Q3 2013 Earnings Call

Company Participants

- Lars Moller, IR Director
- Morten Hubbe, Group CEO
- Tor Lonnum, Group CFO

Other Participants

- Daniel Do-Thoi, Analyst
- Gianandrea Roberti, Analyst
- Hakon Reistad Fure, Analyst
- Jakob Brink, Analyst
- Per Gronborg, Analyst
- Sami Taipalus, Analyst
- Simon Christensen, Analyst
- Vinit Malhotra, Analyst

Presentation

Lars Moller {BIO 2301941 <GO>}

Good morning, everyone. Welcome to this presentation of Tryg's Q3 results. With me through this morning I've got our CEO, Morten Hubbe, and our CFO, Tor Lonnum. And with these words, welcome and hello to you Morten.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Lars and welcome to all of you to the Third Quarter results where we believe we report a strong Third Quarter with a pre-tax result of DKK900 million for the quarter and almost DKK2.4 billion for the first nine months. The quarter broadly consisting of a technical result which increases by some 17% while the investment income is lower than last year's high bond income.

Clearly mainly carried by an improvement in the combined ratio of roughly 3% points, which can be almost entirely attributed to the efficiency measures, improving both the claims ratio but also, to a large extent, the cost ratio to around the 15.5% mark. Now clearly you should bear in mind that roughly 1% point of the improved combined ratio is due to lower weather claims and large claims than last year, and although we would like to take the honor for that of course, that's probably not the right solution. And also you can see that clearly the business areas Private lines and Swedish lines is the areas where the improvement is the strongest.

Now if we look at the next slide and what has happened during the quarter, first of all I think it's very important that we deliver on our three-year targets for the combined ratio. You may recall that in 2010 we had a combined ratio of 99%, upon which we set our three year target to achieve at below 90% combined ratio from the Third Quarter and onwards. And I guess we're pleased to see that we're delivering upon that target and with a margin as well. And of course we've reiterated that also in the future we will target this below 90 combined ratio.

I think what is also important is that while the beginning of the journey from the 99% combined ratio and downwards was largely driven by price increases, in the last period we've seen clearly that our efficiency program, targeting DKK1 billion in efficiency gains by 2015 has been the main driver of the improved results. And it's very comforting to see that that program is moving according to plan both on claims procurement and on costs.

You can see also from this slide that we've introduced a number of new products and tariff criteria during the summer, and also a new customer concept in both Norway and Denmark. And you should be aware that this changing of products and tariffs is actually part of a three-year program where we expect to replace and enhance the pricing and tariffs of all major products in our portfolio. And we do expect that gradually that will enhance our risk selection and thereby the quality of our portfolio, and gradually it will also enhance the hit ratio and the sales in the segments that we find the most attractive. But we do expect top line to be low both in '13 and in '14 while we expect that in '15 and onwards we will be more in line with inflation on the top line.

Then you see also that we have now a new head of our commercial business which have joined us in this recent period.

Now if we look at the four large business areas, it's positive to see that three out of four areas we believe develop in a strong and positive manner. Particularly Private lines, Swedish lines, we see an improvement of the combined ratio of 2.5% to 3% points. Now given the sheer size of our private lines business, in a sense that is what drives the total Group numbers, and we see a positive and strong development there. But also I think it's fair to mention that in the Swedish business actually the year to date results are roughly double what they were last year and I guess Sweden has moved from being a drag to the total earnings to being clearly a much stronger support of total earnings.

Commercial, on first hand, is actually a slight deterioration of the combined ratio, but if you look at the actual level of the combined ratio, we're below 80% for the quarter and clearly a very strong combined ratio there.

A single worry point on this slide is in the Corporate section. I guess the combined ratio, some 92% for the quarter, 89% for the year to date, is not half bad. But actually when we look beneath the numbers we're slightly worried that the what we call small to medium sized claims, particularly in our Norwegian Corporate book, are somewhat higher than we expected them to be. And clearly given the risk and exposure to large claims in Corporate, it's always important to keep the small and medium sized claims to a moderate level. And given that inflation is higher in Norway, it's important that we manage that well.

And clearly, as I said, a main driver, the main driver of the results improvement is the efficiency program, you may have seen that now, until now, so far we've delivered DKK445 million in the total efficiency program of both claims procurement and cost reductions, which means that we still have another DKK550 million to go, which will clearly support earnings in the years to come.

You see the claims procurement program delivering some DKK90 million in the Third Quarter. Clearly we've seen during the year that motor has been the strongest driver and motor is the part of the procurement program that is ahead of plan. But we're now starting to see that property, which has been behind the plan, is starting to support procurement as well and should continue to support it further in the coming two years.

In cost you see an improvement of some DKK20 million due to the program itself in the quarter, but of course we've also reduced cost to cater for the lower top line and managed that as well. And if we look at the next slide, you clearly see the impact from this, a cost ratio of 15.7% for the full year, 15.5% for the quarter. And clearly we believe a very strong reduction according to the plan we set to achieve below 15% cost ratio by 2015.

If you dig within the numbers, it looks as if the nominal costs have dropped DKK100m, but when you look at that number you need to bear in mind that in the Third Quarter last year we set aside DKK60 million for restructuring. So the nominal drop is more like DKK40m. Nevertheless you clearly see from this graph that during 2013 alone we've reduced headcounts by some 150 people, without unnecessary violent layoffs and largely driven by planning and retirement and solutions like that. So clearly a strong development in the cost ratio and more to come in the coming periods, yes.

Then I think I will hand it over to you, Tor.

Tor Lonnum {BIO 16534375 <GO>}

Thanks Morten. Yes. If you look at the top line I guess it first and foremost reflects the fact that we continue to focus on the profitability. But it's of course important to note that there is a relatively high fluctuations in terms of top line this quarter, and first and foremost is driven by a relatively large drop in terms of the Norwegian Krone, which of course impacts the top line significantly. But then in addition to that you see that there is an impact from profit-sharing agreements that Morten mentioned. And if you take all these effects into consideration you end up with a drop in top line of about 2%.

If you look at the split of the technical result between the business areas you can see that it's roughly the same as last year, slightly improving in Private, but a strong development really in all business lines. Then I'll get back to the Corporate that Morten mentioned.

If we take the next slide, if you look at customer retention, first and foremost it's a positive development in the Commercial area both in Denmark and Norway. If you look at the Private lines you see that there is a small drop in Norwegian retention. Of course this is in our mind at least a relatively small fluctuation and it's still at the relatively high level if you look at in historic perspective. If you look at the Danish Private lines retention level you can see that it drops slightly and in our mind it reflects the fact that the competitive pressure is slightly higher in the Danish market, which we also mentioned last quarter.

If we take the next slide, if you look at the development in terms of the average premiums you can see that there's still a healthy development in terms of average premiums in the Norwegian market both in motor and in housing. If you look at the housing development in Denmark you can see that it's slightly lower than what you've seen before and of course it reflects the fact that we had a very low index, i.e. price increase, in January 1 this year and it reflects the underlying inflationary pressure in the market.

If you look at the motor development you can see that the average premium is around zero and of course again it reflects two things, both the underlying inflationary pressure but also the fact that we have seen a shift in portfolio that we have mentioned before, the fact that you see that people are switching from more expensive to relatively-speaking cheaper cars. And you have probably seen that number of new cars registered in Denmark is at a very high level so there is a significant shift in terms of buying pattern in terms of cars in Denmark.

If we move to the next slide, if we look at Sweden you can see that the retention level is dropping a bit and it reflects first and foremost the fact that the Nordea agreement has been terminated, and of course that leads to a shift in terms of the portfolio. One of the mitigating effects that we have introduced is the new customer concept program in Sweden and we think that this will give us a more healthy, better development going forward. And most --

Morten Hubbe {BIO 7481116 <GO>}

We're also working on introducing new partnerships in the Swedish market to add to our distribution, but clearly cross sales will be a main driver.

Tor Lonnum {BIO 16534375 <GO>}

Yes. And I guess importantly, as Morten mentioned initially as well, combined ratio is below 90% this quarter, which we think is a very strong profit development.

If we take the next slide, in terms of the underlying clearly there is improvement in the underlying claims ratio for the Private lines, very strong development. If you look at the Commercial segment and the Swedish segment it's flattish, slightly up, but I guess it's important to say that we come from a very low level in Q3 last year. And finally I guess, if you look at the Corporate segment, as Morten has said, we see a higher frequency in small and medium sized claims in Norway. We also see a slightly more challenging environment in the Swedish market. And this is the main drivers for the change in the underlying for Corporate. But again, bear in mind that if you -- when we compare to Q3 2012, 2012 was a very, very benign quarter in terms of claims.

If we move to the next slide, if you look at what happened here in terms of large claims, weather-related claims and run-off, we had a drop in terms of large claims of 1.8% points for this quarter compared to last year, so some tailwind from large claims. We see that the weather-related claims dropped by 1.1% points, so also some tailwind from weather-related claims. You can ask why we have negative weather-related claims in the quarter, but this is a technical adjustment from last quarter only. Then you have seen that we also have a slightly higher run-off gains this quarter than last year. And that is really the main drivers in terms of adjustments for the underlying.

If we take the next slide in terms of investment result, we had an investment result this quarter of DKK152m, which is down from DKK338 million last -- the same quarter last year.

Two main drivers. One is the fact that we had a negative mismatch on our match portfolio this quarter primarily driven by the fact that we have seen that spreads on Danish and Norwegian bonds have increased slightly compared to the rest of the euro, and the reason is of course that investors doesn't seem to value safe havens the same way that they did last year. If you look at the development in terms of the match -- sorry of the free portfolio, we have a 2% return, which we think is quite nice. It's primarily driven by equities of around 6% and then we also see a nice performance on our high yield and emerging market debt portfolio.

If we take the next slide in terms of capital, you have all seen that the capital buffer is increasing and we are now at 81% compared to the minimum requirements by the Danish FSA. Of course the main driver related to the capital buffer is the fact that we have had significant results/profits this year. But in addition to that we see that we have some one offs related to the pension obligation in Norway where interest rates have increases slightly and has given us a small impact on the equity. The buybacks continue as planned and we are now done with slightly less than 70% of the total buyback program.

And I guess with that I'll leave it back to you, Morten.

Morten Hubbe {BIO 7481116 <GO>}

Yes. And before we take your questions, just a short summary. I guess we are very pleased to deliver upon our three-year combined ratio target. When we set out the below 90% target and we were in fact close to 100%, that seemed a rather steep ambition. I think we're proud to deliver that with some margin.

And I think it's very important that in the last year or so the main driver has been our own efficiency program because really that is what drives bottom line efficiency and also competitive position in the longer run. And I think pleased to see that that program is following the schedule, but also that we have a remaining DKK550 million outstanding of that efficiency program until 2015 and that will allow us to pursue also in the coming years a below 90% combined ratio while of course continuing to pursue our 20% post-tax ROE and a target to take our cost ratio to below 15% in 2015.

As we said, the top line is a necessary adjustment when we're pursuing earnings also in Commercial and Sweden, where we had losses just a few years ago. And we accept and expect a low top line in '13 and in '14 and then a more normalized level again from '15 and onwards. But clearly we have no target to achieve a large number of growth, but a top line more in line with inflation. Then the financial targets that we have set out.

So I think that concludes our presentation and we're ready to take some questions.

Questions And Answers

A - Lars Moller {BIO 2301941 <GO>}

Yes. The first question.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, hi. This is Vinit from Goldman Sachs. Two questions please. Firstly on the comment around the corporate mid-sized claims frequency which you mentioned in Norway, please could you comment on which sectors?

And secondly, on that same topic, this is a business where you do partnerships with other companies as well. And are these claims in your side of the book or is it in where the partnerships sit? And the reason I ask is because some of these corporate partnerships can give you claims in far-off lands as we have seen in the distant -- in not so long ago.

Second thing is just on the expense and claims initiative, which are clearly driving the results, so in your view what's the reason for continuing to push? Is it the competition that you mentioned, say in Private lines, or is it the claims frequency which you're seeing a bit of an up-tick in Corporate? So where is the pressure more which you're trying to offset, if you could comment qualitatively? Thanks.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. Won't you take the first question and I can take the second?

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. First and foremost I guess it's important to say that it's not any partnership agreement or any sort of a corporate exposure far away that drives the claims that we talk about. In fact it's relatively simple, related to, as I said, particularly the Norwegian business but also partly the Swedish business, and in our mind it's relatively simple straightforward claims. But as Morten has said, the fact is that the frequency of claims is slightly higher than we had expected and what we see compared to last year. And as such of course it's important for us to monitor the situation and see if we need to make additional adjustments in terms of pricing etc.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess on your question what motivates the procurement pursuit, you may recall that at some point two years ago we made an analysis showing in a given calendar year how many suppliers of claims repairs did we use. We used 46,000 different companies within 12 months, which of course is a ludicrously high number, and this year opportunity to make that much smaller, much more efficient is clearly something we see will drive both bottom line, but also competitive position because we have more bargaining power than our smaller competitors.

And clearly we've started out with motor being the, call it the easiest route but also the area where our position is the strongest. We have now implemented a strong solution for content insurance. We've made a customer satisfaction survey on both motor and content, showing that our customers have a very high satisfaction with these new processes. And now the target is to move the program on to have further benefits in the property area where we still need to attract more benefits in the program. But I think given our size and bargaining power this is an area where we should excel compared to smaller peers and that should drive both the bottom line longer term but also the competitive position longer term.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry, on the property, the e-auctions are --

A - Morten Hubbe {BIO 7481116 <GO>}

The e-auctions has, after a slightly slower than we wanted start, it is developing very nicely in the Danish market and we have very large benefits in the individual cases. The handling is a bit harder but the benefits are very high. In Norway we find it slightly more challenging to get the craftsmen to participate because clearly their pipeline of jobs to begin with is a lot stronger than their Danish colleagues. But I'm sure we'll get around to solving that in Norway in due time as well. Okay?

A - Lars Moller {BIO 2301941 <GO>}

Another question here from inside?

Q - Sami Taipalus {BIO 17452234 <GO>}

Hi. Sami Taipalus from Berenberg. Just a quick question on your capital. I think this new regulation being introduced in January, which will allow you to move to your individual capital model, to be assessed on that, is that the one that we can see there on slide 18, the DKK6.4 billion width[ph] requirement?

And what kind of target ratio would you aim for there?

A - Tor Lonnum {BIO 16534375 <GO>}

To the latter question I think again we haven't really tried to give you any target ratio and we're not going to start now.

But in terms of where we are in terms of legislation, as you say, there will be introduced some new requirements by the FSA, January 1. The model that we have shown here in the booklet is related to the old individual solvency calculation. In terms of the new adjustments, which we expect to be relatively small, is not in our opinion, at least from what we see so far, going to affect our calculations significantly. There may be some minor adjustments, but in our opinion so far it's not going to be significant changes to what we have today.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess the individual solvency, both the old and the new, captures the matching strategy on the investment side and therefore the total capital requirement for liabilities and for bonds is low, and that is part of the benefit. But we'll see. I guess there's still debate about the final adjustments in that program.

A - Tor Lonnum {BIO 16534375 <GO>}

But when I say significant we're talking about adjustments in the area of DKK100m, DKK200 million on the capital side, so relatively small adjustments up or down.

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

Good morning. Daniel Do-Thoi from JP Morgan. Just two questions from my side. Firstly, some of your peers have been picking up or opportunistically picking up portfolios over the last few months. Just wanted to hear your thoughts on whether that's something that you would consider.

Then secondly, as a buyer reinsurance I just wanted to ask whether you had noticed any sort of developments in terms of pricing on that side?

A - Morten Hubbe {BIO 7481116 <GO>}

I guess it's -- if you look at the last 10, 12 years the number of M&A transactions we've done I think is one buy in Sweden and one sale in Finland. So we're not exactly very trigger happy in that department and I guess we'll continue to have that strategy. Clearly the area where we are smaller than we would like to be is in Sweden so if a quality portfolio came along in the Swedish market we would clearly look at it. But there are not many portfolios out there and our requirement to make sure that that would be accretive to earnings wouldn't make us a very necessarily attractive buyer. So I wouldn't hold my breath on that, but of course we are surveying it as we've done for the last many, many years. Yes.

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

Yes.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess that's the first question.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. Just to elaborate a bit on what Morten said, clearly if there are bolt-ons it's something that we would consider but, as Morten said, we don't see the likelihood to be very high.

In terms of the reinsurance market, clearly we do think that the reinsurance market will be slightly softer than what we have seen in the recent past at least. So in our mind that means that in terms of reinsurance procurement we feel that we are in a comfortable situation. However, I think it is important to note the fact that when we look at our guarantee business and the fact that we had the large claim related to this contractor in Denmark, clearly we do think that that will have an impact on our reinsurance procurement on the guarantee business. But as Morten has said, of course we do think that we should be able to offset those effects with price increases in the market.

A - Morten Hubbe {BIO 7481116 <GO>}

Because generally you can say that all bonding or guarantee companies in the market participated in that claim so that is a challenge for the entire market.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes.

A - Lars Moller {BIO 2301941 <GO>}

Okay. Another question here from inside? Then I think we will switch to operator. Do we have any questions from outside listeners?

Operator

(Operator Instructions) Your first question comes from Hakon Fure from DNB. Please go ahead.

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

Yes, hi. Good morning. It's Hakon at DNB calling. Two questions this morning. Firstly on the bonuses and the premium discounts, is there any reason to view these effects as non-recurring, i.e. were there any special items this quarter, or should you expect these levels to remain as long as the profitability levels are stable going forward? So that's the first question.

Then on run-offs where I always have a question, this turnaround, let's say that the run-offs normalize back to where you've guided for say 2.5%, in that event do you expect to be able to offset this through other initiatives or would that be a net negative for your combined ratio going forward?

A - Tor Lonnum {BIO 16534375 <GO>}

I guess if we start with the first question, remind me what the first question was Hakon.

A - Morten Hubbe {BIO 7481116 <GO>}

That was the bonuses.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. That's fine.

A - Morten Hubbe {BIO 7481116 <GO>}

You asked whether that was a one-off on the bonuses and premium discounts. No. I don't think you should view it as a one-off. If the bonuses and discounts disappear again it's because we're making less money so I seriously hope that that's not going to happen.

I guess what you can say is that the immediate impact it has relative to the comparison to the year before has a one-off character because the earnings improvement increases the bonus and discounts, which has a, compared to the year before, significant impact. But of course the target is to make these current earnings more a structurable, sustainable issue and thereby also come to a situation where the bonuses and discounts are at a sustainably more stable high level like the current, and thereby the comparison to the year before will be less of a challenge. But the level I think you should expect to remain there as we expect to keep on making money.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes I think, and just to stress the last part of what Morten said, that is really important and when I mentioned the impact on the top line it's actually the change of impact or bonuses from last year. So the 1percentage point that I mentioned is related to the change from last year. It's not the actual impact.

To the other question in terms of normalization of run-offs, it's correct, as you say Hakon, that we have guided on a long-term basis between 2.5% to 3% in normalized run-offs and of course that's really what we are aiming for in terms of pricing. However, in the short to medium term, as we have said several times, we do expect the run-off level to be higher and that means that we will see a relatively higher level of run-off gains for the rest of 2013 and also in 2014.

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

Excellent. That's very clear. Thank you.

Operator

Thank you. Your next question comes from Jakob Brink from ABG. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Hi. It's Jakob here from ABG. I just have two questions, the first of them being on the premiums. Now it's been quite weak for the past three quarters, is there any kind of limit to how much it can -- I realize it's very much due to the Norwegian Krone, but still you also mentioned, Tor, that there is a fairly big underlying negative impact on the premiums this quarter again. Is there any level of how much you can take and how do you feel about this?

Then secondly on the capital, I know we discussed that as well, but if I try and backtrack your S&P model from when you last reported it and given the very weak premium, or the very high premium decline, and also the high interest rates in Norway, I calculate a fairly high buffer on the current equity and the new hybrid capital. So could you maybe give us some more indications of how should we look at this big buffer in connection with buybacks for 2014 please?

A - Morten Hubbe {BIO 7481116 <GO>}

Good morning, to you Jakob. If I take the first question, I guess you're right, we have the total top line premium of minus 3%. As Tor has said, the change in bonus and premium discounts cater for roughly 1percentage point so minus 2percentage points is a more real number.

If you dig within that number and approach your question I guess it falls in two categories. First of all the area where the reduction is the highest is in Sweden and in Commercial lines. Sweden and Commercial Lines only two years ago had combined ratios significantly higher than 100% and they're now doing below 90% combined ratios, Commercial now even below 80% this quarter.

Clearly we've had to clean up a number of loss-making parts of the portfolios in Sweden and Commercial. We have stopped two of our distribution parts of Sweden because they were not making any money and clearly we think that longer term and earnings wise that was the only right decision to make, and clearly we accept that for Commercial and for Swedish lines it means that it will take a while before we get to a more top-line development. And for those two areas we're perfectly willing to accept that because we needed to build a sound foundation.

Now the area where we probably like decreasing in top line the least is in Private lines. Private lines has a decrease in top line of around 3%. This is the area where the premium discount is the largest so actually if you take out the change in premium discounts the reduction was around minus 1%. What we're seeing there is actually that we have implemented a handful of new products where we have significantly enhanced the number of pricing and tariff criteria and therefore completely rebuilt our pricing matrix with a much higher degree of price differentiation. And we see now that the first months of these new products we have a clearly higher sales hit ratio in those products than in the old products and that we have a higher quality of customers in those sales.

That is the methodology we will use to get also the top line in Private lines to move to more like inflation, but it will take a couple of years for us to implement it. And we're not trying to rush to any sort of quick-fix solutions, but rather stick to this higher quality, higher price differentiation, helping sales, helping earnings, helping the total long-term development of the business. And that requires a bit more patience, but we think it's more sustainable and that is what we will stick to.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. And just to elaborate a bit on what Morten says, of course it requires discipline. And I guess it's also fair to say, which I mentioned briefly in my presentation, that we do see that the Norwegian portfolio is developing okay whereas it's in the Private lines in Denmark that we see the competitive pressure is slightly higher. And I think it is important, again as Morten said, that we actually stick to the course that we have set out, that we focus on the profitability side and focus on that.

In terms of the capital I guess it's fair to say that --- seems to be something. Ii it me? In terms of the capital I think it is important to say that -- perhaps I should use your microphone?

A - Morten Hubbe {BIO 7481116 <GO>}

It's okay? Okay.

A - Tor Lonnum {BIO 16534375 <GO>}

Okay, I can just hear it. Okay.

In terms of the capital I think it's fair to say that when we are at the Third Quarter, as I mentioned, it would be strange if we didn't have a capital buffer because in principle what we are talking about at this point in time is what is going to cater for the nominal and growing dividend that we want to deliver to our shareholders on the basis of the 2013 results. So yes, clearly there is an increased capital buffer and as such it reflects the profitability of the business, and we are going to disclose what will happen on the dividend side after Q4.

And in terms of buybacks, that is something that we will have to get back to, but you know the variables in terms of our calculation. It's focused on the combined ratio below 90% on a sustainable basis, it's the 20% ROE and it's aiming for the stable and growing nominal dividend.

Q - Jakob Brink {BIO 7556154 <GO>}

If I can just follow up, I do realize that you should have a buffer at this point in time due to the dividend but even if you would pay out a fairly high percentage of your net profit, i.e. in the upper end of the range, as far as I can calculate there must still be a fairly large capital buffer left.

And regarding your last part of your answer with the 20% return on equity, I guess given that premiums are coming down so much, to make EPS grow in the mid-term future I guess we need more buybacks. So how aggressive are you going to be? Will you, like in the old days, go all the way down to the S&P requirement or will you need a buffer? How do you see that compared to the fact that premiums are falling and that will hit your earnings per share going forward if you do not buy back shares?

A - Morten Hubbe {BIO 7481116 <GO>}

I think, Jakob, we realize that you would like us to come up with a number for a buyback program and announce when we will do it. That is not going to happen at this moment.

But I guess you also know that we've moved from a scenario where we targeted a capital position and therefore the dividend became the residual, to a new regime where we say we abandon the clear see-through with a clear capital target and a clear buffer target and instead we've implemented a very strong commitment to a dividend policy with a stable to slightly nominal growing dividend, and then we will use buybacks occasionally when we want to adjust the capital position. And clearly, as you point out, if the capital becomes too high we will not reach our 20% ROE target and that is an as-committing target for us as our other financial targets.

So I think you can rest assured that we will balance this in order to make sure that we both deliver the combined ratio target, the cost ratio target, the nominal to stable and growing dividend, and the ROE target, and therefore from time to time we have to adjust our capital position. Then you will have to see when and where and with which amounts that would happen.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thanks a lot.

Operator

Thank you. Your next question comes from Per Gronborg with Danske Bank. Please go ahead.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes. Good morning. It's Per from Danske. I have three questions. Going back to slide 14 in your slide package you're showing the underlying claims trend, which is developing quite nicely on Private and not that nice in Commercial, pretty bad in Corporate. You commented a bit on it. Can you put us a bit more, especially as there's a Corporate development which looks very, very soft this quarter?

My second question, maybe it's the same reasoning, if I compare your Sweden country result versus your Sweden segment result, I see that outside the Sweden segment result you had DKK150 million roughly in premiums and you make a loss of DKK50 million on the technical profit from that business. Is that industrial business that has been hugely loss making in Sweden this quarter?

My final question is just a clarification. On the (inaudible) claim, the DKK30 million for own account, was that taken already in the first half when you took the first gross claims or has all DKK30 million been booked in the Third Quarter?

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. The last one is that the DKK30 million has been booked in this quarter.

In terms of the Swedish book, as you mentioned Per, clearly there is no doubt that there are two things that impact the Swedish profitability and it's related to the Corporate book. One is the fact that we have some DKK25 million in large claims; it's related to some transportation. And the other is related to the same issue that I mentioned earlier, i.e. the fact that we do have some small, higher level of small and medium sized claims in the Swedish book, and it attributes to the underlying development that you see here. And that's really why I mentioned both the Norwegian book and the Swedish book on the Corporate side.

I do think it is important, again as I said during the presentation, to stress the fact that when you do the comparison on the Commercial book, on the Swedish book, on the Corporate book, it is important to say that Q2 --- sorry, Q3 2012 was a relatively benign quarter and I think we mentioned that at that point in time also when we did the presentation.

A - Morten Hubbe {BIO 7481116 <GO>}

Then I guess, Per, it's not unusual for us to see a more volatile development in the Corporate book. This is also the business segment where reacting on such development has the shorter lead time because it's bigger individual accounts. So we're just choosing to stress it to make sure that we actually manage the development and make sure on both Norway and Sweden that we get the small to medium sized claims ratio down to the level that we require, so that when we see the larger claims we're able to manage that and still keep the combined ratio of Corporate at an attractive level.

And you may recall that we've said we actually don't believe that we can achieve a 20% ROE in the Corporate business, but in achieving a sort of high-end-80s combined ratio in Corporate we can get to a around a 15% ROE. And that is really the area that we want to attract in order to make sure that Corporate is an attractive part of our business longer term.

Q - Per Gronborg {BIO 15910340 <GO>}

Thank you.

Operator

Thank you. Your next question comes from Gianandrea Roberti from Carnegie. Please go ahead.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good morning from me as well. I have three small questions. A couple of them are more statements. I would like to hear your view on it. If I look at the combined ratio year-to-date I think you have a nine months at 87.3% and that's basically around DKK150 million in total better than expected large claims and weather claims on the nine months. So that's around 100 bps on the combined so you would be at 88.3% underlying. Is that how should I see this year? Any other special offsetting factor or too good to be true, or anything like that? That's the first question.

The second question it's on the savings program. I think you did DKK445 million right now. Let's assume you will be doing a bit above DKK500 million at the end of the this year, right, so there is another DKK500 million which is a very sizeable number to eat[ph] the P&L in the next two year, which should actually improve performance even further. But I'm just interested from an execution point of view, would it be fair to say that the second half to some extent should be easier, if I want to use this word, than the first half simply because probably for the organization the starting of this DKK1 billion was somewhat of a shock? Probably I'm exaggerating a bit, but I just want to hear your view on that.

And the last question, I actually recently considered buying a summer house in Denmark and now I'm seeing you're asking 14 questions to potential customers to insure that and now I'm being a bit put off. It seems like a bit of a high number, 14 questions. Can I ask you what you're asking these people? Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Actually if I take the last question since that was the easiest. Previously, Gian, we asked only two questions for summer houses. One was what was the number of square meters in the house and the second question was does it have a thatched roof or not, which basically means that you could have an old shack at 100 square meters with no pipes and no water and no toilets and no television and no nothing, and it would have the same insurance price as a very, very hi-tech, fancy, leisure house of 100 square meters where lots of things could get broken, lots of things could get stolen etc. etc. etc.

And clearly we have, as you say, significantly upped the number of questions for leisure houses. And I guess the travelling from two parameters to 14 is not unusual in the process we're currently doing in price differentiation. But we do in most products make sure that we get external data to support the parameters and not have to ask the customers all these questions. But clearly that is one of the reasons why we are hitting the risk a lot more precisely in the new products and that is one of the reasons why we see that it will gradually improve the risk selection and the quality of the book, but also that we gradually get a slightly higher or I guess somewhat higher hit ratio in our sales in the segments we want to attract.

But as I said, we try to keep a lot of these questions away from the customer because there's a limit to how many questions they want to answer. But please go ahead, buy the summer house, answer the 14 questions and pay your premium and --

A - Tor Lonnum {BIO 16534375 <GO>}

You'll be very happy.

A - Morten Hubbe {BIO 7481116 <GO>}

We'll be happy.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay. Thanks.

A - Tor Lonnum {BIO 16534375 <GO>}

The first question was really a statement and I think the simple answer to that is that seems about right. There is no other significant factors that should be considered.

In terms of the question related to the savings program, I'm not going to give any guiding but clearly you see that the pace that we're actually able to achieve savings both on the claims side and on the cost side is at a relatively good pace so it develops quite nicely. I think you're right in terms of the fact that the organization actually is moving up the learning curve of course adds to the development, makes it slightly easier to introduce the measures. On the other side, which of course is a slightly offsetting factor, is that you tend to take some of the easier parts in the beginning.

So I guess from an overall perspective I would say that, and of course this is something that you would expect me to say as well, it will be challenging to realize the last EUR0.5 billion as well. But yes we are of course confident that we will be able to reach our targets as expected and as promised.

A - Morten Hubbe {BIO 7481116 <GO>}

And I guess I would just add that, as we saw in this Third Quarter for instance, we had more small and medium sized claims in Corporate than we thought we should have and I guess for the next two years we will also encounter areas where there's a development that is not as positive as we thought it should be. So clearly it's important to have a pipeline of improvement that is strong and also stronger than you might immediately think that you need because clearly you will from time to time encounter negative developments and you need something to cushion and encounter that.

So I think we're happy to be in a position where the EUR0.5 billion is ahead of us and then surely we will also have areas developing in some quarters and we need some cushioning on that. So I think all in all we think that will balance out nicely.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thank you.

Operator

Thank you. Your next question comes from Simon Christensen from Nordea Markets. Please go ahead.

Q - Simon Christensen {BIO 16977812 <GO>}

Yes good morning to everyone. I have three questions. The first one is regarding your rise in your underlying combined ratio of roughly 1percentage point. Could you perhaps elaborate a bit on how much of that is related to the higher frequency on small and medium sized claims that you mentioned and whether you expect this frequency level to continue?

The second question is regarding your growth picture for 2014. My impression was at Q2 that you expected the first half of '14 to be in negative territory and perhaps the second half in slight positive territory. Is that something that has changed?

And the third question is related to the e-auctions in Norway. 25% of your cost and claims procurement program is related to property. Perhaps could you share with us how much of the 25% is related to Norway? Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

I guess if I take the second and third questions, Simon, I think it's fair to say that we do still expect, there's really no change to the fact that we expect a rather negative development on the top line in the first half of '14. We expect some improvement of that in the second half of '14. We expect to be in 2015 before we see a top line more in line with inflation and clearly it takes a while before particularly Sweden and Commercial starts to move in the right direction.

Then I guess on the e-auction side and on the property side, it's fair to say that currently on the property benefits in the procurement program I would say that some 75% of the impact currently comes from Denmark and a rather small proportion currently comes from Norway.

I guess what we're trying to do now is to figure out what sort of persuasive measures does it require to get the Norwegian craftsmen more interested in participating in these programs. So far we have perhaps naively assumed that we could use exactly the same methodology in those two countries and given that the craftsmen in Norway are simply less hungry than the Danish craftsmen, that is not correct. We need to find different incentives to get them into our procurement program on property. I'm sure we'll get around to doing that but we will probably see the impact there clearly later than in the Danish market.

A - Tor Lonnum {BIO 16534375 <GO>}

Yes. And just to follow up on the last question that Morten mentioned, that's where we see the split of the savings today. In terms of ambitions related to the savings on the cash procurement it's roughly 60% Denmark, 40% Norway, so that's, in total that's the overall ambition.

And if we go back to the first question related to the underlying performance, yes, you're quite right in your assumption; we do see a continued improvement in the underlying for the Private lines. We do see that Commercial and Sweden are slightly up to flattish. But the main driver in terms of the underlying for the quarter is related to the small and medium sized claims that we have mentioned in Norway and Sweden. And we continue to monitor the situation. It's difficult to say what kind of expectations we have for Q4 in that respect but we do observe a development that we need to monitor and see if we need to introduce mitigating effects.

Q - Simon Christensen {BIO 16977812 <GO>}

Okay. Thank you.

Operator

Thank you. We have no further questions from the phone lines. Please continue.

A - Lars Moller {BIO 2301941 <GO>}

Thank you very much operator. Do we have any additional questions from interior?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks. A quick follow-up on this mid-sized claim frequency in Norway. In the past there's been a focus on the portfolio pruning. I remember the municipalities. The energy sector was mentioned by you two years ago, one year ago. Is there something on the sector level that you could guide to where these claims are coming from or is it randomly oriented?

A - Tor Lonnum {BIO 16534375 <GO>}

It's the latter, so no particular pattern in that respect. And that's why I say it is important to bear in mind again, and I think that should be a concluding remark, the fact that if we compare Q3 2012 to Q3 2013 there is no doubt that 2012 was a very benign quarter and that's what we are comparing against here.

A - Morten Hubbe {BIO 7481116 <GO>}

Then I guess it's fair to say that we are doing significantly higher price increases in Norway both in Commercial, Private and Corporate than we are in Denmark and Sweden simply due to the fact that inflation is a lot higher in Norway. So we need to monitor and see how many adjustments do we need in order to make sure that we get the small and medium-sized claims to the level where we want them, but it's not surprising that it is in that area that we see a development and we also believe that it is manageable.

A - Lars Moller {BIO 2301941 <GO>}

Further questions from here or if that's not the case, yes, then I'd like to thank you all for participating this morning. Now we have opened the reporting season here for the Third Quarter. That's the first one again. So that's nice that all of you would like to join this meeting this morning here. We will be around here for the next couple of weeks, starting here in London today and Copenhagen tomorrow, and the US a couple of weeks from now and then in Asia. So hopefully we'll meet some of you around there and have a nice day to all of you. Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

A - Tor Lonnum {BIO 16534375 <GO>}

Thanks.