

## Q3 2014 Earnings Call

### Company Participants

- Lars Møller, Director-Investor Relations
- Morten Hübbe, Chief Executive Officer
- Tor Magne Lønnum, Chief Financial Officer

### Other Participants

- Christian Hede, Analyst
- Daniel A. Do-Thoi, Analyst
- Gianandrea Roberti, Analyst
- Håkon R. Fure, Analyst
- Jakob Brink, Analyst
- Per Grønborg, Analyst
- Sami Taipalus, Analyst
- Vinit Malhotra, Analyst

## MANAGEMENT DISCUSSION SECTION

### Lars Møller

Good morning, everyone. This is Lars Møller from Tryg, Head of IR, and welcome to this presentation of Tryg's Q3 Results. And with me here this morning, I have our CEO, Morten Hübbe; and our CFO, Tor Lønnum with me.

So Morten, please.

### Morten Hübbe

Thank you, Lars. And if we turn to slide three, we're very pleased this quarter to be able to deliver a return on equity of more than 21% in the quarter where, in fact, investment income is very close to zero and we've had heavy cloudburst resulting in some 2,500 more claims, DKK 450 million higher weather claims customer the same quarter the year before, delivering 21% ROE. Under those circumstances, I think it shows a lot about the robustness our business has come to.

We also show on this slide that technical result is up 3.5%, again, despite the DKK 150 million of cloudbursts with the main positive drivers being efficiency measures of DKK 95 million in the quarter, and runoff gains which are some DKK 50 million higher than the same quarter the previous year.

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As I said, investment result is some DKK 150 million lower than the same quarter last year, which, of course, impacts the pre-tax result. Cost ratio is down to 15.1% or 0.4% down, which I think is a strong improvement. Again, bear in mind that Q3 is seasonality wise the quarter with the lowest cost ratio of the year. And as you can see, the top line is, for this quarter, minus 0.8% for Denmark and Norway actually completely flat. And of course, that's an improved trend compared to the minus 3.4% in the similar quarter last year.

If we turn to slide four, we comment on the cloudbursts in August. But I think it's important to see the business had less consequence on our result this time around because of the increased focus on claims prevention measures. We mention again the strong focus on our new price-differentiated initiative, and we see that it continues to reduce the claims ratio of new customers that we bring on board.

We've purchased a small company called Securator this quarter, which will improve earnings while at the same time strengthen our leading position in extended warranty business. The efficiency program continues to be the main driver of earnings, almost DKK 100 million this quarter. Then we've announced the Capital Markets Day for November 5 this year.

On slide five, we show how the various business areas contribute. You can see both the quarterly data and the year-to-date data. Year-to-date, we see that Corporate and Sweden delivered a combined ratio of around 90%, whereas Commercial and Private delivered a combined ratio of 81%, 82%. But bear in mind, of course, that that includes the positive one-off in the second quarter.

If we look at the third quarter, we see that Private lines continue the underlying improvement of claims. We see in Commercial lines, importantly, a reduction of some 2 percentage points in the cost ratio. This is, as we've announced several times, the area where we needed to bring down the cost ratio the most, and we're starting to achieve that.

In Corporate lines, of course, you see a rather large reduction of some 9 percentage points in the combined ratio year-on-year. But of course, bear in mind that we had a rather large claim in our bonding business last year. In Sweden, you'll see a slight increase in the combined ratio, which mainly contains a slightly higher frequency in content claims. And also a bit higher large claim ratio.

On slide six, we reiterate the efficiency program, DKK 95 million this quarter, DKK 65 million from claims and DKK 30 million from costs. It means that we're now some 127 people less so far this year compared to the beginning of the year. And the procurement program continues to drive the work claims ratio both through Scalepoint and our Craft network. It means that to-date, we've now realized some DKK 835 million of our total target of DKK 1 billion.

If we turn to slide eight, we show both how all four business areas contribute to the technical result of DKK 793 million for the quarter. And we show also the development on

top line. As I mentioned, an improved trend from minus 3.4% in the same quarter last year to minus 0.8% this year.

Clearly, Private and Corporate have now turned slightly positive on the top line, whereas Commercial has improved from minus 4.7% last year to minus 1.6% this year. And then you can see that the most significant number is in Sweden, with a top line of minus 8.4%. That actually comprises an underlying organic, slightly positive growth in Sweden, but also that the Nordea portfolio is running out of the portfolio, which of course has a significant negative impact. We see that actually by now our cross-sales to existing customers in Sweden, means that we're actually selling slightly more without Nordea than we were previously with Nordea. So an important trend that we continue to improve earnings and also see an improved trend in the top line.

And over to you, Tor.

## **Tor Magne Lønnum**

Thanks, Morten. If we continue on slide number nine, and look at the development in average premiums, you can see that the development in Norway continues to be positive both in the housing prices and in the motor prices, although slightly lower than what you've seen in previous quarters.

And the slowing off in terms of price increases is more - it stems really more from a portfolio shift in that respect. If you look at the Danish development, you can see that it's a negative development in terms of house and motor prices, which is a combination of competitive pressure but also an improved risk in the portfolio i.e., portfolio shift.

And I think it's important to say overall in terms of the premiums that the effects stemming from, for instance, competitive pressure is mitigated significantly by the improved selection that we see through our new price differentiated tariffs. So all in all, a relatively good progress in this area.

If we continue to slide number 10 and look at the customer retention, it's an improved trend in Private, Denmark. It's more or less flattish, slightly negative in Norway, and an overall improved trend in Commercial, both Denmark and Norway. And I think the overall feature (08:02) areas that the retention level is stabilizing and actually improving slightly, which I think is relatively good.

If we look at slide number 11 and continue with Private Sweden, you can see that the retention levels have actually leveled off, although at a relatively low level. But as Morten mentioned, you have seen that the Nordea portfolio has impacted the retention level in Sweden. But you can now see that it's actually coming slightly back, although from a low level.

If we move on to slide number 13 and look at the underlying claims ratio, there is an overall improvement of 2.6 percentage points, which I think is quite healthy, primarily driven by Corporate this quarter. And I should stress, again, that Corporate will typically

fluctuate. So it shouldn't be considered to be a continuous trend in terms of the Corporate improvement. I would highlight though that we do have a 0.7 percentage point improvement in Private, which I think is really good.

If we continue to slide number 14 and look at sort of the large items for the quarter, Morten have mentioned the impact of weather this quarter, and it's a 3.1% impact overall on the quarter. I think, again, if we look at the claims and compare to the 2011 effect, it's been significantly lower, which I think is good.

I would also highlight here the runoff, which is slightly higher than what you saw the previous quarter. And I guess it more or less signals that we have a relatively strong and unfavorable reserve development as I think we have indicated previous quarters as well.

If we move to the next slide, slide number 15, on the cost side, i.e., in addition to the comments mentioned about the cost ratio, I would also highlight the fact that we do have a nominal reduction of DKK 40 million in expenses this quarter, which I think, again underpins the strength and the efficiency program. And if you look at sort of the development in FTEs this quarter, I slid it (10:34) down by 63 FTEs on a comparable basis.

If we continue on slide number 17 and look at the investment results, that was the area that was perhaps more disappointing this quarter. It was a zero investment income and down from DKK 152 million last year. Of course, it was represented by weak performance in high yield emerging markets. That's done on equity. So overall, sort of negative performance in some of the asset classes that have yielded good in previous quarter.

I think I'd like to stress again that if you look at the investment income, it is there to support the overall insurance operation. And as such, I would say that it's after all a healthy development.

If we look at the capital structure, it's on slide number 18, it's more or less stable development in terms of the capital buffer. It's at 64%, of course impacted by the results for the quarter, but also the development in terms of the buyback, sorry. Sorry for that. And I guess it's no news related to the other capital issues for the quarter.

And I guess with that, I hand it back to you, Morten.

## Morten Hübbe

And actually, I think we just need to jump back shortly to slide number 15, where we have a good example I think on the cloudburst side, because clearly, analysis show that we were likely to see more cloudburst in the future. And I think very importantly, in this quarter, we've seen that our work with experience from the 2011 cloudburst have actually improved our ability to manage cloudburst at lower expense.

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We see for instance Tivoli, the game park in Copenhagen, was actually hit by roughly double the amount of water compared to 2011. But actually the claims cost was only about a third of the experience in 2011, and it just shows that when the customer and we together work very hard to prevent claims from happening through security measures, wiser containment and storage of valuables, et cetera, et cetera, then we can improve both the financial impact and also the customer experience. And clearly, we should continue in that direction.

And then I think finally, before we take your questions, on slide 20, the financial targets, I think where I started out, we're quite pleased to be able to deliver 21%, which aren't on equity in a quarter where we've had heavy cloudbursts, DKK 150 million more in weather claims and roughly, a zero investment income that is quite robust, and it shows that our efficiency program is moving us in the right direction.

And the efficiency program allows us to both expand our margin, while at the same time, making sure we also manage some slight market competitive pressure in Denmark. And important, also, improved trend in our top line while our selection continues to improve through our price differentiation.

So we reiterate our targets of the 20% ROE post-tax and the expense ratio below 15% next year. And with that, I think, we are ready to take your questions. Operator?

## Q&A

### Operator

Thank you. Our first question is coming from Mr. Sami Taipalus from Berenberg. Please go ahead sir.

### Q - Sami Taipalus {BIO 17452234 <GO>}

Hi. Morning, everyone. Thanks for taking my question. I wanted to ask a few things about your guidance on various different items. And I wanted to start with reserve releases actually. Now, if we look at reserve releases over the last few years, they're consistently quite fair bit above, I think, where your guidance is 2.5 percentage points to 3 percentage points on the combined ratio. Do you think this is something that a guidance that you'll need to revisit or do you think it's valid anymore? It doesn't sound like there was anything too exceptional in this quarter from what you said basically. And on this note, as well, could you give us a little bit more detail about what actually drove the high reserve releases in Q3?

The second bit I wanted to ask about was the NAT/CAT guidance where, I think, looking at the media, the offers in Q3 seemed to have been quite significant or should have been quite significant. But you've actually come in within your kind of normal NAT/CAT budget. So do you think your guidance here is too conservative? Do you think that it's something that you need to revisit? And I guess this ties back to what you said about what you've done on claims prevention as well.

And then finally, on investment income, we've seen quite significant fall in Danish interest rates over the year, I think about 80 basis points or so. Do you think you need to revisit the investment income guidance there? Thank you.

### A - Morten Hübbe

Well, I think, clearly to start out that on the reserve releases side, it's fair to say that in the previous number of years, we've been above the 2.5%, 3% mark. I think it is to be expected that there we will be above that mark also in the coming years. And I think to some extent that we will revisit the guidance on that area, and return to you on that question. But I think for now, you can assume that the future is more in line with the more recent history than it's in line with the 2.5%, but we'll revisit that question with you in the future.

I think on the NAT/CAT side, we are clearly above last year. We're also slightly above the budget for the quarter. So I think it would clearly be too ambitious or more too optimistic to lower the NAT/CAT expenses. I think if you look at the demographics and the analytics with the weather experts, they are pointing towards an increased risk, but I think we need to continue to work with the claims prevention to avoid having to increase the expectation. But I think for now, we're comfortable with the expectation where it is. Now I think over to you, Tor, on the investment side

### A - Tor Magne Lønnum

Yes. I think I'd just add to the question about the reserves that as we did two years ago, we are in the midst of a review of our reserves this quarter as well by an external actuary. So we are actually revisiting our reserve position and, I think, of course that means that we'll have to look at sort of the reserves again when we come to our Capital Markets Day.

In terms of the investment side, I think it's fair to say that yes, you're right, the interest rate level in Denmark has dropped. And in terms of guidance on the investment side, I think we will just try to revisit that guidance here before year-end as we traditionally do in terms of the 2015 guidance. But as you know, it's not really that significant, Sami, where as long as we have sort of the matching portfolio which is really sort of the major driver in terms of interest rates.

### Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Thank you. Then just on something that we talked a little while back about which was you mentioned that you might start disclosing the actual cash that's coming out of the realized gains and the interest returns and dividends and from your investment portfolio rather than the mark-to-market movements. Is that something that you're still considering doing? And when could we maybe see that coming in force?

### A - Morten Hübbe

I don't have a clear timeline on it, but yes, it's something that we are considering.

### Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Thank you.

## Operator

And we have our next questions coming from Mr. Håkon Fure from DNB Markets. Please go ahead, sir.

### Q - Håkon R. Fure

Yeah. Good morning, guys. Yeah. Two questions left from me. Firstly, on the very strong Norwegian combined ratio this quarter, could you provide some more details on what's driving that? Is it mainly sort of good luck in terms of a few large claims in Norway this quarter? Is it more a continued benign underlying claims trend?

And secondly, you've been making some smaller acquisitions of companies with small portfolios in recent quarters. Do you view these as one-off events or do you see room to do more similar acquisitions in coming years?

### A - Tor Magne Lønnum

Yeah. Good morning, Håkon. I'll start by answering the first question. Yes, you're right. It is a very strong combined ratio in Norway. I think – bear in mind and you've heard me say this before, that the Q3 result for Norwegian insurance should be really good because that is, by far, the best quarter. And of course, that seasonality becomes even stronger when you look at the Norwegian business isolated. So I think the best comment to make is really that, yes, we did have a benign development in Q3, and, yes, that is to be expected.

But you're also right in your assumption that it was a low level of large claims impact on the Norwegian business. But first and foremost, that highlights sort of the strong earnings potential in the Q3 numbers in Norway. And I think it also signals something about the diversification in the business model, because we have the cloudburst impact in Denmark, and, of course, that shows up here in the geographical numbers. So I wouldn't sort of highlight it as anything extraordinary. Now, to the small acquisitions, I guess Morten will...

### A - Morten Hübbe

I think on the small acquisitions, Håkon, you can argue that in Q2 we purchased the renewal right of Codan's Danish agricultural business. That was some 1,600 potential customers where we do not take over the tail or the portfolio, but we'll take over the renewal right. And we have obtained some 90% acceptance from those 1,600 customers. And then, as you mentioned, we've purchased a small company called Securator, which does mainly a Danish market extended warranty business.

I think clearly that we've shown that we are extremely disciplined when it comes to top line. We've accepted top line losses, because we believe that that was necessary to drive the earnings improvement. We will continue to have a very disciplined view on top line versus bottom line in the future. I think if you look at those two specific cases in the

agricultural example, our efficiency means that we can run that business with a significantly lower cost ratio than Codan could. And therefore, it is significantly more value creation in our business.

If you look at the Securator purchase, it actually is in an area, extended warranty, where our Swedish business already has a market-leading position on the Nordic scale. And when we add Securator to that market-leading position, we've become even clearer number one with significant synergies potential and with a significant value creation potential.

So, I guess, we should signal that could it happen again that we would look at smaller portfolios? Yes, but we would have a very, very strict attitude to the value creation of that and be very clear that synergies and ROE impact is a strong value driver, and if not, we would not look at such cases.

### **Q - Håkon R. Fure**

Thanks. And do you have any set M&A rules?

### **A - Tor Magne Lønnum**

Before we get to that, Håkon, I'd just add to Morten's comment that if you look at sort of the strength of the product appliances insurance, it's actually combining the existing business with the Securator portfolio, it actually brings our market share above 30% on the Nordic scale if you look at this area isolated. So, of course, it really enhances our market position.

Now, in terms of metrics that you asked for, Håkon, I'd just say that if you look at sort of the Securator portfolio, it's a portfolio more than DKK 200 million in revenues. And the price that we have paid is less than one year premium. If you look at sort of how it enhances the earnings, it's a positive contribution after year three - or in year three, i.e. a positive return on equity of 20% or more.

### **Q - Håkon R. Fure**

Okay. Excellent. Thanks, guys.

### **Operator**

Our next question is coming from Mr. Jakob Brink from ABG. Please go ahead, sir.

### **Q - Jakob Brink {BIO 7556154 <GO>}**

Thank you. I have two questions, please. First one is just coming back to the run-off gains. You mentioned that or basically, it sounds like you might increase that guidance in connection with the Capital Markets Day.

I just want to know, I mean, has the fact that you over-provisioned sort of 7% on each claims, is that what has changed or will a potential change to the guidance, is that more



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led by the fact that you have some buffers from old Supreme Court rulings that are no longer necessary? Or how should we look at the fact that you might change the reserve guidance or run-off guidance? That was number one.

The second one is, on page 16, in the report, you mentioned that Danish FSA has postponed both the expected future profits to be included in capital, but also the potential to increase subordinated debt until 2016. But also, you mentioned that potentially there could be some temporary allowance to do that anyway. Does that include both the expected future profits and subordinated debt? And what is your conviction level on the potential that there will actually be a new sort of temporary legislation? Thank you.

### A - Tor Magne Lønnum

Yeah. Good morning, Jakob. I think, to the run-off gains, it's a very valid, very good question you're raising there in terms of where is actually the gain stemming from. And I think we haven't altered our reserving practice, i.e., you can't sort of build into the model that we will see sort of run-off gains in the area of 5% to 7% into perpetuity.

I guess what is really important to understand is that there are really good results coming out of the older vintages in terms of the portfolio, and that's really what is driving the beneficial development in terms of run-off gains. But, as I said, we will, of course, revert to the reserves and talk a bit more there in terms of guidance. I hope not a bit more.

Now, if we go to the latter question related to the capital, I think it's fairly important to say that in terms of the question related to how can we handle the new legislation, I don't really want to say anything about - I don't want to say anything about sort of our conviction in terms of the FSA, because, as you know, that's really a - that is an exercise that - which is really difficult, probably more difficult than running a 100-meter against Usain Bolt.

But I'd say that in terms of the usage of subordinated debt, i.e., gearing in the portfolio, of course, we do at least have some expectations in terms of that being opened up already in 2015 and it's something that we expect to address as an issue on the Capital Markets Day.

### Q - Jakob Brink {BIO 7556154 <GO>}

Just getting back to the reserve run-off gains, as you've said, that 7% is still what you're aiming at. How about interest - sorry - inflation, the fact that inflation has been coming down quite significantly over the past four years, five years? And how much you accounted for that in your reserving policies? Is all of that in the numbers so far or is that part of the reason why you have excessive run-off gains?

### A - Tor Magne Lønnum

That depends on how you define inflation, because there's no doubt. When I talk about claims, inflation, of course, that means that you include what happens in terms of the - i.e. the sort of the size of the claimant or in favor of the claimant. So, of course, when you see

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that we have, through the models, of course, built in expectations about claims inflation based on regulation and also legal rulings. So, I think, of course, that is – if you don't get the development that you have expected, that is a positive contributor to the reserves.

**Q - Jakob Brink** {BIO 7556154 <GO>}

Okay. Thanks for that.

**Operator**

We'll have our next question that's coming from Mr. Gianandrea Roberti from Carnegie. Please go ahead, sir.

**Q - Gianandrea Roberti** {BIO 6786731 <GO>}

Yes. Good morning from me as well. I have three questions. If I can start from the underlying development, I was looking at the percentages of weather and large claims for the nine months. And I think I'm calculating that these are around – sorry, I have the numbers here – around DKK 700 million for the nine months versus DKK 787 million, which I should expect, just taking your full year guidance for these two items and divided by four times three basically.

So there's a little DKK 87 million, which is around 60 bps better than expected on the nine months combined ratio. But I have the slight feeling that this year, if I look at underlying frequencies, particularly in the second quarter and third quarter, has been quite better than normal. And I'm struggling a bit to capture it just looking at the large and weather claims, right? So I don't know if you have any comment on this point or if we should really believe that compared to a normal year it's really just this DKK 87 million that has gone in your favor. That's my first question.

The second question is how you see the top line development going in the next two years. Are we still supposed to look at a very flattish development in 2015 versus 2014, and, perhaps, a bit better in 2016?

And the final question is regarding the buybacks going to next year. If I remember correctly, last year, you announced the buyback program in December. I'm just wondering if your plan is to do the same or you will just wait the end of January when you report Q4 and just to publish dividend and buybacks. Thanks a lot.

**A - Tor Magne Lønnum**

Yes. I can try to answer the first question, Gianandrea. Good morning. In terms of the weather, what you did, as far as I understood from the calculation, is that you take sort of the guidance of the DKK 500 million plus the DKK 550 million divided by 4 and times 3.

But keep in mind that the weather-related impact is not sort of accrued for in four equal portions. So we do have sort of deviations related to the expected seasonal pattern. So if

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you look at sort of the picture year-to-date in terms of expectations related to weather-related and large claims, we are perhaps slightly below expectations year-to-date.

Now, the question related to sort of what does it mean in terms of the underlying, I guess, what we look at is an underlying improvement as you have indicated. And for the year thus far, it looks, as you indicate yourself, pretty healthy. And I don't think I'll describe it as any sort of particular luck in the numbers. If you look at sort of the frequency development, of course, it's a continued positive development on the cars and then it's a more mixed picture in terms of house and content.

### **A - Morten Hübbe**

On your second question, on the top line guidance, we expect 2015 to be somewhere between slightly negative and zero. And then we expect 2016 to be around normal inflation like top line. And clearly, in 2015, we'll still see an impact where particularly Sweden pulls down the total top line, whereas we see that Denmark and Norway has a slightly further improved trend.

But also bear in mind that this quarter, being the best top line quarter in two years, has a bit of help on premium discounts being slightly lower than the similar quarter last year. So the trend is improving, but we will still struggle, particularly with Sweden in 2015. I think reverting to something like inflation in 2016 is reasonable.

### **Q - Gianandrea Roberti** {BIO 6786731 <GO>}

Thank you. What about the last question, on the buybacks? Do you have any comment on that or --?

### **A - Tor Magne Lønnum**

That was avoided deliberately, Gianandrea.

### **Q - Gianandrea Roberti** {BIO 6786731 <GO>}

Fine.

### **A - Morten Hübbe**

Operator?

### **Operator**

Yes. You're ready for next question?

### **A - Morten Hübbe**

Yes.

### **Operator**

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Yes. Perfect. Next question will come from Mr. Daniel Do-Thoi from JPMorgan. Please go ahead, sir.

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

Hi. Good morning. Two questions from my side. The first one is on cost savings and the second one is on Danish home and content insurance. On the first one, you've achieved an additional an incremental DKK 95 million in savings this quarter again, sort of in line with your recent run rate.

And so if I do my complex analysis and if you continue at this stage, you'll have achieved your DKK 1 billion sometime in the first quarter next year. So just want to know how we should think about this going forward as some of your - is there an element of fund building or some of your initiatives yielding greater results, perhaps you may be uncovered more cost savings as you go along? That's my first question.

And the second one is on Denmark and in particular, as I look at the average premium development in the home insurance on page 9 of your slides, it seems to me that throughout 2010 and 2011 sort of bad weather, which includes the 2011 cloudburst, helped justify the increasing premiums in Denmark in particular.

And so with the weather having been consistently milder since then and with, as you mentioned in your slides, the gross claims cost from the cloudburst being a third of what they were in 2011, just wanted to sort of get your thoughts on how you see the average premiums sort of developing (36:46) going forward? I mean, would it be reasonable to assume that this come under pressure going forward? And thank you.

**A - Tor Magne Lønnum**

Yeah. Good morning, Daniel. I can start by answering about the cost savings. Yes, we are very pleased with the development, both in terms of admin expenses and in terms of procurement gains. So I think it's been really a good and healthy pipeline in terms of initiatives. And you're right. Some has surprised us positively, but there has also been areas where we haven't been able to achieve as much as we would like to see.

I guess, in terms of the cost savings, bear in mind that when we set out with the DKK 300 million, we were sort of talking about efficiency gains based on a top line that was at least in balance and perhaps even slightly positive, whereas we have been looking into a relatively different development.

So I think you should sort of add to the thought that in addition to sort of the savings that has been achieved on the back of the savings program, we have done additional sort of housekeeping to make sure that the costs are kept down. And that's really why I highlighted the comment for this quarter alone where we have a DKK 40 million drop in nominal expenses.

So, I think, yes, there's no doubt that we have seen pockets or areas where we've been able to achieve more than we had expected. There are areas where we have been

surprised negatively as well. But overall, of course, it has been according to plan and even more so based on what we had done on that side. And I think on the Danish home content...

## A - Morten Hübbe

I think on home in Denmark, this is actually a product which has undergone significant changes so far and is going to undergo significant changes also the rest of this year and next year, because if you go back just four years, our combined ratio on Danish house was more than 110%. So, actually, no earnings at all. Now, we've achieved the situation through price increases where we're now actually making clearly positive earnings in the home product.

If you look at what is going on at the moment, we are actually in the process of doing a completely new house product. And clearly, that will change the coverages and will change pricing, et cetera. And we believe that in the coming years, we will continue to see a trend where we will make improved earnings in house or home in Denmark, whereas we will probably see slightly reduced earnings in motor in Denmark. So that is likely to be the trend.

How that actually impacts the average premium, I think, will be influenced by a change on the product side. So the comparison might be a little bit difficult during this period. But clearly, weather (40:05) risk plays a bigger and bigger role in the house product. But expectation are slightly higher in (40:11) house in the coming years.

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

Okay. Thank you. Can I just follow-up on the cost savings again? Just in terms of what we should expect going into the next quarter into 2015, whether the pace of incremental cost saves are expected to come down, or whether we should expect - perhaps you dropped it as - (40:40) on additional cost savings in excess of the DKK 1 billion perhaps at the Capital Markets Day or later on in the year. Thanks.

## A - Tor Magne Lønnum

Yeah. It's a nice try, Daniel. I think I'd just say that it's natural that you look at sort of the efficiency program when we come to the Capital Markets Day. And I don't really want to give any more guidance on that.

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

Okay. Thank you.

## Operator

Next question is coming from Mr. Per Grønberg from Danske Markets. Please go ahead, sir.

## Q - Per Grønberg

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Yes. Thank you. It's Per from Danske. Couple of questions from me as well. Last quarter, you gave us the growth in local currency excluding the Nordea portfolio. I was not able to find this figure this time. Can you give it, and can you also give us what the impact would be if you excluded the acquired portfolio from Codan?

The second question is on the large client (41:36) industrial part, the renewal season has started. Can you give any indications of what directions you are seeing currently on rates?

And finally, a topic that has been touched a number of times before, the prior year gains. How much of the gains you are harvesting these days is coming from the liability product, and basically can be referred to the 2004 change in the liability law, the initial material (42:04) that you did compare to the actual claims experience. That was my three questions. Thank you.

### **A - Tor Magne Lønnum**

Yeah. Do you want me to start or...

### **A - Morten Hübbe**

Good morning, Per. Just to be clear on the first question, Per, was it the group growth without Nordea or was it the Swedish growth without Nordea?

### **Q - Per Grønberg**

The group growth without Nordea.

### **A - Morten Hübbe**

Well, that - if you'll take the group growth, which is minus 0.8% and you disregard Sweden completely, then you get to 0.0% for the group. And actually, Sweden without Nordea was slightly positive. So the group growth without Nordea only would be zero-point-something small, 0.1%, zero-point - something like that, positive.

### **Q - Per Grønberg**

How big is the positive impact from the Codan portfolio?

### **A - Morten Hübbe**

Well, it's actually, to the largest extent, very marginal by now because bear in mind that we're not taking over the portfolio, we're taking over the renewal rights. So what is going on is that we've achieved the acceptance of more than 90%, but actually very little of that has come into force, so in the actual earned premium, very, very little. So nothing worth mentioning, but it will start improving the earned numbers during the next 12 months.

### **Q - Per Grønberg**

Okay.

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## A - Tor Magne Lønnum

In terms of the question related to the prior year gains, Per, I guess, yes, you're right, there's no doubt that there is impact by - that there is prior year gains we had from that change. But on the other hand, you should, of course, note that the run-off gains are more or less - not entirely, but more or less equally distributed between Denmark and Norway. So there are significant run-off gains in the Norwegian portfolio as well. And I think - sorry, the overall picture is more or less in line with what you have seen the previous quarters, i.e. that we'll see gains from workers' comp, that we see improvement from motor TPL, but also to a certain extent as we talked about the liability product.

## Q - Per Grønberg

Okay. The renewal season?

## A - Tor Magne Lønnum

Renewal season, I think it's fair to say that there's no doubt that there's still uncontinued rate pressure in the market. On the other hand, you can say that not that we are overly optimistic, but I think we are balanced on the renewal season. It seems to be okay-ish in terms of the direct side. I guess the broker side is more under pressure as usual, but - how should I say - not overly optimistic, but not negative neither so.

## Q - Per Grønberg

Okay. Perfect. Thank you.

## Operator

Next question is coming from Mr. Christian Hede from Nordea. Please go ahead, sir.

## Q - Christian Hede {BIO 18642300 <GO>}

Yes. Good morning, gents. Most of my questions have been answered. So I just have one nitty-gritty question on the equity performance and the investment activities this quarter. I think you've previously guided that you try to benchmark your equity investments against the MSCI World in Danish kroner, and obviously, that has not been the case this quarter. So could you give us some more details on what you have done and what you haven't done in this quarter? Thank you.

## A - Tor Magne Lønnum

Yeah. Good morning, Christian. I guess that's - it's a good question. And there might be some misinterpretation or misunderstanding in that number. There's no doubt that what we do is that we benchmark against the MSCI World. What we do is that we hedge the equity exposure 100%. And so our benchmark for the quarter shows a performance of 0.3%, I think, is the correct number. So we have a performance, which is slightly behind benchmark.

## Q - Christian Hede {BIO 18642300 <GO>}

Okay. Thank you. (46:34)

## Operator

Next question is coming from Mr. Vinit Malhotra from Goldman Sachs. Please go ahead, sir.

### Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi. It's Vinit here. Hi. Tor, Good morning. Just one question on Private lines and one on Commercial, please. So just on Private lines, I noted that you mentioned a 0.7% improvement in underlying. And obviously, in the report it is attributed to the expense and claims initiatives, but, Tor, you also mentioned portfolio mix and selection. Is it possible at all to give an idea of what would be negative on the competition, the offset on the portfolio as well apart from the claims initiatives? I just wanted to understand that 0.7% split between portfolio and expense initiative if it is possible. Just some idea would be useful.

And just on the Commercial lines, I noticed several things here. One is that your Norwegian retention has gone up a lot. Also, there's a mention in the report that the broker channel is now part of Commercial and not Corporate. So there seems to be a lot of changes and I remember from previous calls (48:10) mentioned of new products. Could you just drive the – could you just discuss the momentum that is in this Commercial business and just for our benefit? Thank you.

### A - Morten Hübbe

Yeah. Well, I think on your latter questions, Vinit, I think on the Commercial side (48:34) on the underlying. Clearly, we're doing a lot of changes in Commercial. First of all, we have changed the split between Corporate business and Commercial business. So it means that 80% of the small or medium-sized Corporate customers have actually been moved to Commercial segment. And that is why Commercial segment now also has a broker channel as they are the consequence of that change.

So that is one important change. I think you point to a very important area, which is the retention rate, because, clearly, two of the areas we wanted to improve in Commercial was, one, the cost ratio, which has dropped 2 percentage points this quarter; two, we wanted to improve the retention rates. And one of the things we've done so far is that we have implemented what we call a free renewal date contact, where we actually contact the Norwegian Commercial customers prior to renewal to make sure that we have a positive dialogue and expectation and then updates prior to renewal season, instead of doing nothing and risk that the customer walks away. That is starting to improve and get positive results.

We are also updating our, you can call it ongoing service concepts to make sure that we have a more frequent dialogue with these Commercial customers. And then a third point that we're working on is that we significantly want to further improve our selection process in Commercial, where it's fair to say that we've done significant process in Private, whereas in Commercial lines, we're slightly more behind the progress of Private lines. So I



think important improvements in Commercial along the lines that we have actually been targeting.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

And just to clarify, is this more a Norwegian initiative?

**A - Tor Magne Lønnum**

Good morning. To the question about the Private lines, I think I unintentionally said 0.7% and it should be 1% in terms of underlying improvement, so sorry about that. I guess, it's important to say that if you look sort of at the historic numbers that we are reporting, there's no doubt that the main driver in that respect is the internal efficiency program, i.e., both the claims procurement and the cost efficiency.

When I did make the comment related to the average premium, it's, of course, there are some portfolio shifts going on. For instance, we see an increased retention level in the housing products, i.e., that the customer retains more of his sort of risk, but there is also an element of being able to set the right price for the right customer that I mentioned during the presentation. But, of course, that is important if you look at future expectations in terms of earnings more than sort of the recent history that we're looking at here.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

Yes.

**A - Morten Hübbe**

I should say (51:37) that historically, in Private lines, Tryg has had clearly lower self-retention levels or deductible levels than our peers. So we're likely to see in the next couple of years that deductible levels or self-retention levels will be slightly higher. And of course that pulls slightly downwards on the average price. But it's actually a healthy development both for the customer and us.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

Sure. Can I just follow-up quickly on these points, please? Just to get it right, the competition must have had some kind of a negative effect and then there was a positive effect from initiatives and the net is up 1%, right? Is that the way to look at it or competition was not really impacting and everything we see on the 1% is - so I just want to understand the negative force as well. And just on the Norwegian Commercial, just want to clarify, this is not being done in Denmark, only in Norway, this pre-renewals contact, just to clarify that, please. Thank you very much.

**A - Morten Hübbe**

So if we take the last one first, the pre-renewal contact, we plan to do in both Norway and Denmark, but we have started the process in Norway.

**Q - Vinit Malhotra** {BIO 16184491 <GO>}

Okay.

## A - Morten Hübbe

And so that is correct. And the split change between Corporate and Commercial, et cetera, was done in both Denmark and Norway. So hopefully, that's clear.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

And just on...

## A - Tor Magne Lønnum

Yeah. I think to the follow-up question, it may be that we are sort of talking about two slightly different things, because, yes, there's no doubt that if you look at sort of the car product, there is a portfolio shift. There is competitive pressure in the market. And there are the smaller cars, for instance, to the portfolio shift that I mentioned earlier.

What is important to understand, of course, is when I talk about the development in terms of the average prices, it also says something about the future earnings power. And that's really why I had mentioned sort of the selection process, which really improves the underlying profitability. And it won't be that visible in terms of the recent quarter alone.

## A - Morten Hübbe

I guess, you can argue that we monitor what is the claims ratio of new customers compared to previously and what is the trend on that, what is the claims ratio of customers leaving us compared to previously and what's the trend on that. But as only 10%, 11% of the customers are replaced every year, it takes a fair amount of time before that has any impact on the total portfolio and thereby the total accounting numbers as you see them. So that is why that trend is not something that is very visible to you.

## Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. All right. Thank you.

## Operator

We have no further questions. So back to you, speakers.

## A - Lars Møller

Thank you very much, and thank you to Morten and Tor for taking us through this Q3 presentation. I want to remind you all that we will be around here from week number 43 in London, Edinburgh, talk to you in the coming couple of weeks. So looking forward to see you all around there.

And then, of course, the Capital Markets Day on the 5th of November where it's still possible to sign up for this event. So, with these closing remarks, have a nice day and thank you for participating this morning.

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