

Q3 2016 Earnings Call

Company Participants

- Christian Sagild, Chief Executive Officer
- Lars Thykier, Chief Financial Officer

Other Participants

- Asbjørn Nicholas Mørk, Analyst
- In-Yong Hwang, Analyst
- Jakob Brink, Analyst
- Jonny Urwin, Analyst
- Paul De'Ath, Analyst
- Per Grønborg, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by, and welcome to Topdanmark's Q3 Results for 2016 Conference Call. At this time, all participants are in a listen-only mode, and there'll be a presentation followed by a question-and-answer session. I must advise you the conference is being recorded today, Tuesday, the 15th of November, 2016.

I'd now like to hand over to your speaker today to Christian Sagild. Please go ahead, sir.

Christian Sagild {BIO 15093649 <GO>}

Good afternoon, everybody, and good morning to the USA. And thank you for joining us in this conference call. Usually, we publish our financial report around noon CET. However, today's board meeting has been scheduled for the afternoon and, consequently, today's conference call takes place at 6 o'clock CET.

With me, as usual, Lars Thykier, our CFO; and Steffen Heegaard, who is Head of Investor Relations and Group Communications. And we are now ready to answer your questions. Please ask them one at a time.

Operator, could we have the first question, please?

Q&A

Operator

We can indeed, sir. I will just announce them for you. Now then, from ABG your first question comes from line of Jakob Brink. And your line is now open.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you very much, and good evening. Just a few questions and I'll take them one at a time. So the first thing is, you state in 2017 outlook that you expect a continued decline in the average premiums on motor. But at the same time, you're stating quite clearly that you can't see an up-tick in the claims inflation on motor. How should I read those two? Thank you.

A - Lars Thykier {BIO 16427122 <GO>}

That was in motor claims?

A - Christian Sagild {BIO 15093649 <GO>}

Yes.

A - Lars Thykier {BIO 16427122 <GO>}

Yes.

A - Christian Sagild {BIO 15093649 <GO>}

We still expect...

Q - Jakob Brink {BIO 7556154 <GO>}

Hello?

A - Christian Sagild {BIO 15093649 <GO>}

Yes. Jakob, sorry. We're still expecting that premiums will continue downwards because of the tariffs, where we see that the inflow of new business in motor is more related to small and safer cars. Thus, the average premium will drop. We are seeing right now some increased frequencies in motor, or increased risk premium in motors. So we haven't crunched the data, so we don't know exactly the reason why we see this up-tick. It is not related to personal injury in motor, it's related to more to comprehensive.

And I think that this is a reflection of what other insurance companies have seen as well in Q3, where sort of unawareness accidents in car and also the fact that we see some increased average claims due to that. Even smaller accidents like just a bump in the dent, or a dent in the bumper, would require more expensive claims to fix them. So it's a combination of those two. But we do expect that premiums will continue to drop somewhat.

Q - Jakob Brink {BIO 7556154 <GO>}

So you have no ambitions of increasing premiums on sort of the older part to take into account the higher inflation?

A - Christian Sagild {BIO 15093649 <GO>}

We do not have any price initiatives in the draw at this time.

Q - Jakob Brink {BIO 7556154 <GO>}

And my second question also on premiums, please. You state that - I think you stated something like that you expect the last of the larger industrial customers that have left the book by end this year, if I don't - yeah. And you have often mentioned the Norwegian Protector is being very aggressive in the Danish market. As far as I understand, they had a fairly weak Q3 in Denmark and also I do understand that there could be some premium hikes underway. Is that something that you're sensing maybe that the market is getting a bit better again on the industrial side?

A - Christian Sagild {BIO 15093649 <GO>}

The Protector part was relating to the workers' comp, and we do sense that Protector - well, we have realized, as many others, that Protector did produce some quite nasty results in their Danish operations. And we think that this might be - that probably will reflect a somewhat less competitive behavior from Protector's side. We'll have to see that. We've stated that we lost some of the large industrial clients, and this is incorporated in our guidance for 2017. This is not a reflection of the Protector behavior in the market.

Q - Jakob Brink {BIO 7556154 <GO>}

But still, you basically haven't seen any change to the competitive situation yet?

A - Christian Sagild {BIO 15093649 <GO>}

No.

Q - Jakob Brink {BIO 7556154 <GO>}

No. Okay. And then finally just a small piece of question. Could you tell me how much have been the discounting impact on the combined ratio in Q3 2016 compared to Q3 2015, just the quarter? Thank you.

A - Christian Sagild {BIO 15093649 <GO>}

Was that 0.2%? Interest rates were up somewhat. I think it was...

A - Lars Thykier {BIO 16427122 <GO>}

It was 0.2% in the year quarter. In the quarter, it's 0.5%.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. So basically you had a 0.5 percentage point positive impact on the combined ratio this quarter compared to Q3 last year.

A - Christian Sagild {BIO 15093649 <GO>}

That's right.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah. Okay. Thanks a lot. And that was my questions. Many thanks.

A - Christian Sagild {BIO 15093649 <GO>}

Thank you.

Operator

Thank you very much indeed, sir. Now your next question from Danske Bank comes from the line of Asbjørn Mørk. And your line is now open.

Q - Asbjørn Nicholas Mørk

Yes. Good evening. A couple of questions from my side as well. I am going to take them one at a time as well. First, going back to your top line, your assumptions for flat premiums next year. So you're saying that the motor insurance will be under pressure. I was just wondering if you can elaborate a little bit where do you see sort of an upwards trend? Is it going to be the same things that we've seen during 2016 or anything else is changing there? Thank you.

A - Christian Sagild {BIO 15093649 <GO>}

Well, basically, we see that in the private lines area we have had full market pressure now. We have been under some strain in the private lines area because of a lot of agents being involved in education in the new distribution model. So we have full market pressure right now. But basically, the zero stems from the index. There is an assumed index of 1.8% coming January, and that indexation of premiums relates to roughly 75% of our book. So that'll produce a 1.3% growth.

The motor insurance, we assume an effect of a 1 percentage point negative growth due to the decline in average premium. We see that we have this loss of unprofitable industrial customers, which will affect us negatively 0.7%. And then, we have this general improvement in personal, agricultural and SME, which produces a 0.4% positive growth. So it's altogether 1.7% positive, 1.7% negative. So it's around zero.

Q - Asbjørn Nicholas Mørk

But if I can understand you correctly, if you didn't have this sort of spillover effect from your sales force, then your premiums would be down next year versus 2016. Is that correctly understood?

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A - Christian Sagild {BIO 15093649 <GO>}

No. I mean, the general improvement in personal, agricultural and SME would be somewhere in the line of 0.4%. And, of course, with an effect of 0.7% from larger clients leaving us, you could say that we would be slightly negative. But, as you know, it's not rocket science at this point in time how premiums will develop in 2017.

A - Lars Thykier {BIO 16427122 <GO>}

And then, you can actually see that the momentum we have seen improving during 2016 is continuing in the private lines, SME market and agriculture lines.

Q - Asbjørn Nicholas Mørk

Okay. Fair enough. And then a question on your cost side and also relating to the announcement you had in early October. You're saying that there is more to do on the digital side, could you sort of elaborate a little bit about where do you see this potential if you look more than just a couple of quarters ahead?

A - Lars Thykier {BIO 16427122 <GO>}

I think this was - basically, it was just a cautionary remark. We do have a forecast, but we know that we're going to do different things. But we don't know exactly how much it's going to cost and how big the benefits will be. And we can't (09:37) put them precisely time wise.

Q - Asbjørn Nicholas Mørk

But would you expect lower reported cost for the coming years?

A - Lars Thykier {BIO 16427122 <GO>}

I expect the trend in costs to be downwards, but I won't rule out that there are single quarters where the expense ratio will be higher than it were in 2016.

Q - Asbjørn Nicholas Mørk

Okay. Fair enough. And then, a final question on your slide 11 on the buyback program. Just wondering the DKK 200 million that you opted buyback program with you're saying this will take place in 2017. So do you think that this will take place before your AGM and how do you see the increased buyback in the context to the big shareholder announcement that you had a couple of weeks ago?

A - Lars Thykier {BIO 16427122 <GO>}

We don't have very strong ideas about the share buyback after the general meeting. So, yes, we do assume that is DKK 200 million will be bought before for the AGM.

Q - Asbjørn Nicholas Mørk

Okay. Thank you very much.

Operator

Thank you very much indeed, sir. Now from SEB your next question comes from the line of Per Grønberg. And your line is open.

Q - Per Grønberg

Thank you. It's Per from SEB. A couple of questions from my side.

Operator

I beg your pardon, Per. My mistake.

Q - Per Grønberg

That's okay.

Operator

Thanks.

Q - Per Grønberg

Couple of questions from my side as well. The first one probably pretty easy. Thank you very much for giving us the net effect of large claims. What are your expectations of large claims and normal run rate per quarter. Just like you're giving for weather-related claims, can you give any numbers what we should expect the run rate for this to be?

A - Christian Sagild {BIO 15093649 <GO>}

No. We don't have that figure.

Q - Per Grønberg

Okay. Then to Asbjørn's question, payout, it sounds like you will not take any actions and see what happens at the AGM next spring. Is that correctly understood or should we expect Topdanmark (11:46) take action and maybe adjust the payout strategy towards the business from your largest shareholder?

A - Christian Sagild {BIO 15093649 <GO>}

Per, the shareholder remuneration policy is of course a shareholder issue. That should be addressed on the AGM after recommendation from the board. We have read Sampo's announcement as well, but the board has not at this time received any request to change anything. If this is going to happen and the board receives such a request, they will act on that and find out what they intend to do on the coming AGM.

But as of now, this has not happened. And the only thing that we can relate to is what is said in the statement regarding the compulsory offer from Sampo, that is that we will

continue to have this very disciplined approach to the capital redistribution to the shareholders from Topdanmark.

Q - Per Grønborg

Okay, very clear. Final question. You're hiking your guidance quite nicely for 2016 in this report. Bit surprised you're doing it now and didn't do it in when the board was out recommending your shareholders not to take the offer. Maybe that could have changed the mind amongst some of the shareholders that ended up accepting Sampo's offer. Any comments on the timing of this?

A - Lars Thykier {BIO 16427122 <GO>}

So just that when we made the statement, we did not have all new prices of the different assets. So we preferred to use the Q2 financial result as starting point. And you know very well how our mechanism works, that you will have to put the general market development on top of the results we had after Q2 to get to a reasonable expectation of what it should be in Q3 - or after Q3.

Q - Per Grønborg

Okay. Thank you. That was my questions.

Operator

Thank you very much indeed. Thank you, sir. Now your next question from Goldman Sachs comes from the line of In-Yong Hwang. And your line is open.

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

Hello. This is In-Yong Hwang from Goldman Sachs. Thank you for taking my question. My first question is on the kind of underlying improvement, some kind of big improvements that we saw in the illness and accident and personal. Is there any comments you can make there, do you think these are sustainable improvements, or are they kind of just a run-off volatility from quarter-to-quarter?

A - Lars Thykier {BIO 16427122 <GO>}

Actually, I have to say that I don't know. There are some reasons that obviously are - because this quarter we didn't have any weather - and we did have a nice run-off, but we did have a positive development in private lines and agriculture as well. But whether this is sustainable or not, I won't know now. It's just a single quarter.

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

Yeah. Okay. That's fine. And the second question is on your investment strategy. We've seen it's quite big sort of macro movements since (15:24) last week. Is there anything that you're thinking (15:29) your investment portfolio, just any changes that we should kind of expect?

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A - Lars Thykier {BIO 16427122 <GO>}

We are guiding on the fourth, and we don't really speak about what's going on after that.

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

Okay, fine. Great. Thank you. Thank you. Very clear.

Operator

Thank you very much. And just before we move on to the last question, just a gentle reminder. So from Mediobanca you now have a question from the line of Vinit Malhotra. And your line is now open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good evening, everybody. Just one thing on the investment side, are there any significant realizations of gains that you would like to point out. Or are you - for example, in Danish equities, or maybe have you changed anything in the CDOs? So these are very good numbers and I just thought I will ask. Thank you.

A - Lars Thykier {BIO 16427122 <GO>}

The development in CDOs that is a simple consequence of the very positive development in bank loans during the quarter. We have seen, well, three quarters in which we have seen an increase in the price of bank loans of around 4 points; and that adds up to some substantial gains in the CDO equity portfolio. On top of this we have realized some gains on the unlisted shares that was sold during the quarter.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. All right. Thank you very much.

Operator

Thank you much indeed. And we do have some further questions. From UBS you now have a question from the line of Jonny Urwin. Your line is now open, sir.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, there. Good evening. Thanks for taking my question. Just one very quick one. I mean, I'm a bit surprised by the comments on motor pricings, given I thought you'd be pretty eager to increase prices as soon as there was any return of claims inflation after four years of the risk premium declining. I wonder are you a bit nervous about doing so? And the elasticity of demand perhaps, given Tryg's got its customer dividend model and perhaps they've got a bit more pricing power than you guys in the Danish motor market. I'd be interested to hear your comments there?

A - Christian Sagild {BIO 15093649 <GO>}

We are all the time relating our position to the Danish market. We have seen and considering what steps to make. At this point in time, we still feel that motor business is a quite attractive one, but we have seen this trend with Q3 with a somewhat uplift in the risk premium. We don't feel the need to take any actions based on few numbers. And that is why we don't have any price initiatives relating to motor at this point in time.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

Thank you very much indeed, sir. Now your next question from RBC comes from the line of Paul De'Ath. And your line is now open, sir.

Q - Paul De'Ath

Yeah. Hi, there. And I think most things has (19:03) probably been covered. And just quickly on the life business and obviously strong trend in earnings, but the premium trend is slightly lower in Q3 than - and versus the half year. And just if you can give any comment on kind of the way you see that moving forward and kind of way you expect I guess the earnings movement to go because obviously the Q3 was very strong versus last year? Thanks.

A - Christian Sagild {BIO 15093649 <GO>}

Well, the earnings in life is less related to the top line growth than it is in non-life; and the bottom line in life is very much related to the risk charges that we can charge on the guaranteed environment. And, therefore, when you look at a very positive top line growth in life, that relates very much to the unit-linked business which is not sort of producing a lot of yield in the life company, but in the asset management company.

So a nice development in the top line of life will produce some nicer results in the asset management company, whereas the development in the life company relates to the guaranteed products, but mainly to the guaranteed products and, of course, the yielding of the shareholders' capital in the life group.

And this has been more favorable this year than it was last year. And also the fact that we didn't have to postpone any of the yielding in the life group on to the shadow account, which we did have to do last year in the same three quarters. So these are the main reasons for the nice development in life. The assumption to the life earnings is unchanged for the full year compared to a quarter ago.

Q - Paul De'Ath

Okay. Thanks.

Operator

Thank you very much indeed, sir. Thank you. And now from SEB you have a follow-up question from Per Grønberg. And your line is open.

Q - Per Grønberg

Thank you. Just a quick question from my side also on life. Sales and admin suddenly turned positive this quarter. It has been quite chronically negative for a while. Is this a single quarter where this happens or are you through some of your investments in new admin and should we expect this going forward?

A - Lars Thykier {BIO 16427122 <GO>}

We expect the admin result to improve, but it is impacted by some specific payments or gains this quarter.

Q - Per Grønberg

Okay. Thank you.

Operator

Thank you very much indeed, sir. And there appear to be no further requests at the moment, sir. So I shall pass the floor back to you.

A - Christian Sagild {BIO 15093649 <GO>}

Well, thank you for taking the time to attending our conference. As you know, you're always welcome to contact one of us if you have any further questions. We'll be happy to answer them. Thank you, and goodbye.

Operator

Thank you very much indeed, sir. And with many thanks to our speakers today, that does conclude our conference. Thank you all for participating. You may now disconnect. Speakers, please stand by.

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