Q1 2020 Earnings Call

Company Participants

- Barbara Plucnar Jensen, Group Chief Financial Officer
- Gianandrea Roberti, Investor Relations Officer
- Morten Hubbe, Group Chief Executive Officer

Other Participants

- Alexander Evans
- Asbjorn Mork
- Derald Goh
- Jakob Brink
- Jan Erik Gjerland
- Jonny Urwin
- Mads Thinggaard
- Martin Gregers Birk
- Per Gronborg

Presentation

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. This is Gianandrea Roberti, I'm Head of Investor Relations at Tryg. We published our Q1 results earlier this morning. And I have here with me Morten Hubbe, Group CEO; and Barbara Plucnar Jensen, Group CFO, to present the figures.

Over to you, Morten.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Gian, and good morning from me as well. We start on Slide 3 where we reported technical result of DKK672 million, up some 7% versus first quarter last year, including also DKK40 million net negative claim from the outbreak of corona. We will get back to this in further detail, but corona has resulted in net travel claims of DKK115 million for the quarter and DKK255 million before reinsurance offset by lower frequencies in different lines of businesses towards the end of March of in total DKK75 million for the quarter. In general, the business continues to improve well. We see a strong top line development. We see a continued improvement in the underlying claims ratio and we'll see the Alka synergies coming in as planned.

Clearly investment income was challenging for the quarter minus DKK980 million, which was a period of unprecedented turbulence in capital markets, almost all asset classes fell, and all leading equity indices were down more than 20% and there was really no place to hide. Most of this was already disclosed in our announcement on March 27, and actually this situation has improved somewhat in the last days of March.

We also announced that in 2020 we will move to a full-year dividend decision as opposed to quarterly following the unprecedented events in Q1 and the regulatory conversations within entire insurance sector. The solvency ratio was 159 at the end of Q1, but very positively on April 20, we received the FSA approval for our revised internal model, which will lowers the SCR by approximately DKK400 million, meaning that the pro forma solvency ratio is a 174%.

On Slide 4, on customer development. We're very satisfied to see continued improvement in our customer targets. We know that there's a strong link between customer loyalty and retention and that plays a large role to our expense ratio in our bottom line. We see that our improvement in TNPS goes from 67 to 69, which is actually all time high customer satisfaction. The improvement comes particularly from the claims area, but also from private Denmark and private Norway. And you'll see later that our customer satisfaction in the corona period has been particularly strong.

Also you see a further improvement in the number of products per customer increasing from 3.8% to 3.9% and approaching the full-year target of 4.0%. Also positive to notice that, the Danish non-customers knowledge of the membership bonus continues to improve, this quarter, the awareness was 30% against 20% the year before, but there's still a very significant potential for the non-customers of Tryg to become aware of the attraction of our bonus model.

On Slide 5, we elaborate on the technical result. As mentioned, it is DKK672 million for the quarter an improvement of DKK46 million even including a net negative impact of corona of some DKK40 million. Private had a somewhat lower result than Q1 the year before, driven by a net impact of corona, which is highest for the private area and also lower runoff level.

We are happy to see that the corporate business improves as a combination of improved underlying development, but also a lower level of large claims and higher level of runoff. Commercial business saw a significant improvement, which however can be subscribed to a much lower level of large claims compared to same period previous year, but we also saw an improvement due to price initiatives particularly for the larger commercial customers in Norway.

On Slide 6, I'll comment a bit on the overall drivers of corona, and Barbara will go into more detail on that. But clearly, there is a strong impact in Q1 also in Tryg. But we see in Tryg a very robust business model even in an extraordinary situation like this. We see particularly that travel claims has been challenging, we have seen more than 45,000 consumer contacts relating to corona and by now more than 30,000 corona related travel claims. And we were very pleased to see that our customer satisfaction has actually improved in both Denmark and Norway during this period.

I'm particularly pleased to see that Tryg in a situation like this has been able to help our customers in a professional way, particularly since more than 4,000 employees have been working from home, with all of the technical and communicational difficulty associated with that. As I mentioned, travel insurance is clearly the area where we've seen the most claims and you can see that from the illustration of this slide, particularly in the middle of March.

On the other hand, corona situation has resulted in less activity in society, and therefore reduce the number of normal claims, so to speak, in areas such as motor, contents, health and accident. But be aware that between the countries there is a big difference on timing and on the degree of lockdown. In the Nordic countries lockdown was effectively from 13th of March, in some countries that was sooner and later. And be aware that in countries like, Italy and Spain, you see very hard lockdown, where people are not allowed to leave their houses that is not the case in the Nordics where people can actually leave their houses to do what they want, but generally try to work from home. But as I said, Barbara will elaborate on the numbers and impacts.

On Slide 4, we give an update on the Alka synergies, I think it is very positive to see that the synergies from Alka continues to be delivered according to plan. For Q1 it was DKK43 million. And I'd like to highlight that we've now started using independent private agents in Alka for cross-selling to the one product customers. This concept has worked very well in private Denmark in Tryg. And it works extremely well, when combined with Alka's online sales model, which is very efficient to attract one product customers in an efficient way.

On Slide 8, we elaborate on shareholders, and as you know, we published on the 27th of March, a stock exchange announcement explaining that we would move to full year dividend decision for 2020, as opposed to the usual quarterly, following the extreme capital market development in Q1, and the increased global uncertainty. Also the local FSAs have been quite clear in their guidance to the insurance sector in general on being cautious on dividends. This does not change at all our aim to deliver a nominal stable increasing dividend, and it does not change at all Tryg's overall dividend policy.

On Slide 10, we elaborate on premium development. The growth was very strong at 8.9%. But we're particularly pleased to see that private lines as the most profitable area in Tryg also has a very strong growth of 10.4% in the quarter. It is helped by the strong premium development last year and therefore much bigger portfolio at the beginning of 2020 compared to 2019. Also we see a strong development in Denmark, with cross-selling and sales through our strong partner agreements with FDM, Danske Bank, but also from our new and independent sales agents.

Commercial has a growth of 6.8%, which is somewhat higher level than the last quarters, especially due to price increases for large commercial customers in Norway. Now corporate showed a growth of 4.9%, it was impacted by price hikes in Norway, which also reduced the Norwegian corporate portfolio, while in Denmark, the Danish corporate portfolio was positively impacted due to the high acceptance of price increases of around 10%.

Sweden showed a relatively high growth of 4.9% driven primarily by price initiatives in motor to improve profitability. In general, we haven't seen much impact on the top-line from corona yet, but going forward, we would expect to see some impact on the premium levels going forward particularly in the corporate and commercial segment following the drop in the economic growth in society.

On Slide 11, we comment on price developments in the business and clearly adjusting prices in accordance with claim inflation is extremely important and a key focus area which we monitor very closely. Profitability improvement is always a combination of claims initiatives and price adjustments. And be aware that when we have a relatively high growth as we saw in '19 and also in '20, we will have a slightly negative impact on the average price level as some products and channels use introductory discounts.

On Slide 12, we elaborate on the customer retention rates. Clearly, customer focus is extremely important for Tryg and customers' views are easily monitored through the retention rates. We're very pleased to see stable and improved retention rates in Q1 at a very high level, and we believe that our current development of digital solutions will make it even more convenient to be a customer in Tryg and therefore support the retention rates going forward.

And, over to you Barbara.

Barbara Plucnar Jensen {BIO 17487867 <GO>}

Thank you very much Morten. I will now go through the details of our claims and expenses, in particular providing a bit more insight on the impact of COVID-19. So please turn to Slide number 14. In this chart, we look at the underlying claims ratio without the impact of claims related to COVID-19. The group underlying claims ratio improved by 50 basis points and our private segment by 40. Price adjustments and the claims excellence program including claims synergies related to Alka are the main drivers behind the improvement, but also a re-balancing of the portfolio towards more private business supports the overall improvement for the group.

Compared to previous quarters, the high growth in the private business had a slightly less positive impact on the underlying claims ratio, as new customers in general will have a slightly higher claims ratio compared to old customers. However, on group level we see improvement in the corporate segment offset some of this impact, due to price increases and re-selection. Overall, it's expected that the group's underlying claims ratio will continue on a similar trajectory.

On Slide 15, we will go through the negatives on the claims perspective from the COVID-19 impact. Here we will show you the negative impact where we have highlighted some of the business lines that have actually reported claims in Q1 already that will be the travel insurance that Morten also spoke about, while the others are more to be considered as risk areas going forward. In the Nordics, Denmark, and Norway have been locked down since mid-March, which for Q1 has triggered travel insurance claims of gross DKK255 million, net DKK115 million post reinsurance.

Looking at the potential negatives, we highlight Tryg Garanti, business interruption and group life. We have not seen much of an impact in Q1, but potentially they will have some degree of impact in the coming quarters depending on how the pandemic and economic activity will develop from here. It's important to note that, we have pretty good protection with our reinsurance program. And we try to disclose as much as possible, but obviously there are competitive considerations in selected situations.

Please turn to Slide 16. On balance, we will see that lower economic activity is likely to drive lower claims frequencies in select lines of business. This is exactly what we have experienced since mid-March following the lockdown as mentioned in Denmark and Norway in particular. Compared to most European countries we want to point out that the lockdown in Denmark and Norway has been somewhat less restrictive, and while being focused to enforce social distancing et cetera there has been no hard restrictions on the oral [ph] limitations on movement as such. Furthermore, the lockdown has been put in place earlier, but more staged than seen in most other European countries. Hence the impact on the frequencies has been more gradual, meaning that the impact has been biggest in week three, as opposed to week two, which again was bigger than in the first week of the lockdown.

Sweden has had a somewhat different approach as the authorities have never called for a real lockdown. However, as you know our Swedish business is relatively small in a group context. The three areas, where we have seen some impact in Q1, with frequencies down by 15% to 20 % in March are motor claims with less cars on the roads, less accidents and content claims as described here.

Now, as of last week, Denmark has started a gradual reopening. We see that approximately 50% of the children are back in school, some businesses are reopening et cetera, and Norway is following as of this week. More will gradually be open from here, but it will have a rather long implementation, and therefore a gradual normalization of claims frequencies is also expected.

On Slide 17, you see the traditional overview of our large claims, weather claims and runoff. In Q1, we had again a somewhat milder winter than the ordinary, so we had a somewhat lower level of large and weather claims compared to Q1 '19 and in particular, as mentioned the weather claims were well below normal. We did have an extraordinary high number of flooding and storm claims in select areas of the Nordics, but despite a very high absolute number of claims, which was double compared to 2019 they were relatively small in size. The discounting impact in the first quarter of 2020 was much lower than in the same period last year due to the lower interest rate level in general and in particular in Norway. The runoff result was slightly lower with 6.4%, compared to 7.1% in Q1 2019.

Please turn to Slide 18. The expense ratio for Q1 '20 was 14.1% and in line with the target for 2020 of around 14%. The balance continues to be more efficient distribution, which to a large degree in finance our IT investments. We have seen a slight increase in the number of employees driven by more employees working with digitalization and IT development in the business, as well as an increase in the claims handling.

In the following section, we will turn to our investment income and capital. So please turn to Slide 20. You probably remember that we have previously looked at this slide, where we split our investments in a free and a match portfolio to provide more detailed input. The match portfolio is the material part of our investments with the purpose to match Tryg's insurance liabilities, while the free portfolio is investing the capital of the company on a risk-adjusted basis. Since year-end, the total investments are down approximately a DKK2 billion, given the payment of the ordinary Q4 dividend, as well as the extraordinary dividend and also given the investment results in Q1.

On Page 21, you can see that this was indeed a quarter that will go down in history with unprecedented turmoil in the financial markets following the outbreak of COVID-19, and obviously this had an impact on our investments. The total investment results ended with a negative DKK980 million, slightly better than what we disclosed on March 27. We have a low risk profile on our free portfolio, but given the magnitude of the movements in the capital markets, the free portfolio reported a return in the quarter of approximately 7%. Equities had a negative return of approximately minus 20%, and more or less all asset classes has had negative returns.

Unusually, the match portfolio also produced a negative result of approximately DKK200 million in the quarter, driven by the widening of Nordic covered bonds spreads, and furthermore negative impact from the interest rate hike of the Danish Central Bank, which was not fully offset by a similar change of the discounting curve. Other financial income and expenses was broadly in line with expectations. Q2 to-date, we observed a reversal of the capital markets and a positive development impacting our free portfolio of approximately 1.5% as disclosed on tryg.com.

Please, turn to Slide 22. Here you can see that our solvency ratio was 159 at the end of the quarter. Own funds were obviously, hit by the quarterly loss on investments and hence our negative pre-tax result, while lower intangibles had a positive impact. However, due to negative movement in currencies, our subordinated loans reported a lower amount in DKK, so looking at the main movements, own funds were down by approximately DKK600 million.

Please do remember that following the decision to move away from quarterly dividend payments to a dividend decision at the end of 2020, there is no Q1 dividend payment and hence no dividend accrual in the own funds. The solvency capital requirement was down by approximately DKK300 million, primarily helped by a lower capital charge for market risk on equities, but also by a currency movements given the smaller business in Norway and Sweden, which imply a lower non-life capital charge.

Finally, I would like to draw your attention to a relevant subsequent event that Morten briefly mentioned. Yesterday, the Danish FSA approved our revised partial internal model. The key elements of the new model are the inclusion of the Swedish business, which gives us more geographical diversification and further improvements to the model. This has led to a lower marginal capital requirement for the non-life insurance risks. Following the approval, the pro forma SCR is approximately DKK400 million lower and the overall solvency ratio is approximately 174%.

Please turn to Page 23. This slide provides more detail on the capital and solvency ratio development and there's not much new compared to previous quarters. The point of interest is that, Tier 2 and Tier 1 capacity can vary from quarter-to-quarter. And in this quarter the Tier 2 capacity is influenced by the lower SCR and the Tier 1 capacity by the level of core equity Tier 1, which is amongst other things impacted by the fact that the Q1 dividend is not being paid.

Generally speaking, leaving aside a somewhat small quarterly dividend, the capacity for both Tier 2 and Tier 1 has been fully utilized. As we have decided to move our dividend decisions to year-end, it's also worth for this year it's also worth highlighting that the solvency ratio at Q2 and Q3 under normal business and capital market developments is likely to increase.

On Slide 24, you can see the solvency ratio sensitivities and this is a picture that you have seen before, so not much has changed as per Q4. However, given the extreme market volatility experienced in Q1 we are for the first time also including the sensitivity to a plus minus 30% movement in equities, which will have a stronger impact on the solvency ratio as the so-called equity dampener will protect a somewhat from movements up to 20%, but not thereafter. This is a standard characteristic in the Solvency II regulation hence not Tryg specific, but it's worthwhile mentioning here.

This concludes the presentation on our investment result and capital and I would like to hand over to Morten for an update on our targets for 2020.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Barbara. And finally on Slide 25, we repeat our 2020 target of a technical result of DKK3.3 billion, a combined ratio at or below 86, an expense ratio of around 14. And then due to the very high loss on investment portfolio in Q1 and the very uncertain capital markets outlook, as we published the 27th of March, we abandoned the target of the ROE after-tax at or above 21% for the year 2020. Perhaps it's worthwhile to add that Tryg has reported an average after-tax ROE of 23% in the last five years. Towards the end of 2020, we will host a new Capital Markets Day, launching a new strategy and setting new financial targets.

And then we finish with our favorite quotes by John D. Rockefeller, on Slide 26. Our investment case is completely unchanged, even if we had to adapt with the move to a full-year dividend decision for the year 2020.

And with that, we'll turn to your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) Our first question comes from the line of Asbjorn Mork from Danske Bank. Please go ahead. Your line is now open.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Yes, good morning. Couple of questions from my side. First on the travel claims for Q1, and then leading into to Q2. I guess Q1 number does include some Easter effect, and I guess some claims that would I guess calendar-wise be Q2 claims; is that correctly understood? And if that is correctly understood, could you sort of give us a date? Does the claims include until the initial is close of Denmark from the Prime Minister? How long is that? And then maybe a top up on that one, if Denmark were to remain fully closed in Q2 and Norway for that matter as well, how would you have travel claims? Do you see them in Q2 versus Q1 in the current situation? Thanks.

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

I think -- hi, Asbjorn; very relevant question. I can confirm that, yes, the Q1 numbers include the Easter period as that was already known when we were looking at the Q1 results. But I think it's fair to say that when looking forward, we don't know what's really going to happen. It all comes down to what is the guidance given by the government in the various countries. And that may have an impact, of course, in terms of travel patterns going forward.

We don't disclose at this point of time what our forecasted impact will be as it relies on a broad number of expectations. But it's fair to say that comparing the first period, so late March and Easter that related to a number of travels that we have already known and that customers have booked them, whereas what we're looking into going forward is very much a question of how much have people already booked or how much are they looking or planning to book, depending on how the pandemic actually develops in the coming weeks and months.

A - Morten Hubbe {BIO 7481116 <GO>}

I might add that there's a large dependency on the travel advisories from the foreign ministries of the Nordic countries. Because, if it is just a continuation of the current ban of traveling in the Nordics and outside the Nordics, then it will all relate back to the initial date of stopping all travel, which then means that all of the travel claims in Q2 would be the same reinsurance date as the initial claims. Whereas if, for instance, there is an opening for claims for a period, and then a subsequent close down again, then it's a new period of reinsurance.

So therefore, the net figure will to a large extent be dependent upon whether it's a continuation of the current lockdown or if there's an opening in between two lockdowns. And the reality is, if there's a continuation, then reinsurance will cover most of it in Q2, and if there's an opening, that's a new situation.

Q - Asbjorn Mork {BIO 17028219 <GO>}

So, make sure I understand, so the market, the travel remains close for the entire duration of Q2. Your coverage, your reinsurance will be the same reinsurance that you already paid there DKK100 million for in Q1. Was that correctly understood?

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

Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

That is correctly understood.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. And then, if it's open again, you have another reinsurance program of a two-week period, right?

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

Yes. Yes.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Okay. Fair enough. Let's say -- okay. All right. Thanks. Then on your new capital, two questions there really, the new model approval, first of all, I think, I remember you said something about the 10% decline to your requirement, which would be more DKK500 million and now DKK400 million. So, just wondering whether that's just rounding. Second of all, how should we look at the new solvency ratio in a historical context? I'm not trying to get your answer on whether we should expect a quarterly dividend or anything like that, just thinking that previously you've had very clear communication or, I mean payouts when you've been at a 174% ratio. Should we -- do you see this at the same quality as 174% would have been on the old setup?

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

I think, Asbjorn, very interesting points, but we don't see it in current conditions, as linked one-to-one. As Morten highlighted very clearly, right now, we see turmoil and uncertainties that we haven't seen before, which was the main driver for us deciding not to pay the quarterly dividend in March. And I think, it is not over yet. We still don't know what the rest of the year will contribute with.

So, I think it's too early just to say that because we have the approval, we are now ready to payout dividends. Those are two, you can say, incidents that are not directly linked. But obviously, we think it's positive that we got the model approval, because we see that now we get the full picture of our business and also have the benefits of the geographical diversification, which we didn't have before. So in general, we see it as a positive.

A - Morten Hubbe {BIO 7481116 <GO>}

I think it's also very positive -- chance to see that it was a full approval. So there was no adjustments from the FSA to the application we did. It was a full approval of all calculations to the model adjustments that we put forward to the FSA. And I think that it's a very positive acknowledgement of the way all our partial internal model works, and we're pleased with 174% and then of course, we'd all like to see a period, where corona is behind us and everyone understands all of the full implications of that, but we're pleased with the model and the DKK400 million and the 174%.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Yes, exactly, so my point being that once we go to year-end, if we're -- all this is behind us, we should look at the 174% just like you've normally done in the past.

A - Morten Hubbe {BIO 7481116 <GO>}

I think, we'll hopefully have that picture plus positive earnings for the remaining quarters of the year. And then let's see towards the year end, if hopefully the world is in a clearer place, but the reality is that there is still a period of uncertainty to be covered in corona and that will probably take further quarters.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. On the top line, a couple of questions there. First, on the private, is there any corona impact here? Is there a lower churn in the market at the moment given the situation? or is it just, I mean, would you have been able to grow the same level with -- even without corona? And then on the reprising on the corporate, is this sort of an industry standard? I mean, are we seeing your competitors follow suit or anybody more aggressive in the corporate space at the moment?

A - Morten Hubbe {BIO 7481116 <GO>}

Let me take the first question; you can take the second, Barbara. If you look at the Private lines growth in Q1, there is no corona impact in there. There is no significant change to the churn. So, it is a more of a reflection of the actual growth ability in the private lines. But be aware that of course we got more than usual new partner agreements in private Norway, particularly, last year. So, the growth in private Norway is slightly high compared to what you would perceive as a longer term run rate, but no, there's no specific corona extraordinary impacts in the growth in private lines in Q1.

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

Yes. And on the corporate side, I can add that what probably surprised us on the positive side in particular in Denmark was the acceptance rate. So, we definitely see that there is a trend in the markets in terms of prices being increased, which is also the picture that we have seen in Norway in the last three, four quarters as well. So, I think, it's the market that is also following the trend that we are working on here.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. And then a final question from my side on the Alka facilities, you continue to deliver more than expected and more than guided also in Q1. Are you -- should we expect synergies to decline going forward? or are you just positively surprised by the synergies you've been able to take out of the Alka company?

A - Morten Hubbe {BIO 7481116 <GO>}

Our plan is we share your enthusiasm that the synergies in Alka are slightly higher than planned. I think everything we've seen from the Alka portfolio is very strong both from a standalone quality basis from the planned synergies, where we are slightly ahead of the curve and also from the areas, where we can work together, Tryg and Alka. So, I think for us, it's a slightly more positive situation than planned. But really we don't change our outlook and we don't plan for reductions.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. Just a very final one actually. On the solvency, you show, the sensitivity to rise towards a rising equities. It is very, very limited at the moment. Is that because the dampener, you still have a negative drag from that going into Q2? Is that -- does that leave limited upside short term if equities recover?

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

I think what you should bear in mind is the point of the 20% plus-minus, which is the area, which the equity-dampener will impact. But if it's movements like we saw in particular in the second half of March, where it was significantly above the 20%, then the impact will be bigger.

Q - Asbjorn Mork {BIO 17028219 <GO>}

But would you have a negative drag into Q2? I mean the dampener is three-months average, right? So, I guess, it helps you in Q1, but it has a slight negative in Q2?

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

I think you could argue that we have had the benefit of the dampener at the point, where we really needed it so to speak with these levels of movements that we haven't experienced in history before. So, from that point of view, you're right. We had the benefit when we needed it the most.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. That's very clear. Thanks a lot.

Operator

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

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you, and good morning to you. Just one question on the investment portfolio split. Now, of course, the things have improved a lot since late March, but I guess you had to postpone your quarterly dividend maybe not only because the regulator wanted you to, but also because solvency was getting somewhat impacted. Does this make you reconsider your exposure towards equities and credits, and maybe also have it made you consider using the VA spread on your discounting curve, which would have partly offset the negative asset movements in the quarter? That was the first one.

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

Hi, Jakob. To start with, I think we look at our investments in a long-term perspective, so we don't jump to conclusions following a short time of extreme volatility. Obviously, we have reviewed the investment strategies to see are there any things which we meaningful should change or adjust. But I think our conclusion is that, that there is not. We will not move to the volatility adjustments, because we don't see that, that we will benefit from that in the long-term perspective. And also bear in mind, we have a relatively low risk profile on our free portfolio, where compared to the rest of the world, I think we did pretty decent in the first quarter. We end up with a loss of the short of 7%, where you see movements in equities for instance being around 20% in the quarter, and you see all other asset classes are significantly down.

So, I think, in general, I will say that the profile and the strategy we have on our investments has actually proven to be strong and the provide -- you can say, the structure and the profile that we anticipate. But obviously, it's not good with the movements that we have seen, but we feel that the strategy we have is what suits us.

Q - Jakob Brink {BIO 20303720 <GO>}

Did you implement any sort of hedging maneuver or anything like that in during Q1, and could you do that, let's say, we would have a second round of really bad markets during the year?

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

I think, in general, we always look at the asset allocation, also within the various asset classes. So, we take small adjustments or do small adjustments, but nothing that changes the overall profile. When it comes to hedging that probably predominantly relates to the match portfolio, where you can say the strategy we have there of using the covered bonds to hedge our insurance liabilities. That is something, where you have seen some movements in this particular quarter with spreads moving out, discounting rates not following the Central Bank moves, and also the fact that you have seen a reversal of the long-term rates given the pension funds and others in the longer term of the curve, which is unusual. So, I would say, no, we have been committed to the usual and ordinary investment profile and I don't see that that we will change anything material going forward, we feel confident that it's the right approach.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Then, on your capital and your utilization of Tier 2s and Tier 1s, as you pointed out in your presentation you have maxed it, both of them out. Is that -- I mean, I guess again in this situation having Tier 1 where, of course, your own funds dropped maybe more than it had to, because you had utilized all your debt capacity. And again, the same question as before has what happened in Q1 made you reconsider your usage of debt in own funds going forward?

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

No. I would say, in general, what we have seen an impact of in this particular quarter is the movements and also the currencies, where you've seen a particular weakening of the Norwegian Kroner and Swedish Kroner. So that obviously has an impact on the debt instruments that we have. But again, I would not say that we changed anything in our strategy or the way that we have our capital structure put together given these short terms movements.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Then onto the operations on the correlation between top-line and technical profits, you mentioned in your presentations as well that new customers get intro discounts and they have weaker claims ratios. So, I guess, the first question is the weaker claims ratio; is that due to the intro of discounts or is it also because of higher claims in Italy or how should we look at that?

A - Morten Hubbe {BIO 7481116 <GO>}

Let's say, this is really not a new phenomenon by any means. This is a structural phenomenon that we have seen in our data throughout many, many years, which is the main driver being that when you've just purchased an insurance, your awareness of that insurance is higher than if you purchased it seven years ago, let's say. So, the frequency of claims is higher. And that is why when you look at any year one customers claim, we don't compare them just to a year seven or a portfolio frequency of claims. We compare them to the quality of vintage year one, a year previously, and subsequent years from that. So, we look -- try to look at the customers per vintage; and in an ideal world, we would only have customers, who had been here for 10 years, because then the frequency of claims is low. But of course, we need new customers in the portfolio as well. But the main driver is that structurally a year one customer always has a higher frequency because of a higher awareness of the insurance that they just bought.

So, the reason why we highlight it now is, of course that the growth is slightly higher; and therefore, the amount of year one customers is slightly higher, which we have no doubt brings more earnings longer term, but also brings a slightly higher claims frequency from these year one customers. And then also bear in mind that the year one customer also have the distribution cost to carry, which is of course the second negative driver. So, in the total context introduction of discount, is the smallest driver, but of course, also adds a little bit to the equation.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you. I guess, just like you said, the reason I'm asking is that growth is so high now. So, just trying to model how should we look at this very high growth impacting technical results. Could you give us any sort of indications as, first of all, is the new very high growth, is it as profitable as all vintages of year one customers, and secondly, how profitable is it?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I guess there's a short-term answer and a long-term answer. I think that what we see quite clearly particularly in the Danish private business is that the analytical capability in Alka of being very close to the quality of individual vintages is stronger in Alka than in Tryg. So, there is a number of areas, where we are putting into place Alka-like methodologies of being even closer to each vintage and even closer to the quality of each customer segment, making sure that all our control of year one and subsequent years of profitability is even stronger. So, on average, I would say that the -- how close Tryg as a company is to the quality of new business is growing as we speak, and will become the highest we've ever seen, because we take methodology from Alka.

So as such, I think, we're headed for in a positive direction on that. But of course, long-term, there is a slight negative impact on the underlying improvements. But on the other hand, we come from a long period, where underlying improvement mainly came from Private lines, and now we need to see underlying improvement also from commercial lines. So, I think that is completely in line with the plan and the strategy that we've communicated during the past year or so.

Q - Jakob Brink {BIO 20303720 <GO>}

So, basically, we should expect a one-to-one correlation between top lines and technical result, if large claims and weather claims and run off gains are the same, I guess so.

A - Morten Hubbe {BIO 7481116 <GO>}

I think you should expect two things. The general expectation would be that the total quality of the priority portfolio will be -- remain very high, also including new customers and the new growth. And then secondly, as we described in the report, you should expect that Private lines will contribute slightly less to the underlying improvement quarter-on-quarter and commercial lines will improve -- contribute slightly more to the group underlying improvement in Corporate.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you. And then final question from my side on Tryg Garanti, and this has been sort of growth driver and you have presented it at your Analyst Days a few times in the past years. And again, what we have seen here in Q1, does that lead you to think maybe differences about the growth aspects of Tryg Garanti? And did you already see any sort of claims that indicates into that segment?

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

We have not seen any COVID-19 or corona related incidents in Garanti in the first quarter. It's as we mentioned, one of the areas that we expect we might see something in the quarters to come, but it's also important to bear in mind that typically we have a very strong reinsurance in the area. So, 80% is sort of the norm, whereas for the larger parts of the business is up to 90%. And again looking at the approach and the credit ratings et cetera that we do and perform while providing the guarantees to the customers. This is, you can say, an area, where we don't plan to change the approach going forward.

I think it's also important to highlight that when looking at the financial crisis in 2009 as a comparison, the Garanti business never reported a loss. Obviously, we saw an impact in the performance, but they never reported a loss. And I think that just demonstrates, you can say, the quality and the strength of the business model we have in the area.

A - Morten Hubbe {BIO 7481116 <GO>}

And bear in mind, Jakob, I think, it's a sensible question, but bear in mind that the plan was always to have a very slow and gradual growth in the Garanti business. If you look at the period, where we took Garanti from Denmark to Sweden, Norway, and Finland to where we are today, that period took 10 years. So, that was not exactly catch up or rapid growth, it was a very slow and gradual process. And also the process we're doing currently with Garanti is a very slow and gradual process.

So, I think, we had with 80% to 90% reinsurance, a very strong quarter earnings and a very slow and gradual process. We always plan to take the conservative route and we are still on the conservative routes. So, we really don't see any need to change that.

Q - Jakob Brink {BIO 20303720 <GO>}

Fair enough. Many thanks for your answers.

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

You're welcome.

Operator

Thank you. Our next question comes from the line of the Mads Thinggaard from ABG. Please go ahead. Your line is now open.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Thank you for taking my questions here. I have -- the first one if I could come back to the travel claims. I mean with 30,000 travel claims and it seems a DKK 255 million cost claim, DKK 8,500 per claim handled, how -- do you have a view of how that will evolve in Q2 and Q3? Will that come up or down? What -- I mean the cost claim for each claim handled, how do you view that?

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

I think what you should consider when you are viewing the travel claims that are being incurred is that you have a travel packages and the likes that are being covered elsewhere. So typically, what you would cover in our incident would be, let's say, you have put together or travel yourself, you get the flight covered by the airline and so forth, but then you have hotels booked or you have events booked when you are out.

So, compared to an ordinary travel claim, this will be somewhat lower when it comes to the claims that are corona related. So, I think your analogy is good. Whether that will change over time, I don't foresee that it should be dramatically different from what we have seen already as these dynamics obviously will continue to apply going forward as well.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Okay. Thanks. And then the second question, just looking at the corporate segment, you did some repricing here that were quite significant, but still I mean you are improving the combined ratio, excluding a run-off, but it's still above DKK 100 million. Are we going to see more re pricing this year or is that an exercise we will have to await for next year or next Q1?

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

I think it's fair to say that obviously the journey is not over. I think if you look at for instance the Norwegian market, this is something we have been working with during the last couple of years. We are probably less into the journey in Denmark and Sweden, but it's not something that we foresee that, that move will change neither this quarter or next quarter. So, this is something where we will work diligently with the approach going forward. And I think, it's important to say that it's a combination of looking at the right price at the -- for the right risk. So, the risk selection is also a very important part of the whole journey.

A - Morten Hubbe {BIO 7481116 <GO>}

And bear in mind that in Q1 this year, we put in place new heads of corporate business in all three countries. We put in place a pan-Nordic underwriting for corporate and commercial project to increase our capabilities there. So, for us, it's very important to see the strong application of price increases that will continue for the coming years, and then we improved the competencies throughout the corporate organization, and for those, who go hand-in-hand to improve our corporate earnings both short term and longer term.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Okay. So, not done yet. So -- but -- and then I have a final question just on the private premium growth in Denmark. Could you tell us how much is from partners?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I could -- I don't think we've ever published that number, but I think a good indication is that we see the slight growth in number of customers both in direct business and in the partner business. Of course, with Danske bank for instance as a new partner that helps the total partner growth, but when we have a strong development in the retention rates, and also strong cross-selling from new products in the direct business. We see a strong growth in the direct business as well. And also when the lapse is slightly lower, we see that the number of customers and direct clients also grows slightly. So, there's a very good balance between the two.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Thanks.

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>}

Hey, guys; good morning. Hope everyone is well. So, a quick one for me on business interruption. There's a lot of discussion in the market at the moment around policy wordings and scope for kind of unintended coverage. So I'll be keen to hear your view on some policy wordings and what . I note that you see some exposures in Denmark and Norway, and perhaps some in Sweden as well. But I mean, where is the kind of the key exclusion in the policy wording? So, is it on the extension for infectious disease? Is it on the proximity clause, i.e. COVID has to be on the premises, do you cover epidemic, not pandemic? Do you cover pandemic? Is there a names, list of diseases? I'd be keen to kind of hear the overview of the policy wordings and how comfortable you are that they're tight enough to kind of exclude what you intend them to? Thank you.

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

Hi. Yes. And all well, I can start saying, so that's a good starting.

A - Morten Hubbe {BIO 7481116 <GO>}

Jonny, it's a video meeting a day, so we're doing really well.

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

Yes. No. I think coming back to the business interruption, the standards in all of our clauses relates to that, there has to be an event that triggers the claims to be raised. So, that means whether there is fire or whether there is a flooding of a production side or whatever it may be that has an impact. The outbreak of COVID-19 was -- would have such not be recovered. So, therefore, you can say, we are pretty comfortable with the impact that we will be hit by in that particular line of business.

A - Morten Hubbe {BIO 7481116 <GO>}

I think that's somewhat different than what you see in many other geographies, where you would intend to cover business interruption more on a standalone basis. But as Barbara says, we need a physical event to trigger the business interruption and that is not the case for these claims.

Q - Jonny Urwin {BIO 17445508 <GO>}

So, you basically don't extend business interruption covers for non-physical damage; is that right?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. That is correct overall message, yes.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay.

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

We have a very few exceptions for that, but that is the general approach.

Q - Jonny Urwin {BIO 17445508 <GO>}

And that's -- but that's in Denmark and Norway, right? In Sweden, it sounds like there is some non-physical damage coverage in the policy. But your exposure there is quite low.

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

Yes.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Very good. Thanks, guys.

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

Welcome.

Operator

Thank you. Our next question comes from the line of Alexander Evans from credits Suisse. Please go ahead. Your line is now open.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi, all. Just a quick one from me as well. And thanks for taking my question. It's just mainly on the reduction in frequency, you've seen in motor, home, and some base of impacts. Do you think that you could get to the point, where you have to return some premiums back to policyholders? We've seen this in the U.S. already and Admiral today; yeah, just keen to get your thoughts on that. Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Well, good morning to you as well, Alexander. I think what we've seen is that a few mono liners that particularly for instance do motor only has chosen to reduce premiums. Of course, we're a multi-line company and we do all lines of business. And with more than 30,000 additional travel claim so far, and of course, that number will only grow and also, with the loss on investment income, the logic that we should start to reduce prices on motor is not clear. And in the same way, we don't plan to increase the prices on travel insurance, which you could also logically argue that we should.

So typically, we have most of the products with our customers, and typically we see this as a portfolio composition. So, no, we don't see that pressure. We don't really see that that would make sense either, but we do appreciate that some of the mono liners out there could have a different perspective being for instance only motor.

Q - Alexander Evans {BIO 19956412 <GO>}

Fair enough. Thank you.

Operator

Thank you. Our next question comes from the line of Derald Goh from Citigroup. Please go ahead. Your line is now open.

Q - Derald Goh {BIO 20775137 <GO>}

Good morning, everyone. The first one is just going back to business interruption. Could you maybe talk about the take-up of business interruption coverage within your commercial and corporate clients? I know that the comment in the slide is saying it's commonly offered, but is that what's assumed that most policies do have business interruption cover? And secondly, it's going back to the frequency trends as a result of a lockdown. So, you've given some numbers there from Denmark, but could you maybe also elaborate on what you're seeing in Norway and maybe to some extent in Sweden although I know that you're bit smaller there? Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

I would take the first question; you can take the second, Barbara.

I think on the business interruption side, I think, there's really two important factors. One, we see no change in the way customers and commercial and corporate buy insurance at the moment. And secondly, as we commented before, in general, we don't sell business interruption as a standalone policy. It is typically linked to policies, where you need a physical trigger to trigger business interruption. So, if there is a storm, if there is a flooding, if there's a fire in the factory, et cetera, that can trigger business interruption. But if there is no physical trigger like that, there is no business interruption; that is the general way our policies are structured. There are a few deviations from that, but in general, that is the picture. So we see no change in that pattern, and that I think, leaves us in a safer place than the way business interruption is covered in some other geographies than in the Nordics.

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

I think maybe a piece of information that could be interesting, that's also now that we see the outbreak. We see that there is a lockdown in the Nordic area. You see the predominant part of the workforce working from home. So, what we can see in general is that the focus on IT security is definitely increasing, because we know that there is a risk in you can say for our sake, we have 4,500 employees working from their homes at the moment compared to 18 locations ordinarily. That goes for most of our clients as well up until now. And in that context, we have actually been offering cyber insurance to the small SME commercial clients in order to make sure that if there is some kind of impact or business disruption given cyber attacks, they will have a protections. And we have been offering that for free for the next three months to make sure that the businesses can relax at least in that area.

Q - Derald Goh {BIO 20775137 <GO>}

Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

That is really a product, which is structured mainly to give advice and services and help to avoid cyber crime and then they hope to get back on track again and only with a very small business interruption component.

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

Yes. When it comes to the frequency trends that you mentioned in some lines of businesses, I think, again the pattern, because Denmark and Norway have been running very much in parallel. You see quite the same pattern in those two economies. So, as mentioned, we see approximately 15% on our motor frequency for March, but that is of course, covering four weeks in March, where you see basically no impact in the first two weeks, and then a gradual and higher impact in the last two weeks of the month.

What we have seen now, coming into April, is that partially because of Easter, but partially because of people really respecting to work from home. That number has increased even further in the beginning of April. But the pattern in Norway and Denmark has been more or less the same. Now, if you look out the window, if you go on the roads, you will see that, because we are gradually starting to reopen, there is more activity on the roads again, but it will all be something that we monitor quite closely as we still don't know how you can say that the pandemic will continue to evolve from here in the coming weeks following the gradual opening.

Q - Derald Goh {BIO 20775137 <GO>}

Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of the Per Gronborg from SEB. Please go ahead. Your line is now open.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you. Good morning. Starting off in the corporate business, can you put some light on what's happening? You're seeing a 10% price increase. We are seeing underlying combined ratio increasing by 1 percentage point. You're addressing that large claims are lower this time, but still you see this business generates a solid profit versus cost last year. Can you give some light on what's happening behind these numbers?

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

You said the growth, the large claims, and what was the last point you mentioned?

Q - Per Gronborg {BIO 15910340 <GO>}

I was saying that the premium hike offered 10% still underlying combined ratio is up a full percentage point. And you are seeing the seeded business generating a profit versus the normal cost despite that you were stating that large claims are down. Normally, I assume seeded business correlates with the amount of large claims.

A - Morten Hubbe {BIO 7481116 <GO>}

But I think this is really back to a discussion we've had a number of times, where we see underlying as being a very good phenomenon to use in private lines, and the smaller SMEs, because there you have stable portfolios, whereas in high-end commercial and in corporates, for instance, the size of mid-sized claims is extremely volatile. So, from quarter to quarter that goes up and down. And that really tells you nothing about the quality of what is going on.

So, I would say internally, we never use underlying claims development in corporate as a simple measure, because it really doesn't make sense. We use it all the time in private lines and in the SME business. So, we try to look at this from a much more granular detailed analytical approach. We see how the price increases come through, and then we see of course how the claims development is. But having a simple measure of underlying for corporate business as such really doesn't make sense. So, as I said, we wouldn't recommend you to go down that route.

Q - Per Gronborg {BIO 15910340 <GO>}

When you see the business making a significant profit this quarter, does this imply that there had been a high amount of medium-sized losses that is covered by the insurance, but not qualified -- classified as large claims?

A - Morten Hubbe {BIO 7481116 <GO>}

No. That is not the case.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. You are just having -- there's no equation why you get DKK 170 million from reinsurance this quarter, despite large claims?

A - Morten Hubbe {BIO 7481116 <GO>}

So, the problem of course is that it's a combination -- a very few claims can alter this and for instance, also changes on previous years' claims, which we would then fall into run-offs, but it could hit the seeded result as well. So, no, there's really no messaging there. The problem of course on corporate is that the single individual claims both on the current year and on previous years will have significant impacts also on the seeded numbers. So, external analytics on that with only public data is really quite tricky; I'm sorry.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. But that's what we have to look and this is one of the areas, where I would assume there was some improvements. I had taken into account a very big price increase, but you're basically saying, we have no chances of analyzing that from the outside.

A - Morten Hubbe {BIO 7481116 <GO>}

But what we can try to do, because the way we see it is that the journey of improving profitability in corporate business is one that we're taking extremely seriously, both from a pricing point of view, from exposure reduction point of view, and from a competency and tools investment point of view. So, what we can do, Per, is we'll try in the coming quarters to give you more insight and more detail into how can you follow the progress of that. Because from a simple numbers analytical point of view, corporate is the least transparent business, because it is not a homogeneous group of customers. It is a composition of large individual customers. But let us try to elevate the illustrations and the communication we give for you to monitor that.

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

We have a higher proportion of the long-tailed lines as well, so --

Q - Per Gronborg {BIO 15910340 <GO>}

My second question -- we have discussed the travel insurance a lot. My second question is there any upper ceiling in your reinsured program? I assume that could become active if Southern Europe Still is closed down during the summer and the airline and travel agency starts to go bankrupt.

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

We don't. You can say we disclose that, but I would just highlight, Per, that -- but bear in mind that we are not the only ones covering the travel claims as mentioned. If you have a packaged vacation booked through an agency, you have your flights that you have booked with the airlines and so forth, those are being covered by some of the packages that are given also from the central side.

A - Morten Hubbe {BIO 7481116 <GO>}

And what we can say to give you some flavor on that is that the travel reinsurance does not only cover travel; it actually covers other lines of business as well. So, it's a combination of various products that is reinsured. I think it's fairly unlikely that we will reach the capacity of that reinsurance. I think that's the essence of your question. We've never published that number. But I think it's fairly unlikely that we will reach the capacity max of that reinsurance. I think the worry would probably more be if there is an opening of travel again and then a subsequent re-closing of traveling. And then we move into a second phase of reinsurance, where we have to pay our own part of the net claim again. So, I think that is the likely challenge that we might look into.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. That was very --

A - Morten Hubbe {BIO 7481116 <GO>}

That is top-load scenario.

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

Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

So, the capacity is not a worry.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Good. That was the important part. On your DKK400 million SCR reduction that relates solely to Sweden. I'm just wondering is taking down your SCR 8.5%, Sweden account for 8.8% of your business, so does this basically imply that there's no capital requirement that the capital requirement of Sweden have gone to zero?

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

No, you have some geographical diversification and other dynamics that impacted as well. So, it's not only Sweden standalone, but it is a geographical diversification that we get across, you can say, the full business.

Q - Per Gronborg {BIO 15910340 <GO>}

But isn't this model approval does not only apply to the Swedish business, it also applies to other geographies?

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

You can say the new -- there are two areas of new features in the model approval. One is specifically that now Sweden will no longer be looked upon in the standard model, but it would be part of the partial internal model. But also that we have been able to give them the history we now have and the experience, we have with the existing partial model. There are some few adjustments that we have been able to do to the remaining part as well.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. That explains it. My final question, you are addressing somewhere that you are taking a write down on IT activated items, which hits your combined ratio in this quarter. I'm just wondering why you don't address it normally. You address those sort of special items, it's basically even bigger than the COVID-19 impact. Is there a special reason you don't address it in your slides on your headlines?

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

No. I think we're pretty specific when it comes to the report. There we have in more details described what it relates to.

Q - Per Gronborg {BIO 15910340 <GO>}

I'm just wondering, I haven't heard it addressed at all at this presentation. Normally, if you have more than DKK100 million in extraordinary costs, you would address it, but you haven't done it. Maybe because there are other things that those in your direction, I will assume there are costs that also are materially lower due to COVID-19.

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

And I think, you're absolutely spot-on, Per, because there is a lot of things that we could choose to go into more details with like we ordinarily do, but this time we prioritize to give you, you can say, a clear understanding of the impacts of the situation that we are in now. Because as we've discussed during the call, what we've seen in the investment markets have been absolutely unprecedented. What we are experiencing now with the whole world more or less being impacted by the pandemic and so forth. That is sort of taking up quite a lot of focus and attention and understanding the business dynamics. And how it impacts us in the Nordics, is what we have chosen to focus on. So, there is no specific reason for not pointing out.

A - Morten Hubbe {BIO 7481116 <GO>}

It is a fair comment, per, and I think if you read the entire report, you'll see that it is described in there. I think, the way we see it also, there's a positive from Norwegian pensions, and there's a negative from IT write downs, and the net impact of that is zero. So, that was sort of our logic. And of course, you can say, yes, but they're not related. No, they're not related, but they are one-offs and both of them. So, that was more our thinking, two different moving parts that are not usual in a quarter and the net impact is zero. So, that was our thinking.

Q - Per Gronborg {BIO 15910340 <GO>}

Thank you, Morten; that gave the color I asked for. That's was all for me today.

A - Morten Hubbe {BIO 7481116 <GO>}

Okay.

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

Okay.

Operator

Thank you. Our next question comes from the line of Martin Gregers Birk from Carnegie. Please go ahead. Your line is now open.

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

Thank you so much. I have two questions. The first question is, it's a follow-up on the question regarding payback of potential motor premiums, where you argued for mono-line versus motor-line insurance companies. But wouldn't it be fair if this goes on for quite some months on your profitability and your motor portfolio increases quite dramatically to assume that from a regulatory point of view that there would be demands or a potential reduction in motor premiums this year? So that'll be my first question. And my second question is to you, Morten, sort of from a holistic view, what has Tryg learned from all this? What can you do more of? Does this change your view on having ex-FTEs in your headquarter in Ballerup? I guess this is the ultimate test for an organization.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. I guess, two important questions. I guess, Barbara, we could say that I understand the logic that if motor claims falls considerably, which it will when economics activity is lower, could that be a regulator or a public view for reducing premium on that. Of course, you can never rule it out. I think, in the Nordics there's really no history for authorities to interfere in the pricing of individual products.

So, we've never really seen that. So, I don't think it's very likely that we would see it in this situation. And if you look at what is the worry of the authorities at the moment, the worry is that the banks or the life insurers or the insurers will have trouble standing by the customers, handling the risk and be solvent and healthy at the same time. That is really the main worry. I think clearly the non-life companies will generally do well. I think the life companies and the banks will struggle a bit more, but there's really not a political atmosphere of one thing to interfere with the pricing of a single product.

And given how high the losses are on travel claims and an investment income, I think it would really not make sense to require price reductions on motor alone. Of course, if this dragged on for an extremely long period, and then the net-net became very strongly positive, then that dialogue might occur, but I think we are many quarters away from such a dialogue. So, I don't see that happening.

I think on the holistic view, that's actually very important and we're discussing that internally. There are number of areas, where we shouldn't be -- we shouldn't hurry back to old ways in all areas. We see for instance that the number of customer meetings we have on video has exploded. The number of sales and service conversations we can have with customers on the video is a much higher. We're working on new dynamic 360 degree tools that will work better online and in video. So, there are a number of areas, where physical customer meetings no longer has to take place.

Then there are other more complicated business meetings with customers that still needs to be physical, but I think that digital video more efficient contact development will jump several years ahead, and we should use that to a high extent. And then of course, the fact that we are able to have more than 4,000 employees at home at the same time, and our efficiency actually increases, and our customer satisfaction is all time high. It shows us that we can work more from home than today. We will work to exploit that; and of course, we need to be able to see which employees perform better at home and which employees will lack the motivation and the environment and the social contact, and actually whose performance and satisfaction of work will decline, and we see both. So, I think we'll work differently, both related to the customers and related to the employees, and there are real opportunities in there.

We did an HR survey actually, where we asked the employees related to corona specifically, how pleased are you with communication, and they scored 4.5 out of 5. And how motivated are you and they scored more than four as well. So, I think, those also are very pleasing results, but I think digital and online and flexibility of working from home will increase after corona.

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

Okay. Okay. Thank you. Just a follow-up on my first one; I mean when you look at the banks, it seems to be that there is a high demand from regulators and from politicians of showing so-called Sampo sent. And the insurance sector so far hasn't really been exposed to that part. And then I could only think about motor insurance. But do you see any other product lines or any other areas of your business, where they could become -- where there could be increased demands for either regulators or politicians in any of your business areas, where you have to show Sampo sent and thereby give up potential future revenue?

A - Morten Hubbe {BIO 7481116 <GO>}

Not really. I think that we're seeing the insurance companies being quite open and helpful to the customers already on their own initiative. So, for instance, telling customers that they can move from annual payments to monthly payments helping their liquidity. If there is a VAT or again liquidity angles, we can wait on the payment there. If there are suppliers that asks us for early payment from us to them helping their liquidity, we are forthcoming on that. If there are commercial customers, who reduce their employees or they reduce the number of lorries and bands or their employees sit still at home, so they need a less dangerous workers comp registration with a lower premium, we're forthcoming on that. So, we're trying to do a number of things to help customers, and show Sampo sent through that.

So I think, the industry is doing well and helping well. But at the end of the day, banks should play a larger role when there's a liquidity challenge than insurance companies. I don't think that is structurally lack of logic, but we do help in a number of areas.

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

Thank you. That was my questions.

Operator

Thank you. Our next question comes from the line of Jan Erik Gjerland from ABG Sundal Collier. Please go ahead. Your line is now open.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Good morning to you as well. Just to follow-up on your last answer really, and the potential for new businesses as well as potential loss of business or premiums in this COVID-19 situation. Finally, in Norway, you have seen the oil dropping heavily back again. So, could you elaborate on how you see the potential loss of revenues from the oil situation as we saw some years back, could hurt your premium growth out on Norway? Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Well, it's clearly -- I think, the driver you're asking about is quite clear, both in the commercial business and in the corporate business. There are businesses that will go bankrupt in the SME segments, because their helping packages will not be fast enough. That will have a negative impact on top-line growth in SME. There are corporate customers, who'll have a fewer employees, less activity, less lorries, less bands, less new production, which all other things equal will be negative for the top-line in corporate as well.

And then on the other hand, we see a private lines business, where our growth is extremely strong. And then, of course, in commercial and corporate, the top-line growth reported is helped by price increases, which will continue. So, I think, there will be a net-net negative underlying growth contribution from all of the Nordic countries in commercial and corporate. As far as we can see the impact on our total growth will not be very significant given that we are predominantly a private lines business, but there will be a negative impact. But trying to see through the magnitude of that given the uncertainty of how societies will reopen, that is simply not possible yet. We've done some internal modeling, which shows a reduction in corporate particularly and to some extent SME, limited impact on the group, but the reality is that the visibility is very limited, but the visibility is strong enough to show that the technical result target will be met, and for us that is the most important.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Perfect. And on the oil related part, is it anything that worries you? Have you changed your sort of corporate and commercial business lines in Norway out of the oil industry as just here you talked about exiting the fish farming industry. Have your sort of exited your oil-related exposure or is it still the same kind of level as you've seen in the past?

A - Morten Hubbe {BIO 7481116 <GO>}

The reality is that our direct business exposure to the oil related industry is extremely limited. So, you shouldn't expect that to be a negative driver. What is difficult to see through is that of course, there is a lot of sub suppliers to the oil related industry. And we of course, insure a number of those sub supplies. So, that is where we could see the risk, but direct exposure is very limited.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay. Just one final then; if I look into your notes, it looks like your combined ratio in Norway is around 101%. Just could you shed some light into the different kind of profitability in the private commercial and corporate? Just so you can understand where we potentially will see the highest price increases going into 2020 and potentially into 2021.

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

Yes. I mean, if you look at commercial and corporate, there we have been working with price increases in particular in the corporate for a longer time frame that we have done that in the commercial business. We see that the acceptance rate is quite strong also in the commercial segment, because you can say we have had a period of time with quite extensive growth, but probably also at too fair or too low prices. So, that is something where we have seen a significant increase in the recent quarters.

But it is as we also discussed before related to the overall corporate segment, something that we will continue to see going forward. And then on the private side obviously, right now, you see a very high growth with some of the dynamic drivers that we spoke about with higher cost in the beginning with you can say higher usage of the policies and so forth. But if you look at it, we are maturing the portfolio that we have and are very close to you can say that part of the business. So, on the price increase question, I would say expect that to continue to the levels that we have seen in commercial and corporate, a bit into the future as well.

A - Morten Hubbe {BIO 7481116 <GO>}

And fair to say that commercial and corporate Norway has been the two most challenging areas across the group and that remains to be the case. So, we're pleased with the price increases that is starting to help, but the absolute level of combined ratio in those two areas are not at all satisfactory. And they will improve in the next couple of years.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Thank you very much for your answer. Have a good day.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

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

You're welcome

Operator

Thank you. And as there are no further questions registered at the moment, I will hand the word back to our speakers for any final comments. Please go ahead.

A - Morten Hubbe {BIO 7481116 <GO>}

Well, we just like to thank you very much for calling in and hold your all good question. We are not going to be around; probably, that's expected in the next few days, but we've lined up different virtual road shows. And Peter and I, of course, remain available to answer all your calls. So, just thanks again for your time and stay safe.

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

Thank you.