

## FY 2013 Earnings Call

### Company Participants

- Lars Moeller, EVP, Private
- Morten Hubbe, CEO
- Tor Lonnum, CFO

### Other Participants

- Andy Hughes, Analyst
- Daniel Do-Thoi, Analyst
- Gianandrea Roberti, Analyst
- Hakon Fure, Analyst
- Jakob Brink, Analyst
- Per Gronborg, Analyst
- Vinit Malhotra, Analyst

### Presentation

#### Lars Moeller {BIO 18028603 <GO>}

Good morning, everyone. Here's Lars Moeller from Tryg. I'm the Head of Investor Relations. We are here to present our 2013 results. And with me this morning I have Morten Hubbe, our CEO, and Tor Lonnum, our CFO.

We have changed our concept slightly so we will do it like an audiocast, so no pictures or only a picture of Tor and Morten here today. And after the presentation from Morten and Tor, we will of course have our Q&A session, as usual.

So with these words, over to you, Morten.

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

Thank you, Lars. And if you turn directly to slide 3, we show the Fourth Quarter highlights, of course impacted significantly by 45,000 storm claims in Denmark, where we expect to pay out DKK650 million prior to reinsurance. And despite that, we deliver a strong result in the Fourth Quarter.

The pre-tax result is unchanged, roughly, at DKK640m, while the technical result, at DKK550m, is somewhat below the previous year but clearly above consensus in the market.

If we look at what are the positive result drivers in the Fourth Quarter, clearly we are helped by an investment income which is DKK150 million higher year on year, but also the efficiency measure program has an impact positively of DKK112 million in the Fourth Quarter. And as you see, a very significant drop in the cost ratio for the quarter. But also bear in mind that ordinary winter claims and large claims are lower in the Fourth Quarter than usual.

And if we turn to slide four we show the full year, with a stable pre-tax result of DKK3b, while the post-tax result is up 7% year on year. Technical result stable, at DKK2.5b; reported earnings up 8% in private lines and some 46% in our Swedish business.

But clearly, across the board, the core driver is our efficiency measurement program, with a total impact of DKK380 million for the full year, or roughly 2 percentage points to the combined ratio. And as a result, you see that the cost ratio is down 0.8%, while the underlying claims is down a bit more than 1 percentage point for the full year.

And I guess that is the main reason why we're able to absorb the storm, which costs DKK400 million after reinsurance, but also that the year-on-year weather comparison is helped by the fewer winter claims. So all in all, weather cost DKK260 million more in 2013 than 2012. And all in all, that results in even a slightly improved combined ratio for the full year.

If we turn to slide 5, clearly the more important news is our continued work on new products and price differentiation. In 2013, we have come to the market with as many new products as the previous seven years put together. And with all of our new products, we see that our hit ratio on sales is higher and we see that our improved price differentiation improves selection and reduces our expected claims from new customers significantly, and that's why it's extremely important to continue that trend in 2014 and 2015.

We also announced today two new IT agreements. Our IT infrastructure sourcing is moved from CSC to Tata in India and our application development, which has been in-house so far, is now being outsourced to Accenture, both of which will be important to support that we reach our cost targets.

On slide 6, we show how the businesses contribute to the combined ratio, clearly with the main improvement in private lines where combined ratio is down 1.7 percentage points, and Sweden where combined ratio is down 4.1 percentage points. Commercial and corporate are slightly higher than the year before but still report a combined ratio of 88% and 89%, respectively, including the significantly higher weather claims.

On slide 7, we show the key initiatives strategically, both for 2013 and 2014. And as you see from the top, clearly we continue with increased price differentiation being the number one key strategic driver for the longer term, and clearly that is extremely important. We continue with our DKK1 billion savings program for the short and medium term, until 2015, as a key driver of earnings.

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Then we add customer journey and what we call success culture, because we believe that we will be able to improve our customer experience, our customer loyalty, by making much more simple and much more effective our customer contact points, and through that create more value with our customers than today. And that will also include raising the performance culture in the organization, both to the benefit of our customers and our bottom line.

If we turn to slide 8, clearly the efficiency program the main driver of earnings improvement in 2013, and that will be the case in 2014 and 2015 as well; DKK380 million impact in 2013, DKK1 billion total program by 2015. And it basically means that we still have some DKK460 million to deliver for 2014 and 2015, which will positively impact earnings.

And on slide nine we show the cost part of the impact, where clearly the reduction in cost ratio is very significant at 0.8 percentage points, now 15.6%, and we remain with a target to reduce the cost ratio to below 15% in 2015. Bear in mind that you also see that the nominal costs are actually down almost DKK300m, also to manage the lower top line, and that we are 200 heads fewer than the year before.

And over to you, Tor.

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

Thank you, Morten. If we move to slide number 11, first and foremost we see that there is still some decline on the top line, both in nominal and in fixed currency, albeit relatively high decline due to the fall in or the drop of the price of the Norwegian krone.

If we look at the underlying related to the private lines, you can see that if you adjust for premium and profit-sharing agreements there is actually a more or less flattish development in Q4, which we think is a positive development.

If we look at the technical result, it has improved in corporate. There is a decline in the other areas, due to the weather related events, as Morten commented.

If we move to slide number 12, you can see that in terms of customer retention there is a positive -- continued positive development in terms of private lines in Norway. We see that there is a decline this quarter as well in Denmark, primarily due to the competition level.

If we look at the commercial side, there is a positive development in Denmark. I think we have mentioned before that we have seen a high number of foreclosures and bankruptcies in Denmark. We see that there is a small positive trend in that area now. In terms of the Norwegian portfolio, there is a small decline in the retention level, but we think that is more or less temporarily.

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If we move on to slide number 13, the house prices, house prices reflect the indexation in Denmark. If you look at the increase in average premium, we see that it's a somewhat smaller increase in Norway but more or less in line with inflation.

If you look at the motor portfolio in Denmark, there is a small decline in the average premium. It reflects two things. I think we have mentioned before the size of the new cars being sold is relatively speaking smaller, but we also see a small shift in terms of coverage, so that people doesn't select CASCO as frequently as we've seen before.

If we move to slide number 14, looking at the Swedish portfolio, you can see that in terms of the retention levels there is still a continued impact of the Nordea portfolio, and I guess that is a development that we will continue to see throughout 2013 -- sorry, 2014.

In terms of the profitability levels, it's a relatively strong profitability, as Morten mentioned. I guess it's worth mentioning that if you compare to Q4 2012, you see that there was some accrual issues in last year's numbers. So I guess, more or less, if you look at the year overall it's a positive development.

If we move to slide number 16, as Morten mentioned initially, you can see that there is an improvement in underlying for the quarter of about 0.2 percentage points, so marginally better than last year. We see that private continues to improve; we see that there is a small negative in commercial and Sweden. I've mentioned Sweden before, but it's important to note that commercial is coming from a very strong level in last year's numbers, and we do see an improvement in the corporate segment in Q4.

I guess it's worth mentioning as well that if you compare to the next level sourcing, the procurement initiatives that we have mentioned before, we see that there is smaller impact than the reported numbers. And I think it's important to say that some of that will be reflected in the weather numbers, but some of it will also be due to price level changes in the market.

If we move on to slide number 17, we can see that one of the key reasons why, as Morten mentioned initially, there's not such a huge impact from weather related claims in Q4 is due to the fact that large claims is significantly lower than last year. It's actually as much as 3.2 percentage points. Run-off is slightly better than last year but more or less flattish.

If we move to slide number 19, as Morten mentioned, there is a strong performance in terms of investment returns in Q4, DKK150 million more than last year, primarily driven by equities but also some returns on high yield. There has been both some upward and some downward movements in terms of interest rates in Q4, and that has also given some yield.

There is a number of one-offs in Q4, related to the adjustment of the value of the HQ but also some minor value adjustments in the real estate and the equity portfolio.

If we move to slide number 20, you can see that the buffer capital in terms of the Individual Solvency is at 50% after dividend, a strong and favorable position.

As we have mentioned before, there will be new regulation in Denmark in Q1. We do think that that will give a small shift upwards in terms of capital requirement, but it shouldn't be a significant impact. We're talking in the area of some DKK100m. If we look at the development in pure equity, it's more or less flattish.

And I guess that leaves it back to you, Morten.

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

And I guess we can summarize that we are quite pleased that we're able to handle the two significant storms while still delivering a strong development in our bottom line result, and clearly satisfied that the main driver is our efficiency measurement program, which will also be the main driver of earnings improvement in 2014 and 2015.

And on slide 21, we just summarize our financial targets. The combined ratio we target at or below 90%. The expense ratio we target below 15% in 2015. And the ROE we target at 20% post-tax also in years where the investment income might be more normal or lower than we saw in 2013.

And with that, I think we have concluded our presentation.

**Lars Moeller** {BIO 18028603 <GO>}

Yes. Then we are ready to take questions so, operator, please.

## Questions And Answers

### Operator

(Operator Instructions) Per Gronborg, Danske Markets.

**Q - Per Gronborg** {BIO 15910340 <GO>}

Hello. It's Per Gronborg from Danske. One question related to the storm impact. You had two big storms in Denmark, a number of medium-sized events in Norway. You state in your report that you have DKK150 million for own account on each event. How have you been able to limit the total impact to DKK255m, which is pretty impressive?

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

Well I guess we can say, Per, that we have the DKK150 million for own account per event and then we pay the reinstatement premium for each, and the total of that, in effect, is DKK400 million for the two events. Then I guess limiting that further on the total weather

impact is mainly that weather in general on winter, etc., has been lower. So if you look at the two storms net/net, bottom line, they are actually DKK400m.

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

And I guess, just to supplement Morten in terms of the weather events you talk about in Norway, Per, they're so limited in their effect that it doesn't really have a large influence in the numbers. And bear in mind that the winter has been extremely favorable both in Norway and in Denmark in Q4. And so I guess if you look at the overall impact, yes, there was some significant weather events, but there were also some positive events that took the total effect down.

**Q - Per Gronborg** {BIO 15910340 <GO>}

What has the cost been for the four events in Norway?

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

Sorry?

**Q - Per Gronborg** {BIO 15910340 <GO>}

What has the cost been for the two medium-size storms in Norway and the two smaller storms we had in Norway in the Fourth Quarter?

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

A very, very limited effect. It's not very visible. We're talking in the area of low -- I would say somewhere below DKK20m, so it doesn't really have a large impact.

**Q - Per Gronborg** {BIO 15910340 <GO>}

Okay. Thank you.

**Operator**

Hakon Fure, DnB Markets.

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

Yes. Hi. Good morning. It's Hakon from DnBNor. A few questions. Firstly, on the sideways reinsurance, could you remind us how much of the DKK500 million in weather related claims you're expecting for this year that you expect in the first half? And am I right in assuming that, given that you're now in the money on the sideways reinsurance, we should expect, effectively, no weather related claims in the first half?

And secondly, on run-offs, am I right -- if inflation remains close to zero in Denmark, should we expect the current run-off gains level to remain, going forwards?

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

Well I guess if I comment on the run-off and you can comment on the reinsurance. I think, Hakon, on the run-off, we will remain with our previous communication that long term we are in the region of 2.5%, roughly, of run-off gains, whereas the roughly 5% we're at currently is also something we would expect for the shorter-term future. And I guess, all in all, our assessment is that our reserving margin at the end of 2013, if anything, is slightly higher than at the beginning of 2013.

And reinsurance?

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

Yes. Hi, Hakon. I guess it's important to say that, in terms of the sideways cover, you are right that we're more or less covered in terms of larger weather related events, but bear in mind that it's always a threshold on the bottom of DKK20m. Did you understand that?

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

Yes. That's perfect. And finally, given the profitability that we're seeing in some products, especially motor comprehensive, how do you see prices trending in 2014 compared to 2013?

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

We're talking -- if we should split the question between Norway and Denmark, I guess, I think I have mentioned already that in terms of the Danish market we have seen competitive pressure. I guess our take is that we should be able to push through the annual indexation. But there's no doubt that the competitive pressure in the Danish market is noticeable, and that's really why we need to continue to focus on our internal improvement programs, which is going to be the main driver for profitability.

In terms of the Norwegian market, I think I'd argue that it's slightly more benign in terms of competitive level, but the large uncertainty is really related to the macro development in 2014.

**Operator**

Jakob Brink, ABG.

**Q - Jakob Brink** {BIO 7556154 <GO>}

It's Jakob from ABG. Just three questions. The first one's relating to the combined ratio in Norway. It's extremely low, at 78% in the Fourth Quarter, but also it's a very big movement compared to last year in the Fourth Quarter. Could you maybe give a bit more detail on that one?

Then secondly, Tor, you mentioned that premiums had actually been roughly stable in the Fourth Quarter, if you adjusted for currency and bonus -- sorry, profit sharing, but still you do write that it's down 1.5% year on year and 2.4% in local currency. Isn't that a worrying development still, that premiums keeps declining quarter after quarter, and what exactly

are you going to do about it? You said that you are expecting to push the indexation. Is there any risk that you might not do that?

Then, thirdly, did you mention anything about the Solvency II capital requirement, that you expected that to go up in 2014, and if so, how much? Thank you.

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

Yes. Thank you, Jakob. The first question, in terms of what is going on in terms of movements in Norway, I think first and foremost, and I guess Morten mentioned that as well, if you look at Norway in Q4 I think it is almost unprecedented with a combined ratio below 80, so that is a really strong result. And it goes back to Per's question as well, about the impact of weather related claims.

I think first and foremost it's important to understand that when you do the comparison to the same quarter last year, there was a significant impact of large claims in the numbers last year, which -- it moves around about 10 percentage points in terms of combined ratio. Then if you add weather related events on top of that, that explains the significant change in terms of combined ratio. If you -- sorry.

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

Then I guess on your second question, Jakob, on premiums, you're absolutely right that there's still a negative top line development in 2013, which we're perfectly willing to accept. But what we do see is that there is less of a negative trend in Q4 than in the full year. We also see several business segments where there's a slight positive net number of customers development during the autumn.

And if we look at the coming years, what is positive is that our commercial customer loyalty and retention is increasing. Our private lines retention in Norway is increasing. But we still need to improve our retention rate in private lines Denmark, where we've been a bit surprised at how much sales Tropic is able to carry out with Danske Bank, and that is the main driver of retention being slightly lower than planned.

But what we actually do about it is not by hesitating carrying out the market indexation on price. But what we'd rather do is we work on the new products and the price differentiation where, as I said, clearly, the new products we have already done, the hit ratio on sales is higher and the quality of the risk is also higher, so the expected claims ratio of these new customers is actually lower than just a year ago and two years ago. So that is a strong, also longer term, valuable way of moving it.

But also, more short term, we have increased slightly our sales efforts for 2014. We will do more outbound cross-sales. We will do a bit more franchising business in Norway, to increase our sales there a little bit. Then we expect to do more bancassurance, which is one of the strongest quality customer bases we have.

And I guess we've seen with Tropic and Danske that it can be moved further upwards, and we plan to do that with Nordea in both Denmark and Norway. Then we start up our new



cooperation with Danske Bank in Sweden. I think, as Tor said, that the lapse or the loss of Nordea customers in Sweden, that will continue, because effectively that is a small run-off portfolio with an agreement that we no longer have.

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

Yes. Then, on the final question about the Solvency II, as you mentioned, Jakob, there will be a change in Danish regulation, and we do expect that that will adjust the individual solvency requirements somewhat upwards. We're still in the midst of calculations, but I would say that we're talking in the area of DKK200 million to DKK400m. So that's why I said it wouldn't be significant, but we would see an upward shift.

**Q - Jakob Brink** {BIO 7556154 <GO>}

Okay. Thank you.

**Operator**

Daniel Do-Thoi, JPMorgan.

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

Hi. Good morning. Just two questions from my side. The first one, I just wanted to follow up on all the comments on Danish private. My question is whether you felt any impact coming from aggregators during the last quarter of the year.

And secondly, you continue to deliver ahead of schedule on the cost program. Just wondering if that's due to the bringing forward of the program or whether you've been able to identify additional opportunities as you've gone along. Those are my two questions. Thank you.

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

I think, on your first question, the answer, if you look at the actual numbers, is no. There's no real impact. The only area where we've seen aggregators being slightly successful in the Nordic scenery has been in Sweden with Insplanet. And now we see that Insplanet is losing business to the next new aggregator, so they're cannibalizing each other a bit.

What has happened, though, is that there is more attempt to put light on the pricing on motor, which has led us to a discussion on our bundling discount between motor and other products, in the sense that more than 90% of our customers buy motor and one more product, at least. But every time a price is displayed on the Internet, it is displayed prior to that discount. So it leaves us to not want to reduce prices in any way, but want to show the bundling discount in a way that doesn't take us off the screening process of the customers.

So really, Internet still plays a very, very low role, but we see that customers more frequently use the Internet for screening and then they call us, and clearly those are the best leads we have. So still very, very slow movement in that area.

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

Yes. Hi, Daniel. In terms of the cost program, I guess it's fair to say that it's a valid comment you make, and I think Morten mentioned the drop in nominal expenses. We see, actually, for Fourth Quarter alone that it's a drop of DKK100 million in nominal expenses. So yes, we are quite pleased with the development in terms of the efficiency programs. And as Morten mentioned, we also have the agreement with -- the new agreement with Tata and Accenture, which we think will support the cost program that we have initiated.

However, I think it's fair to say that we are -- we have realized slightly more than 45% of the total target, and thus I think it's too soon to say that we are going to do any steps in terms of the targets for the cost program. I think at the moment, at least, we're more or less focused on making sure that we will be able to realize the targets that have been set.

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

But we're happy with the results in the pipeline for the next couple of years. That will keep us working.

## **Q - Daniel Do-Thoi** {BIO 17019775 <GO>}

Okay. Thank you.

## **Operator**

Gianandrea Roberti, Carnegie.

## **Q - Gianandrea Roberti** {BIO 6786731 <GO>}

Yes. Good morning, from me as well. A couple of questions on aspects that you have already touched upon. I think in the last six months in the Danish market, if I leave aside what is probably Denmark's first real aggregator, I can count at least six, seven new ventures. Some of them are brand new, but some of them are actually companies that were looking at niche markets, niche segments, actually, and then they are now deciding to make it full blown in the private market. It's probably the first time in 10 years that I've seen something like that, and I'd like to hear a bit your view.

You're obviously stating that movements, particularly aggregators, are very, very slow. I would say actually you can't really see them, but then again they've just started. So is this a threat in the midterm, or how you see this?

Apart from that, DKK350 million to DKK370 million is the net savings from the savings program in 2014, right? I guess that should be netted off by some sort of inflation. I just want to double check the assumption there.

And the final question, I thought it was an interesting statement in your annual report where you talk about that in conjunction with the capital plan you have a contingency plan, should the Company decide the capital position be threatened, and I'd like to know

if there is a plan also if the Company's capital position is deemed well above the necessary level. Thanks.

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

Morning to you as well, Gian. I think, on your first question, you are absolutely right that it's a paradox that on one hand the aggregators in Denmark are not visible at all in the numbers. On the other hand, you're completely right that there are many new attempts currently and more new attempts than we have historically seen. I guess the way we view it, one of these new players have even argued that they are targeting 40% market share in two years. I don't know whether to laugh or cry about that, but I guess it doesn't sound very likely.

The way we try to approach it, more seriously, is that when we target a cost ratio below 15%, I have yet to see a player on the Internet with a cost ratio significant below that. And the players that are new to this market, they don't start with a portfolio; they start from scratch. So they will start with a cost ratio which is significantly higher than that level.

With the current efficiency measures we're doing on claims procurement, our efficiency of paying claims will be dramatically stronger than a newcomer to the market. And what we're doing currently on selection and price differentiation means that we are continuously improving our risk selection and our claims ratio for new players. I've seen that some of the questions that these newcomers to the Internet will try to post and which they will base their pricing upon is so simple that I don't find it likely at all that they can actually create profit from that.

So actually, that is the way we approach it. The only real issue we see is the transparency issue on bundling and pricing, where we are trying to work on methodology where it is clearer what is our pricing, with or without bundling discount, so that we don't get scored too negatively in a before bundling discount pricing measurement. That is really the issue we take the most seriously.

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

Yes. Hi, Gianandrea. I guess you're right in terms of the savings effect full year 2013 is DKK300 million or somewhat above[ph] DKK380m. And you're right; that was really what I was trying to indicate earlier in terms of the presentation, that we will see some competitive pressure. That means that you won't see the full effect of the savings flowing into the numbers, and I guess that is an effect that you see in Q4.

In terms of contingency plans, yes, there is definitely a contingency plan for the downside. In terms of the upside, as you mentioned, I guess that is -- I think Morten was very clear in his statement. We are aiming for the 20% return on equity target also in 2014.

### **Q - Gianandrea Roberti** {BIO 6786731 <GO>}

Thank you.

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## Operator

(Operator Instructions)

**A - Lars Moeller** {BIO 18028603 <GO>}

Will there be any more questions?

## Operator

Daniel Do-Thoi, JPMorgan.

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

Sorry. I'm just following up on Tor's comment earlier on the sales trend in comprehensive motor insurance. I was wondering if you could just talk a little bit more about that, what's driving that, and particularly in the context of an unbundling debate in Danish motor. Thank you.

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

Yes. I guess the comment that I made, Daniel, was really related to, when you look at the development in terms of the average premium for the portfolio, there has been a trend, and I think we have mentioned that for the last few quarters, that you do see a shift in terms of people switching from larger cars to smaller cars, which gives an impact on the average price per car.

But in addition, of course, you see that there is a somewhat shift where people are not selecting CASCO, and of course that is related to the fact that if the value of the car is significantly lower people don't select CASCO as a part of the insurance. And that is just one of the explaining factors for why the average insurance premium is slightly down.

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

I guess -- on the bundling question, Daniel, I guess there's two different debates in the Danish market, as we see it. One is that if you look at our Norwegian private bundling, there is a clear incentive for the customer if you even pick up product four, five or six. The incentive gets bigger, the more products you pick up. Our current bundling program in Denmark gives you the full bundling impact already at product number two.

So I think, longer term, we will need to work with bundling in Denmark that creates more incentive also with further products than just two, while at the same time, at the other end of the scale, being able to create transparency on what is the motor price after bundling discount, because more than 90% of the customers actually get that discount. So those are the two different trends.

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

Okay. That's clear. Thank you.

## Operator

Gianandrea Roberti, Carnegie.

### Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Sorry. Just a couple of quick follow-ups. In Norway, in the private lines, I think in December DnB non-life was telling me that they were raising prices 2%, 3% in 2014 in the private lines, motor and house, to counter -- to offset the expected claims inflation. Is that something that would -- is that assumption in line with how you see it? That's the first question.

The second question, back on your point on the expense ratio, Morten, the 15% versus the new entrants, it's my understanding that actually the acquisition cost part of the expense ratio for an Internet player is around 5% because of the really bone -- the really very, very small setup and all contacts via Internet, while, if I understand correctly, in Denmark you have an average acquisition cost around 15% when clients come in from the telephone. It seems a big difference, and I'm just wondering if that together with a different customer approach to all this can take away more customers from you.

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

I think, if I take the last question, you can take the first one, Tor. Well I guess if the acquisition cost on the Internet was only 5%, then I guess a company like Admiral should have a much lower cost ratio than we should, and I guess in effect they don't. So I guess you're right that as a starting point the structure of the Internet of course creates lower cost ratios than the traditional distribution levels.

But I don't see a level as low as what you're pointing to, and I guess we have yet to see an Internet player proving a sustainably below 15% cost ratio. And those are Internet players or direct players that have been in the market for a long period and have a portfolio to distribute their costs on, whereas these players are completely new. They have traditionally, or most of them, have no experience with insurance. So they have no experience of setting up an efficient process and they have no experience on risk selection and pricing.

And I seriously doubt that they would come to a cost ratio that is below ours, and I'm completely sure that they would not come to a claims procurement efficiency level that we are able to deliver and will further strengthen in our program. And I'm completely confident that the risk selection that we're improving further and further, as we speak, with the price differentiation as being number one strategic initiative, that with the questions they're asking they would come nowhere close to that risk selection, and also maybe that will punish their results.

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

And I think, Gianandrea, just to supplement Morten a bit, we do have some experience in Tryg from using aggregators in Sweden, and I haven't seen a number -- an acquisition cost in the area of 5%, to be frank. So it might be that that's a new trend in their market,

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but at least what we have -- the experience we have from other markets isn't in line with that kind of number.

I guess, to your first question in terms of the price increases in private lines, that is in line with our own expectations.

**Q - Gianandrea Roberti** {BIO 6786731 <GO>}

Okay. Thanks. So just to clarify, just to make my point more clearly, was that the 5% acquisition cost is not from the aggregator but it's from some of these Internet players. But thanks a lot for your answer. I appreciate that.

**Operator**

Andy Hughes, Exane BNP.

**Q - Andy Hughes** {BIO 15036395 <GO>}

Hi. Hello, guys. A very quick question, if I could. Obviously you highlighted that top line is quite difficult in terms of top line growth. One of your competitors may be about to sell some assets very close to you in the Baltic region. Would you have any interest at all in acquiring those? And thank you very much.

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

Well I guess good morning to you as well. We have clearly defined the Nordics as being our geographical footprint, and we have no plans of acquiring Baltic assets.

And I guess our view is that we are focused primarily on continuously improving our earnings. We accept that the top line is slightly low for a period. We see an improved trend towards the end of 2013. Realistically, we will see negative growth in 2014 as well, but an improvement towards the end of 2014 and then we expect to see a slight positive top line in 2015. And while we do that and continuously improve our earnings as we move along, we're perfectly happy with that route.

**Q - Andy Hughes** {BIO 15036395 <GO>}

Thank you very much.

**Operator**

Vinit Malhotra, Goldman Sachs.

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

Hi. Thank you. Good morning, everybody. Two questions, please. One is on the retention in Denmark. On the commercial side, I see the bar again -- the line again coming back up in Danish commercial. Is it that new customers are coming in, or is it that the people that you've cleaned up ones or the portfolio cleaning-up ones and they're just staying on?

If you could just comment on that, and it's linked to the growth comment because in 3Q the underlying was minus 2 and now you mentioned flat, if I recollect. So if you could just comment on the Danish commercial.

And second question, please, on the underlying combined ratio trend. If I look at last few years, Fourth Quarter was around 90% in 4Q 2011 then the 85% mark in 4Q 2012, and now it's again back -- it remains at the 85% mark line. 2012, one of the ideas was that frequency was abnormally low, and again in 4Q 2013 we are hearing that weather conditions have helped a lot. Would you say that 4Q 2013 versus 4Q 2011, the 5 points improvement, would you say most of that was due to this good luck factor, or some of it was some risk selection features in your portfolio or some other differentiation features? So if you just take a two-year view Fourth Quarter, it would be great. Thank you very much.

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

If I take your first question, on commercial Denmark, I guess it's fair to say that if you go back just four years our combined ratio in commercial was more than 100. So the price increases we carried out with Danish commercial customers were very steep, in a period where the commercial companies in Denmark were really struggling, and as a result we saw an impact on the retention rate dropping.

What we've seen in 2013 and continue to see in 2014 is that we do not have the same need to carry out significant price increases. We also see that our commercial -- we have a new head of commercial since the autumn, which is working very hard to further improve efficiency for making sure that our -- both risk selection and product offering towards our commercial companies or customers become stronger and stronger.

And as a result, I think it's very natural to see an upwards trend in the customer retention rate. We will have a number of customer experience enhancing initiatives in 2014, where we run a rather large program on that, and as a result we expect the customer retention in commercial to continue further upwards. And as a result, we should see the negative trend on commercial top line in total start to become smaller and gradually become positive, but that is probably in 2015.

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

Yes. Hi. And to the question about the underlying development, I guess you're right; we did mention that 2012 was a very benign insurance year. And I guess if you look at the development in the commercial segment, for instance, you do see that there is a weakening of the underlying numbers, but it comes in from a very, very low level. So I think that, at least from my point of view, underpins the fact that we had a very benign 2012.

Then I guess, if we move on to 2013 and look at the overall development, clearly, there is no doubt that there has been a number of weather related events that we have talked about before, and so you can always define what is a -- discuss what is a benign insurance year or not. There is a level of small claims, there is a level of medium-size claims, and you do see some movements in those areas as well.

So I guess overall we would argue that 2013 has been, as Morten said, initially a good year. There has been significant weather related events. And I guess we stay committed to our profitability focus for 2014.

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

And I guess it's fair to say, while your question is on commercial, that our price differentiation initiative started in private lines first, and now it's picking up more products also in commercial lines. So clearly we have a pipeline for the next couple of years to further improve our commercial products, which will enhance our risk selection further in commercial and also help our sales in commercial.

We have examples of key products in commercial where the product is 10 years old, and our future plan is that no product should ever be more than one year old. So clearly a significant step-up in the price differentiation and risk selection area as number one on the strategic agenda, and that will help commercial in the coming years.

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

Thanks. And sorry, the reason I ask is because in 3Q I distinctly remember there was a comment that you were saying that mid-size claims are going up. That clearly went back to normal in Fourth Quarter, just to follow up? And maybe that was related to commercial.

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

That was related to the corporate segment. So you're quite right; we did make a comment about the corporate segment in Q3. And as you can see from the underlying, there is a slightly better development in Q4.

However, I don't think we should underestimate the fact that when we look at our Swedish book of business, for instance, we definitely need to follow and monitor the situation closely, going forward. And I guess if you look at the geographic information, you can see that very clearly.

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

Okay. Thank you very much.

**Operator**

There are no further questions at this time. Please go ahead, speakers.

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

Thank you very much.

**A - Lars Moeller** {BIO 18028603 <GO>}

Yes. Thank you very much for participating in this call this morning; very appreciated. Just want to remind you that we will be around for the next couple of weeks, the next months,



actually, with the roadshow, so you can see that on the last page on this presentation here. So with these closing remarks, thank you and have a nice day.

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

Thank you.

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

Thank you.

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