Q2 2017 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
- Iain Pearce, Analyst
- Ida Melvold Gjøsund, Analyst
- Janet Demir, Analyst
- Jonny Urwin, Analyst
- Paul De'Ath, Analyst
- Per Grønborg, Analyst
- Vinit Malhotra, 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 at Tryg. We published our Q2 Results this morning and I have here with me Group CEO, Morten Hübbe; and Group CFO, Christian Baltzer, to discuss the numbers. So after a few words, over to you, Morten.

Morten Hübbe

Thank you, Gian, and good morning to all of you. We'll start on slide 3, on the financial highlights, where we show a significant improvement in the technical results of DKK 810 million versus DKK 770 million year-on-year, an improvement of a bit more than 5%. Main drivers, the improved expense ratio levels from 15.0% to 14.3%, which, of course, supports a rather tough target of the expense ratio of 14% for the full year.

Also, we're quite satisfied with the improved underlying claims level for Private with 0.5 percentage points, which is in line with our expectations and our communications from the previous quarters. The group, as a whole, has a slight improvement in underlying. And you can see that we have a slightly higher underlying claims in Corporate and we'll get back to that.

Pre-tax was DKK 915 million against DKK 934 million year-on-year, mainly due to an investment result of DKK 130 million, which I guess was high from a historical point of view, but also DKK 15 million lower than Q2 the year before. And then, of course, we are pleased that we've been able to write to 850,000 Danish customers that they will receive an 8% bonus later this year.

On slide 4, we talk about the customer highlights. NPS for the quarter was 22, therefore, in line with the targeted level for the full year. Underlying is quite clear that we're seeing an increase in Denmark, while a reduction in Norway.

We also see a three-plus customer developments, which, on a group level, has good momentum but, again, with a strong underlying development in Denmark and a challenge in Norway. In Denmark, we see a 2-percentage point increase. Denmark is at 59.5% three plus, which is quite close to the group target of a bit more than 61%.

At this time, we can see that it's not realistic on a group level to reach the three plus target. We think it is realistic for Denmark. In particular, we're seeing our work with insurance packages really improves the trend. It is not realistic in Norway, but we will start to copy the package concept in Norway, Private and in Commercial lines, which longer term will strengthen three plus across the board.

If we look at retention rates, I'll get back to that, but it drops a bit this quarter in Norway. We have seen a market strength in Norway where the churn has increased a bit, but we're quite satisfied that while the market churn in Norway has increased 19%, our churn in Norway is at around roughly 14%.

And then, of course, we follow our proportion of fully-automated claims. We're quite satisfied with roughly 20% of travel claims in Norway being fully automated. And at the same time, in the Norwegian marketplace, satisfied that we have now integrated OBOS to the Norwegian business, which will strengthen our presence in the Eastern part of Norway particularly Oslo where we are underrepresented.

On slide 5, we show the technical results with a very positive development in Private lines where we clearly see both the improved trend in underlying claims. An improvement of the 0.5%, driven by both Denmark and Norway. And of course, a significant drop in the expense ratio improved from 14.5% to 13.9%. Really, all of the other areas are quite stable in Q2 year-on-year.

And if we jump to slide 7, we comment on premiums. Tryg will never be a company that is about high growth. We're about stability and strong customer satisfaction, strong margins and strong payouts. But, nevertheless, we're satisfied that the 2% top-line growth in the quarter is the highest growth quarter in any quarter over (04:51) the last five years. Clearly, the mother ship of the business Private lines Denmark pulls a lot of the weight with a growth of more than 3%. More challenging in Private lines Norway. If we look at Commercial lines as a whole, we see negative top line. We do expect that to improve in the coming periods both due to the acquisition of OBOS in Norway. But also, we see the current underlying sales trend improving, but it will be a couple of years before Commercial is where we want it to be.

We see in Corporate a positive development. Bear in mind that particularly in Sweden, we've had a number of fronting business agreements come into the numbers. And also, that guarantee on a Nordic basis, has a strong growth of around 15% and a combined ratio of 65%. So, no complaints there. Corporate, slightly longer term, we expect a slightly more negative trend on top line because of areas where we do more price initiatives to improve profitability in Corporate. Sweden really has both the positive underlying development and then, of course, the Skandia acquisition pulls up the numbers.

On slide 8, we comment on average price development. It's very important that we continue to see a slight increase in average premium for all products which reflects our focus on profitability. And particularly in Motor, really Tryg was the first company to address the challenge of increased claims inflation particularly in Danish Motor. In volume, many of you recall that in Q1, we reported a 1% price increase after a long period of price reduction. A 1% year-on-year in Q1 and we're now happy to see a 2% increase year-on-year in Q2.

And then, finally, on slide 9, we show customer retention rates which I briefly touched upon earlier. But it's clear that the retention rate levels are quite stable in Denmark while we see some reduction in Norway both in Private and Commercial. The development in Norway, I think, is a combination of market churn. But also, there are areas where we've increased prices slightly more than the market and we are seeing some impact from that. We've had some internal IT challenges in billing where we've annoyed a number of customers through too many sort of practical hassles which we're now more or less in control of and we need to improve that in the coming quarters.

I think if you step back a little bit, it's quite clear that when you see the bigger picture, we have broadly stable retention rates across the board over the last five years.

And over to you, Christian.

Christian Baltzer {BIO 19705595 <GO>}

Thank you, Morten, and good morning, everybody. Turning to page 11, we're looking at the underlying claims ratio development and as Morten mentioned, we're really happy to see improvement on the Private lines and also on Group level. This is especially coming from the carried out efficiency program claim (08:20) and our price increases of around 3% for 2017. We do expect still for full-year 2017, to have an underlying improvement, but do bear in mind that the Corporate and Commercial do have some volatility from quarter-to-quarter.

Turning to page 12. We took the slide with our auto insurance claims frequency here again. And I guess, when we were looking at Q1 numbers, we actually saw somewhat flat frequency development, but here looking from January to May, we actually see still a pick up in the frequency on auto claims in Denmark. We continue to monitor the development and will carry out necessary price increases or adjustments and claims initiatives to mitigate these kind of tendencies.

Turning to slide 13. The quarter has a level of large and weather claims that are somewhat benign for the second quarter. Do bear in mind that the second quarter often is impacted by very little weather claims. However, we have seen a little bit of heavy rain showers though. The interest rate level has been coming up somewhat, helping the group about 0.4 percentage point and as you can see, our run-off level at 5% is somewhat slightly lower than our current run rate and there are no changes to our full-year kind of expectation of the run-off levels.

Turning to page 14 on our efficiency program. We continue to work on our efficiency to reach our target of 14% for 2017. We're posting a 14.3% this quarter, which is in line towards our expected for 14% for the full year.

As communicated previously, the number of FTE is slightly up. Some of this is due to OBOS that we have integrated into our portfolio and also the fact that we have hired some Chinese in Denmark to help support our common customer and claims handling functions.

Looking at the investment and capital, turning to page 16. We kind of have taken a little bit of risk off in our equity exposures, going from 19% down to 18% on the free portfolio. But roughly, apart from that, the mix is somewhat stable. Do bear in mind that the property exposure is below target and will, during year-end, move up as we reinvest the proceeds from our property sales in the fourth quarter 2016.

Looking at the component of the investment returns, you'd argue that our free portfolio is somewhat in line with last quarter, and where the large change between second quarter 2016 and second quarter 2017 actually comes from is from the regulatory deviation. It's about DKK 40 million difference, and bear in mind that the regulatory deviation, to a large extent, should be zero on a long-term basis. We're happy to see that all our elements of our investment portfolio are supporting positive returns.

Turning to page 18, on our solvency position. We're posting a 209 solvency ratio for second quarter, up from 202. And in these numbers are the dividend that we are paying out of DKK 452 million for the second quarter. Broadly, you can argue that our own fund is somewhat flat. There are some intangible assets that has affected our own funds, but a broadly flat development on own funds. On the solvency capital requirement, it's especially about our DKK 250 million (12:25) reduction in equities that are giving us a reduced market risk solvency requirement and giving us a total of DKK 4.8 billion in the solvency ratio.

Turning to page 19, there's very little new on this slide, but just kind of want to highlight stability in our solvency ratios. And you can see the Atier1 is up DKK 1.1 billion from DKK 1.1 billion (sic) [DKK 1.0 billion] and this is likely due to our core equity, which is slightly up from the second quarter.

A little bit of new information on page 20 where we have kind of tried to split out the bond portfolio into covered bond, corporate bond and government bonds to show the sensibility on those different asset classes. And as you can see, it is unsurprisingly our corporate bonds that by far the highest sensitivity, which is also our most important asset class for our portfolio, but broadly a fairly stable and unchanged mix.

Back to you, Morten.

Morten Hübbe

Thank you, Christian, and just briefly to round off on targets and outlook. There are really no changes, the expectations. I guess, on the customer targets, we expect and we're already at the level of 22 for NPS. On three plus, as I mentioned, we expect to reach the target for Denmark particularly with the packages. We're not going to reach target on Norway. We found a discipline with packages that we can work further on and copy it to Norway and to Commercial lines.

On the financial targets, we reiterate return on equity at or above 21% post tax; the combined ratio, at or below 87%; and the cost ratio, at or below 14%. I think as we mentioned last quarter, clearly the 14% is a level very few companies worldwide have reached. It keeps us very busy to reach it. We will just reach it. We will not be below 14%. We will be at 14%, I think. But we believe it is a very, very important driver for margins. It's a very important defensive mechanism also to make sure we can be competitive if newcomers try to enter our markets. And then, it drives high payouts. And that is the last comment.

On the next slide, the famous Rockefeller quote on dividends where we reiterate our focus on providing a stable and high dividend for our shareholders, again now with a quarterly dividend for the quarter, which of course then also supports ultimately the customer bonus model, which we think will be an important driver for the next three, four or five years.

I think over to questions from that point.

Q&A

Operator

Our first question comes from the line of Asbjørn Mørk from Danske Bank. Please go ahead. Your line is now open.

Q - Asbjørn Nicholas Mørk

Yes. Good morning. Asbjørn from Danske Bank here. A couple of questions. First on Norway, really a three-in-one question, so if that's okay. First of all, on further price hikes in Norway, do you think you can get along with more price hikes looking ahead, especially relative to your peers, especially one of them having a significant customer bonus and of course doing very well? So how is the potential there?

And then, again, on Norway, if I look at the retention as you also alluded to yourself, Morten, it's sort of the lowest in, at least, the five-year history that you have on the slides. I was just wondering if we should expect any negative impact on your technical result from this. Previously, you've said that on a group level, 100 basis points lower retention would be DKK 50 million to DKK 150 million negative. So is there sort of a delayed impact in Norway here for the second half of 2017 and into 2018.

And then, I believe you quoted in an interview earlier today saying that there will be some years before Norway start turning around. Is that sort of that postponement relative to what you've said before or is it sort of just a reiteration of previous communication?

A - Morten Hübbe

Good morning to you, Asbjørn. I think that clearly there are areas in Norway where macro makes current environment somewhat more challenging, particularly given that we're stronger in the western part of Norway and weaker in the eastern part of Norway. I think mainly it's a continuation of the communication we had in the first quarter. I think on your first question on price hikes, I think the area in Norway where we see the most clear need is in Corporate lines. We've seen now for three years in a row declining rates in the high-end Corporate segment and we've started to turn that around. That is likely to give us some element of negative development on the top line in Corporate Norway. But on the other hand, when we look at market rates and market combined ratios in Corporate Norway, this is a need that our peers have as well. So it's hard to judge, but I would think it likely that peers would increase prices in Corporate as well. I think when it comes to Private and Commercial in Norway, we are more in line with pricing. That's not really where we see the issue.

I think on the retention rate, you're exactly right that when the churn in the market in Norway has increased, we need to sell more. And, of course, we are pleased that our churn is only 14% and the market churn is 19%. That puts us well ahead of the market quality-wise, but as you rightfully say, it means that we have to sell more. It means that we have to work even harder on the efficiency measures to finance the higher sale. So we're currently in a position where sale is actually above the target, but then top line is still slightly below the target, exactly as a consequence of that.

I don't think you will see any delayed impact on the cost ratio. You'd rather see an upfront impact because we pay for the sales before we get the earned premium. So it's rather an upfront impact than a delayed impact. As far as the two years concerned quote, I think what I mentioned in a couple of interviews is that we expect there to be a couple of years before Norway broadly is at a top line growth ratio level that we want them to be at, not two years before we start to see a turnaround, that was not the quote. So, really, not a change to what we said in the first quarter.

Q - Asbjørn Nicholas Mørk

Okay. If I can just go back on the impact from lower retention, wouldn't there be sort of an impact on the claims as well that the new customers on average have more claims than existing gold customers so to speak? And would it be fair to assume that 40% of your premiums are roughly Norway, so a decline there would be 40% of the DKK 50 million to DKK 150 million sensitivity that you've guided for previously on a group level?

A - Morten Hübbe

So I think the vast majority of the guidance was the actual distribution cost as such, which is the upfront. I think, historically, we saw also the trend of worst claims history for new customers, but we're seeing for the past couple of years that the more we work with the life customer, lifetime value modeling, the better we select the new customers, the better the track record of claims ratio the new customers have. So this deterioration of new customers claims ratio versus portfolio of claims ratio is not really an issue that I would factor into the numbers with any meaningful impact.

Q - Asbjørn Nicholas Mørk

Okay. Thanks. Then if I can go onto the motor insurance business for Denmark on slide number 8, you showed this quite significant increase to average prices. Now recently, the FSA was out criticizing you for, what I believe, they call a negative contractual agreement, so – that you add on coverages where before the actual end user demand for those. Do you expect any impact from this going forward or maybe to turn the question around, how much of the average increase that you've seen has come from these add-ons?

A - Morten Hübbe

I don't think we will see any significant impact from that, but it does mean a change of operational mode, if you will. It's been kind of a gray zone because, historically, it's always been allowed to add new coverages in a new version of a product. There's nothing new in that. The issue here was the insurance of the driver, which has a weaker cover than the passengers. And we wanted to add this driver cover into the package. At the same time, in a new sale situation, you could opt to have it in or out. So, that was the discussion.

What has happened since then is that as you may recall we introduced packages in Q1, which is really another methodology of selling several products at once. So I think it means that we will spend even more time on the packages and not be able to use add-on coverages in the total conversion of customers. So I don't think, Asbjørn, you'll be able to spot the difference in the numbers, but it means slightly different modes of operation on our side.

Q - Asbjørn Nicholas Mørk

Okay. Final question from my side. On the improvement program, you've delivered DKK 155 million this year of the DKK 375 million target, so it seems like just slightly behind the total target for this year. Is it just quarterly fluctuations or is it an indication that maybe the low-hanging fruits have been taken already?

A - Christian Baltzer {BIO 19705595 <GO>}

Asbjørn, it's Christian here. According to our own kind of projections, we are very much in line with what we expected and where we expected to be here during the second quarter. So we kind of expect the full year to reach our target of DKK 375 million. There are some effects that are coming a little bit later in the season than upfront. So, no changes to the guidance.

Q - Asbjørn Nicholas Mørk

Okay. That's all from my side. Thanks a lot.

Operator

We have a question from the line of Paul De'Ath from RBC. Please go ahead. Your line is now open.

Q - Paul De'Ath

Yeah. Hi, guys, and thanks for taking my questions. A couple, please. Firstly, looking at the underlying improvement, particularly within the private portfolio of 50 basis points in the quarter. Clearly this is good news and it's going in the right direction. When specifically looking at the Private area, do you expect that 50-basis-point improvement to be maintained in future quarters or can we see that has been getting better (23:59) coming from a negative to flat now to improving? Should we expect that to continue to improve as the price increases get through in the numbers? That's question one.

And then the second point just on the runoff, obviously slightly lower runoff than expected in the quarter. And you alluded to the fact that the full year will be more in line with your ongoing run rate. Can you just kind of remind us what guidance is that run rate for the year? And also any points on why Q2 has been particularly bad on a runoff perspective? That would be good. Thanks.

A - Christian Baltzer {BIO 19705595 <GO>}

Paul, this is Christian. I like to answer almost both of your questions very maybe vaguely. On the Private underlying, I mean we're definitely happy to see the 50-basis-point improvement quarter-on-quarter. We don't guide on the full year. But as I also mentioned, there are a little bit of fluctuations, but definitely we want to see a full year both on group and on Private having underlying improvements. So, no specific guidance on what you can expect.

The runoff level, more or less the same story. We have not guided for the full year. We don't usually guide on runoff. I think what we have said is above normal runoff. And it has been up at around – it was 7.4% last year and we have been coming slightly down this year and going towards more of a gradual long term of 3% to 4%. So, no guidance really on the full-year runoff, but definitely the 5% is lower than our current run rate.

Q - Paul De'Ath

Okay. Thanks.

Operator

We have a question from the line of Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Good morning. Thanks for taking my questions. Just two from me. So, firstly, could you give us some figures perhaps on where claims inflation is running on key lines in Denmark and Norway, if you have those to hand?

And secondly, I guess just thinking big picture around strategy, obviously, we are all very excited about hitting these 2017 targets, but perhaps thinking a bit longer term, I mean, I know we've got an Investor Day scheduled for later this year, and I'm not asking for anything specific, but I just wondered if you could provide some sort of big picture thoughts on strategy beyond 2017. Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

Good morning, Jon. A little bit on the claims inflation, I mean, we have normally broadly guided at 2% to 2.5% claims inflation. I think what we're seeing in our modeling is that that holds true somewhat, but there are definitely fluctuation as we go through the product line. Some has higher claims inflation than other; for example, on content insurance we're seeing a somewhat flat claim inflation whereas on cars, we're still seeing something higher than the 2%, 2.5%.

So, we continue modeling our claims inflation and currently we're still within our expectation on claims inflation, and our 3% price increases will give us the needed underlying performance of the full year. And I'll let Morten answer the strategic question.

A - Morten Hübbe

And I think broadly on the claims inflation, just to elaborate on that, I think we had trouble last year controlling the claims inflation. Broadly this year, we are in control. We still have outliers within that average where, for instance, iPhone repairs is up 31%, sewage (27:40) repairs were up 14% then – (27:43) in two years, so, there are still several outliers that are challenging. But all in all, we're controlling it well and the average is manageable.

From a strategic point of view, I think you are trying to ask a cheeky question on pre-CMD November, but I guess, there's no doubt that we are showing – we will not become a completely different creature from November. Surprise, surprise. So, some continuation of what you've already seen and a recipe that we think works quite well. There's no doubt that working with new products, so working with digitalization is something we are already doing and, of course, that will play a role. You're starting to see some of the impacts of early automation of claims, which is important. I think it's no coincidence that the Danish Private line starts to increase top line and bottom line in a period where we work with both packages and sales, we work with children's insurance, et cetera.

So clearly, having this sound level of being an efficient company with strong customer relations, working more and more with digital, working more and more with product development, et cetera, those are themes that will continue. And then, I guess, payout is also an important topic. So, I think that will also be important moving forward. I guess, I've really told you no surprises, and I guess you'll have to wait November for a more in-depth version of that answer.

Q - Jonny Urwin {BIO 17445508 <GO>}

Look forward to it. Thank you.

A - Morten Hübbe

Thank you.

Operator

We have a question from the line of Vinit Malhotra from Mediobanca. Please go ahead. Your line is now open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. (29:44) two topics, please. Just one is on the whole underlying claims loss ratio trend outside Private, please. So, I'm just trying to square up, the Corporate area, for example, has quite rather benign large losses and from what I can see here, one of the lowest quarterly trends in, at least, two or three years now, at least since 2Q 2014. But the underlying was still weak. Is there a midsize claims element here, which you have alluded to in the Commercial part of the report, but not in Corporate? So, just any commentary on what's going on outside the Private lines, please.

And next question is on motor insurance. So thanks for providing this data so transparently on the frequency or rather number of claims, but I was just wondering, you've also launched a new product in Motor targeting the under-30s; isn't there a bit of a risk that you're targeting the very segment which is probably causing some of the distracted driving and those kind of frequency pick-ups? Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

Good morning, Vinit. (31:05) I'll talk to the underlying and let Morten talk to some of the distracted drivers. Outside Private, as you can calculate, we've had a combined slight deterioration of the underlying performance. I think we haven't really tried to go into this segment, and it's been a conscious decision from us because there's so much volatility from quarter-to-quarter. But there's no doubt that when we look at the rates on Corporate Norway or if we look in our Commercial book, we are not at the same kind of trajection (31:38) as we are for the Private area that are a little bit ahead of that curve.

But we're working hard on making sure that we get the same kind of effects and currently, it is Private that is driving our underlying performance for the group definitely. So, that's the kind of clarity I'll give it. But it actually fluctuates too much from quarter-to-quarter that we felt it was more confusing than it was necessarily helpful to discuss this.

A - Morten Hübbe

I guess, Vinit, as we've talked about in a couple of the other quarters, you could actually argue that underlying is not a meaningful concept in Corporate, but the challenge is, if we don't have underlying on Corporate, then we cannot talk about underlying for the group. And, of course, for you guys, underlying for the group is very important. So, that's why we keep underlying for Corporate.

But the reality is that not only for the larger claims, but also for the medium-sized claims, there's lots of volatility from quarter-to-quarter. But I think the meaningful attribution or add-on you can make is what Christian comments on Norwegian rates in Corporate, that have had a negative impact and that we are turning around, and that will be a big focus and is a big focus currently.

On the motor insurance, you're right, we're introducing Tryg Drive, which is a solution in the Danish market for customers below 30 years. To be honest, our market share in that segment is quite low and historically, it's been clear that it's been unattractive from a claims point of view and our pricing has deliberately been unattractive. But what we're seeing with Tryg Drive is that we measure the actual driving of the customer on a large number of parameters, and we are using experience from the Swedish market where we've done this for longer, doing a slightly, a light version of the Swedish model in Denmark.

In Sweden now, the model is the true bottom-up pay-per-use model, where in Denmark, it's up to 30% discount, but depending on your behavior. So, you start with the full price and then we measure every single journey you make and actually those measurements will show whether you're entitled to a reduction or not.

Our expectation is that we can select a better segment of risk and drivers and we will get very good data on this; it will not disappear somewhere in the portfolio because of distraction, et cetera. We'll be able to monitor it very clearly from day one and if we don't have improved behavior, then we're back to the rather high price we started with, but I expect we will attract some more responsible drivers and that the app we have developed, that will score every single journey, enable them to compete with their friends and family, et cetera, will support more the more responsible drivers and move their behavior in the right direction.

But I think at the end of the day, we're speculating. We can see from Sweden that that is the case and we expect to get that impact in Denmark; and if that is not the case in Denmark, then we get the data very, very early on.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you very much.

Operator

We have a question from the line of Per Grønborg from SEB. Please go ahead. Your line is now open.

Q - Per Grønborg

Yes. Good morning. Thank you. Two questions from my side. First of all, Danish Commercial and Corporate insurance, how do you see the competition developing out there? It seems like Tryg has more or less withdrawn from selling new business. I can see there is (35:26) clearly a need for getting prices up? That was my first question.

My second question, we're now seeing the first sign of the OBOS deal in your numbers. What should we expect going forward? Will this be sufficient to bring you to a stable portfolio in the second half or it this too early?

A - Christian Baltzer {BIO 19705595 <GO>}

Good morning to you also, Per. I'll take the first question. I think when it comes to Danish competition in Commercial and Corporate, it is more benign than what we're seeing in Norway. We've had a good 1st of January renewal and a good development in the Corporate segment in Denmark. I'm not sure we're very typical for the Danish market because we're starting to get some traction from the customer bonus model, which of course the Corporate segment realizes the first.

I think to be honest, the Commercial segment is still slightly challenging and I think our best performing segment is not Commercial Denmark, but we're working hard to improve that. But I think from a market point of view, you're right, that the fact that we're seeing the likes of Protector that needs to work with the pricing and others that needs to work with the pricing is slightly hoping the general Danish environment. But I wouldn't overestimate that impact here, we're not looking at sort of tremendously changed market conditions, but a slight positive.

Good morning, Per. With respect to OBOS, I think that from a 2017 perspective, I think we might – we will see some impact on our Commercial book and hopefully some help on the top line on the Commercial book. On the Private book, I would expect more to see the impact during 2018 as we start selling into a lot of these leads that we are getting from the OBOS portfolio.

And then, you have to bear in mind that when you zoom out and look at Norway in total, we are currently having – wanting to have rates coming up on the Corporate side, which means that we will probably lose some contracts and also lose some top line. So total Norway might actually still be down, but it will be driven from, hopefully, a positive on Private and Commercial and a potential more negative on Corporate.

Q - Per Grønborg

Okay. Thank you.

Operator

We have a question from the line of Youdish Chicooree from Autonomous Research. Please go ahead. Your line is now open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good morning, everyone. I have two questions, both on Norway, actually. The first one is really on your price increases in Motor. I mean, should we expect your average price development to actually trend up from the 0.7% to at least 3% in the coming quarter and the coming year?

And then secondly, it's really around the comment on the Corporate side where you say retention might fall because of the increasing prices. So, I was wondering – I mean, so where is the pressure coming from? I mean, are your main peers not increasing prices or do you think they might not increase prices going forward?

A - Morten Hübbe

Well, if I start with the second question on Corporate. I guess, comparing pricing on Corporate is a really difficult exercise, because no two solutions between customers are the same and the composition of the coverages, et cetera, et cetera is often very, very different. I think also that the Corporate segment in Norway is one of the areas that has had the largest component or a large component of run-off gains and that has been factored into profitability. And I think and at the same time, some of the Corporate customers are struggling a little bit more and therefore, they are tougher in the negotiation space. So, I would argue that that is really – first and foremost a macro issue. And secondly, I think over the past three years, we've seen Protector be quite aggressive in Norway, and hopefully that is coming down. That seems to be the case. And then thirdly, you just know that the highest end of Corporate is the segment that reacts the most rapidly to price changes. And I guess, we cannot predict what competition is doing in terms of re-pricing high-end Corporate.

We're just saying from historical experience you will lose some contracts. But, of course, the more we see the market following, the more we will see that this is across the board impact. But we have to start from a planning point of view, which is a slight negative top-line impact and a positive bottom-line impact. But, hopefully, the whole market starts to re-price after three years of rate reductions in high-end Corporate Norway.

A - Christian Baltzer {BIO 19705595 <GO>}

And with respect to the auto in Norway, actually when we're looking at some of the underlying development in auto in Norway. We don't see the same kind of pickup in frequency as we're actually seeing in Denmark. So I would expect the average prices in Norway to be maybe more flattish than we would see in the Danish area.

We've also been outdoing some price increases in the beginning of the year and at the end of last year, which also affected our retention rates somewhat. So we are kind of treading right now at a delicate balance. But auto currently in Norway is at a profitable level, and the trends are not seeming as negative as we have in Denmark on the frequency side.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, great. Thank you very much.

Operator

We have a question from the line of Janet Demir from Morgan Stanley. Please go ahead. Your line is now open.

Q - Janet Demir {BIO 19462264 <GO>}

Hi. Just a couple from me, please. I was wondering whether you could give us some guidance again on your solvency ratio and the potential for capital returns at the end of the year. I realize that you don't guide on a target solvency ratio range. But I was wondering whether we could consider last year as a good guide for that, or whether you have anything else in mind that you need – or you're holding that capital for.

And then secondly, on your retention ratio target, I see that that has to improve by a further percentage point and I'm assuming that will be driven by Denmark rather than Norway. Could you just give some more detail on how you expect that to improve? Is that just a result of the bonus scheme? Or is there any other initiatives that you put in place? Thanks.

A - Christian Baltzer {BIO 19705595 <GO>}

Good morning, Janet. Also welcome to you. I think on the solvency ratio, I think – I'm sorry, but you're getting the boring answer, because every time historically, we've been very clear on the solvency ratio target, then we start to jeopardize the development on the payout. And I think we're very clear that we want the ordinary dividend to be stable, predictable, slightly, slightly growing. And we will continue to do that come hell or high water, that is extremely important for our shareholders.

And then we will do extraordinary special dividend. And I guess, we will not do that every year and we've said that clearly and we need to continue to say that. And then you can also see with the higher ROE target, we will do it reasonably frequently. But it will fluctuate more than the ordinary dividend. I think on the positive side, being at more than 200% solvency puts us higher than most peers with a lower risk profile, which means that we can work with a capital position over a number of years. But we are quite deliberate in trying not to give you guys more guidance than that. I'm sorry.

Q - Janet Demir {BIO 19462264 <GO>}

Thank you, Christian.

Operator

A - Christian Baltzer {BIO 19705595 <GO>}

To answer Janet's second question. Sorry.

Operator

I apologize.

A - Christian Baltzer {BIO 19705595 <GO>}

Janet, you were asking about the retention ratio and towards our (43:36) target, and I think as Morten was alluding to, on the customer target, this will probably be one of the ones that we will not reach on group level. But when we look at Denmark, I think both the packaging and the membership bonus is actually some of the things that we are seeing giving us improvements.

There's no doubt that this KPI has been one that is not one that we 100% can control ourselves, because it also depends on what's going on in the market and with the macro economics. But we expect, on group level, to miss on that customer target. And we expect in Denmark to see quite a significant improvement and hopefully also reach the target for 1 percentage point.

A - Morten Hübbe

And I guess it's also fair to say, Janet, just as a supplement, when we put up the retention rate target, we probably thought there was a more direct link between NPS and retention rate than there is. Secondly, when we put up the target, we didn't probably realize how much conversion of products we would be doing, because when you do conversion of products, you also hit customers saying, wow, I didn't realize I have this product, I thought we don't need it anymore. And then they cancel it. That, for instance, has been an issue for a lot of our elderly customers on travel insurance.

So, I still think from a group point of view, there's more value in the conversion on being after (44:56) the new products. But, as Christian said, a current positive development with the packages in Denmark, current negative development in Norway, and on a total, we will not reach the plus 1% and not within this timeframe.

Q - Janet Demir {BIO 19462264 <GO>}

Okay. Thank you.

Operator

We have a question from the line of Ida Gjøsund from Carnegie. Please go ahead. Your line is now open.

Q - Ida Melvold Gjøsund

Yes. Morning. Only one question left for me. Looking at the combined ratio in Norway, it has improved around 4 percentage points year-over-year, even excluding run-off gains.

Could you elaborate on what the drivers of this positive development are specifically compared to the same period last year? Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

The main positive drivers, I think, is definitely the lack of some of the larger claims that has helped us. I think we're also seeing that the pruning of portfolio and the work on claims controlling has also helped us on a positive level. So those are kind of like the highlights. And I think in Corporate where we've been very prudent in our underwriting and in our pricing, I also see that is giving us a positive help on that overall combined ratio improvement before run-off.

Q - Ida Melvold Gjøsund

Okay. Thank you.

Operator

We have a question from the line of Iain Pearce from Berenberg. Please go ahead. Your line is now open.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi. Morning, everyone. Two quick ones from me. Just on Norway, on the churn side of things, I'd just like to understand what's driving the higher rates of churn in the market, is that a pricing thing, or is that some of the smaller players being more active in the market? And do you expect that trend to continue? And then, also on why your portfolio is seeing less churn in the wider market, given that the large competitor in Norway has the customer bonus scheme.

And then, just a second question on claims frequency in Motor Denmark, I think you've previously said that you've seen claims frequency increases being driven by the higher car population. Is that something you're still seeing or is it more a case of the distracted driving? Or is the trend that you're seeing this year in claims frequency still too early to narrow down exactly what's driving that? Thank you.

A - Morten Hübbe

Good morning to you too and thanks for your question. I guess, to be honest, to distill more precisely, the drivers of churn is always very difficult. There's no doubt that in the Commercial segment, competition from the likes of Protector has been an issue. I think in Private lines, competition from the likes of Vardia and Nemi has had an impact on the market. But we're also seeing that these are players that really struggle to make money.

So they've not necessarily had a positive experience of attracting customers. And they are also, as we can see from their accounts, some of the companies with clearly higher churn rates. I think one of the reasons why we have a 14% churn while the market has a 19% churn is the quality of claims handling.

I think we've now for the fifth month in a row in Norway been number one in terms of quality, customer satisfaction with claims. And ultimately, that's a good place to be and that helps churn. Of course, the challenges for the customers who doesn't have the claim, that might churn because there's competition with some lower pricing. But, I guess, the way we see it, these are rather small movements we have to continue to work with our new products, we have to continue to work on the higher customer satisfaction then improve our distribution a bit because churn is a bit higher.

We have now just seen recently all-time highs of our bancassurance distribution with Nordea in Norway. OBOS will strengthen our position in the Eastern part of Norway particularly, Oslo. We see that our franchising sales of Commercial is increasing. And then, we'll see how much stamina the likes of Vardia and Nemi and Protector has when it comes to pricing and growth. We're just pleased to see that sometimes there's a consequence of having slightly lower prices, which is lower technical results. And at least a few of these companies are struggling with negative bottom lines. But it's hard for us to guesstimate how that plays out over the next couple of years.

A - Christian Baltzer {BIO 19705595 <GO>}

And with respect to the claims frequency in Denmark, I think that we haven't really found that smoking gun where we say this is the sole reason. I think that it's a combination of a couple of things. And one of the things I should allude to is the number of cars and the miles driven on the road, just showing that that gives more traffic incidents. And then, there's also distracted driver where studies have shown that when you use your phone while driving, you have six times more risk of actually getting into an accident. And from the last five years, we just know that more accidents have been occurred due to distracted driving and that's not just a Nordic issue, that's a global issue, global studies have shown this.

So we haven't really found that smoking gun, say, this is where we really need to make a big change. We are observing the total accumulation of frequency and seeing that there are some underlying inflationary risk that we need to take care of through pricing and through claims handling.

A - Morten Hübbe

And particularly on the last angle, just to elaborate, clearly, we are pleased with the 2% increase year-on-year on Q1 in Motor Denmark, because we will never find the precise smoking gun, but we need to make sure we massage the impacts that we can see amongst others with this new Tryg Drive that we managed for the actual driving behavior of the individual customer. That's probably as close as we can get, and we've never been there before. And then making sure that we adjust prices as one of the first in the market to capture this higher frequency.

Q - Iain Pearce {BIO 19522835 <GO>}

Okay. That's all. That's great. Thank you.

Operator

We have a question from the line of (51:37) from ABG Sundal Collier. Please go ahead. Your line is now open. We have a question from (51:47) from ABG. Your telephone is on mute.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Hello?

Operator

Yeah?

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Hello. It's (51:53). The bonus model, is that exportable at all or is it just purely for your Danish clients? Secondly, the three product strategy you have in Denmark, why is it really not exportable to Norway? Do we not want any kind of discounting to Norway? And, finally, the unprofitability to touch upon on the Corporate segment, you have talked about this quarterly fluctuation, but how is it really – if you look at it year-on-year or year-to-date or something like that in more different parts, is it possible to say something more about the Corporate segment in that respect? Thank you.

A - Morten Hübbe

Good morning to you as well. Very sensible questions. When it comes to exportability of the bonus model, I wish the answer was yes. We've actually approached the authorities to investigate if that was possible, but we are told that that would be illegal. And the logic is that the fortune of the foundation was originally built on the Danish policyholders, and then they bought business outside Denmark. And therefore, doing bonus outside that geography would not be legal. If it was legal, we would like that very much. I think (53:09) has exactly the same challenge just vice versa. They can only pay Norway and not outside Norway. So really that's a legal issue.

But when it comes to your second question, can you export the work with packages. The answer is very much yes. We have now come to the – it can both be exported from Private to Commercial and it can be exported from Denmark to Norway. We are now introducing the first packages in the Danish Commercial market very, very early stages, but we've just come to the market. We think that we'll improve Commercial. And then we're now working on also exporting the package concept through the Norwegian Private market.

And after that, also the Commercial Norway market where we have done some initial work on which part of Commercial Norway packaging could be traditional sales channels, which part could be online, and which part could be targeted toward specific segments of the SME segments in Norway. So very much exportable and we're working very hard on that. I think it will take a while before you see the impact in the numbers, but we're working very hard on that export.

A - Christian Baltzer {BIO 19705595 <GO>}

The three plus strategy, next point – the Corporate – with respect to the Corporate, you can say we are not going to give you the numbers on Corporate necessarily, but we have a couple of percentage points higher here in 2017 compared to 2016. But it's actually better than it was in 2015 and even better than it was in 2014. So if you look at over four-year period, you actually have a better underlying compared to 2014 and 2015, but a worse one compared to 2016. And that's kind of the volatility that we are alluding to that kind of from a communication and discussion perspective just becomes too volatile to give any meaningful guidance to the actual profitability of our Corporate book. And back to Morten's comment about that underlying on Corporate is a little bit of a funky measure.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yeah. That's very helpful. Thank you.

Operator

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

A - Gianandrea Roberti {BIO 6786731 <GO>}

Well, thanks a lot again for all your very good question. Have a great summer when it comes down to it. Yes. And if you have more question, just call or mail at any time. Thanks.

A - Morten Hübbe

Thank you.