Q3 2018 Earnings Call

Company Participants

- Christian Baltzer, Group Chief Financial Officer
- Gianandrea Roberti, Investor Relations Officer
- Morten Hübbe, Group Chief Executive Officer

Other Participants

- Asbjørn Nicholas Mørk, Analyst
- Ida Melvold Gjøsund, Analyst
- Jonny Urwin, Analyst
- Kevin Ryan, Analyst
- Mads Thinggaard, Analyst
- Per Grønborg, Analyst
- Philip Ross, Analyst
- Steven Haywood, Analyst
- Vinit Malhotra, Analyst
- Wajahat Rizvi, Analyst
- Youdish Chicooree, Equity Research Analyst

MANAGEMENT DISCUSSION SECTION

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. This is Gianandrea Roberti. I'm Head of Investor Relations, Tryg. We publish our Q3 results later on today. And I have here with me Morten Hübbe, Group CEO and Christian Baltzer, Group CFO, to discuss the figures. Over to you Morten.

Morten Hübbe

Thank you, Gian, and we begin on slide 3 with a technical result of DKK 761 million which is slightly below third quarter last year, but clearly impacted by an increase of DKK 173 million in large claims. We show a slightly lower investment income versus last year but still satisfactory and above a normal quarter. Equities are positive while, of course, fixed income, of subdued returns. We see a good progress continuing in the underlying claims ratio with some 50 basis point improvement both on Private and on the Group level.

Expense ratio 13.9, in line with our ambition to keep our expense ratio at or below 14% for 2020. Dividends per share of DKK 1.65 as in previous quarters. Solvency ratio of 291, bear in mind, we still expect a solvency ratio of approximately 170 when Alka is fully consolidated.

On slide 4, we elaborate on customer highlights. TNPS continues to improve in this quarter, particularly positive to see that Private Norway has a strong improvement. Amongst others, we see an improved access time for customers and also improved feedback to customers lifting the TNPS and also lifting retention rates. Very positive to see retention rates improve across all areas. For the whole Group, retention was 88.9% for the quarter compared to 87.8% year-on-year.

Private Denmark actually had the highest level of retention for the last nine years. And after a decline in retention in Private Norway in 2017, we've now seen improved retention rates also in Private Norway in all quarters so far this year. Also in Commercial lines, both Denmark and Norway show increased retention rates.

The awareness of the Trygheds bonus continues to increase, both for customers and non-customers, positive that for customers we see an increase to 74%, also an increase for non-customers but still only at a level of around 22%, offering lots of potential to further improve in the future.

On slide 5, we show a slightly lower technical results for Q3, as mentioned, clearly driven by the increase of DKK 173 million in large claims, but also as Christian will elaborate on, an increase in run-off gains.

We see broadly stable across the segments. Clearly, Corporate is the area hit by high amounts of large claims, partly offset by higher run-offs. We continue to have a very high focus on pushing the prices of, particularly Corporate Norway, upwards. That has been successful in 2018 and we will continue to do so in 2019.

On slide 6, we show our dividend per share of DKK 1.65 for the quarter, bringing us up to nine months' dividend of DKK 4.95. We aim at continuing to increase the annual dividend on a nominal basis. Clearly, the combination of high and stable returns and rather limited growth means that increased capital consumption is quite limited. So, we've been able to focus on returning cash to shareholders for a long period and that focus will continue in the future.

On slide 7, we've shown a new slide, elaborating a bit on the four strategic initiatives presented at the Capital Markets Day on November 17. You can see more elaborate notes on those issues in the report. But just a few highlights on claims, we see that in connection with agricultural fires this summer, our work with fire tracers and fire extinguishers have reduced the claims by approximately DKK 10 million. We see an increase in the number of fraud detected by around 25%.

In product, we see an improved trend that we put prevention into our products. We've seen in the last couple of years an increase of around 30% in house claims related to rats, and now we include a rat blocker into our products. No one likes to talk about rats but they can actually take out 90% of the risk and more than 30% of our customers now accept this solution.

On digital, full throttle, clearly, log-ins to our digital universe has increased 40% year-on-year. We launched a new tracker to reduce number of non-value-adding calls and already more than 100,000 customers have used that, and claims reported online have now increased to 33%. And then we elaborate finally on a couple of distribution efficiency measures to improve margins and finance a number of our investments in digital.

On Slide 8, we've taken a snapshot of Alka's Q3 report. Alka continues to produce a strong financial performance with nine months technical result of DKK 276 million and a combined ratio of 83.7% despite a 3 percentage points lower runoff.

Tryg has mentioned on September 25 that we've submitted nonstructural remedies expected to resolve authority concerns in the approval process and that the process is expected to be finalized by the end of 2018. And for your information, structural remedies would for example include divestments, which is not the case.

The solvency ratio is expected to be, as I mentioned, around 170% when Alka is consolidated. And just to put the nine months results into perspective, you may recall that we communicated an assumption of annual run rate for technical results in Alka of around DKK 300 million and synergies in 2021 of around DKK 300 million. And then you may recall we enhanced our 2020 technical result target from DKK 2.8 billion to DKK 3.3 billion.

All of those targets, including the timing is unchanged. But if we compare to the assumed run rate of DKK 300 million for a full year, of course, DKK 276 million technical result for Alka in the first nine months is very comforting, but we have not changed our assumptions.

If we move on to slide 10, we show a premium growth of 4.7%. Bear in mind that that is helped by portfolio acquisitions. And excluding those, we see a premium growth of 3% organically. Private lines, a growth of 5.3%, particularly improvement now in the Norwegian part of Private and a continued positive trend in Denmark.

Commercial now also improving, we clearly see retention increasing and also price adjustments helping the equation. Corporate Norway, particularly a good acceptance of the price increase is carried out. So far this year, we've carried out price increases of around 7% in Corporate Norway and we actually expect and even slightly higher price hikes at the renewal, 1st of January 2019, in Norway to improve profitability. And then we mentioned that Tryg Garanti has been growing nicely at a combined ratio well below the Group combined ratio.

On slide 11, we show as always, average price changes. Average prices are up in all products and segments. We are pushing through across the board price increases of around 3%, expecting inflation in claims of around 2%, 2.5%. In Norway, bear in mind that the regulation of one very large and very profitable partner agreement weighs on the overall pricing picture.

And then finally on slide 12, we show a very positive trend in retention rates continuing to improve, develop positively across all business areas. As I mentioned, highest level in nine years in Private Denmark and now positively also increase in Private Norway, and you can see a positive trend across Commercial Denmark and Norway as well.

And over to you, Christian.

Christian Baltzer {BIO 19705595 <GO>}

Thank you, Morten. Good morning, everyone. So, on page 14, we're giving some highlights on the underlying claims ratio and it has been improving 50 basis points for Private and for the Group, in line with our recent trends. We expect the pace of the improvement to remain broadly around these levels. Of course, Private seeing more stable quarter-on-quarter development and whereas we have seen some fluctuation on the Group quarter-by-quarter.

Private continues to develop satisfactory while pressure remains, as Morten has been mentioning, on the Corporate segment, where prices increases has been carried out and will be carried out going forward. As Morten mentioned, we've been pushing through 7% increases year-to-date on Corporate and actually getting good results on that. There's no doubt that the stability of our underlying performance is important for us and we are very satisfied to see the progress on this.

Turning to page 15 which is an update on our motor story in Denmark here specifically where we kind of update some of the trends that we see. And one of the new ones we have here is kind of showing that the number of vehicles on our roads are increasing and the overall number of accidents also is showing an upward trajectory. Now, the tech part of the claims mix is still increasing and we do see that, for example, here shown as headlights, the technology that you put into these headlights actually are increasing our overall cost of replacing them. These are, as Morten mentioned, being pushed through as price increases also in this book.

Turning to page 16, we're giving a short update on our Norwegian motor book following the Analyst Day in June and our previous communication. We expect price increases around 5% whereas we kind of expect claims inflation of 4%, mostly driven by the higher repair cost. On the upper right graphics, you can see that Tryg over the last six months has been carrying out price increases. This is published statistic from FNO where you can see two of our other peers, one actually also carrying out these price increases, and another one not really getting the traction on price increases. So, very pleased to be among those that are carrying out price increases to have a sustained underlying performance of our book.

Turning to page 17, as Morten mentioned, this has been a quarter with a higher level of large claims than what we've seen previously. Our overall large claim and weather claims expectation are unchanged. but there is no doubt when we look at the first three months of these first three quarters of 2018, both on weather and on large claims, we're seeing a more normal level than what we previously have seen the last two years. Run-off, relatively high in this quarter and nine months, 7.4%, is a reflection of our robust reserve position and a capacity to absorb external shocks.

Turning to page 18, as Morten mentioned, our expense ratio of 13.9% is in line with our target of around 14% by 2020. We do see a slight increase in the number of employees. Some of this is due to insourcing in our IT and also our portfolio acquisitions.

Turning to page 20, we're giving a snapshot of our investment split which is broadly unchanged and also unchanged mix in our free portfolio.

On page 21, dive into the investment return. We see the free portfolio is reporting DKK 101 million return, driven by 3.5% return on equities, while overall fixed income return was negative. The match portfolio development positively is impacted particularly by the regulatory deviation and this is driven predominantly by the yield between the Danish and European swap rates narrowing.

Other financial incomes and expenses is at DKK 47 million and slightly better compared to the recent guidance of above 60 DKK million quarterly expenses. Some volatility do remain on this line. Total investment return of DKK 79 million is lower than third quarter 2017, but is satisfying compared to our overall expectation of a normal quarter in Tryg.

On page 22, a little highlight on our solvency position. The solvency ratio for third quarter is 291, or 207 adjusting for the Alka capital raise. Tryg continue to expect a solvency ratio of approximately 170 when the transaction is closed. Our funds move is predominantly driven by the result and our dividend payout, and our SCR shows a very limited change compared to the second quarter 2018.

Turning to page 23, on our capital and solvency ratio development, the Tier 1 issued during the spring has utilized the remaining capacity as explained in our second quarter call. The Danish FSA, as we have mentioned before, has explained that a solvency ratio lower than 125 would result in an increased surveillance. Solvency ratio development remains primarily a function of net profits and the dividends, so we expect the underlying development to be somewhat stable.

On page 24, we have an update on our solvency ratio sensitivity and there is no overall change to the sensitivities pictures on this slide.

So back to you, Morten.

Morten Hübbe

Thank you, Christian. And just finally on slide 25, we reiterate our financial targets. Technical results target of DKK 3.3 billion in 2020 including Alka, combined ratio at or below 86, expense ratio 14 and ROE post- tax at or above 21%. We should point your attention to a slightly higher tax rate due to additions to the tax bill for 2017. And then as previously communicated, we expect as part of the Alka closing to book a one-off charge of DKK 200 million in Q4, but that has previously been communicated, so really nothing new there.

And then we just finish off with our old friend, John D. Rockefeller, on page 26.

And with that, we're ready to take your questions.

Q&A

Operator

Thank you. And our first question comes from the line of Ida Gjøsund from Carnegie Bank. Please go ahead, Ida. Your line is open.

Q - Ida Melvold Gjøsund

Thank you and good morning. A few questions from me, please. Firstly on premium growth, you reported solid growth of 3% when excluding portfolio acquisitions. How do you expect organic growth to develop going forward? Also, can you give us an update on the competitive environment in both Denmark and Norway? Then on claims inflation in motor in Norway, on slide 16, you write 4%. Just to clarify, is this related to average repair cost alone? And if yes, what's the number on frequency?

And then last, on your Norwegian combined ratio, I understand there is a single large claim impacting your numbers this quarter? Could you quantify the impact and perhaps also what type of claims is this? Thank you.

A - Morten Hübbe

Good morning, Ida. Well, regarding your first question, clearly 3% organically is slightly higher than expected. We continue to have an unchanged outlook of 0% to 2% growth. I guess the picture we're seeing is quite clear that our Private lines is improving with a very positive trend that is continuing and that will pull up our group growth. I think that dark horse is really what's the Corporate response to price changes will be. And we are working with the assumption that we will see some negative topline reaction to Corporate price increases particularly in Norway. But so far, the market has been quite willing to accept price increases of 7%.

And that takes us really to your second question regarding or the question regarding competitive environment. I think we're seeing in Denmark a quite stable development. We have, of course, some tailwinds from the bonus program which is expected to continue for the coming years. But broadly, we see the competitive landscape in Denmark being quite stable. I think we'll see more change in the Norwegian competitive landscape both with a number of smaller players struggling, also a corporate player struggling.

And I guess generally, you can see from the FNO statistics that pricing is unsustainably low on Corporate Norway for the past three years. We've increased prices by 7% this year.

We're increasing them even more 1st of January 2019. And generally, we see the Corporate Norwegian market all increasing prices and it's quite clear from the data that the whole market needs to increase prices. So all in all, I would say an improved competitive landscape in Norway and an unchanged, quite stable landscape in Denmark.

A - Christian Baltzer {BIO 19705595 <GO>}

Ida, you had two other questions, so on page 16 where we're showing the 4% repair cost development, I think you can look at it in a way that the 3% is an inflation expectation from comparable claims that you also see in the graph in the lower right corner where you can see that trails around the 3% which is repair cost. The 1% that we put in in technology kind of bucket would be a mix of both some frequency but also some of the technology development. So the 4% is of course an expectation of the future and is the background of where we're pushing through those 5% of increases.

Now this is an area that we monitor every single month. And if we don't see that we're pushing through enough price increases, adjustment will be made to that. But we believe that currently the 5% increase is something that will give us a good tailwind going into 2019.

And on your question regarding the single claim that we're writing in the report of DKK 130 million net, you have to bear – this is a property fire claim actually outside of Norway from one of our customers in Norway that we have taken the exposure with them outside of Norway. This is a claim that is DKK 100 million net and then the reinstatement premium that we are paying in our reinsurance program to kind of top off the coverage is around DKK 30 million. So the net impact for Tryg is DKK 130 million.

Q - Ida Melvold Gjøsund

Okay. Perfect. Just to clarify, so you haven't seen any picking up in claims inflation in motor in Norway?

A - Christian Baltzer {BIO 19705595 <GO>}

I think we've seen some – historically, we have seen someone taking kind of a toll of that and pushing through price increases. Our expectation into 2018 has been of somewhat stable, a little upward – kind of frequency increase. So, not something dramatic. I think some of the dramatic frequency trend we saw was actually in 2016-2017 in Denmark, and we are also seeing that frequency to somewhat tailor off and flattening. Yeah.

A - Morten Hübbe

I guess it's fair to say that the trends have been slightly moving in different patterns in Denmark and Norway because the trend of higher repair cost inflation in Norway has been there for a number of years now, and it's not a new trend. The trend of higher frequency has really been a challenge in Denmark and we're seeing some early signs of that in Norway as well. But it's the thing we've been monitoring in Denmark now for the past couple of years, and we're sure to compare notes across the countries to capture both the repair cost inflation and the frequency trends.

Q - Ida Melvold Gjøsund

Okay. Thank you.

Operator

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

Q - Asbjørn Nicholas Mørk

Yes. Good morning from my side. A couple of questions as well, first, on your underlying improvement of the 50 basis points, if you could just elaborate a bit on how that looks in Denmark and Norway basically the (23:22) split on country? That would be my first question. Thanks.

A - Morten Hübbe

So, good morning, Asbjørn. I don't think we actually guide on the different development between Denmark and Norway. I think we have the luxury of having three countries where we can take advantage of different environment and actually have a combined more robust portfolio because we have kind of some good legs both in Denmark, Norway, and of course not as strong in Sweden. So I think you just should focus on the overall kind of group development on the Private side and then we'll be managing, making sure that our underlying performance kind of continues to improve.

Q - Asbjørn Nicholas Mørk

Okay. Fair enough. Then if I may go to large claims. So, besides the DKK 130 million from Norway, I guess there's a couple of larger claims in Denmark as well. So, just one question being if – as I understand, this is not correlated with the weather in the quarter. Could you just confirm that? And then if I look at your ceded business, basically your reinsurance result for Q3, it's much better than in previous quarters. Is that driven by these large claims on the reinsurance that you have received from there?

A - Christian Baltzer {BIO 19705595 <GO>}

So, you're right that the ceded is driven by the large claims and especially the DKK 130 million net claim has a bad impact. I think whether in some of these fire claims that we are seeing on large claim is driven by the drought that we had during Q3 is more speculation than necessarily is a trend that we have seen. So, whether or not there is a one-to-one correlation with the weather we have seen or with the large claims, it's really hard for us to kind of get that gauge. I think one of the things we did see, and as Morten mentioned, was that in our agricultural business we're actually done quite a lot of work on doing these fire tracing to kind of reduce the number of fires that we see in our agricultural area and thereby actually reduce what could have been much more damaging impact on our portfolio had we not done this prevention.

A - Morten Hübbe

I guess it helps the equation, Asbjørn, when you talk about weather versus large claims that our – we're slightly below market share exposure to the agriculture in Denmark and we are significantly below our market share on agricultural exposure in Norway, and that clearly helps our equation relative to others. But it's quite clear that when you look at larger claims that in general comes from Corporate, it just highlights even more our work – that Corporate lines across the board needs higher prices, worst in (25:59) Norway but not only in Norway, and that's why we are working very determinedly to find the right and best path of ensuring our longer term improvement of returns in the Corporate segment. And a big part of that is making sure you get high enough prices to pay for the large claim risk. And a quarter like Q3 is a quarter that reminds everyone of that.

Q - Asbjørn Nicholas Mørk

And now that you've seen the large claims pick up a couple of quarters in a row and of course this quarter in particular, is there any risk on your reinsurance costs going forward? Should we expect a rise here?

A - Christian Baltzer {BIO 19705595 <GO>}

I think that coming out of two quarters – or two years with very low level of both large losses and weather claims has definitely been a help with our general kind of discussion with the reinsurers. Whether we'll see significant increases on our per risk, I don't expect so. We still have kind of okay weather coverage and weather results on a net basis, so I don't expect large movement in that area. But of course, the reinsurers will try to use the argument that once we have large claims, prices need to go up and we kind of try to look at a more longer history of claims.

A - Morten Hübbe

In addition to that, I guess, Asbjørn, that the general reinsurance market is still influenced by higher capacity than demand which puts a cap on price development.

Q - Asbjørn Nicholas Mørk

Okay. Fair enough. Then on the fire risks, if you leave aside the agricultural business which you were also out commenting a week ago, and look at the general fire risks in Q3, how do you see the development there from the drought and the weather?

A - Christian Baltzer {BIO 19705595 <GO>}

Not really something significantly that has showed up in our books as spikes.

A - Morten Hübbe

I think it is really focused in Denmark on the agriculture and it's actually not the buildings. Typically it's the machines. So use the machines for harvesting and that is why you typically have the fire claims and that's why we have this increase of 400%, which is really quite steep. Then, we avoid the similar claims in Norway because we have almost no agriculture exposure, but there's no particular property linked to fire and that is where we would otherwise see fire that isn't property. So it is really an agricultural phenomenon predominantly in Q3.

Q - Asbjørn Nicholas Mørk

Okay. Fair enough. Then if I may go to slide 11 where you showed the price development and basically focusing on the motor insurance, so two questions really. First, if you look at Denmark, up 2.4%, which of course is solid. But if I compare with previous quarters, it's a decline from 3% a couple of quarters ago, then slightly lower in Q2 and then now lower in Q3. Have you sort of done the actual repricing around motor that you've been able to, considering the TryghedsGruppen bonus, and we should expect structurally lower repricing in motor in Denmark? That was the first question.

The second question being on Norway, the 1.4% compared with the 5% price hikes that you're carrying through right now, so we should expect that line to improve quite substantially the next 12 to 18 months, I guess.

A - Morten Hübbe

I think it's important – broadly your logic is right, but bear in mind that the data we show here is the total portfolio exposure versus price, which means that it's price as one driver, it is of course also mix as a second driver. And then thirdly, it is also for instance, partner agreements that often further follow a different pattern than the direct business.

So if you take the 1.4% on Norwegian motor for instance, if you were to calculate that for the direct business or really everything besides one particularly large partner agreement, the number would have been significantly higher. But we show you the total.

And as I mentioned in Norway, if there's a one particularly, very large partner agreement with a very attractive combined ratio, where we've seen actually price reductions in motor and that pulls down the average of the rest. But in general, the expectation for the future trend on Norwegian motor pricing is upwards, while I would say in Denmark, it is more broadly stable. And also here, a few partner agreement pulls down the average, but only a little bit.

Q - Asbjørn Nicholas Mørk

Okay. Fair enough. Then a final question from my side, relating to the Alka transaction or potential transaction, so you mentioned, Morten, that a nonstructural remedies that basically means you're not going to divest part of the business. But I guess, all things equal, the remedies will leave you less well-off than if they hadn't been there and you still reiterate your DKK 300 million guidance for the synergies.

So could you just elaborate a bit on whether in isolation, the remedies are expected to have a negative impact and whether the DKK 300 million was a conservative number you gave a year ago, and that's why you can reiterate the guidance, or how should we see that? Thanks.

A - Morten Hübbe

I understand the question but at the same time, we need to respect that there's a process where we need to respect the time and the investigation of the authorities. I think, when you look at – so I cannot comment on the actual remedies that we're discussing, because they're still being discussed, so we cannot give you a full picture of that.

Some of you have questioned what could be examples of non-structural remedies. You've seen in other cases than ours, examples where for instance putting a cap on various fees, could be an example of a remedy seen in other cases, just to give you a flavor of what is sometimes in the toolbox. We have no doubt whatsoever that we will deliver our synergies. We see currently underlying run rate results that are actually slightly higher than our working assumptions, and we have no changes to the timing of the synergies and the results expected.

I guess what we've tried to do is to make sure that we spend the time well into a much more detailed planning of the integration, which means that we are more than ready to start the actual integration and process. And Asbjørn, I'm afraid I cannot comment more details than that.

Q - Asbjørn Nicholas Mørk

That's fair enough. Very helpful. Thank you.

Operator

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

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yeah. Hi, this is Mads from ABG. Thanks for taking my questions. The first one I have is going back to the battle for higher profitability in the Norwegian Corporate segment. I think, you have been alluding to before a kind of a target to get a 10% ROE among the Corporate Norwegian customers, and now you are talking about, I mean, further price initiatives. Could you kind of put a bit on that on how far we are from the 10% ROE and I mean, how long time this journey towards 10% could be? Thank you.

A - Morten Hübbe

Morning, Mads. I don't think we've published an ROE target for Corporate Norway, but I guess, the general logic is not far off in the sense that the ROE of Corporate is significantly below the Group. And if you look at the underwriting year, ROE in Corporate Norway is negative. So that's why we've said that the expectation is really that we're looking at something like a three-year journey of price increases in Corporate Norway. We've done 7% so far in 2018, and we expect for the 1st of January 2019 renewal actually a slightly higher price increase than 7% again. And we expect that journey to continue for some three years.

Of course, we will see how the market reacts. The market has reacted positively so far, but that's also why we use a caution of the top line, because we are willing to accept some loss of top line if necessary to carry out these price increases, because we clearly want to achieve a higher long-term ROE in Corporate, also when we look at the underwriting year in isolation and do not take into account the help from run-off gains.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Could you put a bit of flavor on how much you kind of moderated your top line guidance, I mean, due to the possibilities of customer reaction in this segment?

A - Morten Hübbe

I understand the question, but I think in a big Group with lots of moving parts, I think that would be being more precise than we can actually control. I think, when you look at the retention rate improvement with more than one percentage point just the last 12 months, that's clearly more positively than we've assumed. Clearly, if that trend continues, our assumptions are too conservative. On the other hand, just assuming that that trend continues is probably (35:49) being too naive. So, we try to be cautious and we've put in customer reaction in Corporate Norway as negative, but I wouldn't want to specify that in more precision.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Understood. Then just one final question on the Alka transaction and that is just, I mean would it be a very big surprise to you if the deal were not approved by the end of 2018?

A - Morten Hübbe

That would be an extremely large surprise. And then to be honest, I don't have the fantasy to imagine that that could happen.

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 open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Good morning guys. Thanks for taking my questions. Just two. So firstly, just to follow-up on the claims inflation versus pricing dynamic, mainly in Denmark and Norway. Are there any areas you finding it harder to price out claims inflation and are there any trends that have surprised you?

Secondly, retentions, obviously (00:37:02) are very high, very good in Private, is this mostly the customer bonus model properly working through now or are there other drivers, and is there much benefit still to come from that customer bonus run-off? Thank you.

A - Morten Hübbe

Jonny, so I should start with your first one. We haven't really seen any areas with surprising development compared to what we expected. There's no doubt that we often look at the portfolio more customer by customer, not necessarily like product line by product line and carrying out price increases is more tried to be done as in a customer basis. So, I think that we feel we have a pretty good handle on both pushing through the prices in the areas that we need to and also kind of offsetting the claims inflation, either by price increases or by their procurement and kind of in initiatives on claims. So I think, we are feeling quite comfortable with where we stand, the trajectory that we are having on the underlying development and profitability of our book.

I guess on your second question on the customer retention, I think it's fair to say that it's not only the bonus, because actually we see one of the bigger jumps this quarter being Private Norway and also Commercial Norway that has no bonus. If you look at Private Norway, it's really positive to see that after a slightly more difficult period, we've seen for instance that our IT stability is much higher. We implemented new payment systems more than a year ago where we've sort of completely screwed up that project, and there was a long number of areas where we really were sending wrong premium calculations to customers and also some challenges that gave negative response. All of that has been stabilized.

We see that our accessibility in Private Norway is much higher. We've done very systematic work to reduce the number of negative customer experiences. And across Denmark and Norway, we are working very determinedly on the TNPS, all the way down to individual employees, so that now we see what is the – when do we have negative response to individual employees from the customers? How do we handle that? Can we train that employee? Can we give them best practices? Do some of them have to have other tasks, et cetera? So, clearly professionalizing the whole customer experience and avoiding negative customer experience is very much a systematic process.

And then, I guess, when you look at the bonus, there's no doubt that that helps in Denmark. We now did some 74% awareness amongst Danish current customers. When we get further way from the payout, actually, that number still trails down. (00:39:59) is at around 90%, so there's still potential for the customers. And only 22% of the non-customers realize that we have a bonus scheme. And to us, that is really a quite low number that we need to work up significantly higher. So, we still see that we're really having several years ahead of us, but clearly helping us also as we speak.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Wajahat Rizvi from Deutsche Bank. Please go ahead. Your line is open for your question.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Good morning, everyone. Wajahat Rizvi from Deutsche Bank. Two quick questions from me, please. Firstly, can you please tell us what is your market share in the Car Leasing segment? And can you help us explain the pricing and claims dynamic in this segment?

And secondly, there seems to be some correlation between your large claims experience and reserve releases. Can you help us understand why the one would impact the other? Like, I don't necessarily see why there should be a relation, or is it just some sort of claims equalization reserve you guys have which you can release to smooth profits? Thank you very much.

A - Christian Baltzer {BIO 19705595 <GO>}

Yeah, good morning. I'll try it. On the market share, on the leasing, I think, we might need to get the IR to give you some of the details afterwards. But the overall dynamic, you can see, I think, we know we have more of the leasing market, and in Denmark, we have probably less of the leasing market than our market share in general.

With respect to pricing, there are definitely some dynamics, where you have either a three-year lease and you have a little bit more of stability in the price or you have pricing or insurances through the actual leasing company. So – but we can give you more flavor and color on that after the call.

A - Morten Hübbe

And I guess when you look at the large claims versus reserve releases, you're correct. But if we look at the quarter, we have more large claims than usual and we have more run-off than usual. I guess, it's – fundamentally, there should be no correlation between the two. But of course, we're very pleased that we have a very strong and comfortable reserving position. And there's a general trend that we are being too conservative on reserves and would generally have too conservative assumptions, which means that we are seeing higher run-off gains than planned.

We had our semi-annual walkthrough of reserve positioning by our Chief actually (00:42:30) with the board yesterday. And again, showed a more positive level of claims reserves than previously assumed. So, I think, that's all I can comment.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Okay. Thank you.

Operator

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

Q - Per Grønborg

Yes. Thank you. Good morning. A couple of questions from my side as well. Back to the Alka deal and the remedies, you say that they have not been set yet. What's the timing, especially in the light of you (00:43:09), I guess, you still expect approval before year-end? Secondly, when the remedies are set, should we expect you to communicate to the market, to us what they are or should we – or will we need to extract them from the participant in the market study? I will assume they hardly can be kept as a secret when the market study starts. That was my first question.

My second question is on your top line guidance. You stated that you delivered 3% year-on-year growth in – or 3% organic growth in the third quarter. What are the organic growth for the first nine months, just to get a flavor of where you are versus your 0 to 2% full year guidance growth? That was the two questions from my side.

A - Morten Hübbe

Good morning, Per, and thanks for your questions. I think on the Alka timing, we've said Q4. Quite clearly, we are not running the time schedule. So, I think, I would work with the assumption that is Q4. That is clearly our expectation. I don't think we have enough insight to be more precise than that. But on the remedies question, you can clearly expect that once the remedies are final, we will communicate very clearly to you what those remedies are and how we see the potential consequences of those remedies? And then, bear in mind that that would be under the heading that the assumed run rate, the assumed synergies, the assumed target of the assumed timing is unchanged.

Q - Per Grønborg

Does this imply that you will communicate these remedies before the market study (44:59) or if they actually advise – or if they – or will you communicate it when the deal potentially has been cleared by the competition authorities...

A - Morten Hübbe

You should expect us to communicate it.

Q - Per Grønborg

...I'm not sure how to interpret it? (45:11)

A - Morten Hübbe

Yeah. Yeah. Just to clarify that, Per, you should expect the communication to happen only after the approval has been achieved, because there are still moving parts and uncertainties. So, it doesn't make sense for us to communicate in the middle of the process.

Q - Per Grønborg

That implies that we need to get that information from the participants in the market study (45:34) instead?

A - Morten Hübbe

Well, I think that one should always be very careful to get small snapshots of information, if you don't have the full picture. So, if you choose to pick up small snapshots, that's of course, up to you. I wouldn't expect that to give you a meaningful picture of the whole question. So, if I were you, I would stick to two main themes. One, that the targets and the timing is unchanged. And two, once the transaction has been approved and the remedies discussion has been finalized, we will communicate to you very clearly what those remedies are and how we see the potential consequences.

Q - Per Grønborg

Okay.

A - Morten Hübbe

Right.

A - Christian Baltzer {BIO 19705595 <GO>}

Per, on the top line organic part, I think it's around 1.8% that we have year-to-date on the organic growth. And then, I think our guidance between the 0.2% (sic) [0 to 2%], yeah, we are probably at the higher range of that. I think one can read into this kind of higher ranges, but definitely, our retention rate in Denmark and Norway are showing very good improvements, and we're really pleased to see that. And the other one is the acceptance of price increases in Corporate Norway. And those two moving parts are kind of pushing us in the upper end of this band.

Q - Per Grønborg

Okay. Perfect. Thank you.

Operator

Thank you. Our next question comes from the line of Kevin Ryan from Bloomberg Intelligence. Please go ahead. Your line is open.

Q - Kevin Ryan {BIO 1814771 <GO>}

Good morning. It's Kevin Ryan from Bloomberg Intelligence. Thank you very much for taking my question. I just wondered if you could share with us what the digital investment cost and your run rate is, and when you see this easing or is it a continuum? Thank you very much.

A - Christian Baltzer {BIO 19705595 <GO>}

So, good morning, Kevin. So, I think, if you go back to our Capital Market Day we had in November, we actually alluded to the fact that we'll be investing quite significantly in digitalization in our portfolio over the next three years, right, (47:50) in 2018, 2019, and 2020 as much as where we'll be putting up DKK 0.5 billion on our balance as kind of CapEx. So I think the overall investment, you can say, in digitalization, is increasing. But we also see the benefits from digitalization by better customer satisfaction, less pit (00:48:08) manual processes, and kind of efficiency gains in general in the Group.

We communicated back at the CMD in November that we will be maintaining our 14% expense ratio around that.

Q - Kevin Ryan {BIO 1814771 <GO>}

Yeah.

A - Christian Baltzer {BIO 19705595 <GO>}

And what's – actually, if you open that up, then you'll have some larger investment in IT and you'll have efficiency gains in that, so that we will maintain within 14%.

Q - Kevin Ryan {BIO 1814771 <GO>}

Brilliant. Thank you.

A - Morten Hübbe

Yes and it's broadly trying to make sure that we finance as much of that investment as possible because clearly, you should, for the foreseeable number of years, see a higher run rate investment in IT. I think you can see that in all financial services companies, but I think we're trying to make sure that we offset that with actual savings, particularly in distribution.

And that's why we talk a lot about and work quite hard on cost of sales, because if you look at Tryg in a sort of five-year historical period, we've reduced most of our costs significantly, but the area where we have reduced costs, the least is in distribution. And that is why that is currently a very big area of focus also to finance some of our digital investments.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Steven Haywood from HSBC. Please go ahead. Your line is open for your question.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Good morning. Just on your run-off releases this quarter, I know they're quite high. Could you give us any specifics in any kind of items or large items that closed and you gained specifically? Or was this all related to the board actuarial review? And when your auditors go through your reserving, what do they tell you and how do you manage to continue to reserve at such a high level?

Secondly, on your interest expenses, I saw on page 22 of your report that your interest rate expenses have gone up significantly and they are DKK 113 million for the nine-month stage, I think around DKK 50 million for the third quarter stage. Can you explain what's happened here, please? Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

So, good morning, Steven. So, on the run-off side, I think if you actually go to page 32 in our investor presentation, you can see it actually split up, the run-off, by product line. And here in Q3, a lot of it actually comes from motor and workers' comp. You can kind of say, in general, it comes from our long tail businesses, where we have many years of kind of having to keep the reserves before we actually have to pay the claims. I think what we have seen, kind of in general on the trend on the long tail business is that kind of the conservatism that we've had two, three, four, five years ago, kind of keep showing up as more and more conservative.

We have a quarterly review on the reserves and half annual with the board. And I think, in general, we feel very comfortable with where we are in the reserves. We feel that we are still continuing having a conservative view on this and I think the discussion with the regulators, in general, is they're actually very pleased to see that we are running a conservative business and not trying to push too hard on the margins on the reserves here and actually having more cushion buffer than others might end up having.

A - Morten Hübbe

I guess on the auditors, as you asked, Steven, clearly the auditors and their actuaries continuously test that we have a healthy assumption and documentation of the various risks within the reserving book and that those risks can justify the margin that we work with. And we've also just had a review with the FSA that were satisfied with the way we are running our reserves. So – and I guess, into perpetuity, reserves will be an area, where there's lots of risk, there's lots of fluctuation, and we're pleased to handle that in a rather conservative way and we'll continue to do that.

A - Christian Baltzer {BIO 19705595 <GO>}

On your second question, if I did understand it right, on page 22 in our report, you're seeing the expense – interest rate expenses increasing from DKK 79 million in 2017 to DKK 113 million in 2018. The change here, I think, predominantly is actually from our bonds issuing under (00:52:57) Tier 1, so we're actually having some of that in there. Does that make sense?

Q - Steven Haywood {BIO 15743259 <GO>}

Yeah. But I can't sort of square the circle here because the bond issuance was Q2 and it's only three-months STIBOR plus 2.5%, which isn't that much on a yearly basis for DKK 500 million?

A - Christian Baltzer {BIO 19705595 <GO>}

I can see, Gian is waving at me and thinking that you guys should take this offline. So, I think, Gian will kindly help you square that circle to make sure you can get it into your model.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thanks very much.

Operator

Thank you. The next question comes from the line of Youdish Chicooree from Autonomous Research. Please go ahead. Your line is open for your question.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good morning, everyone. I've got two questions, please. The first one is just to go back on the dynamics in the Danish motor market. Your average price increases are moderating down and this while accident frequency seems to be picking up. So, I was wondering whether you are seeing a favorable development in other parts of the portfolio, for example, on bodily injury? That's my first question.

And then secondly, just in your – in terms of your retention rate in Norway Commercial, it has been improving for the last three quarters. So, is that just purely down to the smaller players troubling or is there something else happening here?

A - Christian Baltzer {BIO 19705595 <GO>}

I'll take the – good morning, Youdish. I'll the take the first one. I think you're absolutely right that we have seen an overall general trend over the last 5, 10 years where MTPL is kind of decreasing in the risk per – kind of per car per insurance. So, there's definitely a trend – long-term trend on that. I think the comprehensive trends that you're seeing here, which is roughly around 40% of the motor book, is something that is ticking up. And if you add those two together, then it is a trend where we feel that the price increases that we're pushing through is being suffice enough to kind of improve our underlying.

And then back to our comment we actually also made a little bit earlier, I think, we also see this as a portfolio. So, product line by product line, yes, we do monitor it very strictly, but we also see other areas where claims inflation might actually be positive developing, not negative developing and actually giving us more cushion to actually get an overall portfolio profitability that's much stronger. So, yes, we do show you some product line specifics in our presentation. But bear in mind, we actually look at this as a totality portfolio and development as a totality.

A - Morten Hübbe

And I guess on the customer retention rates in Norway, there is a number of moving parts. I clearly see that the fact that we left a year, as I mentioned, with a lot of IT and payment challenges, where we made a lot of mistakes causing nuisance to the customers, that is helping the equation now because those challenges are over. But also, as I mentioned, the work with accessibility has enhanced significantly, so that it's much easier for the customers now in Norway to get hold of us, both on the phone, but also, Norway is the area where we see the biggest increase and use of digital claims solutions, which is getting very, very positive customer response.

And then, we work with this 1 to 10 scale of positive versus negative customers. And particularly in Private Norway, we have worked with the negative customer responses in the range 1 to 3, the very negative ones to make sure that we limit those and understand what they are and repair it and reduce the number. So, quite deliberate work. And as I mentioned, we do this actually on an employee-by-employee basis, so we're getting very, very close to the detail of that. We're starting to see that work pay-off.

And I guess finally, we do get some help from the fact that some of the smaller players in Norway are struggling more. So, they are being slightly less aggressive than say a year or two ago.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Understood. Thank you. Can I – just one follow-up in terms of your response on the accessibility of your services in Commercial. I mean, could you just tell us, for example, what is the roll-out of digital solution or automation in your Commercial segment versus, for example, the Private segment, please?

A - Christian Baltzer {BIO 19705595 <GO>}

Well, there's no doubt that Commercial segment is way behind Private lines in this area. Actually, we are seeing that a number of the both access automation, digital solutions we have in Private lines, we don't at all have in Commercial lines. But having said that, we've now – we've invested more than DKK 100 million in Commercial Denmark, where we're starting to see some benefits. In Commercial Norway, we are now the first company with an online price and sales solution and more also online servicing. But we're still significantly behind Private lines. So, I would rather say that in Commercial, we have the sort of beginning of that journey.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Understood. Thank you very much.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon. Just a very quick – sorry, good morning. Just very quick. The underlying loss ratio trend. So, just picking up on the comment on the pricing achieved on the Group being 3%, claims inflation being 2.5% Group wide, that automatically gives sort of a 50 basis point pickup. But, should we not expect some more given that you're doing other stuff with all these initiatives? So, what would you say to that? Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

Good morning, Vinit. I think that you definitely have to view our 2% to 2.5% expectation. I think there's definitely some areas where we see frequency giving us some surprises or where we see kind of trend going the opposite direction than anticipated. So for us, there is definitely a cushion we want to maintain.

And then, yes, if you were to do just the simple math of 3% and then 2.5% in our claims initiatives, you should see a better improvement. I think in general, we also do see that the inflation trend can surprise us and we rather want to be two steps ahead of it than two steps behind it. So, when we guide for the 50-basis-point improvement on Group 1, especially on Private, that is where you'll see that.

Now, if you also are to do a little bit of the math, definitely, when we push through 7% price increases in Corporate Norway and we say a 3% overall on the Group, you might get some of your differences on the Private underlying kind of only "being 50 basis points."

A - Morten Hübbe

And then I guess that this part of the equation, where I guess we don't publish numbers on that always, it's slightly difficult perhaps to monitor from the outside, but I think, we've mentioned that we are pushing off the digital agenda quite significantly. So, for instance, if you look at the claims area, we're investing heavily in digital processing and in IT. Of course, some of that flows to the balance sheet, but also a significant proportion of that flows directly to the P&L which actually turns off less costs, but as new claims costs because claims handling is part of the claims line. So, that also flows into the equation.

But I guess, the general historical learning, Vinit, is we need to overshoot somewhat with the totality of the initiatives to make sure that we can handle the unknowns and the uncertainties and the negatives, while still being absolutely certain, we can deliver what we have set out. But I wouldn't work with an assumption of significantly higher underlying improvement than the 50 basis points that we have set out. So, that would not be our advice.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. And just quickly follow-up, please. On the run-off, should we be viewing that the previous statements and guidances of 3% to 5% gradually is reducing? Given the light of what's been released this year, should we be viewing that guidance as still holding or should we be upping our numbers on the run-off?

A - Morten Hübbe

I would work with the same assumption. I don't know if you recalled in, we had the discussion and maybe even you asked the question at the end of last year if we have been reducing the run-off faster than planned and whether that was a negative signal? And now, I guess, we have the opposite situation. I think, we will continue to have volatility between the quarters on run-offs also in the coming years, but the overall signaling and messaging is completely unchanged.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

Operator

Thank you. And our last question comes from the line of Phil Ross from Berenberg. Please go ahead. Your line is now open.

Q - Philip Ross {BIO 20618440 <GO>}

Hi. Good morning. Vinit's last question just asked exactly what I was going to ask, so no questions for me. And thank you, Vinit.

Operator

Thank you. And as there are no more questions registered, I now hand back to our speakers for any closing comments.

A - Morten Hübbe

Well, thanks a lot to everybody for all your good comments. Christian is waving at you all, because it's his last conference call. We will be around in London in 10 days, but Peter and I look forward to talk to you and be in touch. Thanks again.

Operator

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