Q1 2016 Earnings Call

Company Participants

- Christian Sagild

Other Participants

- Asbjørn Nicholas Mørk
- Christian Hede
- In-Yong Hwang
- Jakob Brink
- Paul De'Ath
- Per Grønborg
- Vinit Malhotra

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon. Thank you for standing by and welcome to the Topdanmark's Q1 2016 Results Call. At this time all audio participants are in a listen-only mode. During the presentation, we will have a question-and-answer session. I must advise you that this webcast is being recorded today on Tuesday, May 10, 2016.

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

Christian Sagild {BIO 15093649 <GO>}

Thank you. Good afternoon, everybody; and good morning to the USA. Thank you for joining us in this conference call. With me are, as usual, Lars Thykier, our CFO; and Steffen Heegaard, who is Head of Investor Relations and Group Communications.

We are ready to take your questions. Please ask them one at a time. Operator, can we have the first question?

Q&A

Operator

Thank you. Your first question comes from the line of Asbjørn Mørk from Carnegie. Please ask your question.

Q - Asbjørn Nicholas Mørk

Yes. Good afternoon. Asbjørn from Carnegie here. I have a couple of questions. First on your capital model, then the new model, it seems as if your excess capital has been revised downwards by almost DKK 0.5 billion and then at the same time, you raise your buybacks by DKK 100 million.

Of course, I'm aware that this a model that focuses on equity rather than total capital. But, I'm just curious does this imply that you're more comfortable with this new capital model or I mean, should we see that you'll be more aggressive in terms of the equity needed versus how you were on the old model? That was my first question. Thank you.

A - Operator

This is just a way of presentation. There's no aggressiveness in this, has no change in this. Just that our board has decided that minimum shareholders' funds of DKK 3.4 billion worth of buys. It is the assessment that DKK 3.4 billion is in line within, you could call normal solvency capital required and this is what we want to cover. On top of this there'd be hyped capital and Tier 2 capital, but the share buyback size will not change even if we change the size of these items.

Q - Asbjørn Nicholas Mørk

Okay. So you still have the same sort of buffer on top of this in a normal scenario?

A - Operator

There's no change.

Q - Asbjørn Nicholas Mørk

Okay. Thank you. Then in terms of your motor insurance, if I look at your slide number seven, it looks like claims have increased for Q1 or the highest level for a quite a lot of years, but you seem to be writing in a report that, you can see that the claims have come down in line with the premium pressures. So I'm just a little bit curious how we should look at this in terms of the profitability of the motor insurance. Thank you.

A - Christian Sagild {BIO 15093649 <GO>}

Claims more or less unchanged in this Q1 chart. We have seen some smaller changes that drops into the frequencies and severities also a little bit up. So overall the picture is unchanged in motor. We still see that it is a very profitable area and of course, if you look at the competition, you also see that this is the center of the competition in motor. The claims should be – this is in millions, so it is, to some extent, the total amount paid out in motor and does not very clearly signal how the frequencies and severities developing in motor. It's a total payout claim on the chart.

Q - Asbjørn Nicholas Mørk

Of course. But, I mean, with topline pressure and with number of car accidents, wouldn't there be some sort of deterioration in your motor business?

A - Christian Sagild {BIO 15093649 <GO>}

Well, to some extent, yes, because we have lowered when we introduced the motor tariff last year, that was with open eyes that we saw the new tariff would lead to somewhat deterioration of the motor business, but not to a large extent that we can maintain the total profitability and also see that motor is still a very profitable area. But, in order to be competitive, you have to do something about the motor premiums and this is what we did, so this is merely addressing the competition as we see it in the market right now.

Q - Asbjørn Nicholas Mørk

Okay. Then the last question on your cost ratio, of course, somewhat higher this year. Just looking at your explanations behind this so increase with some fixation, lowered premiums, I'm just curious if anything you can do to sort of lower the cost ratio going forward. I mean, it was fairly high for the quarter.

A - Operator

It was. And what we can do is, of course, to reduce expenses and to increase premiums, I mean, that's what we have to do.

Q - Asbjørn Nicholas Mørk

So you will be looking into this going forward, is that...

A - Operator

We will be looking into expenses. We'll be looking into efficiency improvements and we'll work on increasing our selling and keeping customers in (6:00)

Q - Asbjørn Nicholas Mørk

Okay. Thanks. That was all from my side. Thank you.

Operator

Thank you. Your next question comes from the line of Paul De'Ath from RBC. Please ask your question.

Q - Paul De'Ath

Hi, there; and Good afternoon, everybody. My first question is regarding your new guidance for 2016 and how that links to the investment returns we've seen in Q1. Obviously, you said quite negative investment returns in Q1, but that the assumption for the year is still for multi-positive investment returns. I guess, how confident are you in that playing out I think you still assume 7% equity return if I'm correct within that. So just need to get to get a view on where the confidence comes from on the future investment returns.

A - Operator

Yeah, future investment returns do not need confidence since this is a very mechanic way we are calculating the prognosis. We assume 7% equity return and we assume the interest rate level we know at the time of making the prognosis. So, it's just straightforward calculation.

The investment income in Q1 was not very good, but there has been some additional earnings since Q1 and there is a starting point from our prognosis is 29 of April.

Q - Paul De'Ath

Okay. And then, I guess, linked to that there's – within the new accounting methodology you've got the unwinding line in the P&L now. I mean, am I right in thinking that this seasonality in Q1 is a big negative but then it turns positive throughout the year?

A - Operator

There is some seasonality, but it does not explain the low figure.

Q - Paul De'Ath

Okay. Thanks.

Operator

Thank you. Your next question comes from the line of Christian Hede from Nordea. Please ask your question.

Q - Christian Hede {BIO 18642300 <GO>}

Yes. Good afternoon. This is Christian from Nordea Copenhagen. I have two questions as well. I think maybe we could start off with the competition, just getting your view on that and whether you felt anything due to the year? It's like bonus scheme coming up. Whether that has made you less competitive with your SME clients? And then I have one more question. Thank you.

A - Christian Sagild {BIO 15093649 <GO>}

So, if you look at competition, it has – the rather intense competition from 2015 has continued into 2016. If any, it may have reduced a little, but still we are looking at a negative topline growth in 2016. But, I would assume that the effect on the topline would be largest in Q1 merely because it has the intensifying competition took place over 2015. So, that is the view on the topline, but the competition is still intense. We don't see, feel any effect from the (9:46) bonus scheme right now.

Q - Christian Hede {BIO 18642300 <GO>}

But you would assume that the drop in premium income should be low in Q2, Q3, and Q4 than what we saw in Q1?

A - Christian Sagild {BIO 15093649 <GO>}

The drop in topline, yes.

Q - Christian Hede {BIO 18642300 <GO>}

Good. Thank you. And my last and second question is on your slide number 21, the Solvency cover. Could you talk us through the change from the January 1 to the March 31, the Solvency capture requirement there?

A - Christian Sagild {BIO 15093649 <GO>}

There is actually only two major items to talk you through. One is that we pay a lot of reinsurance premiums in the early part of the year, (10:34) that means our counterparty risk increases. The other one is that our reserves at the beginning of the year and this means that our operational risk increases. But by far the most important change is due to the fact that interest rates decreased and share prices decreased during the year, in the quarter and that means that our loss absorption or the customer stops absorption capacity (11:06) has been lowered. So the major part of this change is due to change in the Solvency capital required in life.

Q - Christian Hede {BIO 18642300 <GO>}

Okay. Thank you very much. That's all from me.

Operator

Thank you. Your next question comes from the line of Per Grønborg from Danske. Please ask your question.

Q - Per Grønborg

Yes. Good afternoon. It's Per Grønborg from Danske. I talked upon a couple of the topics that had been touched on already. On the investment return normally your cost of unwinding at the technical result can be covered by the investment deal from government bonds and mortgage funds. The mismatch is pretty big this quarter. Is this something we should expect going forward the new yield curve or was this just an exceptional quarter?

A - Operator

It is, of course, more difficult for us to cover the interest on the liabilities when we have this yield curve with the volatility adjustments, which brings the yield under liability so to speak far above what we can get on a risk-free investment on the asset side.

(12:26) adjustment right now is above 60 basis points and that comes more or less on top of the Euro-Swap minus 11 basis points. So, it's around Euro-Swap plus close around 50 basis points, and that is a challenge. But, you should not expect the changes to be – maybe I misunderstood you. The DKK 303 million, I think that is including the illness and accident as well, so we have isolated illness and accident assets in the table.

Q - Per Grønborg

So, what was in the DKK 303 million?

A - Operator

The liability side of the illness and accident. So the difference is not very big. It is around DKK 20 million.

Q - Per Grønborg

Around DKK 20 million.

A - Operator

And, of course, I intend to avoid this difference in the future quarter, but it has definitely become harder for us to match the running yield.

Q - Per Grønborg

This must also imply that you normalize investment return going forward will be lower under the new discounting curve compared to what was under the old discounting curve, your net investment return?

A - Operator

Yeah. That is natural. That's logic.

Q - Per Grønborg

Okay. On the buyback (14:01) that you need DKK 3.4 billion. You currently have DKK 4.050 billion. You had DKK 650 million excess capital at the end of Q1. Is it fair to look at your buyback potential taking the DKK 650 million adding earnings the last three quarters of the year, and that's basically the buyback potential that you'll have for the remaining nine months of which, of course, part will be postponed to 2016.

A - Operator

I'm not sure I caught you, but we have been precise which amount we expect to buyback.

Q - Per Grønborg

Yes, but that seems to be a bit low compared to this seemingly pretty simple math. The DKK 3.4 billion, will that be impacted when you repay this soft debt, but that's remained DKK 3.4 billion equity?

A - Operator

Yes. It will. But, as you know, this DKK 3.4 billion is a minimum. We don't intend to hit the DKK 3.4 billion.

Q - Per Grønborg

Okay. Okay. Perfect. Perfect. That explains it. Finally, on the cost side, your costs were up quite a bit there or your cost rate was up somewhat in the first quarter. How much quarterly seasonality do we have? Is it still realistic to see (15:16) should we expect a higher cost rate for the full year compared to what you had last year?

A - Operator

There is a lot of seasonality. We are still guiding for around DKK 16 million (15:28) on the full year. But, I will not assure you that it won't be higher than last year.

Q - Per Grønborg

Okay. Then, just one clarifying question; I haven't seen any restated numbers for Q3 – so-called Q2, Q3 and Q4 last year. Are they published anywhere? Do you intend to publish them before we get to the next reporting?

A - Christian Sagild {BIO 15093649 <GO>}

We haven't made, not yet.

Q - Per Grønborg

Okay. Thank you.

Operator

Thank you. Your next question comes from the line of Jakob Brink from ABG. Please ask your question.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah. It's Jakob from ABG. Sorry for coming back to once again the investment results, but just trying to – I mean, you're guiding now for a DKK 75 million for the full year, which basically means that you will be making around DKK 200 million in the last three quarters of the year. Could you just, I mean, just to make sure that this is not the change of accounting or – I mean, how much of this is due to the sort of the performance from the end of March, and so end of April; and how much is sort of due to sort of the normalized run rate on investments results?

A - Operator

But, I don't get this question. We use this 29 of April as the starting point. We use the prices we know at that date, and then we add our standard assumptions, which you know, on these prices.

Q - Jakob Brink {BIO 7556154 <GO>}

And I think I know that it's just, I mean, if I use the normal assumptions, I just think I – I mean the return that you basically estimating for the remaining of the year sounds rather high, if that's the new run rate. So, I guess my question is how much – now, of course, I don't know exactly what you made until the end of April. So, my question is how much of this rather high guidance for the full year is due to the performance in the first month of the quarter, if you can help us on that, just that I don't miss anything on the new accounting methods. It just seems rather high, that you should be making DKK 200 million for the last three quarters of the year, I mean that would be a run rate of around DKK 65 million per quarter. I guess that's not what we should be looking for.

A - Operator

The performance in April increased the expected full-year return by the tune of DKK 50 million.

Q - Jakob Brink {BIO 7556154 <GO>}

How much?

A - Operator

DKK 50 million.

Q - Jakob Brink {BIO 7556154 <GO>}

DKK 50 million?

A - Operator

Yeah.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Okay. Fair enough. I think that was the only question I had left. So, thank you.

A - Operator

Welcome.

Thank you. Your next question comes from the line of In-Yong Hwang from Goldman Sachs. Please ask your question.

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

Hello. I've got two questions. I joined the call a bit late, so apologies (18:49) My first question is on the new buyback potential presentation. So, there is a DKK 1.3 billion difference between the necessary Solvency capital at DKK 4.7 billion that used to see and now the necessary equity capital that you see of DKK 3.4 billion, which kind of translates roughly to sub debts that you've got. So, is it fair to assume that the €54 million hybrid capital if that's going to be called in 2017? That's my first question.

A - Operator

I'm afraid I can't inform you about that. This is a decision not made yet.

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

Okay. That's fine. And my second question is on, I think you mentioned on motor claims inflation environment earlier in the call, but just give a bit more color on what you're seeing in the wider market. Obviously one of your peers is talking quite a lot about claims inflation ahead of their price increases. Is that something that you're seeing as well?

A - Christian Sagild {BIO 15093649 <GO>}

We see some increase in claims, but still frequencies going...

A - Operator

Frequencies are increasing a little while average claims are at 40.

A - Christian Sagild {BIO 15093649 <GO>}

So, frequencies are going a bit up year-on-year, but average claim is going down. So that's sort of a flattish development. We haven't seen the continuance of the risk premiums going down in motor in this quarter.

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

Sorry, outside of motor?

A - Christian Sagild {BIO 15093649 <GO>}

Outside motor.

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

Yeah.

A - Christian Sagild {BIO 15093649 <GO>}

One quarter is very little to establish that on. I can't give you that numbers just from the back of my head.

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

Sure. I mean, I don't need any number; just a color of what you've seen in the market would be helpful.

A - Operator

But if we look at Q1, it's been a pretty nice quarter in lot of business lines, but I don't really see that we can extrapolate from this quarter, and then maybe guess on where are going in general.

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

Okay. That's fine. Great. And then thank you very much for your answers.

A - Operator

Welcome.

Thank you. Your next question comes from the line of Vinit Malhotra from Mediobanca. Please ask your question.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi. Good afternoon. Just two questions please. One is all this talk about the competition, but I see also your comment that the underlying claims trend has improved 1.8 percentage points YoY; it's on page four of the report. Is this more to do with just good weather or is it that some other portfolio measures have helped here? So, just a comment here would be useful please.

A - Christian Sagild {BIO 15093649 <GO>}

Which page were you on there?

Q - Vinit Malhotra {BIO 16184491 <GO>}

This is on page four of the interim report this afternoon.

A - Christian Sagild {BIO 15093649 <GO>}

Oh, the report, okay.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And in the right-hand side there is a claims trend section, which says underlying claims trend improved 1.8 percentage points which is a sizeable improvement.

A - Christian Sagild {BIO 15093649 <GO>}

Yeah, but that was only relating to the weather-related claims in Q1, because normally we reserve DKK 50 million in Q1 to weather-related claims and we had zero.

Q - Vinit Malhotra {BIO 16184491 <GO>}

No. That I understand. But underlying is excluding weather probably or...

A - Operator

The quarter has been quite benign in several business lines as I mentioned.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay.

A - Operator

The one reason for this decline is the weather as Christian said. The other one is that the runoff was substantially higher than last year.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. Okay. Okay. Thanks. And the second question is just on the profit model increase of DKK 100 million, is it fair to assume that the change of the Solvency II methodology has boosted this by a similar amount as last year, say, roughly DKK 50 million?

A - Christian Sagild {BIO 15093649 <GO>}

No.

Q - Vinit Malhotra {BIO 16184491 <GO>}

No?

A - Christian Sagild {BIO 15093649 <GO>}

The DKK 50 million last year that was due to a change in the volatility adjustment during the year, and we cannot forecast what the volatility of adjustment will be at the end of the year, but it is higher now than it has been on average during the last couple of years.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. So, just that I get this right the Solvency II methodology change has had no impact on this higher guidance today, is that a correct statement?

A - Christian Sagild {BIO 15093649 <GO>}

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Or very limited impact?

A - Christian Sagild {BIO 15093649 <GO>}

Yes. But, if the volatility adjustment increases, then the result will increase. If it decreases, it will decrease compared to what we have guided.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Correct. But in your assumption today of this DKK 900 million to DKK 1 billion, there is no such effect driving this automatically?

A - Christian Sagild {BIO 15093649 <GO>}

No, this is assuming unchanged interest rate occurs for the rest of the year, so the DKK 100 million upgrade is merely the fact that Q1 has performed better than assumed, because of weather-related claims and because of the runoff results in Q1, but of course offset to some extent by the poor investment return.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And the strong April return, which you mentioned of 2015?

A - Christian Sagild {BIO 15093649 <GO>}

Yes, yes, so something – it has, yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Of course, all right, all right. Thank you, guys.

A - Christian Sagild {BIO 15093649 <GO>}

(25:00)

A - Operator

The technical result was far higher than we expected when we made our last guidance.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, indeed. All right. Thank you very much.

Operator

Thank you. Okay. We have no further questions at this time. Please continue sir.

A - Christian Sagild {BIO 15093649 <GO>}

Okay. Thank you for taking the time to attending our conference. And as you know, you are always welcome to call one of us if you have any further questions. We'll be happy to answer them. Thank you and goodbye.

Operator

Thank you. That does conclude the conference for today. Thank you for participating. You may all now disconnect.