Company Participants

- Gianandrea Roberti, Head-Investor Relations
- Morten Hübbe, Group Chief Executive Officer
- Tor Magne Lønnum, Group Chief Financial Officer

Other Participants

- Christian Hede, Analyst
- In-Yong Hwang, Analyst
- Jakob Brink, Analyst
- Jonny Urwin, Analyst
- Per Grønborg, Analyst
- Steven A. Haywood, 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 are here to present our Q4 Full Year Results today. We published them earlier on this morning. I have our CEO, Morten Hübbe; and CFO, Tor Lønnum.

So, with a few words, over to you, Morten.

Morten Hübbe

Thank you, Gian. And if we turn to slide number 2 (sic) [3] (00:25) in the deck, we continue, as promised, to focus on the stable and increasing dividend. We've announced this morning an extraordinary buyback of DKK 1 billion for 2016, which underlines a strong capital position, improved by the new Solvency II regime.

If we look at the technical result of DKK 2.4 billion, clearly, down from the year before. It's impacted by large claims and, particularly, weather claims, which, in combination, is DKK 210 million more expensive than the year before, also impacted by one-offs, which in 2014 was positive due to Norwegian pension of DKK 135 million and this year negative of DKK 120 million due to restructuring charges to reach the 2017 target. It's very positive that in 2015 we reached the target of an expense ratio below 15% before one-off costs.

We see a drop in the top-line of 0.8%, but we see a positive trend in Private lines and particularly Private lines Denmark, whereas our Commercial business is more challenged. And generally, a positive development in Denmark, whereas Norwegian macro is turning to a more negative development. If we turn to slide 3 (sic) [4] (01:52), in the fourth quarter, we show a pre-tax profit of DKK 704 million. We don't show a post-tax profit of DKK 721 million where clearly there's a high investment income and a surprisingly low tax rate. Bear in mind that there's a change to the Norwegian tax rate, which is what influences the fourth quarter numbers.

Clearly, for the quarter, also we see that the technical result is impacted by higher claims level in property. And although some of this is more sarcastic (02:30), we also see an underlying trend where a number of products has a slightly higher claims inflation, which we will mitigate through price and claims initiatives in the new year.

If we turn to slide number 4 (sic) [5] (02:45), we show a strong development in customer satisfaction, where our three-year target to double the NPS score has been achieved already after 2015. We also see particularly in Denmark and Sweden, that our retention and three-plus targets are increasing, whereas they developed slightly negatively in Norway, which we intend to improve in the coming year.

We continue to drive price differentiation as an extremely important project. And in 2016, we will be converting a large number of customers to our new improved products. And then of course the spring of 2016, that's the first time we implement and carry out our new customer bonus scheme in Denmark, which we expect to have a positive impact.

If we turn to slide number 5 (sic) [6] (03:43), as expected, the efficiency program has a lower run rate in 2015 than in 2014, with total savings of DKK 165 million for the year-to-date and DKK 47 million for the quarter isolation. Key drivers in cost reductions have been outsourcing, reorganization and commercial and digital communication.

For claims, the fourth quarter, we have increased the focus on collection from third-party insurance company when they're responsible for claims. And then the continued implementation of IN4MO system to reduce property claims. Clearly looking ahead, the efficiency program will be the main driver to improve the expense ratio in 2016 and 2017 to reach the below 14% target in 2017. And the total efficiency measures will be DKK 225 million for this year and DKK 375 million for 2017.

Now, if we turn to slide number 6 (sic) [7] (04:51), we show that we have reached our expense ratio target of below 15% in 2015. The main driver has been reduction in head count, which has dropped some 240 FTE heads during the year but also outsourcing of IT. When you do your modeling, please bear in mind that seasonality wise, Q4 is often the lowest in terms of cost run rate. We are on route and on target to reach our 17% targets to have a cost ratio at or below 14%. But when you do your modeling, please bear in mind that we're not expecting to be significantly below the 14% market.

And over to you, Tor.

Tor Magne Lønnum

Thanks, Morten. If we move on to slide number 8 (sic) [9] (05:47) and look at the top-line development, we do have a positive top-line development in private as you can see on top of the slide, but keep in mind that it's impacted by lower premium discount impact this year. So it's not as positive as you can read from the 1.1% isolated.

It's important to say that if you move on to the Corporate, you can see that there are some movements in terms of top-line that reflects that there will be some volume changes between the quarters, and I think it's more important to look at the flattish development year-on-year.

As Morten highlighted initially, if we look on Commercial, it's still challenged on weak developments in Norway, and to a certain extent, also in Denmark. But clearly, I mean the worry point in our own mind is related to the Norwegian business and the macro that Morten highlighted.

Sweden is somewhat challenged from a large definitive agreement that has been terminated, and I think we have talked about this before. If we talk about what is going to happen in terms of top-line for 2016, and that's something that Morten will address at the end as well, but based on what we see in terms of claims inflation, we have set in order (07:20) some price increases in the portfolio in 2016, and that will be about 3% across the portfolio. And it's, of course, something that we think will help both our top-line, but also to adjust for the increased claims inflation, so about 3% in terms of price increases across the portfolio.

Moving on to slide number nine (sic) [10] (07:51). You can see that we have a less satisfactory technical result. The reported combined ratio increased 4.7 percentage points to 88.4%. It is impacted by a lower run-off this quarter, but also higher weather-related claims of – and large claims of DKK 220 million.

There is an underlying weakening of approximately 1.3%, which is helped by the improvement in cost ratio that Morten mentioned, but a 2% deterioration in claims ratio. And this, of course, reflects back on the price increases that I mentioned earlier.

If we move on to slide number 10 (sic) [11] (08:36), you can see that in Denmark, average price in motor are down with 2.6% and 1% in housing. We do think that this should be positively impacted by price increases in 2016. In Norway, average price in motor are increasing again from 0.5% last quarter to 0.8% in Q4. Housing continued to increase, but at a lower level than last quarter, and are up 0.6%. And that's one of the areas where we will see price increases in 2016.

If we move on to slide number 11 (sic) [12] (09:16) and look at the retention levels, we think it's actually very, very good that we are able to achieve a retention level in Private Denmark at 89.9% in Q4, which is the best level in two years, slightly better in Private Norway at 86.4% this quarter, but still slightly lower than end of last year. Commercial retention is slightly weaker than previous quarters, impacted by the competitive situation in Denmark, but also the macro/competition in Norway.

If we move on to slide number 13 (sic) [14] (09:56) and look at the underlying claims ratio, as I mentioned, we see that the underlying claims ratio is impacted – is up about 2 percentage points, impacted by higher than expected claims inflation. It's particularly related to property claims, but also child insurance and general negative claims trend.

The Private segment has a weakened underlying of 0.8 percentage points, and we are concerned about underlying claims inflation pressure in Denmark, which is, in general, as I said, higher than expected for 2015. And thus, the portfolio price increases will be crucial for reaching the improvements expected in 2016 and, as I said, on average, 3% across the portfolio.

If we look at slide number 14 (sic) [15] (10:52), we have highlighted already that there is an increase in large claims and weather and it amounted to more than DKK 1.2 billion in 2015 in total, which is about DKK 180 million higher than the annual expected level. Now, keep in mind that we have not adjusted our expectations upwards for 2016, and we do sort of see the above expectations as the normal deviation in terms of large and weather claims.

In Q4, large and weather related claims amounted to a total of approximately DKK 370 million which is DK 50 million increase compared to last year. In our mind, the elevated impact in 2015, as I said, does not require annual adjustments. Total run-off effect for the year at 6.7%, which is an increase of 0.6% since last year, slightly lower in Q4 at 5.5%. But keep in mind that, as we have talked about before, that it had been at a slightly elevated level previously in 2015. The run-off position is still supported by a strong reserving position.

If we move on to slide number 16 (sic) [17] (12:16), and look at the investment return, we had a total investment return in Q4 that ended at DKK 201 million, which is significantly higher than last year. And it means that the full year ended more or less at zero in terms of return, which of course, is a significant drop compared to last year. But still, if we compare to what happened in Q3, it was a good performance in Q4.

We had the best performance in high-yield emerging markets and properties, slightly weaker in equities compared to benchmark. End of 2015, we have a slightly lower equity exposure. And of course, it's important for me to say that we have had a weak performance so far in 2016. But I guess that is something that we can all observe in the markets these days. There are no other material changes in the portfolio.

And then finally, I'd like to highlight the fact that we do mark all assets. We do have all assets marked-to-market, which is different from many of our Nordic and international peers. This is not for us to choose, but we do follow the Danish regulation. So all assets are marked-to-market.

Slide number 17 (sic) [18] (13:41), when we look at the solvency ratio, ended at 154% at the end of the year impacted by profits, buybacks and full year dividends. You do know that the internal model was approved by FSA in Q4. It's also important to say that for the Natural Perils pool there is still some uncertainty, because it's pending finalization. But we do expect this to come through in Q1 and everything looks according to what we have communicated earlier.

Now on slide number 18 (sic) [19] (14:21), we have chosen to give full disclosure on what happens after we go over to the Solvency II rules. And the solvency ratio changed to 176% at the beginning of 2016. There is relatively significant changes. Among other things, we do include expected future profit of DKK 0.6 billion in the capital. There is a negative effect of changes in the discount curve of about DKK 0.2 billion. We will be able to include, or to reduce the capital requirement by about DKK 1.2 billion related to being able to utilize a tax loss carry forward, or a tax asset. There is additional subordinated debt capacity in the balance sheet of approximately DKK 1 billion. And of course, that will be utilized to support the 2016 buyback.

Now, as I said, we do expect the Natural Perils pool to be eligible as Tier 2 capital according to the suggestions by the Ministry of Justice in Norway. Keep in mind that the solvency ratio will be, to a large extent, unaffected by large equity market swing as potential fall in available capital is offset by the reduction in capital requirements, i.e., a dampener effect.

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

Morten Hübbe

Thank you, Tor. And just for a few concluding remarks on slide 19 (sic) [20] (16:08). We reiterate our 2017 targets to have an ROE at or above 21%. Combined ratio at or below 87%, or an expense ratio at or below 14%. And then our targets to double NPS to increase retention and increase our three-plus products with our customers. We also show an expectation of 2016 top-line growth between zero and 2% in local currency.

Clearly, the main significant focus will be on delivering our efficiency program from DKK 165 million in 2015 to DKK 225 million in 2016, and DKK 375 million in 2017. We continue to have a significant focus on price differentiation to improve our products and improve our risk selection, and also significant efforts to converting old customers into the new product.

And then as Tor has mentioned, we increase our focus in 2016 to secure average prices that is slightly higher than the development in claims inflation. There is a general historic risk that when claims inflation increases, the insurance industry comes behind the curve; whereas when the inflation reduces, they benefit from that. And we do see that the wheels are moving slightly faster particularly in the Danish society, and particularly in property, and to some extent travel. But across the board, it's important that we are slightly ahead of the inflation curve and not slightly behind.

We focus on nominal stable to increasing dividends, which is more important to us than the actual pay-out range. And then, we finalize on slide 20 (sic) [21] (18:10) with a quote from John D.

Rockefeller on the importance of dividend and dividend yield. And then, of course, adding to that, the planned buyback of DKK 1 billion in 2016 to result in a high total yield.

And I think, with that, we are ready to take your questions.

Q&A

Operator

Thank you. And our first question comes from In-Yong Hwang from Goldman Sachs. Please go ahead with the question.

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

Hi. Good morning. This is In-Yong from Goldman Sachs. Two questions from me. Firstly, on the new 176% solvency ratio, I appreciate you're doing explicit guides on what you're aiming for here. But it's significantly higher than kind of the 150% that you used to keep historically. So would you kind of now see yourself, let's say, capitalized or do you see that to the increased Solvency II ratio as just model changes, and 176% in some ways kind of the new normal, or roughly at the level you want to keep it at. So just your thinking around that, and it would be helpful.

And secondly, on the Commercial segment, I think on the slide, it says structurally challenged, and you're talking about finding the right balance between increasing retention and increasing sales. Is there a sense where - do you get a sense of which is a kind of more problematic area? Is the retention too low, or is sales too low? Is there one area or the other that you're focusing on more? And just related to that, there was quite a lot reorganization especially in Norway through 2015. I was wondering what your thoughts are on that, whether that's kind of in place now, and will no longer be a drag on premiums as much? Thank you.

A - Tor Magne Lønnum

Yes. Good morning. I'll address the first question, and then Morten will answer on the Commercial segment. First and foremost, we're very pleased to be able to give you the numbers now in terms of the solvency ratio. And you're quite right, I mean, the solvency ratio increases quite significantly.

Now, keep in mind that when we have been at around 150% in the past, that hasn't been any sort of particular threshold communicated. And as you know, we are very explicit not to communicate any surplus capital, or surplus capital thresholds in that sense, because it's relatively important for us to be able to maintain that flexibility.

What we do promise is a stable to increasing nominal dividend. And as you can clearly see from what we announced today, we will continue to support our shareholders with distributing capital, when we see that there is flexibility in terms of our balance sheet. And clearly, going over to the Solvency II regime now in 2016 up for an additional buyback. And that's why, as you can see, we do have a capital distribution which is significantly higher than the earnings generated in 2015.

So I think it's clearly sort of states Tryg as a company that wants to be a shareholder-friendly company, that wants to keep a capitalization that is okay, but we shouldn't be overcapitalized. We want to support our shareholders with dividend, and we keep to the promise of a stable and growing dividend. And with that, I think - I'm sure that there will be further discussions, questions and comments related to the solvency ratio through 2016 as well. But for now, I think I'll just stick to the comment saying that we feel very comfortable with a solvency ratio of 176%. We feel very comfortable with a capital distribution of DKK 1 billion through an extraordinary buyback in 2015.

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

Sorry. Just to follow-up, so the 176%, you wouldn't see that as an overcapitalized position?

A - Tor Magne Lønnum

Well, I mean, I didn't say that. On the contrary, I said that we don't really want to disclose what would be sort of our view in terms of a standard or normal capitalization. We are simply saying that, as we have said in the past, we know that the capitalization has to be at a certain level above 100% in order to make sure that the FSA is happy, and anything above that is, of course, discretionary and something that we need to consider at all times. But I think the practice that Tryg have shown over the last few years speaks for itself, because we have been extremely disciplined in terms of the capital approach, and we have distributed annual buybacks of DKK 1 billion for the last three years or four years. So I think it's better to let the practice of the company speak for itself.

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

Sure. Great. Thank you.

A - Morten Hübbe

And if I return to your – I think it's quite important, second question on the Commercial segment. Clearly, there's a very significant difference between Norway and Denmark Commercial in Tryg. Norway Commercial is clearly our smallest portfolio. It means that we are working on a number of issues like professionalizing our customer segmentation, professionalizing our distribution. We have moved from mainly a owned sales force model to now using more franchising distribution which has been very successful in our Private lines in Norway, that will be growing significantly in the importance in the future years.

We are working significantly to enhance the customer retention rates from the NPS. When we started the NPS focus a year ago, Commercial Norway had the weakest NPS in the Group, with an NPS of minus 21. That has now turned into a slightly positive NPS. But clearly, it has a significant further journey to take. And on top of that, the negative oil price development means that there's more pressure on Norwegian macro which will impact our Norwegian Commercial segment.

Danish Commercial segment, on the other hand, is more than double in size, as well our Norwegian Commercial business. Our retention rate is actually increasing. And our sales increased some 2% for the full year, and some 6% for the fourth quarter. So those are developing in the right direction. Our sales still have to improve slightly further. And I guess, here we have a more supportive macro which is starting to develop slightly positively. And hopefully, the Danish membership bonus will be slightly supportive as well.

So I think, Commercial, as a whole, will still be behind Private lines in 2016. We'll also have periods with negative top line development. But clearly, Denmark is improving and has better prospects in the short-term, whereas Norway is more structural. We have made significant changes to the organization of both. So both, Commercial Norway and Commercial Denmark has the new head of business and significant new organization from 1 of January.

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

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Jonny Urwin from UBS. Please go ahead with your question.

Q - Jonny Urwin {BIO 17445508 <GO>}

Morning, all. Thanks for taking my questions. I've got two. So firstly, it's around claims inflation. You made some very interesting comments this morning, particularly around Denmark. I mean, I'm just a bit interested to get a bit more color around what claims inflation is doing perhaps by line in Denmark, and if you could give us any more color by market as well, that would be great. I mean, I appreciate that you once put through an average of 3% pricing increase. So that gives us some context, but just a bit more granularity there.

And also, I mean, I take it from your premium guidance that you're guiding us to at least flat premium on local currency. That sounds like you're pretty confident of being able to put through these pricing increases without losing any material volumes. So just to comments around that would be great.

And then, finally, just around Net Promoter Scores. I mean, I appreciate your comments around the Norwegian lag, but from what I can see, the Net Promoter Score is zipping along nicely, and you've already hit your 2017 target. But we're not really seeing any improvement in the cross-sell, or the retention. Is that all the drag from Norway, or is it just a time lag there? Those are my questions.

A - Tor Magne Lønnum

I guess, I can start by commenting a bit on claims inflation, and then Morten will complement sort of some of the comments afterwards. But if we start, and I think I'll make the comments more by market. It's fair to say that we do think that we are moving in two different directions for our key markets, i.e., we do think that the claims inflation in Norway should come down somewhat, but it's still at a higher level than Denmark.

So I think the expectations, as I said, is coming down a bit, but still at a somewhat higher level than Denmark. And then, of course, it's important to say that the challenge is to actually forecast what is going to happen in terms of the Norwegian economy, now with the oil price below $30 a barrel, that is, of course, continuing to hurt the Norwegian economy to a certain extent. So in principle, we do expect claims inflation in Norway to come down a bit, but it will still be in the area of 2%, perhaps even a bit higher.

Now, in terms of Denmark, we do the expect claims inflation to come up. And as I said, on the slides earlier, we have said – we have seen slightly higher claims inflation in 2015 than what we have expected, and that's really why we are pushing through with price increases in the portfolio. And keep in mind what Morten said earlier that we – since the TryghedsGruppen are introducing the membership bonus this year expected in the area of 5% to 8%, that will, of course, in our mind, mitigate, to a certain extent, at least, the impact that price increases may have related to the retention level.

So we have seen a bit more claims inflation in Denmark than what we have expected. And I think we said in Q3 that it's, in particular, related to the property lines of business and that is both in Private and in the Commercial lines. We saw an increase in travel insurance claims, although that is a relatively small line of business. And then, as I said, there is kind of the general uncertainty around the claims trend and the claims inflation as the economic activity in Denmark picks up.

So that is, in my mind, at least, a bit more flavor on the markets on the lines of business. And I don't want to become too granular in the question. It's important to say that it's a general worry about the claims inflation in the Danish portfolio that we're trying to address with the price increases.

A - Morten Hübbe

And I guess the traditional time lag issue that when we decide to do a price change, it takes 12 months to hit the renewal date of all customers, and it takes another 12 months to end the premium. So part of it is what we have already seen, and part of it is also guesstimating the more short-term future, because history just shows that we always get behind that curve.

And then if you look at the NPS, I think your question is right. Clearly, we see that the strongest NPS improvement has been in Denmark where also, we see an increase in the three-plus customers, and we've seen the increase in the retention rate. The weakest development in NPS has been in Norway, and particularly, Norwegian Commercial. And that is also where we actually see a slightly negative development in three-plus and retention rates.

And clearly, in Norway, one of the challenges is our card channel business where the number of products is very often one and where actually the retention rate is developing negatively. That is one of the areas where a cross-sales initiative needs to improve that significantly in 2016 and 2017.

We do see in some distribution channels like call center Private Denmark, the degree to which new customers buy more than three products has already increased more than 7%, which is above the 5 percentage points target. But there are other sales channels where it hasn't increased at all. So it is broadening the number of channels where we're successful with more cross-distribution, and then, it is an initiative to contact existing customers to do more cross-sales to them as well. Both are required to hit our 2017 target, because, yes, three-plus is improving. Yes, retention is improving, but actually, both need to improve more during 2016 and 2017.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. That's really helpful. Thank you.

A - Tor Magne Lønnum

And then, finally, I think, in terms of the question about the premium price increases versus premium, I think I answered that at least indirectly when I talked about claims inflation.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah, for sure. Thanks very much.

Operator

Thank you. Our next question comes from the line of Christian Hede from Nordea. Please go ahead with your question.

Q - Christian Hede {BIO 18642300 <GO>}

Yes. Good morning. This is Christian from Nordea in Copenhagen. I have a couple – maybe only one question. Actually, we have started that (34:01) at least. I think, Tor, you were mentioning that the Tier 2 kind of the buffer for issuing Tier 2 capital would support the 2016 buybacks. Can you give some more detail on that? Do you see it as – I guess you have DKK 1 billion buffer? You have DKK 1 billion buyback. It's not 1:1. But is it half the Solvency – sorry, half the Tier 2 capital that needs to be issued or how do you see it?

A - Tor Magne Lønnum

Yes. Good morning, Christian. I think it's not that I wanted to make the 1:1 relationship. In principle, I'm just saying that and I think that is more or less in line with what we have communicated earlier that we really want to utilize the opportunity we have in terms of issuing Tier 2 capital. And as such, of course, we will take out that Tier 2 capital here in the first half of 2016 or issue that Tier 2 capital here in 2016.

And then, I don't really think, Christian, that I want to make any more comments around buffer and capitalization than what I already did because, I mean in our mind, as I said earlier, we feel relatively confident in terms of our capital situation. We are doing an extraordinary buyback again. So I mean again, utilizing the balance sheet to distribute to the shareholders. So I think there are some moving parts. We feel very confident about the 176% Solvency ratio. It's perhaps not spot-on in terms of your question, Christian.

Q - Christian Hede {BIO 18642300 <GO>}

No. That's fair. Thank you. It makes sense. I guess you need to keep down the equity level to reach the ROE targets so to be sure to do that (35:54). On another target 2017, you still have the below or at 14% (36:00) cost ratio. I guess that is obviously under more and more pressure due to a very low growth. So how do you see that? Have you done extraordinarily much? Maybe you did answer it earlier, I came in a bit late, so thank you.

A - Morten Hübbe

Well, I guess we haven't talked about that earlier today. I guess it's very important to say that we did our provisioning during the autumn, to make sure that we can manage the head count reduction for the 2017 program.

So far, we've talked to you about the outsourcing and finance and IT. From week 42 in the autumn of 2015, we started the outsourcing processes of a number of business tasks, and they have gone live and they have been increasing in numbers and that process is continuing.

Our automation initiatives are continuing where we launched the first automatic sort of web claims reporting processes in Denmark in December. That will continue during the spring of this year. So clearly, we have a large number of initiatives lined up to continue to lower head count and improve the processed automation and outsourcing. And clearly, that is the route to reach our 2017 target. And as you mentioned in Norway, I think, will actually have less help on the macro and top-line, whereas in Denmark, we will probably have slightly more help in the next two years.

But all in all, we have to do most of the hard work ourselves and that is what our plan says. A few analysts have guesstimated significantly below 14% cost ratios in 2017. And we mentioned earlier on this call that that is not our expectation. Unchanged is our expectation to reach the at or below 14%, but not significantly below that number.

To my knowledge, there is hardly any insurance companies in the world below 14%. So that is a very steep ambition to begin with. And I think we are quite clear that we'll deliver that. But also we don't expect to deliver significantly more than that by 2017.

Q - Christian Hede {BIO 18642300 <GO>}

Thank you. That's very clear.

Operator

Thank you. Our next question comes from the line of Steven Haywood from HSBC. Please go ahead with your question.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Hi. Good morning, everyone. You mentioned in your results that the match portfolio result is going to be a bit more volatile going forward. Could you provide a bit more kind of clarity on how wide the range might be or how much volatility will come through this line?

And then you say that the credit risk adjustment impact is always going to be negative, but do you know by what amount here? And then I think in your fourth quarter income from associates has a significantly large positive one-off. Could you explain where this one has come from? Thank you.

A - Tor Magne Lønnum

So the first question was about volatility in terms of the match portfolio. And the reason is simply that there will be – that the new discount curve will create a bit more volatility, in particular, sort of related to, I guess, the Swedish and the Norwegian book. But to quantify, I don't think that's really necessary. And I mean we have had the ambition for now the last five years – is it – to sort of stay within the plus-minus DKK 50 million, and I wouldn't think about it as significantly higher than that going forward.

Now, the last question you had was about associates. I'm not quite sure if I catch that question.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Yeah.

A - Tor Magne Lønnum

Perhaps it's better to take that offline later.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Okay.

A - Tor Magne Lønnum

And then you had one more question which was, Steven...

Q - Steven A. Haywood {BIO 15743259 <GO>}

On the credit risk adjustment impact.

A - Tor Magne Lønnum

Yeah. And the question was how much or...

Q - Steven A. Haywood {BIO 15743259 <GO>}

Yeah. Sort of why is it always negative and how much negatively impact?

A - Tor Magne Lønnum

I think that's a question that we'll have to get back to you on that. So I think we'll just do (40:55) or distribute something by e-mail. If it's a general – if it's a question that is more of general interest, it's something that we'll put out on the webpage.

Q - Steven A. Haywood {BIO 15743259 <GO>}

Okay. Thanks very much.

Operator

Thank you. Okay. Our next question comes from the line of Stefan Borg (sic) [Per Grønborg] (41:23) from Danske Bank. Please go ahead with your question.

Q - Per Grønborg

Hello. It's Per Grønborg from Danske. Two questions from my side. First, a clarification. The 176% Solvency II ratio, you stated it includes Skandia program, the H2 dividend. Does it also include the planned 2016 buyback? Should you take that first?

A - Tor Magne Lønnum

No, it does not.

Q - Per Grønborg

Okay. I just want to be sure. Secondly, you're addressing price hikes, you're addressing competition less. How have you seen the competition develop over the last three months to six months? And do the competitive situation in the market allow you to hike prices, especially in Norway where you don't have the tailwind from the client dividend?

A - Morten Hübbe

I guess, the best indicator, Stefan (42:16) - or should we call you Per as we're used to? I guess, the best indicator is the retention rate. And I guess, we see also this quarter continuous increase in the Danish retention rate. We see support from the Danish membership bonus, and we see clearly that every time we do a conversion or a price change, that the reaction is very linked to the magnitude of that price change.

And as long as we are sort of at or below the 5% mark in price change, usually, the churn rate doesn't change significantly to the sort of average churn rates. If we move to sort of the 8% to 10% plus rate, there is more difference. We contacted a number of customers with price changes in November 2015 with fairly little reaction. Then we did higher price changes in travel claims, which had a slightly higher reaction sort of emphasizing the point I made before.

I think if we move to Norway, we see a slightly negative development in retention rates currently. Actually, if you open up those numbers slightly more, there's a negative retention rate development in the motor car dealer channel, as I mentioned earlier, but actually the rest of the Private lines portfolio has a slightly positive retention rate. And I think we expect to be able to push through the price changes there without any significant change.

I think the dark horse is Commercial Norway where our slightly weaker market position combined with a more difficult Norwegian macro situation for these Norwegian Commercial customers, that is where we might have a slightly bigger challenge in terms of pushing through the changes. But overall, in the bigger portfolios, we are comfortable that that is possible to carry out also in Private Norway.

A - Tor Magne Lønnum

Keep in mind that when you look at the Norwegian book, there is - it's more challenged if you get to the Commercial and Corporate segments that Morten mentioned, whereas, of course, we feel relatively confident in terms of the Private lines in particular. And it's fair to say that we do - we have seen bankruptcies in Norway now related to the oil service sectors of course. That is one of the challenges that we see in 2016. But as I said, the important thing is really how we're able to handle the general price increases across the Private on the SME portfolio.

Q - Per Grønborg

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Jakob Brink from ABG. Please go ahead with the question.

Q - Jakob Brink {BIO 7556154 <GO>}

Hello. Jakob from ABG. Two questions please. The first one is coming back to Per's question just now on competition and especially in Norway. I get the impression that we still have quite a lot of companies in Norway that are eager to grow their market share. Also, some of the larger ones which have been losing share for a long period of time. How do you see that? Is that sort of calculated in your outlook for competition in Norway?

And then secondly, I think, Tor, you had a bit of detail on the run-off gains in 2015. I think you said that you had communicated it would be slightly above normal. But could you just give us some more details on what level I could so expect if one or two competitors has been out and being quite precise and what we should expect over the next few years? Any change you could just help us a bit on the way there? Thanks a lot.

A - Tor Magne Lønnum

Yeah. Good morning, Jakob. If I take sort of the last question first. I mean, you're quite right. We did say that the run-off levels would be a bit higher than what you had seen in the last few years. And in 2014, overall, the run-off releases ended at 6.1%. In 2015, slightly higher again at 6.7%. Now, I know as you say that some of our peers have been more detailed in terms of run-off guidance. I think what I would say is that for 2016, the run-off releases will stay at an elevated level. But then of course, when you get off the strategy period, as we have said before, we must expect a gradual normalization of run-off releases. And as you know, that's in the area of 2.5% to 3%. And I'm not really eager to be any more precise than that.

Q - Jakob Brink {BIO 7556154 <GO>}

Just one follow-up on that. You said also that you had a strong reserve position end this year, but is it better or worse than last year?

A - Tor Magne Lønnum

It's still strong.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay.

A - Morten Hübbe

I think on your first question, Jakob, on competition in Norway. I guess as I said, we always think that the best indicator of competition is through retention rates. And as retention rate is slightly negative, that shows you that, yeah, there is competition. We've seen the likes of NEMI and Protector, for instance, being quite aggressive. I guess, we've seen Protector move more outside the boundaries of Norway to do broker business, to do workers' comp business. They're doing some of it in Denmark. They've talked about doing it in the UK, et cetera.

Clearly, I think that will probably continue. We see in some cases that their pricing is 20%, 30% lower in, for instance, workers' comp business than the bigger players. And I guess together with that, you also see a company like (49:03). I think that both NEMI and (49:06) are struggling with their financial results. They have, to some extent, been struggling with their capital positions as well. Protector seems to be doing well in terms of results regardless of the lower prices, and you might see a dramatically lower reserve ratio. I'll ask you to sort of figure out what that means longer term.

And some of the bigger players, I guess, we've seen that (49:35) in Norway is doing slightly better in terms of top line, and I think they're utilizing their membership bonus well. And they're actually utilizing a higher average price increase than we see many of the other Norwegian players. So, I think that is a serious and successful approach on their side. And then, I guess, the Norwegian banks are struggling with significantly higher capital requirements, which might put a slight, slight dampener on their insurance growth focus.

But yes, I think, clearly, also when the Norwegian economy moves into more difficult territory, that usually means a slightly tougher competition. And it probably usually means that some of the customers in commercial and corporate will have a focus on achieving a lower price because their own P&L is challenged. So, I think it's right to be alert about competition situation in Norway, but we don't see any dramatic changes there.

Q - Jakob Brink {BIO 7556154 <GO>}

If you should add it up in Norway, do you think it's likely that the Norwegian market as a whole will see positive growth in 2016?

A - Morten Hübbe

Yes, that is our expectation. We think that it will be less positive and the macro will put it slightly downwards. But I think still that the price development means that the whole Norwegian market as such will have a positive growth.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thanks very much.

Operator

Thank you. And we have a follow-up question from the line of In-Yong Hwang from Goldman Sachs. Please go ahead.

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

Hello. Just one more question. On travel insurance at third quarter, I think you said it was a market-wide problem and you expect to see significant price increases across-the-board. So, is that what you're seeing in the market? Are people behaving rationally and increasing prices substantially?

A - Tor Magne Lønnum

I think it's too soon for us to say what is happening more general in the market. In principle, as Morten said, what we have done is that we have looked at our own portfolio and we have behaved accordingly. And the price hikes were introduced to the customers in the last part or here in Q4. So, of course, it's really too soon for us to say how that is going to impact the total market. But clearly, as Morten said, we saw a bit elevated or a certain drop in retention level in the beginning. But now, it seems to be more normalized. So...

A - Morten Hübbe

And I guess it's fair to say that travel insurance is not the largest and most expensive product. So, we're looking at price increases of, say, DKK 200, DKK 250 for our travel policy for sort of an average customer. So, it's not an amount that ruins a typical Danish family. And I think we should expect some differentiation in terms timing on when the various insurance companies increase its prices. But from the pattern we see, we would be surprised if the others would not eventually have to do something similar.

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

Okay. Thank you very much.

Operator

Thank you. And we have another follow-up question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, there. Thanks. Very quick follow-up question. I just wonder, given the larger levels of volatility and large losses that we saw in 2015, have you made any changes to sort of the reinsurance program? Or is that just a sort of acceptable level of volatility that you're happy to run with?

A - Tor Magne Lønnum

Well, first and foremost as I said during the presentation, we do feel that the deviations we have seen is within sort of the normal deviation related to the large claims. There hasn't been any particular changes related to the reinsurance program except the fact that we have increased the cover on top, i.e., that it's a slightly higher cover in terms of our total exposure. But other than that it's renewed the same way that we saw the year before.

Q - Jonny Urwin {BIO 17445508 <GO>}

Any indication on pricing move on that?

A - Tor Magne Lønnum

A slightly higher pricing level because as you indicated, we have sent quite a few large claims on to the reinsurers. So we saw a bit of price increase related to the large claim recovery. On the other hand, we saw a drop in pricing related to the catastrophe program.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks so much.

Operator

Thank you. And as there appears to be no further questions, I return the conference to you.

A - Tor Magne Lønnum

Yeah. I'll just make one more comment related to the question about the match portfolio. I'm sorry for being a bit off. I guess first and foremost, it's important for me to say, again, that although we do expect a bit more volatility related to the match, as (54:56) clearly said, it's not significant. That's number one. Number two is related to the credit risk and that is something that is added to the discount curve, not adopted.

A - Morten Hübbe

And then if I might make a final additional comment, there was a question from Steven on associates and income from associates and what that related to. That relates to a single property, which we own in conjunction with others, an investment property which was increased in terms of value. And that is why it is a normal property income, but accounting-wise it comes through the associates line.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Well, thank you very much for participating in the call today. And thanks to Morten and Tor. Peter and I are around all day to answer questions from mails but we will also be at road show the next few days. So, hopefully, we can see you all. Thanks a lot.

A - Morten Hübbe

Thank you.

FINAL

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