019775 <GO>}

Okay. Thank you.

Operator

Our next question is coming from Mr. Thomas Eskildsen. Please go ahead, sir.

Q - Thomas Eskildsen {BIO 18627844 <GO>}

Thank you. Two questions from my side. First, regarding the Swedish market. I understand you have a positive effect from the Danske Bank agreement. You also have your own sales force in place in the Swedish market. The Swedish market which actually gives you 2% increase there, if we deduct the Nordea agreement. I was wondering if you could give a bit more insight to the terms of the Danske Bank agreement, how much of this growth actually comes out of this agreement?

My second question goes for the IT transition, which you are partly through now, I understand. How much could we expect to see from costs in relation to this transition in the third quarter? Thank you.

A - Morten Hübbe

If I take the first question. Clearly, we are working hard to making sure that our own sales force and the Danske agreement can compensate for the drop of the Nordea distribution. So far, the fact that we're selling as much now without the Nordea agreement as with an Nordea agreement is mainly the result of our own sales force being increased, and that is mainly our outbound call center in Malmø (45:19) which mainly does cross-sales to existing customers with only single products from our niche areas.

So, so far Danske actually has been started very positively and we're very positive about the future and we're starting to see referrals and sales. But the sales are not yet at a level where it contributes significantly to the overall growth.

And bear in mind that the model between Danske and us is not the they sell for us, but rather that they refer customers to us and for us to do the actual sales. So we started well, but it doesn't play a significant role in the actual sales numbers yet.

Q - Thomas Eskildsen {BIO 18627844 <GO>}

Thank you

A - Morten Hübbe

And then your second question, I think?

A - Tor Magne Lønnum

Yes. Related to the IT transition, you can say that the transition is ongoing. We have just started and it will continue throughout the second half of 2014. In terms of the accounting effects, we have made a provision for the double operating expenses that we will see related to that transition. And also parts of the compensation that we need to pay related to the transition. And that's really why we haven't disclosed the amount because this is a part of an ongoing negotiation with the vendors.

Q - Thomas Eskildsen {BIO 18627844 <GO>}

Okay. Thank you.

Operator

Our next question is coming from Mr. Niccolo Dalla Palma. Please go ahead, sir.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Hi. Can you hear me?

Operator

We hear you now, sir.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Okay. So the questions are on the reinsurance cover and the large claims. Could you just – the sideways reinsurance cover renews at the 1st of July. Has there been any significant movement in the cost of that program, up or down, this year?

And the second part is, you've given expected annual level of claims of, what, a DKK 1.50 billion between large claims and weather claims. Is there any significant seasonality in the second half from your experience that we should take into account or is it is roughly half of the budget? Thank you.

A - Tor Magne Lønnum

Yeah. I guess I can answer. The first one is that, yes, the reinsurance cover has the sideways reinsurance. So the frequency cover has been renewed and there's no significant changes in terms of the program or the prices, slightly, slightly increased prices, but nothing significant.

In terms of the annual budget, as you mentioned, for weather and large claims. You can say that the large claims is – of course, it's natural to say that you take one quarter every quarter, so to speak. So 25% every quarter because it's, by nature, difficult to anticipate when those large claims will occur. In terms of the weather-related claims, you can say that that will have – it will have a heavily tilt in Q1 and Q4, and less of an impact in Q2 and Q3.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Okay. Thanks.

Operator

And we have no further questions, so back to you speakers.

A - Lars Møller

Thank you very much, operator, and thank you to Morten and Tor, and thank you for all of you for joining this call this morning. We will be around, as you can see, for our upcoming road shows today in Copenhagen, tomorrow in London. And Peter and I on the IR side will be available, of course, on the telephone if you have additional questions.

So looking forward to seeing you around and have a nice day to all of you. Thank you.