

# Q1 2013 Earnings Call

## Company Participants

- Lars Moller, Investor Relations Director
- Morten Hubbe, Chief Executive Officer
- Tor Magne Lonnum, Chief Financial Officer

## Other Participants

- Hakon Fure, Analyst
- Hans Pluijgers, Analyst
- Matti Ahokas, Analyst
- Unidentified Participant
- Vinit Malhotra, Analyst

## Presentation

### Lars Moller {BIO 2301941 <GO>}

Good morning, everyone, and welcome to this presentation of Q1 results of Tryg. Today with me, I have our CEO, Morten Hubbe with me and our CFO Tor Lonnum with me. Morten, please.

### Morten Hubbe {BIO 7481116 <GO>}

And welcome to all of you. I think we are very pleased to be able to see that our results continue to improve in this first quarter. We see that our technical result improved by some 39% in the first quarter or roughly DKK 140 million. And new is that for the first quarter, we see that roughly two thirds of the improvement is due to the efficiency measures that we announced at our Capital Markets Day last year, which will make our cost and administration more efficient and also our claims purchasing more efficient. As you know, we've targeted an improvement of DKK 1 billion by 2015 and we see now that roughly 240 million of those have been carried out.

Now, our combined ratio improved some 3.5 percentage points year-on-year despite roughly 0.5 percentage point negative impact from interest rates, but of course, drop [ph] being helped by the fact that large claims and weather claims are slightly above last year, but clearly below what is expected from our side in the first quarter.

If you look at the investment side, clearly below last year, but at the same time rather high compared to expected, driven by a high equity return. And all in all, that cases for a pre-tax result of 760 million or some 8% higher than last year despite the lower investment income.

Now, again in the first quarter, we've had a high level of activity, clearly the strongest focus on our DKK 1 billion efficiency measurement. Also, we've announced a new Norwegian head of our Nordic commercial business, Trond Svestad who started his career in our old Norwegian business, but actually has worked for the last many years in If.

We focus on becoming the company that helps customers prevent claims. We are providing now in conjunction with the Locksmith, what we call Tryg indbrudstjek, helping customers see how they can actually improve the safety measurements of their houses and flats and also providing basement checks for our customers in order to help them avoid floodings in the future.

Now we have, as you've seen, carried out the replacement of our sub debt and also started our 800 million share buyback program, although, as you may see in the first quarter, we've only carried out 35 million of that so far.

Now if you look at the numbers, clearly you see that the top line has a slight drop, roughly 2.5% in local currency, a bit less in reporting currency. Roughly 1 percentage points of that is due to what we call bonus schemes. So far our larger group agreements have really great results. We give back a share of the result to them as a bonus. That is subtracted from the top line. That's roughly 1 percentage point. And then we see that new sales in corporate and commercial is slightly lower than before. On the other hand, we see that in private lines, the average quality of the new customers we take on board is substantially better than a year ago, showing that our increased price differentiation is clearly starting to improve the mix of quality of our portfolio further.

You may also see that the cost ratio not only dropped, but actually the expenses in nominal terms are lower than the same quarter a year ago, absorbing inflation in a bit more. And at the same time, you see the expense ratio dropping from 16.6% to 16.0%, a very substantial reduction compared to last year and well on our way to get below 15%. And of course, all of that contributes to the increase of 140 million in our technical result. But bear in mind, of course, that Q1 last year was the worst of the quarters last year, so probably also the quarter where we needed to improve the most year-on-year.

Now, three out of four business areas contribute significantly to the improvement. In the bottom right hand corner, you see Sweden with an improvement of 15 percentage points to the combined ratio. And really the first time, Sweden, has a positive bottom line in the first quarter, at the same time, an improvement of roughly 50 million to the technical result, which given the size of Sweden, is a substantial number.

We also see in the commercial, in the upper right hand corner, an improvement of roughly 2 percentage points. We see an improvement of roughly 13% to the technical result and also for the first time we start to see a noticeable reduction in the cost ratio in commercial.

Private line is clearly where the improvement is the strongest, almost DKK 100 million or more than 60% improvement to the technical result. And at the same time, the cost ratio improved from 16% to 15.3% in private lines getting closer and closer to what we believe is a really strong and efficient level of cost ratio.

And then of course, you may notice a slight deterioration in the corporate business; combined ratio below 90, but still a slight deterioration. Last year we had hardly any large claims. Last year, large claims and weather claims in corporate was only around 2 percentage points, and this year, is around 8 percentage points, which is a more normal level.

And then I guess, so clearly strong improvements and a strong help from the efficiency measurements. You see an achievement of roughly 75 million improvements in costs and we are roughly 230 employees less year-on-year, and also we see further improvements, roughly 4 million to 5 million improvements, in the first quarter of claims initiatives and then of course a knock-on effect from the improvements to claims last year and an important improvement and trend on the headcount numbers.

As I mentioned, clearly the top line of minus 2.5% is rather low, as expected. The bonus schemes that we pay out, a small proportion of that was actually related to the fourth quarter. So I guess we could have handled that a bit better. But really we see that economic growth is low in commercial and corporate. And I think we shall expect rather low top line development also for the remainder of the year.

It's very important for us to continue to improve the customer retention rates. And in the first quarter, we see in commercial Denmark, commercial Norway, strong improvements in the retention rates. In private lines, we see a stable development in Denmark in Q1 and a clear improvement in the retention rate in private lines Norway. And then we will start cross-selling more in Sweden to improve the slightly lower or somewhat lower retention rates in the Swedish market. But very important to see that on the 500 million of technical result, a good contribution from all four business segments.

And over to you, Tor.

**Tor Magne Lonnum** {BIO 16534375 <GO>}

Thanks, Morten. I guess if you move -- or if I'd roll into talking about the premium level, you can see here that there is still continued growth in terms of the average premium, both in motor and in the house product, although at a lower level than what you saw last year. And of course, this is the effect of a lower impact of price increases, but at the same time, as Morten has mentioned, we see improvement from the other profitability enhancement initiatives. So it fits rather nicely.

If we look at the retention levels, as Morten mentioned, you can see there is a flattish development in retention, both in Denmark and a small increase here in Norway, but I think most pleasing is the fact that you can see that the retention levels is increasing again in commercial. We also see good track here in terms of sales. So it looks at least like we have been able to stabilize and slightly improve the situation in commercial, which I think is rather good.

If we move on to the Swedish segment, again, you can see a clear improvement here in terms of the retention rate although of course more in line with the Swedish market at a lower level than what you see in Denmark and Norway.

**Morten Hubbe** {BIO 7481116 <GO>}

I think it's important to say that historically our strategy in Sweden has really been to sell single products in various niches and really to cross-sell those customers is only something we're starting now.

**Tor Magne Lonnum** {BIO 16534375 <GO>}

So I think in terms of retention level here in Sweden, hopefully we will continue to see improvement. At least there are a number of initiatives started that should enhance this situation.

If you look at the average premium level both in the house and the motor insurance, there is still healthy growth and in line with the ambition to improve the underlying profitability.

If we move a bit further into the claims development, as Morten mentioned, clearly there is a lower impact of weather related claims and large claims than we had expected, although we are, in terms of large claims, at a high level than last year.

I guess in particular, sort of it's important to -- if you look at the underlying claims ratios, it's important to look at both improvement that we see in the corporate segment, which is close to 7% -- 7 percentage points, and of course Sweden, as Morten mentioned, with an improvement of above 14% underlying.

I guess it's also fair to mention, if you look here at the difference between the gross and the net claims ratio, of course that reflects the fact that when there is a low impact of large and weather related claims, clearly we are paying more to their interest than what we get back.

Again, looking at the large claims impact here, you can see about 50 million higher than last year, but as I said, lower than expected. And also here on the weather related claims, lower than last year, although only 15 million. I guess, one should have expected perhaps slightly higher impact of weather related claims, but I guess there is more an element of luck in that respect. If you look at the run-off levels there, it's at a flattish level.

In terms of the investments, we've had good returns again in the investment, although lower than last year. I think in particular it's important to look at the equities, which has had a good run in Q1. If you look at the benchmark of MSCI World, it's slightly less than 10%. And you can see that we have had lower returns. That is in particular due to two things. One is that there is a value tilt in the portfolio, but also a fact that we have slightly higher emerging market exposure.

If you look at the bond side, I guess it's fair to say that the development in the quarter has been risk-on, risk-off and risk-on again and the volatility both in Denmark and Norway has led to good -- a healthy return here on the bond side, primarily due to how the asset managers have handled the portfolio.

On the capital side, a rather healthy growth in terms of margin on the solvency or the individual solvency and also here on the Solvency II standard model. And as Morten mentioned, of course it's -- we have only just started the buyback program, but you've seen sort of the weekly announcement in terms of what's going on in terms of buyback.

I guess, just to mention the fact that we did a sub debt issue in the Norwegian market with the very healthy demand for the loan, which was really good and I think that is very nice and healthy strengthening of our capital situation where we are shifting equity to subordinated debt, which is, in my mind, at least a good construction for the equity side.

## **Morten Hubbe** {BIO 7481116 <GO>}

And I guess to summarize, as you may recall, we've said that we want to target from the third quarter 2013 and onwards combined ratio at or below 90%. We want to target a cost ratio below 15% in 2015. We want to target DKK 1 billion worth of efficiency measures to achieve an ROE post-tax of more than 20%. And I guess if you look at the first quarter, which is traditionally one of the worst quarters of the seasonal pattern, to be at 90 for the combined ratio and above an ROE of 20 in the first quarter, slightly better than expected, showing that our efficiency measures are slightly ahead of plan, but as Tor said also that weather claims and large claims are lower than we expected. At the same time, the run on equities is hardly predictable.

But if you look at the efficiency measures, we've only achieved 240 million so far out of a program of DKK 1 billion. So clearly the majority of the program is still ahead of us. And given that, we want to further improve our results also given the continued low interest rates. It is very important that we continue to produce and improve our efficiency measures, but for us at least, the first quarter marks the first time that the majority of the earnings improvements can be derived from our own efficiency measures program, which is truly important also for the future periods.

I think that finalizes our presentation. And we are ready to take Q&As.

## **Questions And Answers**

### **A - Lars Moller** {BIO 2301941 <GO>}

Yes, I think we will start with questions here from inside. So please. Per [ph]?

### **Q - Unidentified Participant**

Yes, thank you. Tor, you mentioned that you are exchanging equity with sub debt. Your top line growth is negative. You are paying out, not 100%, but less than 100% is what your promise going forward. Does this imply that we should expect also a buyback for 2014?

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yeah, it's a good question, Per, and I think as I said, you can clearly see a good strengthening of the capital position this quarter. I guess it's fair to say that as you saw from the chart, we just started the buyback program for 2013 and I think that's really what we can discuss now and then we'll have to look at the capital situation again at a later stage.

**A - Morten Hubbe** {BIO 7481116 <GO>}

But we see it as a positive sign that you're asking the question.

**Q - Unidentified Participant**

Any thoughts about giving any capital target like you did in the old days?

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

But I guess I'll mention one more thing because I think what we said when we did the subordinated debt is the fact that we are, in principle, filling up to the maximum level, and of course the fact that the top line development is an element in calculating the maximum sub debt, so it doesn't really increase our possibility to do subordinated debt when the top line is flat.

**A - Morten Hubbe** {BIO 7481116 <GO>}

But clearly the ROE target, as we've discussed earlier on, the ROE target should be above 20% post tax which, in this interest rate environment, means that we cannot build capital buffers that are too large. So I guess you have that confirmation, but let's get the current buyback program underway. That is what we are focusing on.

**Q - Unidentified Participant**

Okay. Just want a bit more details around this profit-sharing in private lines. If you could give some more details out there, it would be great. Thanks.

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yeah, I guess it's -- the fact is that there are affinity agreements where you take into consideration how the profitability of the agreement is, what's the result of the agreement and then that's split between the affinity organization and ourselves. And as Morten said, clearly this is -- partially what happens here in Q1 is that there is distribution of old profit, but also we are making -- we are setting aside a debt for future profits so to speak. So it's a combination of two issues related to Q1, which makes the impact, let's say, rather high.

**A - Morten Hubbe** {BIO 7481116 <GO>}

And I think to give you two life examples of that, but there are many, for instance, most of Danish civil servants are insured by us. And when that group has a very positive result development, they get a bonus back, which, from our point of view, is very -- a strong tool to keep loyalty and a strong tool to keep the focus on earnings as well.

But also a change, you may recall that we did a new Nordea distribution contract where the old distribution contract had a high upfront commission payment, which was part of the cost ratio. The new distribution agreement has a low upfront payment, so it lowers the cost ratio, but it then has a bigger component of profit sharing, which is taken from the top line. So a big part of the Nordea payment is also moved from cost ratio to top line. So that's part of the equation as well.

**Q - Unidentified Participant**

So basically you also said that there was kind of a one-off extra large impact in Q1 that you are setting aside for future profits or -- what should I understand?

**A - Morten Hubbe** {BIO 7481116 <GO>}

No, what you should understand is the fact that in principle we are saying that part of the provision that was made here in Q1 is related to payments for Q4 and then the other part is related to provisions based on the nice profitability that we have seen in Q1. So in principle, you can say that we are trying to strengthen the way that we do our accounting for these kind of contracts.

**Q - Unidentified Participant**

Okay. And then just a second question. You mentioned that retention in commercial lines had improved in Denmark and Norway. Could you maybe give a bit more details on exactly what happened?

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yeah, I guess in principle you can say that, I think we will accept that we are still in a macro situation here in Denmark, which is difficult, but you have seen a drop in number of bankruptcies. You have seen sort of a -- perhaps not an off-take, but at least a stabilizing environment in terms of small and medium sized enterprises. And finally, I guess we have done sort of a few measures in terms of making sure that the

customers actually, you can say, feel that there is a better service from Tryg in the commercial area. So I guess it's a combination of what happens in the macro, but it's also what we are doing in direct measures on the portfolio both here in Denmark and in Norway. So it's a combination of factors.

**A - Morten Hubbe** {BIO 7481116 <GO>}

And then I guess that we saw just a few years ago a combined ratio in commercial that was significantly above 100%. So we've carried out very significant price increases in commercial, in some areas 15%, 20%, even more. And clearly with the distressed economy, some customers reacted on that and left the business. We are now seeing a strong improvement in the combined ratio in commercial and we see that our efficiency measures can do more of the further improvement measures. And thereby the need to do substantial price increases in commercial is less than, say, a year or two ago. And of course, that supports the improved retention rate.

And then I guess we've seen, as you said, that historically our servicing, not selling. but servicing commercial customers was not as strong as it should be. And we started to make more continuous service measurements towards that segment.

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yes.

**Q - Unidentified Participant**

Okay. I have two questions. Both are related to the top line down 2.5% in local currency. What is your -- I mean, you have said this is pretty much in line with what you have communicated before that it will be lower than usual, but would you rule out a negative top line for '13?

And my second question is related to the moves we have seen from both Laererstandens Brandforsikring and also Elka [ph] with their new product launched in motor. What do you see the consequences of that?

**A - Morten Hubbe** {BIO 7481116 <GO>}

Well, I guess first of all, your first question, would we rule out negative top line for 2013, I think clearly no. We would not rule that out. I think the likelihood that we have a negative top line for the full year is fairly high. Whether it's negative or just low, we'll see, but I think the likelihood that we have a great top line the rest of the year is very close to zero. Clearly, when we see that the commercial and corporate customers are not expanding but rather reducing their activities a bit, then their insurance needs gets reduced a bit as well.

Clearly, we are improving the quality of our customers in private lines. We want to improve it further in commercial lines and that also means saying goodbye to some customers. I think we saw for the last two and a half years, we said goodbye to roughly 6,500 commercial customers. Only roughly 1,500 of those, we would have liked to keep. The rest were of lesser quality. And that journey has not ended yet. So clearly we would expect low and even slightly a negative top line for the remainder of the year.

I think on the Elka pricing question, clearly the focus is on motor insurance in Denmark. I think if we rule out Norway first, inflation is high enough to still carry price increases and that is necessary because salary increases are around the 4% mark. In Denmark, clearly earnings is high on motor insurance and inflation is low on motor insurance. And I guess what Elka is saying is that some customers will get cheaper motor insurance and some customers will get more expensive motor insurance, if you read all of the text.

And I think if you look at Tryg's portfolio in Denmark, since 2008, the price on motor insurance is very close to being the same, which in effect means that five, six years of claims inflation has been eroding a bit the pricing on motor insurance. So clearly there has de facto been price reduction in motor for the last five to six years.

And I guess it's not surprising to see that the ones that want to move that further are the small players. And there is an unbalance in Denmark in the sense that earnings is higher on motor and lower on house and content. So I think there is a likelihood that we will not see price increases of anything slightly downwards trend on pricing in motor, but then companies will need to further improve earnings on house and content.

**Q - Unidentified Participant**

Maybe just a follow-up. How do you view the distribution power of these two players?

**A - Morten Hubbe** {BIO 7481116 <GO>}

Well, it's clearly -- we've seen that for the last 20 to 30 years that the small players have weaker brands and clearly weaker distribution power and clearly weaker efficiency on the cost side and on the claim procurement side. So the ability for them to really move the market both in terms of volume and in terms of earnings is a bit more difficult.

I would though say that -- you mentioned Laererstandens and Elka, I would say Laererstandens has very little distribution power. Elka is a bit bigger, but at the same time, I think shows that they deliver strong results as well. So clearly announcing lower pricing is part of a media strategy as well. They are de facto delivering quite a strong bottom line result. So I am quite sure they will focus on that also in the future.

**Q - Unidentified Participant**

Yes, good morning from me as well. Just to come back to what you say, Morten, about the earnings distribution in Denmark on motor and house. I suppose the problem from our perspective on Tryg is that I can't see that because in the technical result by business line, I only look at the group figures, but if I take your key competitor out of Denmark, at the end of '12, motor combined

was 82, house and contents is 90, both in private and commercial. So it's come down, meaning improved, big time from '11 to '12.

## **A - Morten Hubbe** {BIO 7481116 <GO>}

Yeah.

## **Q - Unidentified Participant**

So it doesn't seem that there is this big disproportion as it was a couple of previous years, and obviously this is probably driven by the total absence of cloudburst and you name it, right? But if you can elaborate a bit more on that, it would be interesting.

Then the second question is on the weather because on your slide there, you showed you had 140 million weather claims and Tor, you sort of say it was a bit of luck and everything else, but when I look at the three non-life insurers that have reported so far, it seems like the winter doesn't exist for non-life insurers. So I was actually surprised to see that 140. I would have thought it was, I don't know, 50 or something, but it was 140, if I divide 500 each by each -- divided four quarter, I don't know if it's correct to divide it equally, but it would be 125. So your weather claims in Q1 are actually above normal run rate. So if you can elaborate on that as well, it would be interesting.

## **A - Morten Hubbe** {BIO 7481116 <GO>}

You take the last question. I can take the first question. I think on the house and content, Gianandrea [ph], you are perfectly right that the mismatch between combined ratios on motor and house content is less evident than it was a year ago, but I think it's fair to say that if you compare ours to top, our measures to improve house and content claims ratio is probably a couple of years behind that.

If you look at our efficiency measures on claims procurement, clearly we started with motor. By now our motor repairs are roughly DKK 700 apiece, more -- or cheaper than our peers whereas we don't have the same advantage on house and content, and we've also had, I think, challenges on getting the risk right. Our procurement program will now focus a lot more on house and content for the next two years. We've had a new content product. We want to do adjustments to our house product. So I think clearly we need to improve house and content further and that our mismatch is still larger than the one you are referring to in '12.

## **A - Tor Magne Lonnum** {BIO 16534375 <GO>}

And just to supplement Morten on that, I think, you know we have talked about that before as well, when you look at the measures in terms of procurement savings, you see that we have started with motor and then our ambition is to improve in the house and content part as well. And you know that we implemented a scale point system in Q4 last year, and of course we do think that that will give us some healthy effects in 2013. And then I guess sort of the weak spot is still on the house side where we need to improve further in terms of measures. And that's probably where we are furthest behind as well as Morten said.

If you look at sort of the weather related claims, I don't think it's fair to take the 500 million and divide by four because typically you will see higher impact in Q1 and to a certain extent in Q4. So at least it's not evenly distributed between the four quarters.

I think -- and of course, you can always sort of debate the method that we are using for calculating the weather-related claims because in principle what we are doing is look at sort of an average or a normal in terms of frequency and then we look at what -- where we are above that normal. But I think at least as I said our own expectations were that it would have been at a higher level in Q1.



And I guess when I said with a bit of luck, I think in particular sort of when you look at sort of what happened here in Denmark, at least it doesn't seem like we had the kind of impact that you would have expected if you were looking out the window from to see how the snow falls et cetera. So in principle, you can say that we are pleased with the development in Q1 and we think we had actually expected it to be at a higher level.

**A - Lars Moller** {BIO 2301941 <GO>}

Operator, we are now ready to take questions from outside, please.

**Operator**

Thank you. (Operator Instructions) Your first question comes from Hakon Fure of DNB Markets. Please ask your question.

**Q - Hakon Fure** {BIO 16623060 <GO>}

Hi, good morning, guys. Two questions from me please. Firstly, coming back to the pricing discussion. If I understood you correctly, you expect motor prices to increase by the wage inflation in Norway and some pressure in Denmark. Is that correct? And secondly, on house and contents, if you could provide some thoughts on how you see these prices evolving this year in Denmark and Norway? And then on reserve releases, if I look at run-off gains for last six years, really they've been fairly stable at level two percentage points above sort of your long-term guidance. My question is, is there any reason to expect the current reserve releases to drop significantly going forward? Thank you.

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yeah. Well, I can start by answering the last question. I think it's fair to say that I see indicator, Hakon, we are sort of guiding at a 2.5 to 3 percentage points over time. I think I've said for the last couple of quarters at least that you should expect us to be at a higher level in the near-term future. I don't want to say that that is something that will go on indefinitely because it's not, but at least in sort of the near future, I think that we will continue to see run-off gains at the level that we are seeing today.

**A - Morten Hubbe** {BIO 7481116 <GO>}

Yeah, I guess on the pricing side, your question or your assumption on pricing on motor was about right.

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yeah.

**A - Morten Hubbe** {BIO 7481116 <GO>}

You can comment house and content, but I only want to add that on our Norwegian colleagues are teasing us a bit that they end up buying all the small Brazilian produced cars that no one else in the world wants to drive and what we see currently is that roughly 75% of car sales in Denmark is now smaller cars, which is great from risk point of view because they drive slow and the repairment is less expensive, they are cheaper, but at the same time, their average insurance price is a lot lower. So that will also put significant downwards impact on the average pricing on motor insurance in Denmark and that trend will continue. But that is not negative from a bottom line point of view, but clearly a drag on the top line.

And then house and content.

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yeah, and then I think in general, if you look at sort of the picture you see that there is index price increases in Denmark on the house and content side, some 1.8%, I think. And then if you look at Norway, it's at a slightly higher level, close to 3%. And I guess that should cover the underlying inflationary pressure. If you look at the building cost index in Norway, I think it was at approximately 3% last year. But of course, as I think I've said before, this is an area where we need to monitor the development very closely because of course it's important that we don't lose ground in terms of the underlying development on the building claims.

That said, of course, I think going back to the profitability enhancement initiatives that we talked about, it's clearly very important for us to be able to have a development which is below the building cost index based on the initiatives that we are making.

**A - Morten Hubbe** {BIO 7481116 <GO>}

And I guess that's all. We can mention that we've made a countrywide agreement with Stark for Denmark and Norway delivering all repair materials at a lower price. We've introduced what we call a fixed price repair in-house to make sure that similar repairs have a fixed price and not a variation of what the various carpenters et cetera want us to pay, and then we want to further expand the use of auctioning during 2013. So clearly those measures should pull in the right direction, but realistically speaking, it will take two to three years to get house repairs to the level that we wanted to get at. It's not something we will finalize in 2013, but we'll take a big step in 2013.

**Q - Hakon Fure** {BIO 16623060 <GO>}

Excellent. Thank you, guys.

**Operator**

Thank you. And your next question comes from Matti Ahokas of Handelsbanken. Please go ahead.

**Q - Matti Ahokas** {BIO 2037723 <GO>}

Yes, good morning. The question on Sweden, which is a fairly small market for you, but a big market otherwise. On the private side, it looks like things are improving quite nicely, but then again, on the commercial side, things seem to be pretty bad and that has continued for a while and you are not the only one seeing this. I'd like to hear some of your thoughts regarding the Swedish commercial and corporate market. Is there a structural problem and how do you see that evolving going forward? Thanks.

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

I guess it's fair to use I guess another term for the Swedish business because in principle, you can say that we have a private business and then we have a corporate business. And I guess when you look at the combined ratio for the quarter, which I guess is what you are mentioning, it's just 102.5, I think, for Sweden and clearly that is impacted by a couple of large claims. So I don't think necessarily that that's a structural problem for us. I think it's an element of, let's call it coincidence, the fact that we have had two large claims in Sweden this quarter. And of course then you can see very clearly that the large claims that they've had this quarter has been in Sweden, but I don't think it's an expression of any sort of structural issue that we have for the Swedish business.

**A - Morten Hubbe** {BIO 7481116 <GO>}

I guess we can say that usually the large claims, we would have would it be corporate Denmark, corporate Norway. This quarter, the mix is different because I should say it's two large claims in Sweden and it's a large claim in what we call the bonding or guarantee business. So clearly a different mix to what we're used to.

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yeah.

**Q - Matti Ahokas** {BIO 2037723 <GO>}

Okay. Thanks.

**Operator**

Thank you. And your next question comes from Vinit Malhotra of Goldman Sachs. Please go ahead.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

Hi, good morning. Thank you. Most of my questions have been answered, but one still remains in my mind. When I hear the commentary today, there seems to be less of a focus on future price increases, you mentioned that in commercial as well it's been done, and in motor as well, there will be less of price increases, but if I remember in the Investor Day, that was mentioned as one of the value drivers. And in the last two to three years, probably four years, it has benefited from the price increases being put in place back in '10 or even '09. And I'm just wondering if this understanding is correct that now the price increase focus is much lower in the group.

And second thing is that you still had a recent management change in an area, which has done quite well actually on the claims side. And I was just wondering if you could comment on that a bit more. Thanks.

**A - Morten Hubbe** {BIO 7481116 <GO>}

Well, I guess the general comment that for the coming years earnings improvement, it will be driven more by the DKK 1 billion program and less by price increases. I think that is what we hopefully have said very clearly since the Capital Markets Day in June. I guess if you -- all other things equal improved claims procurement and cost by 1 billion. DKK 1 billion is 5 percentage points, all other things equal to the combined ratio. If you just improve that and at the same time increase prices like Med [ph], combined ratio would be fantastic, but then probably we would have very few customers afterwards.

So clearly what we have said is that we believe that we can strongly continue to improve operations and earnings through the DKK 1 billion program. Then we have monthly assessments of claims inflation and monthly assessments of price increase requirements. So clearly we will not accept lower price increases than inflation and we will -- number one priority on our strategic list is to improve our pricing differentiation. So that is the biggest project we are running currently, is to further and further improve our pricing differentiation and our ability to pick the right risk.

That's one of the reasons why we see now that our new customers in private lines this quarter on average has a substantially lower expected claims ratio than the new customers we took on board a year ago. So clearly the improvement on quality and risk selection and catching up continuously to claims inflation is unchanged and very high, but you are right that the bigger broad price increases have been replaced by the DKK 1 billion efficiency measures. That is completely right.

And then I guess on claims, in the last three years, we've replaced two thirds of the management board. And when you want to take a high quality business and make it more efficient and you want to achieve bigger results, you have to sometimes make replacements in the management board as well. Our claims department has always delivered high customer satisfaction, but also been an area where we wanted to elevate on efficiency, on procurement, on making sure processes are more aligned and more efficient. Our head of claims have done a fantastic job on that, but also realized that that was a very tough job and now she wanted to move on to less demanding things in her life and we have put a replacement on that task.

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He has also previously been the head of claims, so he is very experienced in that area. He is extremely strong in project management and he will make sure that we achieve the measurements also in the future and he will take the job until the end of this year, meaning that we take our time to make sure we have the right replacement on board. But I guess that's an advantage of having 4,000 employees that we more often have someone standing in line and can take over.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

Okay. Thank you very much. Thank you.

**Operator**

Thank you. And your next question comes from Hans Pluijgers of Cheuvreux. Please go ahead.

**Q - Hans Pluijgers** {BIO 16245530 <GO>}

Yes. Good morning, gentlemen. Two questions from my side. Going back on the price impacts, could you give us a little break down on the premium developments in Q1 from the price -- on group level and also what the impact on group level was from the bonuses adjustments?

Secondly, also going back on Sweden, you mentioned focus more on the cross-selling. Could you maybe elaborate what you were doing there and what kind of retention rate target you have there for that market?

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yeah, I guess, perhaps if you start with Sweden, I think there is two major elements. One is that we are introducing a loyalty program, which kind of stimulates the customers to have more than one product, as Morten mentioned earlier. And I guess it's kind of a similar concept to what we use in -- for the Norwegian market. And the other is to introduce a bonus model for the sales force, which is more in -- which is stimulating people to cross-sell more than just sell one new product. So I guess that's two most important initiatives.

I guess in terms of the -- the other question was related to the premium split on the business areas. I don't -- I'm not quite sure if I followed the question, Hans, but I'll try to say something about it. I guess when you talk about the surplus sharing agreement that was described earlier by Morten, that is primarily for the private segment. So if that was your question, of course, sort of the 0.9% on the top line is for the group is primarily driven by what has happened in the private segment.

So if you look at sort of the top line development per business segment, you can say we have a flattish development in Sweden, small increase. We have -- if you adjust for the profit sharing agreement in private, then it's a flattish to a small increase in private and then there is a drop both in commercial and corporate.

And I think to a certain extent, of course, the most -- the larger part of the drop is related to the corporate side where we do see that new sales has been more or less zero over the last 12 months, and of course that's the area where we need to look at how we can handle the top line going forward. But on the other side, of course, it's extremely important for us not to focus on getting new contracts on the basis of a discounted price. So it's a balancing act in terms of looking at the profitability side.

**A - Morten Hubbe** {BIO 7481116 <GO>}

And I would only add that in Sweden there is two structural important issues on the top line side. One is that we've now ended the contract with Nordea who was a big part of our distribution in

Sweden. And of course, you noticed that on the lack of growth in Sweden. On the other hand, the combined ratio of that business was substantially above 100%. So you are missing out the top line contribution from that sales channels, but clearly the improvement to the combined ratio from not having it is very evident.

Secondly, we are closing down our sales office in Lulio [ph] and instead we are building up a new outbound call center in Malmo so that the cross sales initiative that Tor mentioned is where from Malmo, we would contact the single product customers we have already in Sweden and do add-on sales to those. But it means that our sales is down in Lulio, and towards the end of 2013, will start to increase from Malmo. So that was the only addition.

**Q - Hans Pluijgers** {BIO 16245530 <GO>}

Maybe going back on the premiums, if you look at the impact from increasing prices on average on the group level, which will be, I think, about 1.5 percentage point impact. Could you give some number there? What the impact from price increase was on group level on premiums?

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Yeah, I guess if you look at -- the question is on average, on the total perhaps about around 2%.

**Q - Hans Pluijgers** {BIO 16245530 <GO>}

Okay, clear. Thanks

**Operator**

You have no further questions on the phone lines at this time. Please continue.

**A - Lars Moller** {BIO 2301941 <GO>}

Thank you, operator. Do we have any further question from inside here? Otherwise we will thank you all for participating. As you can see here, we will be around in the next couple of weeks starting in Stockholm to London next week on a roadshow from the Q1 results here. So thank you everybody for participating here this morning and have a nice day.

**A - Morten Hubbe** {BIO 7481116 <GO>}

Thank you.

**A - Tor Magne Lonnum** {BIO 16534375 <GO>}

Thanks.

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