Q1 2016 Earnings Call

Company Participants

- Gianandrea Roberti, IR Officer
- Morten Hübbe, Group Chief Executive Officer
- Tor Magne Lønnum, Group Chief Financial Officer

Other Participants

- Asbjørn Nicholas Mørk, Analyst
- Christian Hede, Analyst
- In-Yong Hwang, Analyst
- Jakob Brink, Analyst
- Jonny Urwin, Analyst
- Per Grønborg, Analyst
- Vinit Malhotra, Equity Analyst

MANAGEMENT DISCUSSION SECTION

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations at Tryg. We published our results earlier on this morning, the first quarter result, and I have here with me, CEO

Morten Hübbe; and CFO, Tor Lønnum. So, after a few words, over to you, Morten.

Morten Hübbe

Thank you, Gian. And we turn to slide number three where we reported satisfactory results, clearly impacted by low investment return. We've seen improved technical results, which is up some 30% year-on-year. But bear in mind that is clearly positively impacted by low level of weather claims, low level of large claims and higher run-offs. And we do see underlying a higher claims level, particularly in travel and property, which is the continuation of the challenges we saw in those areas in 2015.

The premium is in line with first quarter last year. We see a positive trend that our largest segment, Private, has a positive top line development of some 0.8% in both Denmark and Norway. We have a strong solvency position at 212 or 199, if we adjust for the Skandia child insurance portfolio, which we expect to enter our portfolio in the third quarter this year.

On slide number four, we show that the net promoter score has improved to 21 from 16 year-on-year, which is slightly lower than 22 at year-end. But in general, we should expect some volatility in this KPI. Customers with three or more products is slightly higher at 56.8% against 56.5% year-on-year, and the increase is positive because there's a strong correlation between the number of products per customer and retention rate, and particularly in Private lines, Denmark, we see an increase of positive trend in three-plus customers. We also see the highest retention rate in four years in Q1.

At the Group level, we see retention rate of 88.1%, which is unchanged from first quarter last year, but split between a positive development particularly in Private lines, Denmark, and then a negative development in Commercial.

And over to you, Tor.

Tor Magne Lønnum

Thank you, Morten. Good morning, everyone. I suggest that we move to slide number six and with the headline, efficiency program. So, the efficiency program continued to make progress according to plan. We have quarterly savings of DKK 45 million, whereof DKK 15 million is related to costs and DKK 30 million related to claims.

If we look at the initiatives that has yielded the savings, we will, in particular, sort of highlight the outsourcing initiatives related to accounting also in the IT department. We have tightened the routines around recourse payments in claims. And we've also introduced a new process related to damaged cars.

If we move to slide number seven and look at in more detail on the expense ratio, we see that the cost ratio has been reduced to 15.1% this quarter, which is down 0.5 percentage points from the same quarter last year. And keep in mind that Q1 cost ratio tends to be slightly elevated compared to the other quarters of the year. In terms of key parameters, you see that the nominal expenses are down and also that the FTEs continue to decline. And at the end of Q1, we are at 3,333 FTEs. So, continuous decline as I said.

Moving to slide number nine, there is a drop in top line based on fixed currencies, 0.5%. You'll have seen that the nominal drop is significantly higher. But that is of course due to the drop in the Norwegian krone, the weakening of the Norwegian krone.

Premium growth of 0.8% in Private lines compared to 0.3% last year. Despite declining average price in motor, we think it's actually okay. The Commercial and Corporate are impacted by the Norwegian economy. You've seen in the comments that we have lost a couple of Corporate customers, which of course impact, in particular, sort of the top line in Corporate.

In terms of expectations going forward, you'll all remember that we said we have 0% to 2% premium growth guidance for the full-year 2016. We maintain that outlook, but it probably will be in the lower part of the guidance. So, that's important to know. It's also mentioned in the report.

If we moved to slide number 10, you can see that we have an improved technical result in all areas except Sweden. As Morten already mentioned, there is significantly lower impact of large and weather-related claims this quarter, and it is combined with somewhat higher runoff which is something that I will address a bit later.

If you look at slide number 11, you can see that the average prices in DK continue to decline somewhat for both motor and house; however, at the lower level than what you saw in Q4, so slightly improved in that sense.

Average prices in Norway are somewhat higher for both products, increasing trend in motor, slightly decreasing trend in house. We do expect to see improved development in both countries going forward, as the price increases will start to flow into the numbers.

And I think it's fair to say that if you look at one of the slides that Morten commented on initially, you'll see that we are in the process of converting house products in Norway – no sorry, I mean Denmark. And in particular, that conversion will have significant impact in terms of the pricing for the house products. So albeit a continued decline in average prices, we do think that that trend will turn later in the year.

And then you can see on the slide also that we have new information on the slide about the average prices. Thanks to Gian, who thought that would enlighten you even further. So, at least it should give you a quick view on where we are in terms of average pricing.

If we move on to slide number 12, you can see that we have a very good development in Private DK, actually reaching 90% in the retention level which is very good. Keep in mind that that may be somewhat impacted going forward due to some of the price increases that we are – and the conversions that I mentioned, which is going on in the Danish portfolio.

On the other hand, you also know that there is a bonus distribution which will take place June 1 this year. So, that should mitigate some of the effect. We have a stable retention development in Norway for both customer segment, and then as you can see, we have a fall in Commercial DK, which is primarily due to price increases introduced in the portfolio.

If we move to slide number 14, you can see that the underlying claims ratio actually increased by 2%, 2.1% overall. However, I would really highlight the fact that we do see a deterioration in the underlying for Private with 0.9%. And if you look at Q4 2015, that was at the same level. So, the underlying deterioration is stable. And as I've already highlighted, based on the measures introduced in the portfolio, we do expect to see a gradual improvement in numbers from Q3 onwards. It will probably have limited effect in Q2, but that, as I say, from Q3 and onwards, it should have an improved – it should see an improvement. And I'll just repeat what we said after Q4 that there is about 3% price increase across the portfolio.

If we move to slide number 15, you can see again here, we have a very low impact from large claims and weather-related claims. And it's actually a total reduction of more than

DKK 200 million on the technical results. Run-off slightly higher at 8.6%, but keep in mind that that's driven by the change in discount curve and the fact that we had made reservations for that change. Also bear in mind that the running discount rate is significantly lower and, of course, will have some impact on future earnings.

If we move to slide number 17 and look at the investment profit, there was an overall investment return of DKK 17 million. It has been a very volatile quarter as I'm sure you're all aware of. Equities is slightly lower. We do have a slight – have had a slightly lower exposure in equities at the beginning of the year, which of course, has been favorable. As you can see from this slide, we have a very low exposure to energy at 7%. You can also see that bonds performed slightly better than benchmark. And equities also slightly better than the benchmark, albeit negative. Emerging market debt and high yield slightly weaker than benchmark.

If we move to slide number 18 and talk a bit more about the capital position. As Morten mentioned initially, we have a solvency ratio at 212%; 199% after the acquisition of Skandia child insurance, which is actually very strong. You see that it's significantly impacted by the deferred taxes, which has lowered the SCR requirement. You can also see that our own funds have increased due to the inclusion of future profits and Q1 profit. And that's the main drivers.

If you go to slide number 19, you can see that we have finally received confirmation about the Natural Perils Pool in Norway, which of course is very positive. We highlighted in Q4 that FSA has stated a minimum 125% minimum threshold for the solvency ratio, which of course we're well above.

You have noted that FSA approved the 2016 buyback, but also stated that the buyback will have to be deducted in full at the date of the approval, which will have an impact on the solvency margin in Q2. But keep in mind that we are en route to issuing new subordinated debt of about DKK 800 million in Q2. And all other things equal, that should more or less mitigate the effect from the buyback deduction.

If you move to slide number 20, we have tried to show the solvency ratio sensitivities. As you can see, it is very low albeit the spread risk is the most important. But I'd just say that the risks related to the investment portfolio is very low, and that's really what we're trying to demonstrate in this slide.

And with that, I think I'll leave it back to you, Morten.

Morten Hübbe

Thank you, Tor. On slide 21, we show a headline that we call growth products, and I think it's extremely important to bear in mind that growth is not a priority for us as a company. But we thought that since motor insurance will gradually become a slightly smaller business, it's important for us and for you to be able to see which products and areas gradually takes over, and we would try to make that more transparent for you in the process.

On this slide, we focus on extended warranty insurance for electronics, pet insurance and child insurance. And in these three areas, we have examples of focusing on organic growth, and also the acquired businesses. Basically to broaden the number of products per customer, because we know that will enhance the customer lifetime – the customer lifetime value. And through that, gradually begin to substitute a slightly smaller motor book with both these products and additional new products.

On slide 22. We reiterate our financial targets for 2017, and ROE at or above 21%, the combined ratio at or below 87%, and an expense ratio at or below 14%.

Clearly, it's extremely important that we have initiated price adjustments, as Tor mentioned, of 3% this year with a distinct focus on travel and property where the increases are higher. Clearly, it take some time before they're fully implemented, we will start to see the impact towards the autumn of this year, and also full impact next year. But clearly making sure that we turn the trend of improving pricing at a higher level than underlying claims inflation.

As Tor mentioned, we still expect top line growth in the lower-end of the range, 0% to 2%, mainly based on the pricing initiatives we just talked about, but also the inclusion of Skandia expected from the third quarter will impact that number.

Gradually, we will start to see some impact from the membership bonus scheme which will be paid out in June, 8% of last year's premium, but expectedly, it will take a while before we see the full impact from that.

And then finally on slide 23, our new favorite quote on dividend. Clearly, payout is extremely important for our business model. It's very important that we show robust earnings capability also in the quarter where investment markets are extremely volatile. It's extremely important that we make sure that the price adjustments we do this year are large enough to more than offset inflation. So, we continue our efficiency measures. And then our strong solvency ratio, together with our swap debt insurance gives us a strong ability to continue a strong development in our payouts.

I think with that, we will turn it over to your questions.

Q&A

Operator

Thank you. And our first question comes from the line of Jakob Brink from ABG. Please go ahead. Your line is now open.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah. Hi, it's Jakob from ABG. Thanks for taking the questions. I have three questions, please. The first one is about Norwegian growth. I know, you already touched briefly upon it, but looks like in also local currency; it's been quite a negative development year-on-year. I think after Q4, Morten, you stated that you believe the Norwegian market would see positive growth in 2016. Is that still the case or have you seen any material change?

Then second question is regarding run-off gains. I think typically or historically, there has been a fairly high correlation between high – large claims and your run-off gains. This quarter, you have fairly low large claims, but very high run-off gains. Have you seen any change or could you please just confirm that you are actually now reserving for 20% or best estimate plus 7% as you used to do, i.e., we should have 3% run-off gains over time or have you actually increased your buffers, so, that we should see higher run-off gains over time? I admit, I'm a bit surprised about the quite high level?

And then finally, I think Tor you said, you had some details about what we should think about the Private and – in Private underlying claims ratio in Denmark and Norway. I'm not quite sure I understood what the point was. That was – those are the three questions, please?

A - Morten Hübbe

I think if I start with the first question, you can continue, Tor. You're right, Jakob, that for the market as such, we expect positive top line development for Norway. But what we are seeing is that, in particular is the Corporate and Commercial segment in Norway, it's under more pressure.

We've seen one of our largest Corporate customers in Norway go bankrupt, which has impacted our numbers, and we've seen a couple of larger accounts leave our books, where clearly that is a matter of more pressure on macro, and our clear view that for us, top line is not a priority in Corporate, and we'd rather live with a slightly smaller top line, and then have a positive development in the bottom line.

When it comes to Commercial business in Norway, our sales is currently a bit too weak. And to be honest, the retention rate is a bit too weak as well. And I would argue that if we look across the mature businesses in Denmark and Norway, Commercial lines, Norway is where we are the least professional, and where we will need to improve the most.

We have replaced our Head of Commercial during this winter, and we've moved the number of our stronger managers from Corporate and Private to Commercial Norway to strengthen our team. But I think it will take a couple of years before Commercial Norway is where it ought to be.

A - Tor Magne Lønnum

Yeah. Just to – it's all right. I'll just supplement Morten on what was said in Q4, Jakob. And I think, it's fair to say that, Morten's comments was really related to the Private segment, where we still expect to see somewhat positive development. I think we also said very clearly that for – the Norwegian top line was clearly the area where we had the lowest visibility going forward, and where we were relatively uncertain as to how it would develop. So, I'd argue that, at least to a certain extent this is what we're expecting – what we're seeing is in line with what we – with the comments we made.

Now, in terms of the run-off gains that you highlighted. Yes. You should – you are right that Q1 is at an elevated level, and we have tried to formulate it relatively subtle, I'd say in the report. But the point is that, in 2012, there was a change – we had a forced change in the discount curve, and that had a positive impact in terms of the investment income.

Now, in order to, we always knew that, that would be reversed at some point in time. And we have seen that it has been reversed here in Q1 2016, and for that we made additional reservation, and that's really – let's call it, the one-off effect related to run-off releases this quarter. So, to your question, we feel that our reserves are at the very – are very strong, nothing has changed in that sense.

The reserving practice is still aiming for the 2.5% to 3% run rate over time. But as you know, we have said that, it will be at an elevated level until – at least until the end of 2017, and that still stands, but there is an extraordinary element here in Q1, which will not be then repeated.

Now, in terms of the underlying claims, and I'm sorry if I wasn't making any sense in terms of the statements I made. What I was trying to say is that, yes there is an underlying deterioration of 2.1% if you look at the overall numbers. But keep in mind that typically the underlying will be a bit more volatile when it comes to Corporate and the Commercial lines.

And so, we think that it's really important to focus on the underlying in terms of the Private lines. And you can see in Private lines that there is a deterioration of 0.9%, which is more or less similar to what you saw in Q4. And my point was – simply that based on the price increases that we have highlighted a couple of times, and based on when they will start to have effects in the numbers, you should see an improvement from Q3 and onwards. I don't – just correct me, Jakob, if it's not precise enough in terms of the question.

Q - Jakob Brink {BIO 7556154 <GO>}

No, that was a good. Thank you. But just a follow-up on that, it's – I mean, so based on what you're saying is that, in Q2 this year, we should most likely be seeing less than a 90 basis points increase year-on-year, and then you say positive in Q3 and onwards?

A - Morten Hübbe

I think we are likely to see continued deterioration in Q2, but the exact estimate is really difficult to give you.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah, sure. Okay. That was it. Many thanks.

Operator

Thank you. Our next question comes from the line of Asbjørn Mørk from Carnegie. Please go ahead. Your line is now open.

Q - Asbjørn Nicholas Mørk

Yes. Good morning. Asbjørn from Carnegie here. I have two questions. The first relating to your cost ratio. If you look at your acquisition costs, they're down 7% year-over-year, seems to be explaining around 0.9% on the cost ratio. Of course, lower sales will benefit you there.

I was just thinking, looking ahead, it seems like, Morten, you were mentioning that you were scaling up in Norway, and that retention is not what they ought to be. So, is there any, you can say, future headwinds from the acquisition cost, and therefore should we see a deterioration on the cost ratio from that? That was my first question, of course, relating to the 14% open low cost ratio target that you have.

The second thing on your capital side, the Solvency II ratio of 199%, and then you, of course, said that you're going to start the buyback and included the Q2 capital, so you're going to be – maybe slightly below that in Q2. How should we look at this? I know you don't want to give us an exact number, but it used to be at around 150%, and of course now you're including future profits, and some tax assets.

So, if we do the like-for-like comparison here, is that something that you take into consideration when you're looking at your capital ratio that maybe is a little bit more of what you call fluffy money now than it used to be? Thank you.

A - Morten Hübbe

If I take your first question, Asbjørn, what we see on the distribution side is that, in our main areas in Private and Commercial, total sales is actually slightly higher than last year. But what we do see is a potential to work with efficiency of our distribution model.

If you look at the past three years, clearly, the number one driver of cost reductions has been the staff area. Number two has been claims and distribution, and the business has really been a distant third. So, in our view, when we look at the coming years, we should continue to focus on staff, and particularly, claims. But also we see much more potential in working with the efficiency of our distribution. So, we don't expect headwinds from distribution, rather, we see a potential in that area.

A - Tor Magne Lønnum

And just to supplement Morten on that, there is absolutely no changes in terms of the low-14%, target. So, in our mind, Q1 is a step in the right direction. And then, good morning to you, Asbjørn, in terms of the capital question, I think it's really difficult to elaborate on your question. I think if you go back to Q4, there was a lot of tension, I'd say, related to whether or not it would be a buyback program for 2016.

And what we have clearly demonstrated is that, even with the buyback program in 2016, and even with the significant – and as you know, stable dividend, the capital situation is actually very strong. And I'd argue that we feel that our capital position is comfortable. Clearly, you're right in the sense that there is slightly more volatility related to some of the elements that have been included both in terms of own funds and what has been deducted in terms of the SCR.

But I mean that's also taken into consideration when the FSA has stated the 125% target. So, I think I'll just leave it with the statement that we are in a very comfortable capital position.

Q - Asbjørn Nicholas Mørk

That was very clear. Thank you.

Operator

Thank you. Our next question comes from the line of Christian Hede from Nordea. Please go ahead. Your line is now open.

Q - Christian Hede {BIO 18642300 <GO>}

Hi. This is Christian from Nordea in Copenhagen. I may have two more questions, and I guess it's more or less like one question. But wondering if you'd give us more information about the price increases and how you think about that.

I guess, (29:03) in Denmark, for example, are you going to combine it in any way with the bonus payment from TryghedsGruppen so that it's easier to, so to speak, follow-through for clients, and then how do you see the situation in Norway? And also on the bonus scheme, are you going to do any advertisement campaign? I think you mentioned that before. Is that going to be just in the coming weeks, just before the payout or how do you see that? Thank you.

A - Morten Hübbe

Well, good morning to you as well, Christian. Clearly, what we see with the price increases is, first of all, two different areas. Clearly, travel has its own category with increases that are very substantial, which is also required. And I think everyone in the industry has the same challenge. When it comes to most of the other areas, the price increases are smaller than in travel.

What we generally do is that we combine it with the conversion of our existing products to our new products. And in many ways, we see a slight price adjustment in that process. But also, we offer new add-on coverages to customers, which has a positive impact both to top line but also to our margin. And in most areas, we see a very strong reception from our customers to accept these new add-on coverages and to pay the slight price adjustments. So, both pull in the right direction as we see it.

And then, of course, as you mentioned that we're now communicating the bonus of 8% of last year's premium, of course, helps the total equation and the total attractiveness of our offering. When it comes to advertising, we actually tested it few months ago that, 85% of our Danish customers did not know that a bonus was coming.

And we're starting here in April continuing in May and June to advertise significantly that the bonus scheme is starting. And we expect the 85% – more than 80% to drop significantly, and we expect customers to take this positively. And expectation would be that the Corporate and Commercial market reacts more rapidly than the Private markets, but generally, we expect a positive reaction.

When it comes to Norway, we see that our ability to carry out price increases is good. There's still an exception in the Norwegian market that inflation is fairly high compared to the rest of Europe, and therefore, the price increases can be carried out.

But we do see that in the Commercial segment and in the Corporate segment, the negative development macro-wise is pushing people to lay-off staff, have less lorries to insure and to be tougher on pushing and negotiating on pricing. So, that is a slight negative on the Norwegian development, but we are able to carry out price increases as planned.

Q - Christian Hede {BIO 18642300 <GO>}

Thank you. And did I understand it correctly, Morten, that you're not going to combine the bonus and the price increases. I'm sure it's not going to be one letter with two pages, one saying, hey, you get money and the second one saying, no we take them again?

A - Morten Hübbe

They hit the market at roughly the same time. But of course, they are different communication tasks. But I think, all-in-all, the fact that they hit the market in the same time gives a – I think the reception we're looking for, but I think it's also fair to say, particularly in Private lines, Denmark that, even before the bonus communication, the acceptance rates of the price adjustments has been very high.

And we see the highest customer retention rate in Private lines Denmark for four years, even including that we've started communicating price adjustments. So, I think the core business model handles the price adjustments well, and then the bonus payments can give some added positive reception, hopefully.

Operator

Thank you. Our next question...

A - Tor Magne Lønnum

Christian – I'll just make one more comment to Christian's question and that is, you probably remember that we have sort of given you updates in terms of what's happening with the motor product – and the new motor product in Denmark. And we actually continue to see a positive trend in terms of the average premium for the new motor product as well.

So in addition to the price increases that Morten already mentioned, we also see a positive on the new motor product here in Denmark. So, that's really why we choose. As I said earlier, we do think that we should be to move into a better development for the underlying in Private going forward.

Q - Christian Hede {BIO 18642300 <GO>}

Thank you, Tor, and do you have any numbers on that? I think you mentioned, at some point it's 46% (34:31) higher on average than the old premiums. Do you still have an update on that?

A - Morten Hübbe

It's actually slightly higher, now.

Q - Christian Hede {BIO 18642300 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of In-Yong Hwang from Goldman Sachs. Please go ahead. Your line is now open.

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

Good morning. Thank you very much. So, two questions from me. Firstly, again, the price increases, could you just give us a bit more detail about what is happening in the market? Are the competitors kind of responding by just following you as the market leader, and increasing the prices as well, or are they trying to win market share obviously by kind of staying put?

And secondly, on Sweden, the underlying claims ratio, it's always (35:15) quite a lot there, and I think there was some problems to do with the extended warranty insurance, which I think you highlighted also, the growth area. So is that a market problem and how big is this back in the Swedish portfolio? Could you just give a bit more detail about, what's going on in that market, please? Thank you.

A - Morten Hübbe

Well, I think, In-Yong, on the price increase question, it's probably a bit early to tell what the competitors are doing. I think in Norway, it's fairly clear that our competitors are generally following the same trend. So, I think that is working out as planned. I think in Denmark, the companies are still, to some extent, considering how much they do on travel insurance, but I think everyone has the same need.

I think on the smaller products or on the smaller adjustments on the rest of the products, we see some variation in the strategy between the companies. But we haven't seen enough variations to sort of impact our retention rate. So, again, that plays out so far as expected, but I think we need to move further into 2016 before we truly know the Danish competitors' response.

When it comes to the underlying claims development in Sweden, first of all, bear in mind that it's still a very small portfolio, so volatility is much higher. But it's correct that in extended warranty, we have seen that particularly the iPhone claims have been increasing and we've been working to replace the repair solutions and the solutions to replace phones and to do both at a lower cost. And both are needed to push the margin levels of extended warranty to where we expect them to be. And every time there's a newer iPhone version, the temptation to get a new one tends to increase. So, we need to manage that quite forcefully to avoid higher claims. But generally when we look across the board of the extended warranty, the margins are very strong, and we're very pleased with that.

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

Great. Thank you.

A - Tor Magne Lønnum

Good morning. I'll just supplement to Morten slightly. If you go back to the question about price increases, what we do monitor, of course, on a monthly, weekly basis is the switching ratio between the various competitors, and there is absolutely no challenge in that area at the moment, at least not, if you can look at the larger competitors.

Also keep in mind that as Morten highlighted earlier, when you look at the price increases introduced in the market, there is a – most of the price increases are at a relatively low percentage, i.e., 2% to 4% which is what the customer will perceive. But then there is also, as Morten highlighted earlier, an additional product built into the conversion or into the renewal. So, the actual price increase on our hand will be significantly higher than what is perceived to be the price increase by the customer.

So, we are actually relatively optimistic in that sense.

Operator

Thank you. Our next question comes from the line of Vinit Maholtra from Mediobanca. Please go ahead. Your line is now open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi there. Good morning. Thank you. Just – sorry to bother you again on the underlying claims trend which is somewhat stubborn and as you said, expected. But I just wanted to check, Morten, last quarter, you had commented on this soft dynamics of how people don't really mind 2% to 4% that you mentioned, but they do mind 8%. Just my question is, is this stubbornness of this 2% worsening of underlying claims, is it causing you to change a bit the mix of the price increases between what you had thought at 4Q and what you are thinking about at 1Q? Is there any change? I know the outcome, the total level you've still confirmed 3%. But is there any change? That's first question.

Second question is, just on the Solvency II progression, I noticed as well though, obviously, that the future profit is a bit higher than it was assumed, last time you reported this data, was DKK 600 million, is now DKK 750 million, like, is this just an unwinding effect? And the reason I ask you is I am just trying to square, well, obviously, claims is sort of stuck at 2% worsening and likely to be next two quarter even or maybe next quarter even. Just to what drives this future profit tick up, please? Thank you.

A - Morten Hübbe

And good morning to you as well, Vinit, if I take the first question, you're correct that there's an underlying negative on claims of 2% the first quarter, and as Tor has said, volatility from Corporate And Commercial and our main focus is really the underlying of 0.9 negative on the claims in Private lines. And you ask whether that leads us to change the mix of our pricing changes, the answer is no. You have to bear in mind that it takes 12 months for you to get to the renewals date of all customers and through that the price change. And then it takes another 12 months to earn the actual higher price in terms of accounts.

So, the only thing you could argue is that, ideally, our reactions to that should have been faster during 2015 where we underestimated the inflation a bit. I think that's why in the fourth quarter, we talked about the traditional challenge that the insurance industry gets behind the curve when inflation picks up, because you do have this time lag. But actually, when we look at the inflation and we look at the initiatives we've taken on pricing, we're quite comfortable that that takes us to above claims inflation. But we know that it takes a while to earn the premium and that's why we mentioned that we will be towards Q3, Q4, and into next year, when we see the impacts of the higher pricing. And we will still have some challenges from this question during Q2. But generally, there's a good visibility that the initiatives we'd take are the right ones compared to the underlying inflation.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. Thank you. Very assuring. Thank you.

A - Morten Hübbe

And on Solvency II.

A - Tor Magne Lønnum

Yeah. No, you're right. Good morning, Vinit.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi.

A - Tor Magne Lønnum

You're right. We did actually increase the inclusion of future profits slightly. And I think to make it simple, it's fair to say that we were a bit conservative in our first estimate. So, it's really the approach that – I'd still say that we are on the conservative end, but perhaps not as conservative as the first estimate.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure.

A - Tor Magne Lønnum

So, we have updated is slightly, but feel very comfortable with the amount used.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And, Tor...

A - Tor Magne Lønnum

We are planning – as you know, the future profit is really a function of the premium reserve. So it will – it should, all other things equal, vary throughout the year, but we have chosen to sort of stay at a flat level and, as I say, at a relatively conservative level. So, feel very comfortable with that amount.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. And could you just comment please at also on that miscellaneous figure there on that slide, which is obviously the large items since we (43:41) activation because previously loss-making business is now profitable or what's happening there? If you could add a comment, please.

A - Tor Magne Lønnum

Is the question related to the SCR or related to the own funds?

Q - Vinit Malhotra {BIO 16184491 <GO>}

To the own funds. I think in that slide, there is a – I'm just getting to the slide – there is a number of DKK 267 million on slide number 18. And in the comment, it is mentioned that it's difference of goodwill valuation, also DTAs, on the own funds, just to be clear, not deferred tax in the required. But is there anything to note there or it's just a model rehash?

A - Tor Magne Lønnum

It's just a model update...

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay.

A - Tor Magne Lønnum

...and I'd say very minor change.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes.

A - Tor Magne Lønnum

In my mind, nothing to really discuss in that sense.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. Sure. Thanks. (44:42) because higher profits and mix (44:43), higher miscellaneous is almost DKK 400 million, DKK 500 million. So it makes a little bit difference to the excess. But that's fine. All right. Thanks very much. Thank you.

Operator

Thank you. Our next question comes from the line of Per Grønborg from Danske Bank. Please go ahead. Your line is now open.

Q - Per Grønborg

Yes. Good morning. It's Per from Danske. Two remaining questions from my side. The first, workers' compensation, the big renewal is January 1. How much of your negative growth is due to lower volumes in workers' compensation? Should you take that one first?

A - Morten Hübbe

I don't think we've published any numbers on that. But I think the...

Q - Per Grønborg

That's the reason I'm asking.

A - Morten Hübbe

Sorry? That's why you're asking. I think that the overall comment we can give, Per, is that we're not seeing any significant change in the trend in workers' comp in Denmark. We actually see that Corporate Denmark has a positive top line in Q1 and we've seen sort of quite stable renewal season in general in Commercial and Corporate Denmark in Q1. So workers' comp there, it's not our favorite product, it's always a slight challenge. The capital requirement is high, et cetera. But no real change in Denmark.

I would say in Norway, we have seen some tougher competition on the personal lines including workers' comp. And bear in mind that personal lines is a higher part of the total premium in Commercial and Corporate Norway. I don't think we've put any numbers on how much the reduction is, but in general, workers' comp is like 40% of Commercial and Corporate premium in Norway and competition has been tougher.

Q - Per Grønborg

Okay. My second question is basically only a clarification. You write on page five that the new discounting curve had impacted your capital position by DKK 187 million. Just to be sure, this had no P&L impact, didn't have any equity impact. Was this solely something that happened in the solvency numbers?

A - Tor Magne Lønnum

It happened in the solvency numbers.

Q - Per Grønborg

Okay. Perfect. Thank you.

Operator

Thank you. Our next question comes from the line of Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Good morning. Thanks for taking my question. Just two left. Firstly, sorry to return back to the sort of pricing and claims inflation dynamic, but I understand that pricing takes some time to put through and then there's a lag effect. But I wondered if there was anything that you could do on the claims inflation side to help yourselves more quickly. I mean, I remember in our meeting after Q4, you guys mentioned that, for example, on home claims inflation that there are enhanced processes and controls that you could put through, which should help like not letting the plumbers assess and fix the damage themselves and just putting some more sort of control around that. So, I wonder if there are any areas that you're exploring and if that could be of any help.

And secondly, on the sort of customer and customer targets, so you got your NPS target which you're largely there, that the customers with over three products and the retention rates. I mean, on the 2017 target levels there, I mean, these are looking a bit stretched now, because we're not just seeing the momentum on the customers with over three products or the retention rate. I mean, are you still confident that you can hit those targets, given that so far we haven't seen the sort of translation from NPS to – with higher retentions and higher cross-sell? Thanks.

A - Morten Hübbe

Good morning to you as well and thanks for two good questions. I think you're completely right on the fact that we can improve the claims management and through that actually massage down the claims inflation faster than just waiting for the price increases. In the organizational change we've made January 1, we've taken our – one of our stronger people in finance and moved to be head of Claims Denmark. We've also taken a more financial person from product in Norway and moved into becoming the head of claims, and one of their major tasks is clearly to spot areas where we can improve our claims control measures.

I think we've been very well developed in claims purchasing measures, but clearly we can improve further in claims control measures. And one of them is the one you alluded to where already now we have employed the extra claims assessors on plumbing, where we're starting to see the first early, early trends that the new plumbing claims become less expensive than the old one, and that this new control measure is starting to have an impact.

Bear in mind, it's very early days, so don't want to sort of over-exaggerate that. But clearly that's just one example. We have a large number of items on the list of improved control measures. We have increased the focus on fraud, which is starting to pay off. And we have in a number of areas increased the focus on claims control. We'll be happy to talk more about that during the next year or so, because it's really something that we have started only this winter, so it's still quite early days.

And when it comes to your three-plus question, I guess there's no doubt that the three-plus as such has increased more slowly than we have targeted. We're seeing now a stronger improvement in the Danish thee-plus numbers and a stronger challenge with the Norwegian three-plus numbers that has actually deteriorated. And we are currently working on various initiatives to push that number further upwards. We have no doubt that the current trend in Denmark is going to increase. But we also have no doubt that we need to push it higher to reach our 2017 numbers.

When it comes to Norway, the challenge is that our motor distribution through car dealers, we have too many customers in that segment that has only one product. We have just, January 1, integrated that business into the general private lines business. We have replaced the manager and we have put in place a program to cross-sell to these customers, because that is a requirement to get the general three-plus number in Norway high enough. So, as you can see here, we have a lot of activities in that area. And you're completely right, that from a timeline point of view, we need to push those harder to reach the 2017, three-plus target.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great. Thanks for that.

Operator

Thank you. Okay. There appears to be no further questions. I'll return the conference to you.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Thanks a lot, everybody for participating in the call today. And thanks to Morten and Tor. I just would like to draw your attention on slide 24 of the investor presentation where you see all the upcoming road shows we will be a bit quite around, and also our Analyst Day on the June 16. So hope to see you soon. And if you have any questions, just mail or call. Thanks.

Operator

Thank you. This now concludes our conference call. Thank you for attending. You may now disconnect your lines.