Capital Markets Day

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Company Participants

- Barbara Plucnar Jensen, Group CFO & Member of Executive Board
- Gianandrea Roberti, Investor Relations Officer
- Johan Kirstein Brammer, Group Chief Commercial Officer & Member of Executive Board
- Morten Hubbe, Group CEO & Member of Executive Board
- Peter Brondt, Investor Relations Manager

Other Participants

- Alexander Evans
- Analyst
- Asbjorn Nicholas Mork
- Faizan Ahmed Lakhani
- Lars Ulrik Bonde
- Mads Thinggaard
- Martin Gregers Birk
- Per Gronborg
- Tryfonas Spyrou
- William Fraser Hardcastle

Presentation

Morten Hubbe {BIO 7481116 <GO>}

Good morning and a warm welcome to all of you. Fantastic to see that so many of you have joined us here in London today and some of you even remember how to tie your tie today and it's good to see some. As some of you will have noticed, we're missing an important person today, Mr.Gianandrea Roberti, our Head of Investor Relations. He's doing fairly well, but he's at home with COVID-19 with the rest of his family. So -- but he sends his regards. So, you'll have to do with the rest of us. And with me hit on stage today, I have Barbara, our CFO; I have Lars, our COO; and I have Johan, our CCO; that's a lot of Cs. And we'll be doing our best to take you through the program of today.

And it's an exciting program, where we will start out with Barbara going through the previous strategy period what did we promise? How did we do? We did really well, I might add and then we'll move on to the exciting section on what are the targets for 2024, the financial targets, the strategic targets, what are the main strategic themes. And then as we've done before, we'll go through go through a bunch of business examples, showing you the initiatives and the drivers. We will use to reach our targets for 2024.

This section will have two Q&As and one coffee break. I'm sure we'll need that as we move along and then, we'll move on to the next section, where we'll talk about customer experience, corporate responsibility and then capital management before rounding off and again, we'll have two Q&A sessions in this process as well.

Now, when I look through the room, I see a lot of familiar faces. We know you as a friendly and nice and fairly well-behaved bunch, but we also know that some of you are quite impatient bunch. So, we thought we'd put together a slide with some of the some of the key messages before we move into the details. And one of the most important key messages, of course, is the highest ever technical result target for Tryg, DKK7 billion to DKK7.4 billion by 2024, a giant step up from the reported DKK3.5 billion in 2020. Building upon a further strong development in our core, classic Tryg business, adding a very strong starting point particularly in Trygg-Hansa in Sweden. And then, of course, adding the synergies taking us as high as DKK7 billion to DKK7.4 billion. Been looking forward to saying that number out loud, so, I'll probably save quite a few times today.

We're targeting business initiatives in the classic Tryg insurance business before the acquisition, before the synergies of DKK1.6 billion. That's quite a massive number, and we know from history that our initiatives needs to exceed the targets we set, because there will always be negative along the way. And then, of course, the acquisition synergies of DKK900 million will be extremely important. And I must say that we are off to a very good start. Indeed, we've been running a detailed bottom up process on the synergies, qualifying and anchoring the synergies, each individual one of them, and Johan will get back to that both with the new leaders in Sweden and Norway, but also with the leaders in classical Tryg, who are responsible for driving the synergies when we acquired Alka in 2018, a very successful journey as Barbara will show. We know exactly how to do it, and we will do it again, and the anchoring the confirmation has been really positive.

We also see, very pleased to see that all that important legal and financial steps in the transaction is going along exactly as planned. And last, but not least, interacting with the acquired organization since June, when we got the keys has been a real pleasure. First of all, we've been received really well. Secondly, we've been doing a bunch of deep dives into the businesses, and I must say, we've met a very, very competent and qualified organization that really knows that numbers and are really on top of their business. And we're seeing a strong and positive momentum in the business we've acquired.

All of this will enable us to pay out DKK17 billion to DKK19 billion in payouts over the next three years; that is quite a staggering number. Very pleased with that. And when we take a step back, actually DKK17 billion to DKK19 billion corresponds to roughly half the size of the rights issue we did in the spring.

So, with that, introduction, Barbara, a little bit of a trip down memory lane, how did we do?

Barbara Plucnar Jensen {BIO 17487867 <GO>}

Absolutely. So, thank you very much, Morten. And I think, in order to put things into perspective, it is always good to understand where did we come from. This is not a question of making a revolution with our new strategy. You should see it more as an evolution into the next years; that's also why you can see that we are maintaining the purpose that we are, you can say using in our business as the world changes, we want to make it easier to be Tryg. We maintain that because that's part of our DNA and the way that we run our business.

Well, looking at the target we set out in 2017, we're quite happy as Morten said to be able to deliver basically on all the targets set. When looking at the financial targets, we have had a very strong momentum in the last years. We have had a good top-line growth and as you have seen the profitability initiatives that we have been working with have delivered really strongly, hence the technical result of DKK3.5 billion at the end of 2020 was outperforming the target set. Obviously, we had a little bit of help from COVID-19 and weather and so forth, but very happy to deliver a result in that range.

Combined ratio, expense ratio both in line with and slightly better than the target set. And finally, despite the turmoil in the market last year, we managed to deliver above the target set for the return on equity at 22.5%. So, really a strong outset of business in a really good shape. But the financial numbers is not everything. We appreciate our customers; and again, we know that if we have satisfied customers, we retain them longer and it's important to have as big as well as share of wallet as possible.

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So, when looking at the customer metrics that we set out, again we are very happy to see what we delivered, a customer satisfaction of 72, and a positive trajectory when it comes to the products per customer increasing by more than 10% from 3.6 products per customer on average to 3.9 at the end of 2020. So, overall, as Morten said, very happy to see how we ended the year last year, which was very much driven by, you can say, the strategy set out.

And if you remember, we had four strategic corners in our strategy, we have as a starting point we need to be able to have a sufficient claims handling as possible. So, therefore, the target we set out to deliver on the claims excellence we delivered. We also wanted to be more convenient for our customers being able to enable digital solutions both when it comes to looking for coverages, but also sales service when it comes to handling your claims. And again, all the targets that we set out in this strategic priority we delivered. We want to grow the market. We don't want to be you can say a static insurance company that continues tomorrow as we did yesterday. Innovation is very important, it's important for us to be where our customers are. So, understanding the customer life cycle and customer journey and how we can accommodate that with relevant products actually ended up in us delivering more than 50 new products in the last strategic period delivering you can say a business of more than DKK1 billion in the last three years.

And finally, the last strategic pillar, distribution efficiency is important, so looking into how we can work with various channels, how we can use various leads is super important, and also something that supports the cost. Again, we delivered the technical result impact that we had set out to do. So, very much you can say in line with our expectations and slightly better. And also, you can say what we believe and what you will see in the room today is that this is very much the foundation for the journey that we will go on for the coming years.

An event that actually impact the significantly in this strategy period was the acquisition of Alka. Remember that closed at the end of 2018 and we set some ambitious targets in order to integrate and the harvest the synergies from that transaction. Basically, we had been guiding DKK300 million in synergies were around 75% related to cost synergies, 25% related to commercial synergies. And as you will see later on in the presentation today, this is something, which gives us an extremely strong outset for the journey that we are on now with the latest acquisition. It is something that has given us profound experience and we have a lot of the employees and you can say that the management team on board that actually carries through the Alka acquisition now being responsible in the next phase.

And looking at Alka, they have been doing extremely well, they have had the highest growth in 22 years, since they joined Tryg. We can see that, there's a lot of cross fertilization, where we learn from Alka, but Alka also learns from Tryg and we can go together on important initiatives like for instance, procurement power, et cetera. But the important part is, as you can see here within three years, they have been able to grow their top line by DKK500 million, so a growth of 24% in those years.

It very much stems from the fact that they have been online before, so very much of the business they did was single service and from being part of Tryg, where we have more products to offer and also work the diligently with the cross-selling abilities that is what has also been supporting the growth in Alka, more about that later. But as a starting point, we believe that this is a very good story to tell and also where now we are coming to the end of reporting on the synergies for Alka that will finish at the end of this year and then we'll just include it in the rest of the business.

Looking at the markets that we operate in, remember that the Nordic area is highly consolidated, we have in particular in Denmark and Norway a number of large listed companies that are all doing well. And what we also have in the Nordic area is a very high retention rate compared to basically most of the places in the world. When looking at the usual metrics for the insurance industry, you can see that across the board in the Nordics, we are outperforming for instance the rest of the European peers that we compare ourselves with. And for Tryg in particular, when you look at the journey we have been on, you can see that we have been delivering above market growth. So, both when it comes to the technical results as well as the premium growth and that is where you can say our intentions to run a strong profitable business laying out, you can say, a strong foundation for the future is very much top of mind.

I think with that, I will end the quick summary or walk down memory lane; and Morten, if you will then take us on the journey for the next three years.

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Morten Hubbe {BIO 7481116 <GO>}

Thank you, Barbara.

So, we've delivered well on our promises and previous strategic period as we've done in the two strategic periods prior to that. And we have every intention of doing the same in the next strategic period. And we now move on to talk about the targets for the next three years, the main strategic themes. As we like transparency to be part of what we do in Tryg, we will show you a bunch of business initiatives to show that we know exactly what to do to reach those targets.

Now for more than 250 years, Tryg was a Danish business, focusing on the Danish market only. For the past two decades, we have been slowly building a Scandinavian presence. And of course, this transaction allows us to take a giant step forward, creating in effect the largest Scandinavian insurer.

If you look at the premiums, we add almost 50%, particularly the almost DKK9 billion from Trygg-Hansa in Sweden, but also roughly a DKK1 billion from Codan in Norway. When we look at the technical results, particularly the D2 billion technical result that Trygg-Hansa reported in 2020, with some help from COVID-19 will add significantly to our core earnings ability even before synergies. And when we look at market share, as we move from being largely dependent upon the Danish market to having three strong legs in each of the three Scandinavian markets and creating in effect the largest Scandinavian insurer.

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Now, as some of you know, this project has actually been roughly 15 years in the making, but I think it has been worth the wait. And it allows us to elevate the company and our performance. Now, when we look at particularly Trygg-Hansa in Sweden, profitability has been extremely strong, extremely stable, but actually top-line growth is something we can work to improve. If you look at the previous almost six years, combined regions Trygg-Hansa in Sweden has been very stable and below 80%. Now whether you benchmark that in Sweden, in Scandinavia, or throughout Europe, that is exceptionally strong performance, but the top-line on the other hand only grew 2% losing a little bit of market share every year and we'll get back to how we can work to improve that.

The portfolio of Codan in the Norway is sounds and attractive, but as you can see is also only a fraction of the size, making it soft scale, which means that the cost rate is hovering around 30, way too high; but with our synergies, we'll take the cost ratio down to our level and with that pool the combined ratio significantly below 100 making the Norwegian portfolio profitable as well.

Now, when we look at the stability of the Trygg-Hansa business in Sweden, there are two very important drivers. One, retention rate is really high at around 88% across both private and commercial lines. Most insurance companies throughout Europe don't publish their retention rates. I think there's a reason for that. I don't know that the most of them it is lower than what we see here. We also see a very, very attractive business mix. 70% of the business is private lines, making it even more retail -- custom what we have in the classical Tryg business exactly as we like it; and of the remaining 30%, the vast majority is profitable commercial SME.

Now as I mentioned, growth has been only 2%. We will want to improve that. Some of you may remember that not too many years ago top-line growth in Tryg was around 0%. Then we started investing heavily in innovation and product expansion making the market bigger, making the kick bigger as we call them. And as you can see from the numbers that has been highly successful. We've grown the top-line almost 5%, excluding Alka and now growing the top-line and -- alone is never really a meaningful targets. But as you can see from bottom of the right-hand graph, we've actually improved the underlying claims ratios and strengthened the profitability while growing more than the market, because we've been expanding with new products; that is exactly what we want to do with Trygg-Hansa as well.

Now, one of the very interesting features of Trygg-Hansa is a very, very strong position on personal accidents. Trygg-Hansa has many ways pioneered and created the market of personal accident and is today clearly the market leader in Sweden. Personal accident is for instance, children's sickness and health insurance, sickness, and accident insurance. It's also pregnancy insurance. It is adults sickness and accident insurance. And when you look at the market that PA market is roughly 11% of the total Swedish market, but actually, as much as 80% of the business in Trygg-Hansa, so, clearly the market leader.

Now, why is that attractive? Well, if you look at the children's sickness and accident insurance for instance, it is one of the most sticky products in insurance at all. You see here a retention of 22 years. I don't know many products in insurance that has this sort of length. And actually Trygg-Hansa has been very good at conversing this into adult sickness and accident. Actually today, 70% of the children sickness and accident are converted in Trygg-Hansa into adult. And as you can see here again, very, very long retention, extremely sticky business, and that is just a very healthy starting point when you build a total customer relationship and much more sticky, much more healthy than, for instance, starting with the car.

The PA market has been growing 4% per year for the past four years. It is expected to continue to grow. And as you can see from the bottom right hand graph, after market leaders Trygg-Hansa has been able to drive a combined ratio stably below 80% with a market around 90%.

Now, as we showed in the sneak peak, we're proud to show the highest technical result target ever in the history of the company, DKK7 billion to DKK7.4 billion up from the DKK3.5 billion we reported in 2020. And as Barbara mentioned, exit 2020 had some helping hand from COVID and also from lower whether claims than usual. And when we look at the DKK7 billion to DKK7.4 billion, it's natural to focus on the DKK7.2 billion, the midpoint and whether we reach the lower or the higher end of that range will largely depend on for instance weather claims or large claims or how they will fare. Actually, can see supported by a combined ratio at or below 82, allowing us to pay out DKK17 billion to DKK19 billion over the next three years.

Barbara will show how this compares to what we paid out in the previous three years. It is clearly more than double. And as I mentioned, it is actually roughly half of the amount we raised in the equity raised in the spring. Supported by cost way to of 14% now, we will do a lot of efficiency measures as you'll see today, but we will also continue to invest in making new products in innovation, in data and analytics and creating tomorrow and not just focus on the cost ratio as the only point of attention.

We introduced a new measure, return on funds 25% plus that is return on the capital insolvency too. We will of course also continue to report return on Equity, return on tangible equity in a more classical sense. Of course extremely important to deliver the DKK900 million of synergies Alka in the acquired business and building upon the knowledge and the experience from Alka as we've seen. And then three new strategic KPIs, one focusing on digital, we introduced a phenomenon called value-creating logins. So, a customer logs in on our log page to report a claim to buy an insurance or for instance to self-service, every time they do that, they create value in a very low cost and frictionless way. We want that to grow by 40% in the next three years. We introduced a new measure as we've done this year on customer satisfaction, because we know it drives value, the target will be 88. And then we introduced a new measurement of corporate responsibility to reduce our release of CO_2 by 20,000 to 25,000 tons a year by 2024. So, this is the overall slide of targets for 2024.

Now, if we step back for a second, one of the things that has been driving a ton of value in the recent period, has been our focus on retail business. Some people seem to believe that large is sexier when it comes to insurance. We actually believe quite the opposite. We see that we define retail as private lines and commercial SME lines as opposed to corporate lines. And you can see from the left hand side, we start with 78% retail; we've now reached 82% retail through two measures: one, the acquisition of Alka, which was pure play private lines; and two, making the cake bigger by expanding the market through product innovation as we've done in the classical Tryg private business.

In the strategic period, we will take the retail component as high as 90% by two measures: one, the acquisition of Trygg-Hansa and Codan Norway with a strong retail tilt; and secondly, because we'll show that we'll grow the small and very profitable commercial SME segments inside classic while reducing the exposure in corporate and strengthening the profitability in corporate.

Now, if you step back for a second from 78% resale to 90% retail that is a massive shift, we know that retail is more sticky, more stable, more profitable and we know that it requires a lot less capital. So, moving from 78% to 90% will leave the strongest and highest quality business mix in the Tryg book ever in our history, so very, very important.

Now, of course, when we target DKK7 billion to DKK7.4 billion, weed to see if the track record supports that. Barbara has actually alluded to that already, but we see that our technical result has had a compound annual growth rate of 8% per year for the past five years excluding Alka, and 10% including Alka. That is a very, very strong momentum and one will continue also in the next three years, improving the classics Tryg business. Adding to that very strong core earnings in Trygg-Hansa and the DKK900 million of synergies is where we take us to DKK7 billion to DKK7.4 billion. We show this in our strategic house starting with pillar number one, which is where we find our largest business, our private lines business. We call it full speed ahead in successful call. We will reach DKK1.50 billion in technical result targets by working with claims procurements, by working with claims processing, by working with fraud, and our colleagues will get back to that, and then also working with our sales and customer excellence.

Pillar number two is rather new, business-to-business, will achieve DKK600 million of technical results. Two very different initiatives, one to expand the highly profitable and very stable small commercial SME business and two, the opposite of shrinking the size and exposure of corporate while improving the profitability in the corporate business.

And then the third pillar shaping the future, as Barbara showed, we've expanded the market. Lots of people didn't think you could expand the insurance market; that is fully possible. We expanded the market by DKK1 billion in the past three years with new products and services. We will expand the market of today with another DKK1.5 billion for the next three years. And then looking further ahead, we will be looking at two important themes with a longer-term classes, mobility and health.

And then of course, the fourth pillar reaching the DKK900 million of synergies, and all four pillars being supported by our focus on IT, data analytics, and of course the strongest possible organization. Now another way of showing the bridge from the starting point in 2020, where of course, we never start with the reported numbers; we always start with the underlying numbers. And as you may recall, the reported numbers were flattered by COVID and were flattered by weather claims being lower than usual. But the bridge from that to the DKK7 billion to DKK7.4 billion in 2024, of course the largest driver being the core earnings in Trygg-Hansa, the DKK900 million of synergies, then DKK1.50 billion and the full speed ahead in the private lines, DKK600 million in the business-to-business area, making up the bridge to DKK7 billion to DKK7.4 billion. And now those four pillars as I mentioned in the strategic house will be the four pillars structuring the presentation as we move along after this session.

But I think before we do that, we'll take the first brief questions-and-answer session. Now, after that session, we'll be moving into a lot of details. So, not to preempt that, I hope we can stick the questions to the overall targets and what we've been through so far.

Yes, Asbjorn. I think we'll have a microphone. And Barbara will join me.

Questions And Answers

A - Morten Hubbe {BIO 7481116 <GO>}

(Question And Answer)

Q - Asbjorn Nicholas Mork {BIO 17028219 <GO>}

Yes. Hi, good morning. Asbjorn from Danske Bank. A question on the return on own funds target, a change from the ROE and the return on tangible equity, I know it makes a lot of sense not to use --

A - Morten Hubbe {BIO 7481116 <GO>}

Can you have another microphone?

Q - Asbjorn Nicholas Mork {BIO 17028219 <GO>}

Okay. I'll just repeat the question.

A - Morten Hubbe {BIO 7481116 <GO>}

It was not a very good question, anyway.

Q - Asbjorn Nicholas Mork {BIO 17028219 <GO>}

Good. So the new target and the return on own funds, which has changed from the ROE and I guess, return on tangible equity makes a little sense as well. Basically, a couple of questions on that. First, why not a return target on DSCR? Why include that solvency ratio element to it? Or maybe if you could touch upon what the normalized solvency should be in that target?

Second, on the 25%, is that also going to be the operational target for organic growth going forward? So you will chase the 25% for new businesses and divest businesses that don't make the 25%? I guess that also relates to the target for the technical results and I guess, the combined ratio versus premiums in '24.

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

I think without preempting an important part of our session later today, I think I just want to say that the roof that we will have as the new KPI will be supported by an internal measure exactly like you point out to look at the capital that will be used in the businesses when running the businesses. So there will be a very clear link from the way that we operate our business to the metric that we will use in order to support the profitability that we generate. I think when looking at the 25% that we are guiding at the end of the period, it is something where currently it reflects ordinary dividends. We haven't taken into account any extraordinary dividends in that. But obviously, it's a discussion we will have later in the session.

A - Morten Hubbe {BIO 7481116 <GO>}

And actually, I think there is a process where we're trying to educate staff more and more on returns. Today, the capital is built in implicitly in the combined ratio targets in each business. Private and commercial does really well in delivering on that. Corporate doesn't, and we'll get back to that. But actually, we want to further educate an even bigger part of our staff and understanding, for instance, how do they contribute to the dividends as well. How much incremental capital do they consume in their development? And of course, we don't want our entire staff to be financial experts, but we believe that the more they understand that, the cleverer decisions they'll make. So it is an ongoing process of strengthening the capital awareness in order to strengthen our discipline and strengthen our payout. So that is a continuous process.

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

And then I think if we may park the rest of the question until later, then we might answer actually some of the questions you have in terms of why we have chosen and so forth.

Q - Per Gronborg {BIO 15910340 <GO>}

Per Gronborg from SEB. You are targeting to improve your existing business by DKK1.6 billion. When I look at consensus, my own forecast, this year, you probably end up between 3.7, 3.8, I guess there's 1% better headline performance and underlying performance, and we had 3.5. This seems to imply that the old business should deliver in '24, approximately DKK5 billion plus RSA business, plus the DKK900 million in synergies, and somehow, I get significantly above the DKK7 billion to DKK7.4 billion. What's wrong with that math?

A - Morten Hubbe {BIO 7481116 <GO>}

We're really looking forward to that question, Per, and assuming that it might come from you. But of course, you're completely right. I think the past many years have taught us to not stand on the optimistic leg when we do our targets. I think we've also learned that we need to be quite clear on separating the overall financial targets and each of the business initiatives. So I think two important buckets. One is the starting point. When we look at the starting point, we wouldn't ever look at the reported numbers, but at the underlying numbers. And it's only natural that you look at the reported numbers.

So for instance, when we look at 2020, two factors alone. COVID and weather claims, each of them quite close to DKK200 million of tailwind. So that's one factor. Secondly, we know from history that our initiatives and the DKK1.6 billion need to significantly exceed the financial performance step-up that we are planning, because we know that there will always be negative that we encounter during the course of three years. We've never had a 3-year period without new negatives. And secondly, we also know that when we look at that competition, for instance, some of it will be competed away. There will be new things that we need to encounter.

And I think if the size of the initiatives matched the targeted step-up in performance, we would surely and certainly under deliver. So we like to be cautious people. We'd like to know that we exceed with initiatives the step-up in performance that we are planning and that we start with the underlying starting point, not the reported. But I can see how you would get to a higher number. And I guess that should give us all some reassurance about the ability to deliver.

Q - Per Gronborg {BIO 15910340 <GO>}

So tried to get to an underlying number, but I tried on '21. On '20, the underlying number is approximately 3.0. Is that correct?

A - Morten Hubbe {BIO 7481116 <GO>}

It's not far off. It's not far off.

Q - Per Gronborg {BIO 15910340 <GO>}

Where we are starting from?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes, not far off. Yes?

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Q - Per Gronborg {BIO 15910340 <GO>}

Yes. Just back to that question. So the DKK1.6 billion, is there any assumption about the lower runoff gains in the next three years? Or what are the breakpoints?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. There is actually an assumption on that. I think we've showed in the past an assumption to get to 3% to 5% runoff gains. We never actually got to 3%. But it's fair to say that we started off 7%. Now we've had periods of around 5%, actually 4.5% as well in some periods. So I think as we mentioned in the previous strategic period, we would see a very, very gradual slow decline in roll-off gains. No major changes fast. And that will also be for the next coming strategic period. So we are, again, assuming something along the lines of 3% to 5% runoff gains. But again, very, very, very gradual movement and no sudden movements expected.

Q - Per Gronborg {BIO 15910340 <GO>}

And the gross initiatives of DKK1.6 billion, is it still like the previous CMDs around 50%, that is sort of your base case that comes through to technical profit?

A - Morten Hubbe {BIO 7481116 <GO>}

I don't think we will mention a particular number, but it is fair to say that we've built in an assumption that a fair proportion of that would encounter negatives or encounter competition and you can try to do the math of how much that is. But yes, that's a general logic.

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

And I think that's an added comment to that would be you're spot on when you say the gross catalog, bear in mind the synergies, that's a net number. but the initiatives from the strategic direction will be a gross catalog, if you say.

A - Morten Hubbe {BIO 7481116 <GO>}

Perfect. Last question.

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

Yes.

Q - William Fraser Hardcastle {BIO 16346311 <GO>}

Will Hardcastle, UBS. Can you give us an idea around the capital intensity difference between the retail book that's growing versus the commercial book that's growing less or stopping growing? And is there any loss on diversification as that mix shifts?

A - Morten Hubbe {BIO 7481116 <GO>}

I guess the capital requirement varies both by segment and by product. And if you take the variation from the very high end to the very low end, the variation is extreme. I mean, if you take, say, workers' comp in corporate, capital requirement is roughly 100% of premiums. If you take some of the shorter duration in private lines or SME lines, you're sort of closer to 30%. So there is some massive difference, and we'll get back to corporate in a few minutes, but it's fair to say that products like liability and property where you get the real fluctuations, that's also where you get the high capital consumption. So there is a massive difference. I don't think the shift will be so fast that diversification loss will be too large, but there will be some.

Thanks for sticking to the overall messaging. And with that, we'll move on.

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

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Thank you so much. Is my microphone working? I think it is. Thank you so much. And I'm not saying that wasn't a good intro, but I think this is when it becomes really exciting now when we start diving into the strategy house. I've got the pleasure of going through the first strategic pillar called Full Speed Ahead and a successful core.

This strategic pillar is all about addressing the momentum in our core business in private lines. We'll be doing that through two building blocks. The first one being advanced approach to claims, which through a number of drivers, has a target of delivering DKK650 million on the technical result impact in 2024. The second building block is called sales and customer excellence that has a target through a number of drivers of delivering a technical result impact of DKK400 million in 2024. Altogether, more than DKK1 billion in 2024 coming from this strategic pillar.

In the following, I will be unfolding the drivers behind each of these building blocks. And in doing so, I'll be using a methodology that you'll see throughout this morning's session, so let me just briefly introduce that methodology. We will, for each of the drivers be establishing the relevance of why this is important for Tryg to address. We'll be talking to the evidence. What have we already done that gives us and should give you comfort that we can do it again in this coming strategy period? And the third part is around the potential, the target we are setting ourselves for this particular driver.

So you might get bored with this in 2 hours' time, but this is the structure we are going to be using throughout the session today. So if I take that medicine in the first driver behind building block advanced approach to claims. Why is this relevant for Tryg to address? Well, it's important because claims is by far the biggest cost driver for Tryg. If we look at the cost structure for 2020, we saw a total cost for Tryg of DKK19 billion, out of which claims and claims-related costs constitute DKK16 billion, more than 83%. That is why it is imperative for us strategically to continue to hammer on this particular cost item, both to stay competitive but also to keep improving our profitability. We'll be doing that through three different levers. One is process excellence, one is procurement excellence and the last is around fraud detection and fraud avoidance.

If we look at process excellence, process excellence is key to automating our claims processes and actually freeing up resources. We see from our business that if you take the cost associated with the manual claims process and index that to 100, when we are able to semi-automate that particular process, we can bring the index down to 60. When we're able to fully automate it, what we call straight-through processing, we bring that index down to 35, a significant efficiency driver. That is also why Tryg in the past strategy period has invested significantly in Guidewire, a new claims process system to be rolled out across Tryg.

This Guidewire system has not been completely rolled out yet that will only be conducted in this coming strategy period. But as we are doing a gradual rollout, we have already a lot of good examples from where we have rolled out Guidewire.

The impact we are seeing from where we have rolled out Guidewire is coming in two categories. The first one is time. We can see that the average time spent per claim goes down significantly when we compare the average time before Guidewire and the average time spent per claim after Guidewire in this particular pilot, which is actually travel in Denmark, we are seeing a drop of 26% in the time spent, giving us a good indication of what Guidewire will allow us to free up of resources over this coming strategy period.

We are also seeing impact on another lever called quality. We measure that as claims leakage. When we compare the claims leakage before the implementation of Guidewire and after the implementation of Guidewire, we see a drop of 58%. What does this actually mean? Well, it means that before the implementation of Guidewire, we are hugely exposed to human error in the sense that our employees have to go through a number of different systems, copy data from one system to another and make manual checks and balances.

When we implement Guidewire, a lot of this is hardwired into an IT system, minimizing that risk. And when we compare and add the levers time and quality, we are comfortable with having a target for DKK200 million from this particular driver in 2024. 2/3 of that will actually be coming from the quality piece I just discussed, and 1/3 will be coming from the time efficiencies that we're gaining from Guidewire. And please bear in mind, this is the impact we're expecting for this particular strategy period. We're not expecting this to be fully reaped to this strategy period, so I hope in three years' time, we'll be having another discussion on future gains from this particular implementation. That was process excellence.

Let's move to procurement excellence. I think Morten, you already alluded to the fact that we have already in the past three strategy periods, pulled the procurement lever quite significantly, and we've done it very successfully. In the last three strategy periods, we have delivered respectively, DKK650 million, DKK300 million and DKK300 million in efficiencies from procurement. In this coming strategy period, we have set ourselves a target of another DKK300 million in technical result impact in 2024.

And I think it's fair to stop here and say, hang on, how can you keep pulling this lever? Are you not coming to an end? That would be a sort of a fair assumption. But I'm happy to also show you some of the data why we are very comfortable with delivering another DKK300 million. In the middle of this chart, we are showing you what we call the degree of compliance within motor. What does that mean? Well, this degree of compliance is essentially our ability to route our customers for repairs into the parts of the repair network where we get the highest volume discounts.

As you can see, in the last three years, we've increased our compliance in motor from 81 to 89. And this has two very positive effects for Tryg. First of all, it means we are getting more out of the volume discounts we already have established. Second of all, it allows us to when these contracts come up for renegotiation, let's say, second or third year, it allows us to have a discussion with our suppliers saying that we're now able to provide them with more volume. Hence, we would also like to have a higher volume rebate.

So that's a twofold positive effect. And just to put these numbers, the 89 in perspective, this is 89 for motor. When we look at other categories across Tryg, we are seeing compliance levels hovering between 30% and 60%. So there's still plenty of potential for us to move on this particular lever. This is why we are comfortable with delivering another DKK300 million from procurement, the majority coming from improving compliance and renegotiations of contracts and some of it, 20%, coming from our innovative claims solutions. So that was driver Number 2 within advanced approach to claims.

If we move on to the next, this is all around fraud detection and fraud avoidance. Why is fraud an important lever for us to address at Tryg? Well, it's important because we do see pretty significant amounts of fraud in our business at the moment. On this chart, we can see that Alka in 2020, we're able to identify 6% of fraud in the eligible claims. That is in itself a high number. But we also see a high variance in our ability to identify fraud across our business.

We can see that in Tryg Denmark and Norway, we were able to identify 4%. And if we look to Trygg-Hansa, they are identifying somewhere just above 1%. So huge numbers and huge variance. We've demonstrated our ability and evidence that in the past strategy period that we can actually move the needle on our fraud detection. We can see that Alka has actually gone from 4.1% to 6% fraud detection in the previous strategy period from implementing even more sophisticated data and analytics in the systems. And we can see that Tryg has actually also been on that journey, taking some of the inspiration from Alka and have gone from 1.5% to 4%.

In this coming strategy period, it's all about narrowing that gap from Tryg into the Alka experience. Narrowing that gap carries significant value for us. So this was all about detecting fraud. The other piece of this driver is around avoiding fraud. How is that actually done? And here, we have a good example from Norway, where we're actually working very much with notching our customers as they go through the online claims flows. There are many sophisticated ways based on psychological insights as to how consumers behave in the flows. And we can see in this pilot in Norway, where we have injected notching tools and piloted and AB tested how to best do that, we can see that if it's done correctly in the online flows, we can motivate the customers to sometimes abort their claim or even sometimes go back and revisit the amount they're filing for.

And in this particular pilot in Norway, we saw a reduction of 3.2% average decrease in the average claims spent. In this coming strategy period, we will be rolling out inspired by our Norwegian examples, we'll be rolling this out to more of our online claims flows.

And the combination of detecting fraud and avoiding fraud has a target for this period of DKK150 million, the majority coming from the fraud detection piece and 20% coming from notching skills. And I think that concludes essentially the first building block of this strategic pillar and brings me to the next building block called sales and customer excellence.

The first driver here is around partnerships, and partnerships are very efficient lead generators for Tryg. When we are able to identify the right partners, we are able to, through these partners, to get access to very attractive leads, to very attractive segments in the population. It's all about being careful in selecting the right risk in the partners and the right volume of leads in the partners.

On the left-hand side here, we are showing some of the partners we have partnered up with across the region. Some of them are new, some of them are old. And just to bring it a little bit to life, for those of you who don't live in the Nordics, if we take FDM, a fairly new partner through Tryg, that is the Danish Motor Association, they are characterized by being, how do we put that, the season part of the population. They tend to own many cars. They tend to own their own house, leaving a vast opportunity for cross and upselling into this particular segment. And they are characterized by being very, very protective of their belongings. They are a good risk segment.

All these partners have another thing in common, which is very critical. We see on average that the leads that are generated from our partners are what we call warm leads. We are able to have very high conversion rates on these leads because the customers are affiliated with their partners, and they feel more inclined to follow the advice of the partner. So when we compare the lead conversion rates from a direct lead and a partner lead, we see an increase of 17 percentage points when it comes from a partner. That is a huge cost driver for us. This is a very efficient way of selling to new customers.

That is also why when we look at the overall metrics of our partnership portfolio, we are very pleased to see a very strong performance. I think the best place to start is on the customer metrics. We can see from our partnership customers that we're able to cross-sell and upsell more than 4.5 products per customer, significantly above what we see from our direct portfolio. We also, as you can see, see a customer lifetime of around 12 years, also significantly above what we see from our direct portfolio. And these two customer metrics translate into very healthy financial metrics.

We are seeing an expense ratio for the partnership portfolio of around 12%. Bear in mind, as Morten and Barbara alluded to, that the group number here is 14%. And we're seeing a combined ratio for the partnership portfolio hovering around the 85% mark. That is also why we are comfortable with having a target of another DKK150 million coming from partnerships in this coming strategy period, very much around increasing the penetration of existing partners. We could see that the new partnerships we have, have much lower penetration rates than the more tenured partnerships. So there's vast potential to go for in this particular lever.

The second driver within sales and customer excellence is around cross-selling and upselling. Why is that relevant? Well, it's relevant because we do see that the more products we have per customer, the more the profitability we see per customer. On the left-hand side here, we are

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showing the correlation between the number of products per customer, with the customer lifetime. So a customer that has one product has an average lifetime of around three years. When a customer has more than seven products, and that does happen quite a lot, we actually see a customer lifetime of more than 16 years.

When you combine that with the fact that we see loyal customers having a much higher profitability, on the right-hand side, you can see that if you take a customer with a tenure of more than 15 years, they have an average claims ratio that is 17 percentage points lower than that of a new customer. It becomes evident that investing in cross-selling and upselling will bring up the customer lifetime, which will bring down the claims ratio. Investing in those two mechanisms is a very good business. And just to put it in perspective, bear in mind that 25% of our customers in the private portfolio only have one product. So that's a huge potential. And therefore, this is hugely relevant for Tryg.

That is also why in the past strategy period, we have invested quite heavily in honing our competencies within cross-selling and upselling. And a good example of cross-selling is actually from Norway again, where we've taken our Enter portfolio that is Enter is our car brand in Norway that only takes in the car product or the auto product. We have invested quite heavily in our sales comps on targeting this Enter portfolio and cross-selling Tryg branded product into this portfolio. We have seen a lift up in the penetration rate of the Enter portfolio from 25% to 29%, significant lift, significant potential lift on the table.

If we look at our ability to actually upsell, we've done essentially that very focused in Alka in the past few years, taking new innovative products, brought them to the existing customers through a dedicated sales channel and a dedicated focus. And we've seen through this dedicated upselling, we've been able to bring up the average premiums in Alka, up with more than 10% per annum. The combination of our cross-selling and upselling skills and scaling them to the rest of the business has a target for this period of yielding DKK150 million in technical result in 2024.

And I think that brings me to the last driver within sales and customer excellence, and this is very much centered around data and analytics. Getting the data right around our customers is key to understand the risk, understanding the risk is key to get the pricing right. Therefore, we need to get the data right at two different stages at least. First of all, at the point when the customer enters Tryg, but we also need to maintain our data perspective around the customer to see if something evolves.

To give you a data point around that, we can see when we look into the Tryg portfolio, we're able to identify 0.6% of the portfolio, which is what we call suitable for pruning. What does that mean? Well, that means that when we look at data parameters around the customer in Tryg, this is mostly backward-looking data, we can see that the customer is showing an unfavorable risk behavior. That means that there is a mismatch between the risk and the price. That calls for an action from us at Tryg, often enough, it's a significant price increase.

When we look at the similar data points for Alka, this is one of the areas where we are taking learnings from Alka. We can see that Alka has in the past two years, gone from the same ratio to now identifying 1.8% of the portfolio suitable for pruning. They have implemented even more data, a lot of forward-looking data around the customer to identify this ratio. And when we translate this suitable for pruning ratio into -- I think I mentioned that we all better understand, the technical result impact. We can see that Alka, through this measure, has taken the impact from DKK6 million in '19 to DKK18 million of technical result impact in '21. This is one of the drivers that we need to scale throughout the Tryg business in this coming strategy period along with others. And we have a target for this particular driver, data and analytics and pricing of DKK100 million in 2024.

As you can see here, 2/3 coming from repricing like this pruning example and 1/3 from improving our quality of data at the point of sale. And I think essentially, that sums up this first strategic pillar, Full Speed Ahead in a successful call. We've gone through the advanced approach to claims. We've gone through sales and customer excellence. And we've seen how the drivers stack up to delivering more than DKK1 billion of impact in 2024 on the technical result.

And with that, I will pass it on to you, Lars and Morten, to bring us through the next strategic pillar. Is that also DKK1 billion?

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Q - Lars Ulrik Bonde {BIO 1502260 <GO>}

No. That's a bit less, but business to business is a very important part of our '24 strategy. Our focus will be on a profitable growth within our commercial business and on profitability within our corporate book. We have a target for the strategy period of 30% increase in our portfolio within the small commercial segment, which is also our most profitable segment, and we have a target of a 90% combined ratio in corporate.

This should lead to not DKK1 billion, but DKK600 million improvement in our technical result coming from better underwriting, coming from reducing our risk exposure, coming from improving sales and distribution and coming from new products and offerings. And in Tryg, we define our corporate customer as a company with more than 100 employees or more than DKK100 million in revenue.

The small customers are the largest and most profitable segment in our commercial business. And we will have profitable growth, and this should come from tailored packages, and it should come from focused distribution. Here at left, we show the different segments in our commercial business divided according to the number of employees. And as you can see that the companies with less than 10 employees are the largest part of the market. And it's also the most profitable one, I can show you a bit later. But we also here show the market share for Tryg. And here, the profitability for the different segments.

And as you can see, all the segments in our commercial book are profitable. The smallest company, the one with less than 10 employees, are the most profitable. And it's also the one that are most similar to our private book. As mentioned, our growth within this segment should come from tailored packages and from focused distribution. And about the tailored packages, we know that the small commercial customers don't really have the time and don't really want to spend time to talk to us about insurance. They just want right and easy solution for the insurances. And that is the reason why we have started developing those packages exactly as we have done in the private book in the last strategy period.

In the middle here, we show a couple of examples of the packages that we have developed. One is called Tryg business is from our Danish Commercial business. And here, we take all the kind, all the different insurance that a normal small commercial customer would buy and put them into a package. And as you can see, it's a significant part of our new sale.

The other example that we mentioned is from Norway, where we have developed a package for Craftsman. That is actually something that we have learned from Trygg-Hansa where they have made tailored packages based on the customers' line of business for some time. And we have learned from that and make this package for Craftsman in Norway and launched it in September. Since that, we have sold to 900 new customers and maybe that don't sound like a big number, but please notice that the total number of customers in our commercial book in Norway is 35,000. So we are very satisfied to sell into 150 new customers every week.

Let me show that the average price for small commercial customer is a bit higher when they are buying the packages. And about the focused distribution, four years ago, we only had two distribution channels. We have our call centers and our sales agents. And some of these channels are pretty expensive when we are selling to small commercial customers. That is also the reason why we have added some new ones Danske Bank and some independent sales agents who are only selling insurances for Tryg and only to the small commercial segments.

Since we started with that a couple of years ago, they have sold to more than 7,000 new customers, and that is almost 10% of the total number of customers in our commercial business in Denmark. We have also managed to improve the average sale per employee in our call centers, which have led to a lower cost of sale, which again, make it easier to sell to small commercial customers.

And also here, we want to learn from Trygg-Hansa. They have more than 10% of their sales to small commercial customers coming from online. And we, of course, want to learn to do the same, both in Denmark and Norway. As mentioned, we have a target of a 30% growth within this segment. We are already showing traction. Our portfolio for this year is up with 9% compared to last year. The growth should come from 15,000 new customers and from a higher average premium and should lead to a portfolio at DKK2.8 billion at the end of the strategy period, and that is within the most profitable segment in our commercial business. Corporate combined ratio '19, Morten, how would you fix that?

A - Morten Hubbe {BIO 7481116 <GO>}

That's, I would call it, easy-peasy. We all know that. There's no doubt that when we look at it in recent history, our private lines and our commercial SME lines have performed extremely well, making that increasingly apparent that the one lagging behind is corporate. Now we clearly will change that in the coming strategic period. And we don't want to whine about it, and it is, of course, very easy, but we need to understand that the corporate market is structurally completely different.

When we look at the market where most of the clients are very large, we look at a market that is highly brokered, and we look at the market where there's a lot of global insurers fighting for the same premium. It means that the level of competition is very, very high. And when also there's a market factors that the insurer, in this case, the Nordic insurer, would follow the Nordic customer with their exposure into the world. So if the Nordic customer has complicated factories of property exposures in remote parts of the world, you would cover that.

If they have complicated liability exposures, also, for instance, in the U.S. market, you would cover that. That is clearly a root cause of a lot of large claims and a lot of unusual exposure, not very close to home. Last but not least, the capital requirement is just significantly larger making this a real challenge from a return on capital point of view. And when we compare the combined ratios in our book, and bear in mind, here we show before runoffs and not the reported numbers, there is a rather large difference between private and commercial being highly profitable and stable, and corporate being around the 100% mark. This is clearly something that we need to improve in the coming period.

Now why is this relevant? As you know, we've done a lot of initiatives, particularly price increases in the recent period to improve corporate. And we have seen that it does make a difference. We have improved the underlying claims ratio by 12 percentage points. That is a strong and meaningful change and improvement. It's just not enough. We see on the left-hand side combined ratios shifting as much as from 96% to 103%. That's a lot of volatility. We see in the middle graph here large claims ranging from 4% to 12% of premiums, again, a lot of volatility. Now volatility is part of corporate business. You cannot rule that out entirely. But what we do see is by choosing more wisely, choosing smaller and more stable, less exotic customer segments, we can improve the combined ratio and we can reduce the volatility.

And there are patterns as to where the large claims and the volatility derived from. We see the large customers in corporate delivered 25% of the premiums in corporate, but 45% of the claims. And if we zoom in further on the products, we see that the two products, property and liability deliver 55% of the premium, but almost 100% at 95% of the large claims. So when you combine large customers within corporate with the products of liability and property, that is where you get into problems. It also means that already today, this smaller, more ordinary products in corporate, like insuring the bands, the lorries, the employees, the travel, et cetera, that is already today, stable and profitable business as opposed to larger liability and property.

Now to evidence what we're doing, you all know that we are increasing prices significantly. We'll continue to do that. But that is not going to cut it, and it's not going to take us to where we want to go. That's why we're doing significantly more structural changes. One, we are strengthening significantly our organization, particularly in underwriting, pricing, data, risk assessment. And we've replaced roughly 30% of our corporate staff in the last couple of years. That is a massive change. And then we've been working very hard to reach the customer segments that will be lower risk and higher profitability.

And we have started to change our exposure. You can see how we've reduced our exposure to large liability by 26% in the last couple of years, exposure to larger property by 13% in the last couple of years. That is evidence that we've started that journey, and we clearly want to move further down that journey to reduce exposure to larger, more complicated risks to look at smaller, more basic customers and to target a combined ratio of 90%. Now bear in mind, when we could target a 90% combined ratio in corporate in 2024, it's not with a historical runoff, which was rather high, it's with an assumed normalized lower level of runoff gains.

And we will change our exposure significantly. As I mentioned, the market practice is for Nordic insurers and insurers anywhere to follow your local customers into their complicated exposures throughout the world. We will change that significantly in the coming strategic period. Today, larger global exposures out of the Nordic customers is 10% of our premium in corporate. We will gradually exit that segment. At the other end of the spectrum, we have the smaller already today profitable and stable customers, which we will grow in exposure. And in between, we have the larger European exposures out of the Nordic customers, where we will be much more selective going for the smaller, more plain risks, deselecting the larger, more exotic risks. And as you can see a significant reduction in the overall exposure also on a European scale.

And as I showed, the vast majority of the large claims comes from liability and property with larger customers. By 2024, we have an ambition to reduce our exposure to U.S. liability with Nordic customers by 70% and to reduce our exposure to property outside the Nordics by 50%.

So as you can see, we are moving from mainly price increases, continuing the price increases, but moving to much more structural ways of strengthening the organization to gradually exit segments and to leave the more exotic exposures in property and liability to focus on the small customers, allowing us to deliver a combined ratio of in a sustainable value-creating way. That's how we'll deliver, not DKK1 billion, Johan, I'm sorry, but DKK600 million in technical result from business to business, as Lars showed, by growing the profitable small SMEs with a lot of inspiration from private. And as I've shown by reducing the exposure to the larger, more exotic risk, and strengthening profitability in corporate.

Now we have the next Q&A session standing between us and a coffee break. So Q&A first and then a coffee break. Yes?

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Martin, Carnegie. So I guess if I talked to you 1.5 years ago, and I asked you about your corporate business, you would have probably said something about that it was also carrying a burden of your costs. I guess moving to 90% commercial and retail focused, that argument becomes less and less relevant. And given that this is still going to be a drag on your return on equity, why should Tryg be a corporate insurer going forward?

A - Morten Hubbe {BIO 7481116 <GO>}

I think it's a fair question. I think we've had that debate also internal several times. We've also actually investigated should we sell it or should we stop doing it. I don't think the market price for

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corporate business is as high as you would perhaps like. But also, I think we spent a lot of quality analysis understanding the corporate book. And the reality is that all of the small bits and pieces that we ensure, as I mentioned, the lorries, the bands, the people, the travel. That is low risk. It is stable. It is actually returning something that makes sense for shareholders.

And you're right, by shrinking corporate, the way it adds to financing, the HR, the IT, the finance, et cetera, et cetera, is reduced. But nevertheless, it does have a value. And we see, for instance, today, our commercial business and our corporate business develops products together. Our broker desk is run together. A lot of things, it's done together across the business areas. So if you just ripped out completely the corporate business, you would actually deteriorate the remaining business segments. But I think with what we're doing now, and I think it's a fair question, but with what we're doing now, we're taking the toughest and most structural step we've ever taken in corporate, and we will clearly deliver sustainable combined ratios around 90. And I guess if you look throughout Europe, how many companies delivers 90 sustainably in their corporate book? So I think we're taking the right steps.

I would have liked to do it sooner, to be honest. Sometimes I kick myself, why didn't we start the more structural steps three years ago. And in hindsight, that will have been a lot better, but perhaps only in hindsight.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Maybe just a follow up on that. I guess these price increases have been going on now for several years in all countries. Do you see there is a risk that you lose scale in your corporate business that eventually sort of the runoff profile of it becomes its own enemy? And then finally, now that you're opening up about your business today, maybe perhaps you could also share how much capital you actually allocate to this business?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I think it's fair to say that scale will be an issue. I think, first of all, in the overall growth, we saw, for instance, in Q3, very strong growth in our retail business, negative growth in our corporate business. And a dark horse going forward is what will be the negative growth of the corporate business, because we know the retail business will grow really well. And it's actually both a matter of the speed of shrinking the larger customers. It's actually also a distribution capability issue, because when you want to attract more of the smallest corporate customers, that actually requires a different skill set in terms of distribution.

So I think reducing is easy, adding more smaller customers is more difficult. But I think the plan we've done will allow us to make that downscaling well. And the 90% is, of course, also because we can see that we are able to grow the retail segment in a more positive and profitable way. But it is a big shift. And I think if you give the microphone to any of our corporate staff, they'll say this is a massive, massive shift and it is -- and no massive shifts are easy. I don't think we've ever published how much capital we give to corporate altogether. But I think if you go through recent years, we've had periods where the total return on capital and corporate has been closer to 5 than to 20. So I think it's fair to say that the need to improve is quite massive.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yes, Mads from ABG. Could you kind of review what claims inflation you're putting into your targets? And what you -- I mean, your assumptions, rising construction costs, et cetera?

Q - Lars Ulrik Bonde {BIO 1502260 <GO>}

First of all, on the business, I'm a bit disappointed it took us an hour to get to inflation. Of course, a topic that is top of mind of the four of us standing here today. That being said, I think we should separate the topics into what is happening in the turmoil as regarding inflation now and what is the more structural drivers of the improvements of our business. And as for the inflation right now, I think we alluded and explained that quite thoroughly at the Q results last time. We do see a lot of inflation in the market going on, especially in the property part of the market today. That being said, we are luckily enough. We are protected by our long-standing procurement contracts that are both long in tenure, but also fixed in rates. And that gives us a lot of protection in terms of any inflation at the moment.

So I think you should expect right now that we are seeing a lot of protection towards inflation and whatever inflation comes through the cracks, and there will be, of course, inflation coming through the cracks of our procurement defense, we'll take care of that through pricing measures. That is also why we've been out communicating that there will be pricing measures taken into place. And I think you know us well enough to know that we are never -- I think you said it earlier, Morten, we're never really optimistic. We're always a little bit cautious and that is why we are out publicly saying there will be pricing measures. But I think you should expect inflation to be taken care by procurement and pricing and the procurement initiatives to deliver the more structural changes to our business.

A - Morten Hubbe {BIO 7481116 <GO>}

I'll just complement that I think in the old days, we would have a sort of primitive overall assumption. Inflation is 2.5% across the board. The reality is that this is not a way to run your business. Because if you look at the business segments, the line of business and the coverages, the inflation points are just completely different. We have pockets where inflation is 0%. We have small, small, small pockets where the inflation is more like 20%. So this is an enormous variation.

So I think we've never been better than now and understanding each of the individual pockets and their differences and taking that into account when we underwrite the risk and when we do the price changes. And of course, there's only one to pay inflation, and that is the customer. And that is, of course, something we're making sure of and trying very hard not to get behind the curve. But it is property to a large extent, and within property, mainly materials.

Q - Faizan Ahmed Lakhani {BIO 20034558 <GO>}

Faizan Lakhani from HSBC. I had three questions. One was in the small SME segment you're targeting. It's incredibly profitable. Could you just provide some color on what the market share is and who are the leaders in that space? And given that it's so profitable, is there a risk of price deflation or increased competition there?

And the second question is on the partnership business. You mentioned that new businesses -- new partnerships are not as attractive as sort of the old tenure partnerships. Could you provide a split in terms of where you're driving that business from and how you get to that target? And the final question is, given the work done on corporate, even within corporate, the capital intensity should be lower given the fact that there's less volatility. Could you explain sort of at least quality of how that will work within sort of capital intensity of that business?

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

Yes. Maybe I should start with the commercial business. Tryg's market share for the smallest commercial segment is around 20%. That's a bit lower than if you compare it to our commercial business in general. We think that we, by focus on the distribution channels are able to increase the market share. And of course, you never know what is going to happen, but how our competitors would react. But we can see that the things that we have started with, with the new distribution channels, are leading to an increasing level. So if you, for instance, look at the number of new commercial customers in Denmark at the moment, we can see that we are getting a higher market share than we have done before. So it looks like our medicine is working.

A - Morten Hubbe {BIO 7481116 <GO>}

And you might add that today, a lot of surveys show that the small segment is typically uninsured. So part of it is also growing their maturity level in terms of how much insurance they take up. And typically, it's not because they don't want to pay the price. It's because a small shop with four employees is busy doing everything else, not thinking about insurance. So it's really more getting a hold of them, getting them to see that they need to buy more. If you get through that, then typically it works. So there's actually slightly less of a price competition issue.

Q - Faizan Ahmed Lakhani {BIO 20034558 <GO>}

And sorry, who are the market leaders in that space?

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

I think we are the market leader in Denmark. Gjensidige is the market leader in Norway.

Q - Lars Ulrik Bonde {BIO 1502260 <GO>}

And if I should just address your second point around partners, new partners not being as attractive as old partners. That was not exactly my point, and maybe I should clarify. My point was around the fact that the new partners come in with lower penetration rates that we haven't actually had a chance to address the members of that particular partner. So we are simply saying that the potential in new partners is bigger in there than it is in the older partners.

A - Morten Hubbe {BIO 7481116 <GO>}

And as far as capital and corporate is concerned, you're completely right. The reduced exposure, reduced volatility will reduce capital requirement, which would help the dividends. But if you dig into that for a second, the capital requirement consists both on capital requirement on the corporate premium, which will drop faster. And then the capital requirement on the liabilities, which will drop a lot slower. So I think it will take a number of years before we see that drop really materializing, but we will start to see it as soon as we reduce the exposure.

Q - Alexander Evans {BIO 19956412 <GO>}

Alex Evans, Credit Suisse. I just had a few on growth. So you showed sort of the 24% growth in Alka since 2018. I just wanted to understand sort of how Alka's product per customer look now relative to then? And if you could give any details around Trygg-Hansa product per customer.

Then just on the personal accident lines, if you could give a little bit of clarity on how sustainable that differential is for Trygg-Hansa relative to the market? And if you see sort of threat of competition. And then just finally on the sort of tenure of customers, you mentioned 17 percentage point gap in claims. If you're 15-plus years. In the U.K. market at the moment, there's a lot of regulatory focus on sort of fairness. How do you balance the sort of price that you give a longer duration customer with fairness?

A - Morten Hubbe {BIO 7481116 <GO>}

So I think on the first question on Alka, it's fair to say that Alka was the one leading the Danish market on online sales, selling roughly 40% online, roughly often only one product, typically the car. Having joined Tryg, two things has happened with respect to your question. One, an access to a lot of new products. So for instance, dental insurance, was taken from Tryg to Alka has grown dramatically. Children's Insurance has been taken down, growing significantly. Collective salary agreements insurance which is dangerous on a one-by-one basis, but done collectively with the whole union, you get the risk diversification. And then lastly, the agents of Tryg are now allowed to take the single product customers of Alka, contacting them to do upsells, as we showed during the process.

So those are some of the major changes on the Alka growth journey. Most of it being more share of wallet with the same customers, making them more sticky and more profitable.

I think on the personal accident side, Trygg-Hansa built the market, but all players are now entering the market and have been doing so for a number of years. We did that in Moderna as well, believe that Trygg-Hansa has a market share of around 33%, 34% in personal accident. Clearly, it's a market where everyone wants to be. I think we see two drivers: the continued strong profitability and continued strong conversions in Trygg-Hansa, helping to defend that market position. But it's also fair to say that when you look at the rest of private in Sweden and particularly commercial SME and Trygg-Hansa, there's been a work going on for a number of years to make those pockets significantly more profitable, reducing the dependency on personal accident. And when we've had deep dives into those pockets of business in both private and commercial SME, the combined ratios in those products has been improved significantly, making it a very diversified portfolio of today.

Q - Lars Ulrik Bonde {BIO 1502260 <GO>}

And maybe I should address the third question you just raised, which is more around -- we are also following the regulatory environment in the U.K. We haven't seen that travel to Denmark in the non-life business whatsoever. And it's probably worthwhile highlighting that the improvement we see in claims ratio on the more tenured customers is not so much driven by price as it is driven by lower frequency from these customers actually settling in on the book. So one, we're not really seeing that travel to the Nordics yet, and we're not really driven by repricing of our book as we're driven by frequency.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. We will take the last question now and then coffee break.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

This is Tryfonas from Berenberg. Can you talk a little bit about Tryg Guarantee, and how does that fit within the overall corporate changes?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. Good question. Tryg Guarantee is a separate business entity that we report within the commercial business. Doing so because in the good old days, a lot of guarantee business was corporate business. If you ask the banks, what is guarantee business, they would often say corporate business. The benefit of our business model and guarantee is that more than 90% of our guarantees are issued online within a few minutes to SME customers. And where the banks often spend three weeks issuing a guarantee manually, we do it very efficiently online. And the more we follow that path, the more it becomes an SME-driven business, and that is where we can take our cost level down to less than 1/3 than most of our peers, making that portfolio gradually more and more SME.

We've entered a number of European markets. Clearly, Germany is providing now more than 1/4 of our new business, but we're doing this in a very, very slow gradual way. We have no hurry. I think when we went from Denmark to the Nordics and guarantee, we spent 10 years on that. Perfectly happy to spend more than 10 years to go through Europe as long as it's stable, slow, profitable, moving along nicely as planned. And that's what we're doing now.

Yes. Peter, coffee break? When are we supposed to be back?

A - Peter Brondt {BIO 20399889 <GO>}

10 minutes coffee break.

A - Morten Hubbe {BIO 7481116 <GO>}

So 10 minutes, that's -- is that quarter two?

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

Quarter two. Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

So everyone back at quarter two. No, I'll meet you at quarter two.

(Break)

Q - Lars Ulrik Bonde {BIO 1502260 <GO>}

Welcome back. I will continue with the third leg of our strategy house. That is what we call Shape the Future. It is about developing new products and services, and it is about expanding the market and being prepared for the future.

In the last strategy period, we set a target of a one billion portfolio coming from new products and services and from prevention. We actually did that because we want to keep the total portfolio size in Tryg. And we were afraid that the self-driving cars and IoT would lead to a lower portfolio within motor and property.

Here, four or five years later, we could see that, that was a wrong assumption. But we have also seen that because we have developed more than 50 new products, we have increased the sale. We have increased the number of products per customer and we have increased the growth in Tryg. And we have also seen that these 50 new products have led to a portfolio above 1 billion, and we have reached the target.

At the same time, we have demonstrated that it is possible to work with innovation and develop new products and still earn money. Most of the new products that we have developed are exactly as profitable as our existing business.

We have a few one with a higher combined ratio. And of course, we work with that, but we also have quite a few with a lower combined ratio. And in total, the portfolio is profitable.

For this strategy period, we raised the bar and set a target of 1.5 billion portfolio coming from new products and services. These should come from what we call expanded markets, which are what we do when we are developing a new cyber insurance or PPI product or from prevention, like we do when we incorporate alarm solutions in our content insurances or what we call building the market of tomorrow, which are some areas where we think, in a bit longer perspective, it will be interesting for Tryg to be.

One of these areas is mobility where Tryg already play an important role. It is also an important market for Tryg. Almost 30% of our portfolio is coming from motor. As I mentioned before, the self-driving cars are not coming as fast as we have expected, but we still see a changing market. If we ask our customers today, more than 50% of them say that it's not important for them to own their own car. So we expect to see more shared cars and more leased car in the future.

And about the number of cars, we here show the development in the cars sold in Denmark in '15 and in '19. And as you can see, it's upward 10%, and we expect that, that trend will continue. So what we see is a changing and growing market that is also very important for Tryg. And therefore, it's very important that we adopt our offerings to the new trends. So we could keep our solid market position and still play an important role in the ecosystem for mobility. Therefore, it's also very nice to see that our market share for electric cars is 35%, significantly higher than our market share in general. And it's also nice that we are able to cooperate with some of the new mobility service companies like the sharing car company, GoMore or imove in Norway.

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And adopting to the new trend is also what we do when we are cooperating with Polestar. Polestar is the electric Volvo. You can only buy a Polestar on the Internet and trucks insurances are embedded in their online flow. So if a customer log in to buy a car, they would also get an offer for Tryg.

So you can see that say that Tryg is already playing an important role in the mobility market. And we are using some of our innovation capabilities to make sure that we stay in a leading position. And you could say that we want to be the insurance provider regardless of our customers choose to share a car, lease a car or own a car.

Another area we are working with is health. In Denmark, Norway and Sweden, we have a well-functioned public health care system, and we don't want to compete with that. But we can see that our customers are buying insurances beyond the public welfare system, and that is an increasing trend. 65% of clients are afraid that the public health care system could not provide them with the service they expect for the future. And that is the reason why we are developing products on top of the fair system.

Here are a couple of examples of products that we have developed in the last strategy period. Our dental insurance, which now have a portfolio close to 100 million, and we have developed packages for kids -- insurance packages for kids, which now have portfolio above 100 million. And we will continue in developing new products like we do with senior care. Senior care is a product you can buy for someone that you care for.

So for instance, I can buy an insurance from my mother making sure that she will have the possibility to go to a private hospital instead of a public one or that she could get help home -- at home after an injury.

On the commercial market, we want to be a risk adviser and we think it's important to work with prevention. We want to make it more safe to go to work. And an example of how we work with prevention is our cooperation with Precure. Precure is a small company who sits in our co-working space in Ballerup. They have developed a high-tech vest. And this high-tech vest can track different metrics when people are doing physical work. And then they collect a lot of data and they use that data trying to avoid back injuries, which are quite common. And at the moment, we are testing this with a couple of our larger customers.

I think the very beautiful thing about prevention is that is a win-win-win. The employees, they don't want to have injuries; the employers want their employees to come to work; and we, as an insurance company, want to avoid claims from happening. So we are -- we have valuable products on top of the public welfare system. We can see there's an increasing trend for our customers to buy them. And we want to play a leading role in this market.

So we are continuing our strategy. We now raised the bar and have an ambition of a 1.5 billion portfolio coming from new products and services.

The fourth leg is about our synergies in Trygg-Hansa or Codan Norway.

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

Thank you so much, Lars. This brings us to the fourth pillar of our strategy house. This is a very significant pillar, but it's probably also the most predictable pillar of our strategy house today.

So this is all around the in Trygg-Hansa and Codan Norway integration, both on the process and on the synergies. And I would like to start off by reassuring everybody in the room here that everything is on track if we start by the process and the time line.

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So just to highlight some of the key events over the last six months, we saw the deal close just before the summer, first of June, as expected and as we communicated at the 2.7 announcement in November last year. 10 days later, we saw the on-sale of Codan Denmark to Alm Brand, probably a little bit sooner than expected, but nevertheless, good news, took out some risk.

We've also filed our demerger application through October this year. And that is essentially what is required for us to expect the demerger, which is still expected to happen around the 1st of April next year. This means that we will then have had an average time between the closing and the demerger period of 9 to 10 months, exactly what we expected back in November last year. And this demerger is essentially the operational separation of Denmark, Sweden and Norway in the acquired assets, and this is what triggers our ability to pass on Codan Denmark to its rightful owner and close the deal of Codan Denmark, which we expect to happen in first half next year.

So everything in terms of process and time line is on track, and I'm pleased to also say that the same goes for the synergies. We've had a year now of detailing our synergy work since we communicated the 900 million back a year ago. And the 900 million in synergies in 2024 still stand, of course. And we are still seeing the same geographical split, with the majority 500 million of the synergies coming out of Sweden, our combined entity in Sweden and the remainder coming from Norway and Denmark and group.

As for the ramp-up, we are also still looking into exactly the same ramp-up as we expected when we announced the transaction. We are seeing synergies of 60 million this year. We are seeing a ramp-up next year to 350, exactly as expected when the demerger has occurred. We're then seeing a ramp up to 650 and then 900 in 2024.

And there are probably just two things to highlight on this particular right-hand side. One is the fact that when we came out with our Q3 results, we also announced that we had already harvested the first 28 million of synergies. Also indicating very strongly, we are on track, and we will deliver the 60 million this year.

And I would also like to just highlight the right-hand side column here, essentially stipulating that the three buckets, admin, procurement and claims, make up 80% of the synergies, very close to the same ratio we saw with the Alka synergies, giving us a very large comfort with that proportion. And we have similar comfort around the 20% commercial synergies that will both deliver impact on the bottom line, but also help boost the top line growth in Trygg-Hansa that we also alluded to earlier.

In general, we have, throughout our work with RSA Transaction, leverage all the experience we've gained from the Alka transaction. Here, we are highlighting three particular topics where we have, in particular, taken in our experience from Alka. The first one is around the program structure and setup.

With Alka, we had a number of very detailed work streams and we had Tryg employees funding it, and we had Alka employees funding it, making sure we had collaboration and accountability making sure nothing fell between the cracks. We have exactly the same structure now in place for the RSA transaction with Codan Norway, with Trygg-Hansa and our own employees funding the work streams. That worked well for Alka is working very well also in this transaction.

The second thing we're mentioning here is transfer of synergy levers. What does that mean? Well, it essentially means that we had a fairly updated playbook from the Alka transaction on what levers to apply. We've copied that into this transaction and of course, fledge it out further to tailor make it, but we are leveraging a very strong playbook already. That also means that the particular employees who identify the Alka synergies and delivered Alka synergies have been part of now identifying the RSA synergies and delivering the RSA synergies. So it's both methodology and people who we've taken into this transaction.

And then the last part, which Lars will come back to in a minute, is around people, retention and culture. This is also a key learning from the Alka transaction that we are not buying a portfolio of customers here, we are buying fully fledged organizations, and it is key to retain the engagement and the key individuals and talent of the organization as we go through the integration. Lars, will come back to that in a second.

But before he does that, I would just like to double-click a little bit on some of the synergies. We've now had a year of detailing our synergy catalog. We've come to more than 150 specific synergy initiatives. This is a very much a bottom-up process now with 150 initiatives with a very detailed description of what needs to happen? Who needs to do it? When is it going to be started? When are we going to see the impact? How are we going to measure the impact? And when can we actually take off this particular initiative?

And I will not go through all 150 initiatives today. I would rather take out some of the clusters of synergies we are seeing. And we have some clusters around cost. And of course, we have some clusters around the commercial initiatives.

If we just start off with some of the cost initiatives. The first one is called craft repair supplier network in Sweden. That is essentially taking our now combined volumes in Sweden, making sure we actually leverage the best agreements we have in the Swedish market, consolidate our volumes, actually experience more volume rebates and renegotiate based on our new volume. This is very much similar to what we discussed in our strategic pillar Number 1, exporting those muscles into the synergy catalog. That has a target of DKK30 million in 2024.

Another cost initiative is around data-driven fraud detection. This is also something you'll recognize from strategic pillar Number 1, taking the methodologies that we already applied, very much inspired by the Alka business, bringing that into new Swedish combined entity that has a target of delivering another 30 million in 2024.

As for the commercial initiatives, the first one is around cross and upselling. We discussed that also earlier today, there's a lot to bring into the Swedish market. And on top of that, we're also now in a combined entity in Sweden, have the possibility of taking our very strong niche brands in Moderna and cross-sell them into Trygg-Hansa's much larger customer base. That will have a target of 20 million in 2024 in cross and upselling.

And then the last cluster we've taken here, it's called repricing of Moderna, our existing business in Sweden. This is all about leveraging the fact that we are now getting access to the tariffs in Trygg-Hansa based on a much larger customer base, and we can actually apply that insight from those tariffs into our commercial lines and personal lines businesses in Moderna, and that has a target also of delivering DKK30 million in 2024. So this is not all 150 initiatives, but this was just to bring some content and give you a flavor for what it is that is buried in the 150 initiatives that we have across the synergy catalog.

And with that, Lars, I'll give the word to you to talk about retention.

He's willing to give -- explain all 150 during the launch.

Q - Lars Ulrik Bonde {BIO 1502260 <GO>}

Yes. Of course, we tend -- it is very important that we are able to retain the key employees in Trygg-Hansa and in Codan Norway. And to secure that, we are working for three different aspects. I think it's worth noting that Tryg is already an attractive employer. We have just become Number 1 as the most attractive financing company for young professionals. And when it comes to job satisfaction, we are Number 1 within insurance.

And in Tryg, we have some time, worked with and show our ability to attract competitions beyond insurance, for instance, people that are commercial people or data people or IT people. And here, at the bottom, we show the results of our latest employee engagement survey, which we just have launched a couple of weeks ago. And as you can see, we are at a very high level, and we are also significantly better than our peers. There's a strong cultural fit between Trygg-Hansa and Tryg. And I think that the life bar which are common in both our logos are just the symbol for that. Now where we have started working together, it is quite easy to see that we share some core values, that we play nearly the same role in society and the way that we look at an insurance business is quite similar.

So of course, we will work to make a unified culture, but we have a very good starting position. Personally, I think the most important part of keeping people in the organization and keep them motivated is to involve them in the decisions for the future. And that is exactly the reason why the key employees from Trygg-Hansa and Codan Norway are involved, and we are discussing the future culture when we made the future strategy or design the future organization.

So 900 million in synergies. We have a very decelized plan. We have tried it before, and we are doing exactly the same. So we are quite confident with that. And with this, we have reached the end of our presentation of the four strategic pillars.

Before we again open up for questions, we will touch upon two different topics that play a very important role for all four strategic pillars. And the first one is the customer satisfaction. In Tryg, we now have more than 5 million customers. And of course, their satisfaction is key for us. Our customer satisfaction is only one of -- is also one of the main drivers for our growth and for our profitability.

We know that if a customer is satisfied, they stay longer in Tryg and then we could avoid acquisition cost. Here, we show an example that if a customer is not satisfied or neutral, there's a 43% risk that they would leave Tryg. This risk is only 9% for a satisfied customer and it's even lower for a very satisfied customer. So our constant work to improve the customer experience is simply very good business.

In Tryg, we are getting more and more advanced on how we are measuring customer satisfaction. Six, seven years ago, we, for the first time, have an external KPI about customer satisfaction. That was the Net Promoter Score for the entire Tryg.

In the last strategy period, our KPI was the transactional NPS, where we're measuring touch points in connection with sale and claims handling. That gives us a lot of data and reduce that data to improve the customer experience.

In this strategy period, we will work with the entire customer journey to improve the overall customer satisfaction and a couple of examples of processes that we have worked with that improve customer satisfaction. The first one is the onboarding process, an example for our private business in Denmark. We have worked with all the different documents, all the different parts of the process to improve the overall satisfaction. And because we have done that, we have been able to increase the first year retention by 9 percentage points.

The other example is from claims. If a customer report a simple claims by calling us, they will be satisfied. If the customer instead experienced what we call our straight-through process, our fully automatic online flow, they've been even more satisfied. So a couple of examples about how work with the process improve the overall satisfaction.

We know that our member bonus is one of the key drivers for the customer satisfaction. If a customer know about the member bonus, which we only have in Denmark, there's a 90% chance that they will stay customer in Tryg. This percent is only 79 if it don't know about the member bonus. And right now, 72% of our customers in Denmark know about the member bonus. So there's still a potential and still some work to do about communication.

We really believe that digitalization is one of the key drivers of customer satisfaction. And that is exactly why -- the reason why we have set an ambitious target of a 40% growth within what we call value-creating log-ins. And I think Morten mentioned a couple of examples. It could either be a customer logging in, changing their mileage on their motor insurance or logging in to buy an extra travel insurance, to report a claim or maybe just to follow the status of a claim.

For this strategy period, we have a target of 88 in customer satisfaction coming from 84 at the beginning of the strategy period. One of the questions that we receive more and more often for our customers is about sustainability. Bye-bye.

A - Gianandrea Roberti {BIO 6786731 <GO>}

And it's basically not only our customers that are asking about corporate responsibility. I know you, as investors and analysts, also want to track what it is we're doing. And importantly, it is also something that we can see makes a huge difference from our -- for our employees.

We have defined a very, very strong corporate responsibility strategy, which makes it quite tangible what it is we prioritize. We want to be proactive, we want to take engagement. This is part of the profile of Tryg as being a responsible company.

So you can see in the corporate responsibility strategy, we have, we have three main pillars, being a responsible company, being a green workplace and finally, work with sustainable insurance.

Very often, we're being asked, so what does that actually mean? And what we have brought today is a number of examples how we actually work with this, how we set targets, how we engage and mobilize initiatives in order to live this agenda out.

So being a responsible company predominantly relates to two areas of our business. One is the procurement. So how do we work with our supply chain? How do we work with our network? Do we, for instance, screen the suppliers that we use? And here, we have a specific target for that. And also, like you can see here, when it comes to our investment portfolio, we want to take a proactive position, where we work not only from the screening of our fund managers that invest our assets, but also want to be driving an active agenda in the investments that we're actually doing.

So by being proactive, we have an ambition of reducing 50% of the CO_2 intensity in the investment portfolio that we have, very tangible. When looking at being a green workplace, this is around travel. It's around food waste in our canteens. It's around the use of paper. It is around electricity. So making it quite tangible for employees to see how they can make a difference. Again, very specific measures where you can see here that by 2030, we have set a target of reducing the carbon emissions in this area by 55%.

But by far, the area where we can do the most is within running our business, dealing with sustainable insurance. And what does that mean? It's very much looking at the way that we work with our claims handling, where we can actually identify specific initiatives that can drive a big impact. And as you can see, we have a target here of reducing by 20,000 to 25,000 tons by 2024.

And how do we do that? I have a specific example here where we have been looking at in our claims handling, where is it we can do a lot of impact. And the starting point I have here is an example from motor, where you can see that around half of the claims that we are dealing with

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stems from the motor area. So it's an area with a lot of volume, a lot of transactions where when looking at the processes around the claims handling, that is where we can do a difference.

For instance, working with repairing the different parts that are damaged on the cars from accidents. We can actually improve quite significantly the carbon emissions that we are causing. So you can see here, working diligently with our partners in order to identify how to be able to repair windshields, bumpers, et cetera. Just from 2020 to 2021, we have made a large impact. And by the end of this year, we believe that this will initiate savings of 3,000 tons this year.

When looking at the spare parts used for repairing the cars, it is also possible to use, you can say, recycled parts. Again, a tangible example, we're working with a network -- working with the repair shops in order how to do that, we can make a difference. So from 2019 to 2021, we have improved 2%. And that, again, in year will cause an improvement of 3,500 tons. It's initiatives like this, just like Johan had the examples on the synergy catalog, this is where we will be working very diligently with the way that we operate and where we engage our employees, we get feedback from our customers in terms of how we can move this even further.

So the ambition we have reducing, on an annual basis, our claims handling with 20,000 to 25,000 tons is we find an ambitious target, which is equal to 1,000 households' annual use of carbon emissions. So very good examples, I think, of what it is we can do when we are meticulously working with the way that we run our business.

The profile of Tryg is in particular strong when it comes to Denmark. We have a profile that diversifies from the rest of our peers. You would remember that our largest shareholder, TryghedsGruppen is actually the ones paying out the member bonus. When you're a customer in Tryg, you automatically become a member in TryghedsGruppen and in that case, you can see here just to put some numbers on it, what they have been paying out in member bonus to our customers in the five years from 2015 to 2020 is close to 5 billion, so it's actually amounts that are significant and that you will be able to see.

On top of that, as part of the agenda that TryghedsGruppen is running, they also have TrygFonden, which is paying out between 600 million, 650 million a year to charitable initiatives in the economy. So again, by the brand reflection and the relationship between the two companies, we have a strong visibility in the economy and a strong visibility in society in general in terms of what we are doing.

So that is something that we think is a strong driver from the brand recognition and also acknowledging, you can say, the profile of our company.

This was the end of our, I would say, third session. So we now have a short break for questions. So Peter, if you can help with the microphone.

Q - Analyst

So I was trying to draw some parallels between Slide 29 and Slide 61 on fraud detection. When I look back to slides 29, the benefit from fraud detection for Tryg is quite high given the fact that detection rates are quite strong already. But when I look at Slide 61, Trygg-Hansa detection rates are 1%, but the incremental benefit for fraud detection a lot lower than I would have assumed. Why is that?

And then the second question is on your 2024 targets of DKK7 billion to DKK7.4 billion. What is the assumption of the run rate of technical result growth in Trygg-Hansa prior to synergies? Q3 was quite strong in terms of 5% premium growth, is that a fair reflection? Can you do better than that?

Q - Lars Ulrik Bonde {BIO 1502260 <GO>}

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Maybe I should start off by answering your question around fraud detection. I think you are spot on. When we are illustrating an initiative that's going to deliver 30 million in synergies in 2024, that is not the full potential of fraud detection. That is where we'll get to in this coming strategy period. I am certain there's going to be more potential going forward, you're spot on.

Q - Analyst

Is that the case to actually 30 million to be achieved in three years and then more later on? Or are you just --

Q - Lars Ulrik Bonde {BIO 1502260 <GO>}

That is exactly the point. These things takes time, and we'll get to 30 within this coming strategy period. And then I'm sure there's going to be more potential in this particular lever going forward.

A - Morten Hubbe {BIO 7481116 <GO>}

I think on your latter question, there's no doubt that we are already working on improving the growth, as we mentioned, starting from 2%. We have no explicit target for top line growth in Trygg-Hansa because top line growth can never be the main target. We need to improve the profitability and continue to deliver value. But it's fair to say that we will expand the market. We will invest more in innovation and new products. As you mentioned, we saw positive momentum already in Q3, actually with a growth rate of around 5%. And I think it's a little bit early to assume that we are now at 5% in Trygg-Hansa.

But it's also fair to say that one of the positive surprises when working with Trygg-Hansa is that the organic initiatives to strengthen growth before we come with the innovation product expansion knowledge has been stronger than we thought. We saw in Q3 that some of the results were a couple of years working Trygg-Hansa on expanding, for instance, online sales in commercial SME. I think throughout Europe with very few insurance players managed to sell commercial SME online, Trygg-Hansa does that.

Also it's fair to say, Trygg-Hansa is overrepresented on personal accident, but actually underrepresented on car, for instance, and there's been a number of initiatives in the past couple of years to have slightly higher market penetration on car. So I think with the organic initiatives already taking place and with what we'll add, we will see growth rates picking up. And I think longer term, the ambition is to get it to resemble more the retail growth we see in Tryg today. But we are also going through an integration process where we will not make this the first priority, but we've already started.

Q - Analyst

That's super helpful. Just to clarify, so the DKK7 billion to DKK7.4 billion, are you assuming a flat technical result for the Trygg-Hansa business right now in your numbers?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, it's fair to say that, as Johan showed that a lot of the synergies, of course, are in Sweden. So I think the new colleagues in Sweden would be a little bit offended if we called it flat. But it's fair to say that protecting the core earnings of today, adding the 900 million of synergies, we've not added a lot of optimism on top of that. I think that will be for the next strategic period.

Q - Analyst

So you've given quite a lot of details on the synergies from RSA basically every year going forward. But if you look at the growth catalog, how should we see that bridge going into 2024? When will we see the tangible evidence that you're delivering on the gross savings? And maybe also some comments on the net effect in the next couple of years.

A - Morten Hubbe {BIO 7481116 <GO>}

So are you saying gross catalog or growth?

Q - Analyst

Gross. Sorry, gross.

A - Morten Hubbe {BIO 7481116 <GO>}

Okay. Well, you want to comment on that, Johan?

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

Yes, I'm happy to comment on that because you are right in saying that today, we are coming out confirming our 900 million target in 2024. Is that the same as saying we don't have a gross catalog that stacks up slightly higher than 900? No, of course, we do that because we know from our experience also from the Alka transaction, that you need to have some sort of buffer because there will be initiatives that will somehow go slower than you expected. So I think you will see we will be tracking as we did with Alka. We'll be tracking our progress towards the 900 million in net synergies, so to speak, in 2024, where you'll be following that.

A - Morten Hubbe {BIO 7481116 <GO>}

And we'll show you both the total and we'll also give you some transparency on which components are delivering more than the assumed net building upon the gross catalog, which is larger and which components are delivering less. And I think the experience from Alka was that there's a lot of moving parts, and you need to readjust all the time. So having a bigger gross catalog is prudent.

Q - Analyst

Probably not too precise. Actually referring to the old Tryg, the 1.6 billion technical results improvement, what we should deliver? Or how we should see you deliver the next couple of years?

A - Morten Hubbe {BIO 7481116 <GO>}

So what we'll do is that throughout the quarterly reporting, we'll take out examples of how we deliver on those. I think they will be -- the core target is, of course, the technical results. And then we will take out sort of deep dives and examples as to how we're progressing on the 1.6 billion, so that you can follow that in a transparent way. So but that will be through the quarterly results.

Q - Analyst

But will it be back-end loaded? Or will it be sort of a straight line of improvement in the next couple of years?

A - Morten Hubbe {BIO 7481116 <GO>}

So that depends a lot on each of the individual initiatives. Some of the initiatives have started already. Some of them is already delivering.

Fair to say that internally, we had a -- we've used a term calling a head start because you don't want everything to start after today. You want quite a few things to have started well ahead of today. So it's fair to say that within the DKK1.6 billion, a number of the initiatives have been started six, nine months ago and will start to roll in fairly fast. Other initiatives are back-end loaded. So there is a fair distribution. Also some of the initiatives requires more IT investment, for instance, to get to that. So there's a fair distribution, some of it early, some of it late.

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

But I think the area where we have the biggest step up will be within the synergies where you have the visibility where it's tied back to the process that Johan was talking about before.

So the big step up from the DKK60 million in year to the DKK350 million next year and so forth, that's where you'll see the biggest gradual improvement from year-to-year.

Q - Analyst

Okay. But just maybe a follow-up on Lars on your presentation in new sales, the DKK1.5 billion. What kind of technical profits growth should we see from that growth on the premium side? And what have you seen from '17 to '20 on the technical profits?

Q - Lars Ulrik Bonde {BIO 1502260 <GO>}

We have seen that our combined ratio is quite similar to our business in general. So that is around 85%. So then you could take 50% of the DKK1.5 billion, and that is back-end loaded, I could say. So you will not see DKK1.5 billion in portfolio in the first couple of years.

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

Yes. Good. Last question before we move to the last section.

Q - William Fraser Hardcastle {BIO 16346311 <GO>}

Will Hardcastle, UBS. Just thinking -- I know you've been reluctant in the past to give sort of solvency targets and ranges, so I'm not going to ask that, specifically.

A - Morten Hubbe {BIO 7481116 <GO>}

But?

Q - William Fraser Hardcastle {BIO 16346311 <GO>}

But I guess if we think about the business with the capital intensity, the corporate volatility coming out, is it at least a fair comment to suggest that if you did have a bottom end of range, that would be reducing from start to finish with this 3-year plan? Or is the difference in that not meaningful enough to really -- for us to think like that?

A - Morten Hubbe {BIO 7481116 <GO>}

I think it's a cheeky way of asking for the solvency target, right?

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

What we will talk about now. Yes, I think so, too.

But I think it's a perfect segue, and that's what we agreed. It's a perfect segue to the next section. So --

A - Morten Hubbe {BIO 7481116 <GO>}

But I guess we can say we'll continue to not give you a solvency targets, so you'll be pleased with that. But if you look at why that is, it is simply because in a period where we had a strong and clear solvency target, then all of a sudden, that became priority Number 1, and dividend became priority Number 2.

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

Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

And if we ask our investors, do you like solvency to be the main priority? Or do you like dividends to be the main priority? It's pretty clear what the answer is. But I think you have a fair point that when we're growing the retail segments, when we're reducing the size and the exposure of the corporate segment, is that a net-net positive to solvency? Yes, it is.

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

And then the added comment to that is also just remember that growth also ties capital.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes.

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

So that, you need to tie in as well. Good.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

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

With that, I think we will move into the final session of today.

And obviously, being the CFO, I think that is the most interesting part of today. Looking at what is the consequences of all the initiatives, all the business strategy, all the activities that will take place over the coming year when looking at the impact on our financials.

What I will go through today is five areas. So to start with, there's a massive change to our investment portfolio just around the corner related to the acquisition of Codan Norway and Trygg-Hansa, which I will take you on board.

Solvency ratio development. Obviously, a very important topic, and I will go through some details there as well. As well for you to understand, with all the moving parts that we're looking at, how does the Solvency II sensitivities actually look when looking into the future.

Return on own funds. Asbjorn, you asked the questions before, but we will give some more details on this, as it is a better measure for the profitability, and therefore, also the tie of capital that we have in the company going forward. And finally, last but not least, a few words on the dividends and the buybacks that we are announcing today for the strategy period to come.

So these are the five topics that we will go through as the last part of today. When looking at the invested assets, it's important to understand the two parts of our investment portfolio that we have been working with historically and where we will continue to have that focus going forward. As you remember, related to the liabilities that we have in our ordinary business, we are matching the assets that we have in our investment portfolio in the part that we call the matched portfolio. This is where you will see a low-risk fixed income-based investment, which is also reflecting the geographies of our business.

When we have the demerger going through, that is when we will take onboard the assets to us and where you will see a steep increase from DKK32 billion in the match portfolio today to DKK50 billion going forward. And the change that you will recognize is obviously that going forward, given the business Trygg-Hansa, we will have a significantly larger part related to the Swedish kroner.

So that is basically continuing along the lines and using the investment profile that we have had historically also to apply going forward. That is the same when we look at the free portfolio. So the free portfolio is where we invest, you can say, our free assets. And this is again increasing from DKK12 billion as it is today to DKK19 billion going forward. The portfolio that we have today, we typically characterize as being low risk.

We like to have a very strong asset allocation across a number of assets. So you have fixed income, you also have, you can say, equities. We have property and so forth. And the asset allocation is also what we will apply to the new funds coming in. But given the fact that the investments in RSA have been with a higher risk profile, we need to adjust that to the profile in Tryg.

But for those of you who have been following us for quite some time, you will recognize that we will turn into the Trygg portfolio, so maintaining, as said, a very low-risk profile.

Solvency ratio, just being asked. Historically, and in the last couple of years, you remember we have been around the 180 mark, and that is what we have had good confidence with. Few things are changing now following the transaction. And what we are showing here is that at the end of the first half next year, we expect to have a solvency ratio between 195 to 205. That means that we will have a very robust starting point for the journey going forward. And bear in mind that we are still very committed to the dividends, we are very committed to returning the capital to the shareholders.

There are a number of items that are one-off, you could argue. So looking at the month since the acquisition, we had the impact of the rights issue on the solvency ratio in Q1 last year. In Q2, we closed the deal first of June. So from then on, we could see that the own funds and the SCR are now including, you can say, Trygg-Hansa and Codan Norway. And then at the time of demerger next year is where we will fully consolidate everything into the Tryg's reporting.

Relatively shortly after that, we expect the -- or sorry, the sale of Codan Denmark to go through with Alm. Brand. So at the time of closing, we have already announced to the market that we intend to return funds to the shareholders by a share buyback in the area around DKK5 billion.

So that is where you will see the range within the solvency ratio and at the 195 to 205. Having gone through these things in the coming months, you will then, from H2 next year, see that the usual impact on the solvency ratio will be stemming from two items, namely the profits that we generate as well as the dividends that we pay out. So that's very important to bear in mind. So once we have, you can say, a straightforward business from then on, then that is those two items that will impact the level of solvency.

We also get asked about, will you plan to issue more debt? I just want to highlight here that we don't have any intentions as it is. It looks as if we have some capacity at the moment. But bear in mind, after closing the sale of Codan Denmark to Alm. Brand, we will again have an impact on our position where we will reduce the capacity on our Tier 2 with around DKK500 million at that particular time. So we don't see that there is a major need for us to have to issue bonds now that we will benefit from at that time because we have got to the limits of the capacity.

Again, the exposures we have in our insurance business are rather limited to major movements coming back to the point that we have, our match strategy. So that requires less capital than otherwise. And also, when looking overall at the sensitivities when looking at our investment portfolio, this is probably the same dull picture that you have been used to seeing. This includes the new assets from Trygg-Hansa and Codan Norway. And you can see, just like before, the major sensitivity stems from covered bonds, which is the predominant investment in the match portfolio.

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When it comes to government bonds as well as corporate bonds, the spread sensitivities are relatively low, again, given the low proportion of allocation in the free portfolio. And summing it all up, given you can say, the strategy and the way that we position ourselves, the sensitivity to movements in interest rates is rather low because of the matching strategy we talked about before.

We are talking about return on equity -- or we have been talking about return on equity. That was one of our KPIs in the last strategic period. But I think it's important to highlight that given the equity raise that we did in the spring, it doesn't make a lot of sense to continue to look at that going forward.

So what we're introducing now is a KPI called return on own funds. So this is where we actually use the own funds that we already report in, you can say, the solvency-related matters. It is a number that you can easily find in our financial reports. It is already in there. And you can see here that over the course of the strategic period, we will be moving from around 15% where we are today to approximately 25% at the end of the strategic period. When you asked your question before, Asbjorn, I mentioned that this is taking into account the ordinary dividends alone. So it doesn't take into account extraordinary dividends.

But the trajectory that you see is, again, when we are harvesting the synergies, when we are delivering on the strategic initiatives, that is where we create the additional return. Yes. So finally, you can say, again, as I mentioned on the solvency, when looking at the own funds, this is again, an area where we will create more transparency to yourselves because the main items that will be impacting this metric will be the profits and the dividends. So we think, actually, for you, it will also provide further transparency in terms of how well we generate capital and how well we deliver on the profitability in our business.

I think the final point, you mentioned it before, Morten, but we will continue to also report the return on equity as well as the return on tangible equity in our financial reports going forward, so you can still track that on an ongoing basis. But as I said, we believe that the roof is actually going to be a value-add KPI where you can track how we are delivering in the business.

And finally, I think this is actually super impressive. We are now looking at a 3-year period where we plan to return between DKK17 billion and DKK19 billion. So as we already alluded to, this is basically repaying half of the rights issue that we did for financing the acquisition within a 3-year horizon. This, you should compare to the last strategic period. When we launched the deal a year ago on Thursday, we promised that we would look at doubling, you can say, the results and thereby doubling the capacity to pay out dividends. We have summarized here that in the last strategic period from 2018 to 2020, we returned DKK6.2 billion in ordinary dividends. And on top of that, we paid DKK500 million in extraordinary dividends.

For this strategic period, as said, in terms of ordinary dividends, we foresee that it will be in the range between DKK12 billion to DKK14 billion. And on top of that, you should add the DKK5 billion in the intended share buyback. So quite an impressive number, I would think, in a relatively short time frame, and which we are super proud of being able to disclose today.

Just in terms of understanding what is creating, you can say, the decisions on the ordinary dividends, we will still continue to target increasing annual dividends going forward.

The slight change is that we are paying out based 60% to 90% on the, you can say, net results, so not like before on the operating profits -- sorry, the other way around. We're doing it on the operating profits now, not the net results that we had before. And the reason for that is obviously the intangibles. Bear in mind, we have between DKK600 million and DKK800 million amortized per year.

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We have already had the question, but to preempt that, when it comes to extraordinary dividends, this is, as always, something where we assess it on an annual basis. We look at how have we been performing, what does the solvency look like, what does it look like going forward. So we won't make any promises as it is today, but just promise that this is something where we will continue to demonstrate the focus on returning capital in the years to come exactly like we have done in the last 10 years of the company. So with that, I think that was the main presentation today. So Morten, over to you conclude.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. Maybe just leaving this slide for a while, I kind of like this slide. But I think we have to move on to the last slide of the day before moving into last Q&A session and lunch.

I hope we've shown that we have a very strong starting point and that the future looks really bright. In the past five years, our technical results has shown a compound annual growth rate of 8%, excluding Alka and 10%, including Alka. Into the future, that will continue. We see DKK1.6 billion of technical result improvement targets in classical Tryg, allowing some headroom to manage the unknown negatives that will always happen in the future 3-year period.

Adding on top this strong DKK2 billion of earnings in Trygg-Hansa reported in 2020, the DKK900 million of synergies, that is how we get to an attractive technical result target, the highest ever in the history of the company, DKK7 billion to DKK7.4 billion, a major step up from the DKK3.5 billion we reported in 2020. Supported by a combined ratio at or below 82%, reaffirming the cost ratio of 14%, continuing to invest heavily in product expansion, innovation, IT and digital.

Return on own funds of more than 25%, and of course, extremely important, to deliver the DKK900 million of synergies. We know exactly how to do it. We did it in Alka. The same people are responsible. And as I mentioned, we're off to a really, really good start. Having been well received by a strong organization who really runs a strong business today, who knows their numbers and are competent on top of their business. Allowing us to pay out DKK17 billion to DKK19 billion over the next three years, including the DKK5 billion already announced share buybacks and a major step-up in ordinary dividends.

Taking the step back and realizing that the DKK17 billion to DKK19 billion corresponds to roughly half of the rights issue in the spring. This is a major, major number, confirming that we are very much focused on returning capital to our shareholders because it's important to our shareholders and because it disciplines us in driving value going forward.

And DKK17 billion to DKK19 billion, I think, fits nicely into the preferences of our good old friend, John D. Rockefeller. So I think with that, we'll take the last Q&A session. And after that, we will break for lunch. And after that, we'll hopefully say thank you for today. But let's move to the questions and answers first.

Bloomberg Transcript

Q - Analyst

Just coming back to the return on own funds target. Is it a -- I guess it's a target with operating profit? Or is it net profit?

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

It is profit after tax over our own funds.

Q - Analyst

But not adjusted for intangibles?

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

Exactly.

Q - Analyst

I don't know whether I heard you correct, Morten, you said DKK2 billion in technical profit for the Trygg-Hansa business?

A - Morten Hubbe {BIO 7481116 <GO>}

That was the reported number in 2020.

Q - Analyst

But your 7% return on invested capital, I assume that assumes a somewhat higher number?

A - Morten Hubbe {BIO 7481116 <GO>}

What was your question?

Q - Analyst

Your 7% return on invested capital, that must require a somewhat higher number than DKK2 billion stand-alone for --

A - Morten Hubbe {BIO 7481116 <GO>}

So you're talking about the acquisition logic?

Q - Analyst

Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

So of course, with that, we include the synergies and the ultimate profit. But you're right, when we add a fairly large proportion of the DKK900 million to the DKK2 billion, yes, that's part of the equation.

Q - Analyst

But still, you need to generate something like DKK3.5 billion pretax, isn't that correct?

A - Morten Hubbe {BIO 7481116 <GO>}

So you're taking a part of the acquisition and recalculating the total return on the acquisition?

Q - Analyst

I take the DKK38 billion, multiply that by 7%. That gives me DKK2.7 billion after tax.

A - Morten Hubbe {BIO 7481116 <GO>}

So the whole math is profits in Sweden, profits in Norway, synergies over capital, with an assumption of having returned some of the capital with buybacks. So you have to do all of these components to get to the right number.

Q - Analyst

The math has, of course, changed. It was -- my second question is, but basically, your view is that Trygg-Hansa stand-alone will generate approximately DKK2 billion in technical profit?

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A - Morten Hubbe {BIO 7481116 <GO>}

That's what they announced in 2020. Correct.

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

As a starting point. Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

So the starting point. Yes.

Q - Analyst

Okay. The starting point? Okay. My second question, after the sale of Codan, what is the return on the remaining investment on your net investment? How much has that improved? Any views on that?

A - Morten Hubbe {BIO 7481116 <GO>}

I don't think we've announced any numbers on that.

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

We haven't disclosed it for your post. There are obviously some assumptions going into the return on investment that we announced last year and then -- we have now concluded the sale, and we haven't disclosed the impact on the return on investment.

Q - Analyst

What's your view? Has it improved or has it worsened the investment?

A - Morten Hubbe {BIO 7481116 <GO>}

I think we can say without revealing too much that the going-in assumption on the sales price of Denmark was somewhat lower than the actual sales price. So net-net, that is a positive.

Q - Analyst

But no new numbers on the literature? Okay.

A - Morten Hubbe {BIO 7481116 <GO>}

No new numbers on that, no. Just settling that it's more positive than assumed.

Q - Analyst

So if I wanted to spoil is a little bit, I guess we've heard a lot about the wonderful upside from Trygg-Hansa. And Yes, it is 100% retail. Yes, it's wonderfully profitable, but it is also longer tail as a business.

So can you talk us through a bit about the potential risks that, that entails as you see them? Be it new forms of inflation that exposes you to beat higher asset gearing, higher -- a more SCR-heavy business. Anything, I guess, you can think of?

A - Morten Hubbe {BIO 7481116 <GO>}

I guess clearly the -- you can complement. But clearly, having less corporate business is net-net positive. Having high profit and high stability is net-net positive. The duration will be longer, that has different risk. Mainly two drivers: motor third-party liability (inaudible) in Sweden is structurally -- a lot longer duration than in other markets. Secondly, of course, children's sickness and accident has longer duration.

We have worked with a portfolio of children's insurances in Moderna already. We acquired a big portfolio prior to Trygg-Hansa to understand the duration and the risk. It means that when you look at longer-term impacts of sickness, you look at longer-term impacts on -- of how that stock behaves, there is a longer-term risk, which means that you need to take very cautious views on that constantly.

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That was a big part of the due diligence process to understand that. And what we see is that Trygg-Hansa has a big organization, extremely capable in this area, monitoring the long-term risk, fine-tuning and adjusting all the time. So I think for the longer-term stability of results, as long as you're on top of that, it's actually a benefit that it's long. It is sticky. It is stable. It's value-creational.

If you fall asleep at the steering wheel and you stop looking at the longer-term parameters, then you will be making a serious mistake. But when we deep dive into that, we can see that no one is falling asleep at the steering wheel, and the organization working on that Trygg-Hansa is extremely capable. But those are the two drivers.

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

Yes. And if you then look at what are the other sort of impacts in the way to support the business. Reserving is obviously important, and that is taking into account that it is more long tailed. But the area where you will also see an impact is on the investment portfolio in the matched part where you will have a slightly longer duration to again match the liabilities on the insurance side. So those are the two areas, and we are quite comfortable with what we're seeing on the reserving already so --

Q - Analyst

Two holistic questions on two different topics. The first one is on synergies. I guess this -- well, the deal was leaked on a rainy November night, and you reported DKK900 million in synergies back then. Isn't it puzzling -- and back then, you had two shareholder groups to balance, if not the 3.

Bloomberg Transcript

Isn't it puzzling that after looking at the synergies for a full year, that you still come up with the same number?

A - Morten Hubbe {BIO 7481116 <GO>}

It's almost magic, right?

Q - Analyst

It's magic, right? And then maybe my second question, if I may, on -- that's back to corporate. And then if we sort of go in to the other side of your corporate business and you shrinking your footprint on -- in the corporate market, is there any risk that this is a backdoor for European entrants?

A - Morten Hubbe {BIO 7481116 <GO>}

I think on the latter question, I think a lot of the big companies will start buying their corporate insurances outside the Nordic region. And I think to some extent, that's already going on today. So whether you buy it in Switzerland or you buy it in Germany or you're buying in the London market. But I think these are large, global companies, customers who happens to originate from the Nordics. And for them to have a global platform buying insurance also outside the Nordic region, I think that's natural. It doesn't mean the market share in the Nordics will get bigger for the internationals.

Yes. Does it make it easier for them to enter into the retail segment? No. Because this will be mainly brokered business with a lot of zeros from a few large accounts. And I want to see how that opens a big door to the retail segment.

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

And if I could just speak to the magic for a second. I understand why you can't be partial around it, but I think it's probably prudent to mention that when this deal was leaked back in November last year, we had, at that time, already spent quite a lot of time on detailing our synergy catalog. Of course, when we are standing here today with 150 very specific initiatives, we've taken that a step further.

But back even a year ago, we actually had a pretty detailed view around the business and the synergy levers to pull. This was not sort of done in haste. We had worked quite intensively with many people engaged for quite a long time, being ready to do the transaction. So we were actually fairly prepared when this deal leaked.

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

Yes. I would just add to that. If you look at the comfort that we needed to go to the market with, obviously, this is a big value driver of the total investment case. So already back in August, when we got access to the data room, it was one of the key priorities to work this, not only from an outside-in perspective, but also given the data that we were looking into. So completely support.

A - Morten Hubbe {BIO 7481116 <GO>}

And I think having worked on this for more than 15 years, I'm not sure if we are on version 10 of the synergies, but we're pretty close. So it's something that has matured over many, many years.

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

Yes. Good?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. Yes, Jakob?

Q - Analyst

So now just try to recalculate knowing that it was without the (inaudible).

A - Morten Hubbe {BIO 7481116 <GO>}

Oh no, you've done the math. Oh no.

Q - Analyst

I'm just historically, your return targets at the as I understood, it was used to give the market a view on how much excess capital or extraordinary dividends you would pay out.

But this time, if you take the DKK7.2 billion mid-range of the technical profit, that's DKK200 million investment income taking off tax and then, of course, adjusting for the DKK900 million of amortizations and putting in relation to the owned funds of around DKK19 billion, then I get 26%. So why is the target not more ambitious? Or do you not have plans to do the special dividends or --

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

I think when looking -- there's one thing missing in your equation actually, and that is the investment income stemming from the new funds coming aboard. But otherwise, I agree to your logic.

But I think when looking at discussions on special dividends, it's important to say that this is a Board decision that we do on an annual basis. So all the predictions that you have been seeing today is based on ordinary dividends and the share buyback because it's material in this time frame. We don't rule out that there will be extraordinary dividends. You're doing the math yourself when it comes to both the special -- sorry, the solvency and the return target. But it is something where we will come back and confirm over the coming --

A - Morten Hubbe {BIO 7481116 <GO>}

But do we show you indications of extraordinary dividends? No. But what we do show is that we start with a very strong solvency starting point of 195 to 205, and then we reduced the capital requirement through reducing the size and the exposure of corporate.

Does that potentially lead to the annual decisions on extraordinary dividends? Yes. But that is in the annual process. It's not something we're planning. It's something we're assessing every year.

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

So I think also just a final comment on that. I think we're leaning out quite intensely by giving an indication of what we expect in terms of returns for the coming three years. It's not something we have been doing historically. But given that there's a lot of things going on, we thought it was prudent just to match expectations or to give some guidance in terms of what it is we're looking into.

A - Morten Hubbe {BIO 7481116 <GO>}

Good. Yes? Ask now, Peter?

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

Last question.

Q - Analyst

So historically, you focused quite a lot on the underlying claims ratio of the business and the improvement in that, and you have delivered on a group basis despite private not really delivering the last couple of quarters. With all the measures that you have now for the next three years, how should we see the development? I guess private should start to show solid improvements in the next couple of years. I guess you're also referring to the corporate business or the commercial business at least also delivering improvements, but I guess, corporate as well.

So the underlying claims ratio, is that something we should -- you will emphasize on the next couple of years? And how will that improve on your map?

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

I think the one thing you need to bear in mind is still the growth because, as you've seen in the last three quarters, where we've seen a flat development in the private, that is also caused by the fact that there has been a double-digit growth for quite a while. So that component, you need to take into account. But I think the commitment to the profitability initiatives, the commitment to sort of change the dynamics of our overall portfolio is something where we will still continue to focus on, on the development in the underlying claims ratio as we (inaudible) -- yes.

A - Morten Hubbe {BIO 7481116 <GO>}

And we'll continue to report on that. And then of course, recalibrate in the new group with the new businesses, recalibrate weather claims, large claims, et cetera, et cetera. So before we give you the first set of consolidated accounts, we'll give you some feedback on what to expect on the recalibration of these things and then continue to report on the underlying claims.

FINAL

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It's not that everyone in the organization loves reporting on the underlying claims, but it's very good for discipline and is very good for value creation.

Q - Analyst

If I just may, on the low-hanging fruits, you mentioned, Johan, the compliance -- or the lack of compliance on the procurement side. It sounds like a very low-hanging fruit to me. So could you just tell why is it 30% to 60% in some of the business areas? Why not 80%, 90%, 100%?

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

I think that's a fair question. But I think in reality, also, we are taking things from the top, and then we are getting -- the fruits are starting to hang higher and higher.

Getting compliance levels up is not rocket science, but it takes a lot of time working with the culture of all our employees. It needs to be underpinned by data and actually capturing and understanding where there's potential to be reaped. So you could argue, it looks very simple on a chart, but getting it actually through to the front line of our company takes time, and we are gradually working our way through it with lots of potential, but some of it takes longer than we would have wanted also.

A - Morten Hubbe {BIO 7481116 <GO>}

And just to your point, if we take elements of commercial, the compliance on repairs is as low as 10%.

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

So we have everything from 10% to 90%, which basically means that working on improving claims procurement further is nowhere near a tail that is ending. There's a lot of potential still ahead of us.

Excellent. Thanks for a lot of good questions. Thanks for turning up today. I hope that it has been informative and transparent. And it's been great to see you again, not on -- just on Teams. You look much better in real life, Mauricio.

Most of us do, hopefully. So thanks a lot for today. We have lunch in the adjoining rooms, and thanks a lot for your time and attention. Thank you.

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

Thank you very much.

A - Johan Kirstein Brammer {BIO 18640275 <GO>}

Thank you.

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