Q3 2016 Earnings Call

Company Participants

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

Other Participants

- Asbjørn Nicholas Mørk, Analyst
- Iain Pearce, Analyst
- In-Yong Hwang, Analyst
- Jakob Brink, Analyst
- Jonny Urwin, Analyst
- Paul De'Ath, Analyst
- Per Grønborg, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. This is Gianandrea Roberti, Head of Investor Relations at Tryg. We published our Q3 results earlier on this morning. And I have here with me Group CEO, Morten Hübbe and Group CFO, Christian Baltzer, to discuss the numbers. So, after a few words, over to you, Morten.

Morten Hübbe

Thanks, Gian. And we start out on slide three, showing significantly higher results, both from insurance and in particular, investment. And bear in mind the very high swing factor from global equities from Q3 last year to Q3 this year.

On the technical result, we report an increase of DKK 100 million, but bear in mind, we have the negative impact of DKK 120 million last year, so roughly in line year-on-year.

Premium development is as expected. We see positive growth in the largest business segment, Private Nordic, now for the fifth quarter in a row. But now also new in this quarter, we see positive growth in Sweden even before the Skandia transaction. We report, we believe, a healthy solvency ratio of 217 including the Skandia transaction.

If we jump to slide four, we show an all time high of NPS of 24. Clearly, this is a KPI that will be more volatile over time, but we do see a positive development. When we look at customers with three or more products, we see a good improvement in Private Denmark with an increase of 1.6 percentage point. And on the other hand, we see a reduction in Norway, which we need to improve with our work on (1:49) and on our new customer programs. The retention rate at 88% is a slightly lower level than last year, mainly due to a drop in Commercial.

If we turn to slide number seven, premiums are broadly flat, but they are positively impacted by two months of impact from Skandia – sorry, that is one-month impact from Skandia and also somewhat negatively impacted by one-off positive top-line in Commercial in Q3 last year.

Private lines Denmark continues to be the most positive this quarter with a top-line growth of 2.2% where, clearly, Commercial is more challenged in both Denmark and Norway. Corporate is quite flat, but we believe that growth is not the main focus area in the Corporate segment.

On slide eight, we show the technical result of DKK 744 million, as we said, roughly in line with Q3 last year adjusted for the negative one-off charge last year of DKK 120 million. If we adjust for run-off weather and large claims, the results of Private and Commercial are roughly in line with Q3 last year and Christian will get back to the underlying. But, clearly, we see that mid-sized claims in Corporate plays a big impact this quarter. mid-sized claims in Corporate are roughly DKK 70 million higher year-on-year which has some impact on the group numbers, both reported and underlying.

If we look at slide nine, the most important story is that we continue to see an improved trend in Denmark where the fact that we are gradually adjusting prices and converting into new products means that the negative trend on price is improving and that is both due to the conversions and the price changes and we are seeing in the conversions that customers are increasing their coverage. Norwegian prices continues to move slightly up, reflecting price adjustments.

If we look at slide 10, I guess the general story on customer retention is quite stable. For Private lines, it's stable. We see perhaps the most positive that Commercial Norway has had a positive development in Q3. Commercial Norway is the area where our customer satisfaction has been the lowest and we have worked a lot on improving customer focus, customer servicing and customer NPS. And that is now starting to improve and that also has a positive impact on the retention of Commercial Norway, while on the other hand, Commercial Denmark still has some negative impact by price increases.

And over to you, Christian.

Christian Baltzer {BIO 19705595 <GO>}

Thank you, Morten. And turning your heads to slide 12, where you try to have displayed the underlying claims ratio for the different segments. For group level, you see an uplift of

2.2 percentage points. As Morten mentioned most of this is driven by the mid-sized claims of about DKK 70 million in our Corporate segment. If you look at Commercial in Sweden they are more or less on par compared to last year. Private is up 0.1 percentage point and we still reiterate our expectation at the beginning of 2017 to see the underlying improvement on the Private side.

Turning your heads to slide 13, this is the topic that we started discussing last quarter, which was these increased tech development in cars and how the claims are increasing in size given the more tech that you put into these cars. And we're happy to see that other companies are also reporting some of the same trends.

Now, one of the new things we are bringing to this topic is that we do see a trend increase in the accident. I think it's about 5% increase in 2016 if you look year-to-date, this is on a national basis in Denmark. Now, we have speculation what the reasons are on this and I also believe that Council for Safe Traffic in Denmark actually are expecting this to be a lot about unaware drivers or people driving with not that much attention to the road and more to their phones or other things in their cars. Studies have actually shown that almost 69% of the claims that we have comes from unaware drivers.

And there's also been studies showing that there's a six time higher risk if you are texting while driving to get into an accident. Whether this is the reason for the increasing accident, I think that we can speculate but we're keeping a focus on this development that taking our – and just making sure we have initiatives to offset this.

One last indicator that we have been looking on that might speculate some of this data usage in cars is the increased amount of just data used overall in Denmark. I think we're going keep talking about this topic the coming quarters and hopefully we'll see a flattening out of some of these trends at one point.

Turning to slide 14, as Morten mentioned, large claims and weather claims has been somewhat fortunate this quarter with not that much of it and we have also seen a run-off level less than we did in same quarter last year. However, the run-off level is more or less in line with our expectation. If you do total these three different components up, it's about DKK 100 million difference compared to last quarter that we have negative and most of that is explained by the DKK 70 million in mid-sized claims.

Turning to slide 15, we have a status on our efficiency program. And in third quarter, we reported DKK 55 million saving. I think it's important now that we are a little over midway through our efficiency program to kind of sum up and see how is it going, how are we doing. And currently, for these seven quarters, we have had an achievement about DKK 316 million versus a total target for 2016 and 2015 of DKK 375 million.

So that means that the DKK 59 million for fourth quarter 2016's will make sure that we are on target with our program, which we believe definitely we'll make. 2017 is also in line and has initiatives to support the total of DKK 750 million in savings program.

Assuming a little bit in on our savings program on the DKK 250 million in cost reduction, we continue having structural initiatives within the organization to support this DKK 250 million savings. And especially in the second quarter and third quarter, Norway has done significant improvement on this side. Overall, the organization is very focused and dedicated and finding a lot of good initiatives to reach our target of 14% or below in 2017.

Turning to the investment side, which Morten already mentioned, was very positive compared to same quarter last year, mainly because same quarter last year was extremely negative. We have the investment return of DKK 191 million versus the DKK 441 million last year.

It's especially due to the equity side giving us the good performance, but also on the match performance, we're seeing some improvement, definitely driven by the Nordic cover bond spread has narrowed towards the swap curve. But in general, if you look at our asset classes, they have had positive results, which were really – have about – giving that tailwind for this quarter.

Turning to slide 19, we report our solvency position. And based on our partial internal model, we have a solvency ratio of 217. This is the quarter where Skandia is flowing into our numbers. And as you might have noticed, it's a little less than we actually anticipated upfront, but due to having looked more into the actual book and assessing it, we're finding that our estimated upfront was a little conservative. And now, we have flown them into the numbers, which we think is much more correct.

There's also been an improvement on our non-life, which is an improvement on our partial internal model that has given us about a DKK 38 million improvement on the SCR. Overall, the SCR is more or less in line with what it was at Q2 2016.

And on our own funds, it's mainly driven by a quarter where we are not paying out dividend and not having any share buyback. So, it's a quarter where you see a significant increase in own funds. The only negative part of the own funds is the Skandia portfolio flowing in.

Turning to slide 20, our capital and solvency position, we think it's important for us to say that right now, there's about DKK 211 million of Tier 2 that is not included since our own funds is capped by a 50% of the SCR. We still have ATier 1 capacity of about DKK 1.3 billion that we have not any assumption of using right now, but it's important for you guys to know that we have more ways of raising capital if needed.

And my last slide would be 21. It's all about solvency ratio sensitivity, which is a broadly unchanged picture. It remains low.

So back to you, Morten.

Morten Hübbe

Thank you, Christian. And just a final few comments on slide 22, where we reiterate our financial targets for 2017 with an ROE at or above 21% post-tax, combined ratio at or below 87%, and an expense ratio at or below 14%.

As you know, we have initiated price adjustments to mitigate the claims inflation we've seen in the recent year-and-a-half, particularly in property and travel, also during smaller price adjustments in a number of other products. We know that it takes some time before we see the full impact of that, but we do expect to see full impact during 2017 where we expect to see underlying claims reduce.

Also, we work very hard on our savings program, where particularly, Norway has done a number of the larger initiatives these last few months. It doesn't impact the 2016 numbers yet, but it does impact the 2017 numbers and the pipeline of securing our 14% target.

As far as top-line is concerned, we reiterate our previous quarter statement that we expect the top-line to be at the very low end of the interval 0 to 2%. The main driver being the smaller price adjustments, but also the gradual inclusion of Skandia child insurance, which will flow somewhat into Q4 and mainly into 2017.

And then I guess on slide 23, we continue to focus on dividends being a very, very important cornerstone of our business model.

And with that, I think we will turn to your questions.

Q&A

Operator

Thank you. And our first question comes from the line of Asbjørn Mørk from Danske Bank. Please go ahead. Your line is now open.

Q - Asbjørn Nicholas Mørk

Yes. Good morning. Asbjørn from Danske here. Three questions from my side. First, on the retention on the Danish-covered business bond. You said that the decline was due to price hikes. But I was just wondering, is the TryghedsGruppen bonus payment that you paid in June, why haven't we seen any impact from this in the numbers, or maybe we have been and your underlying would have been worse than that. So maybe you can elaborate a little bit on that.

Then on your claims side, if you look at the underlying claims as you also touched on in the presentation, there seems to be continued inflation. I was just wondering if this recent trend is in line with your – you can say your price hikes that you have done during 2016 or whether they are above and that you actually need to do a little bit more on pricing to reach your longer term targets.

And then on your cost side, you're guiding 14% for next year. Then if I look at the inflation that you'll be facing next couple of years and I look at the potential that you have from the digitalization that you mentioned on the Analyst Day in June, I was just wondering how should we see the cost ratio looking beyond 2017. If you still think that 14% is a sustainable level also in 2018 and onwards. Thank you.

A - Morten Hübbe

Good morning to you, Asbjørn. If I take the first and third question. As far as retention Commercial Denmark is concerned, we've been working very hard to secure that the price changes we do, particularly in Private, are more and more intelligent, more and more gradual to the right customers at the right levels to secure that they are successful and the customers stay with us.

To be honest, the price changes we've done in Commercial Denmark have been more primitive as far as distribution with new customers, old customers lines of business differentiation and therefore the impact has been slightly higher than it ought to have been. And I think in future price changes in Commercial Denmark, we will use more of the intelligence from Private lines and also the data we've gathered from customer reaction to the price changes this time around.

I think as far as the bonus is concerned, we're seeing that, particularly high-end corporate customers are starting to understand whereas the majority of Commercial, SME and Private lines customers still are very new to this customer bonus program. So, I don't think we at all see that impact that you are searching for yet. And I also think that in Norway, (16:40) show that it takes a couple of years to get the full impact of that. So, on the positive side that is more ahead of us than something that we've seen so far.

As far as your cost 14% is concerned, I think we need to work very hard to secure that we deliver the 14% during 2017. So I don't think we want to speculate on what happens after that, but, of course, it doesn't make sense for us to deliver 14% and then let the cost ratio increase afterwards, so that is clearly not the plan. But what happens after 2017 is something I think we should debate later in 2017.

A - Christian Baltzer {BIO 19705595 <GO>}

Morning, Asbjørn. I'll talk a little bit to your underlying question, not underlying question, but your underlying claims ratio question. I think that the Private that we are seeing, in Q1, we had a 0.9% deterioration, Q2 was a 0.7% and now a 0.6% deterioration. It's an improvement in the underlying deterioration of the portfolio and it's very much in line with our expectation, which is also why we reiterate our expectation of beginning of 2017 seeing that change. So it doesn't change our view on pricing, it doesn't change our view on the initiatives. Those are going as planned.

I think when we pick up this auto discussion, I think that's one of our early warnings that there might be something going on in the portfolio that we need to keep a very close eye on and also make sure that our colleagues in the insurance industry have a discussion about what are we doing with this auto inflation that we're actually seeing. So hopefully that answers your question, Asbjørn.

Q - Asbjørn Nicholas Mørk

Yes. Thank you very much. If I could just get back to the first question, Morten, then on the retention. If you try to adjust for, you can say, unprofitable workers' compensation business and other areas where you basically don't want to be in, would the retention rate then look substantially different from what we're seeing right now?

A - Morten Hübbe

No. I think, to be honest that the retention, the slight – and bear in mind, it is a slight reduction, it's nothing dramatic. But the slight reduction also covers other products like property, for instance, also commercial and motor. So, it's really more that if we are too primitive in the way we carry out price adjustments, then the reaction is higher than it need to be. And I think we have improved that process significantly in Private lines whereas Commercial lines is not at the same level of sophistication.

So it's not just a workers' comp issue, it's more a matter of sophistication and the price change modeling where we need to be more at the level of Private lines and Commercial. And that will be what we'll do in the future price changes. But the impact has been slightly higher than it really needed to be. So, I think, we can thank ourselves for that, but also say, put into perspective, it is a relatively small downward change.

Q - Asbjørn Nicholas Mørk

Sure. Sure. And thank you very much. Very clear. Thank you.

Operator

Thank you. Our next question comes from the line of Jakob Brink from ABG. Please go ahead. Your line is now open.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you very much and good morning. I have two questions, please. The first one is actually getting back to Asbjørn's on the underlying claims ratio. I do see what you're saying that 90 basis points, then 70 and now 60. So you're saying that in early 2017, we should start to see improvement. So would that be in Q1 or Q2 or could you get a little closer? And also, maybe give us a bit more insight to why would it significantly drop in the sort of end of this year, or beginning of next year? I know that there'll be more price increases coming through, but I guess only one more quarter.

And also, now, you talk a lot about the Private underlying claims ratio and I do acknowledge of course that your Commercial is much more volatile, but could you give some insights into that one and the Corporate as well, or basically the group underlying claims ratio.

My other question is about the solvency. As you pointed out, it's very strong this quarter. I know you haven't given a specific target, but given what you wrote in connection with the transfer to Solvency II, I guess it seems like you are significantly above what could have been your target, even though you didn't say one. So should we basically expect you to maybe increase the share buybacks for 2017, or how do you look at this? Thanks.

A - Christian Baltzer {BIO 19705595 <GO>}

Good morning, Jakob. I think I'll try to answer both your questions. Firstly, on the underlying claims ratio, I think if you go back in our kind of – I think you have to take a couple of steps back. It was in Q4 2015 we actually started reporting the first type of negative trend into underlying claims ratio and it's also when we started to plan for initiatives into the portfolio that we started up in Q1. It takes 24 months for these price initiatives to actually flow through the numbers, whereas the mass of the initiatives actually comes in Q4 – I mean, takes about four, five, six quarters to get more or less the most impact and you get the full impact after the eight quarters.

Now, bear in mind that there is still volatility in the underlying claims ratio for Private. It is not a specific kind of number that it's not volatile at all, but I think you could expect that when we say beginning of 2017, it would be probably the first couple of quarters, we should start seeing that type of claims. Have...

A - Morten Hübbe

And I guess, Jakob, for us it's really the full year 2017 will have a drop in the underlying claims ratio. I don't think – we do not manage the portfolio to a degree of precision where we know that that in Q1 is the first time it drops. But you will start to see in the early parts of 2017 indications that it drops and for the full year 2017, it will drop.

A - Christian Baltzer {BIO 19705595 <GO>}

I think, Jakob, just remembering when we did Q1 2015, we actually had a lot of mid-sized claims of fires in Norway that actually inflated the underlying. So you do have those kind of – that kind of volatility also in this underlying claims ratio.

Under Commercial and Corporate side, when we monetorize our underlying claims ratio and tried to navigate our business, it is much more of the Private we use this KPI. On the core Commercial and Corporate side, we look more on the kind of – some other KPIs that we are not disclosing here because there are good amount of volatility. And the DKK 70 million in mid-sized claims just totally speaks to that kind of volatility (23:36) portfolio. We also see that in the Commercial portfolio sometimes. This quarter, Commercial is more or less in par with what it was last year. So that's what's driving a good amount of volatility into underlying on those segments.

A - Morten Hübbe

I guess Christian, we can add, Jakob, that we are discussing internally, should we even consider to leave out an underlying calculation of Corporate entirely because the level of mid-sized claims and the volatile of that makes underlying a less meaningful exercise than

Corporate. But on the other hand, it makes sense to try to understand the group underlying. So how do we manage that?

And we haven't come to a full conclusion. I guess, what we're saying as of now is that in Private lines, it makes perfect sense; in Corporate lines, it makes very little sense, but we'd like to find the methodology to talk about the group underlying regardless. So we're working on trying to figure out what are the adjustments we want to do there, reporting-wise, in longer term sustainable model, so we don't change the reporting model too often.

A - Christian Baltzer {BIO 19705595 <GO>}

On your second question on the solvency ratio and us not guiding and whether you can expect what to expect in the future, I will more or less plead the Fifth and not comment on that. But, I mean, it is a very positive position that we're in. We're very happy with that and comfortable with that. And I guess we'll talk more about this next quarter.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, fair enough. Thanks a lot for the help.

Operator

Thank you. Our next question comes from the line of Paul De'Ath from RBC. Please go ahead. Your line is now open.

Q - Paul De'Ath

Yeah. Hi, guys. A couple of questions from me, please. Firstly, just the brief reference on slide four to the new Cyber product that you've developed for the Corporate and Commercial lines. And any more color you can give us on that in terms of where you think that can go? There's lots of people getting quite excited about Cyber across the globe really at the moment. So just some insight into that would be good.

And then, the second point was just going back to the customers with more than three products. Obviously, the percentage there hasn't really moved very much in the last few quarters. How confident are you that you can turn things around there and get up to the target by 2017 and kind of can you give us a bit more detail as to what you're doing in order to do that? Thanks.

A - Morten Hübbe

Well, good morning to you as well. As far as Cyber is concerned, I think clearly we've seen that a lot of our Commercial and Corporate customers are really worried about this area. We have seen Swedish analysis suggesting that roughly a fifth of the Commercial SMEs have been hit by cyber crime as of today. So it is a real issue.

The product we've done can help analyze and investigate and solve. It can also help restore data and we can also help, of course, settle and pay for the period where they've not been able to run their business. We think that the longer term potential on this is high. We choose a rather large degree of reinsurance, not to be overwhelmed by the risk and the claims. And I think it will take some time to massage this into the market. I think that in sort of a two-year, three-year time horizon, it will be a meaningful driver of top-line and bottom-line, but I think it's really only during 2017 we'll start to see the first numbers and I think we'll report on that gradually. But longer term, I think it will be a fairly large market.

As far as kind of three or more products is concerned, you're right that the group number is not really moving, but I think for us, it's very important to distinguish between two underlying trends because in Private lines Denmark, we've now seen an increase of 1.6 percentage points on three or more products. And we are putting a number of resources and initiatives into increasing new products to existing customers, understanding why customers would leave with one product, working more with customer advice and servicing, et cetera, to make sure we enhance the number of products; also in the conversion processes, adding new coverages to existing customers. Those have been some of the important drivers in Denmark, and I think we'll continue to see a positive trend in Denmark towards our targets.

Clearly, it was not part of our plan that this number should drop in Norway. And clearly, that challenges the whole target for the group. What we're doing in Norway at the moment is that we're taking our car dealer channel business where 80% of the customers only have a car insurance. We have now, this quarter integrated that into our core Norwegian Private line business to make sure we start systematically cross-selling to these customers. That will be one important driver.

Another important driver is that our new customer program adds more value if you gather more insurances in Norway. So, I think, bottom-line, a positive trend in Denmark, we think that will continue. We definitely not planned for negative trend in Norway and we need to turn that around. And whether we reach that for the – for 2017 or not in Norway, I don't know, but making sure we turn it around and start to make it positive makes a lot of value regardless of the timing.

Q - Paul De'Ath

Excellent. Thank you.

Operator

Thank you. Our next question comes from the line of In-Yong Hwang from Goldman Sachs. Please go ahead. Your line is now open.

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

Good morning. Thank you for taking my question. I've got two. The first one is just on the mid-sized Corporate claims that you talked about earlier. Is it possible to get a bit more color on where is it coming from? And, also, just clarify the DKK 70 million number that you talked about, is that just all one-off or is there some business, I guess, underlying in there as well?

And the second question is on the capital structure. You mentioned that you're not actively thinking about using the DKK 1.3 billion additional kind of Tier 1 capacity at the moment. But what will be a catalyst for you to consider using that to M&A or could you think about more an active optimization of your capital structure? Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

Thank you. I'll try to just comment on your question. Morten, please chime in if you have some. On the mid-sized claims in Corporate, I think that – oh most of this is coming from on the Property side where we get claims that are between DKK 1 million to DKK to 10 million, which what we characterize as mid-sized. So we're targeting about maybe roughly 8, 9, 10 claims in this segment that we have more than we had same quarter last year.

It's not really uncommon to have that kind of fluctuation within that portfolio at that size. So, I don't want to put too much emphasis on these mid-sized claims. It's just when we try to explain the result generation from last quarter to this quarter, this is just a larger component this quarter than what we have seen the other quarters.

On the ATier 1, I think for us to kind of mention this is just to let you know that we have more kind of stuff in the drawer, so to speak, if we were to need it. We don't have any plans, but you're right and some sort of initiative where we'd need to raise more capital it would be a natural element to bring up, but there is no kind of earmark to this exercise so far.

A - Morten Hübbe

And I guess In-Yong, whether we are talking about solvency ratio or a new Tier 1 capacity, I think what it means is that we have more flexibility to continue to work with our capital position, but we have no short-term plans of making any changes in that area.

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

Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Morning, all. Thanks for taking my questions. Just two from me. So, firstly, on the retention rates and the Net Promoter Score, so we've seen another spike in the Net Promoter Score, but the retention isn't really moving, just like the customers with over three products, I suppose. But I was just wondering, do you need to get that retention rate up to hit the expense ratio target, i.e., through lower admin cost and acquisition cost to the extent that you're not going direct or is it more of nice to have? So perhaps that's the first question first, please.

A - Christian Baltzer {BIO 19705595 <GO>}

Thank you very much. I think you're absolutely right. For us, the retention rate is a key component to keeping our customers for longer and lowering our expense ratio. I think if you go back to our – in 2014 when we committed to the 14%, we actually said one-third of our expense improvement was going to come from people staying longer and using less and actually new customers. So having as a little bit of a headwind on that definitely puts some more pressure on being more efficient to make our 14%. So it's not just nice to have, it would be very nice to have, so to speak and that's why we keep focusing on that KPI.

I think the correlation between the retention rate and the Net Promoter Score, we still have to kind of understand the dynamics of that. Don't forget that the Net Promoter Score is only – (34:08) 1,000 people that are asked every month a quarter. And so, you only get a subset of the people that might leave or not leave.

But what we do see is that people that have had a claim with us that have been in frequent contact with us, first of all, stay longer with us and also have a higher Net Promoter Score. So, I think we do see that there is a good correlation between the Net Promoter Score and the retention. But the one-to-one relation, I guess we haven't really found yet, so to speak.

A - Morten Hübbe

And I guess it's fair to say, Jonny, that we're not gambling on an increase of retention rate to save the day on the cost ratio. We're planning to deliver the cost ratio regardless. But as Christian says, it just means that we are working a lot harder than planned, but it doesn't change our commitment to reaching the 14%.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you. And the second question was just, over the last couple of quarters, you guys have spoken a bit more about improving claims management processes and tightening up processes around home claims and burst pipes in houses in particular. I just wondered if there's any more progress there, any more updates you could give us?

A - Morten Hübbe

Well, actually it's something that we're spending a lot of time on. I've actually personally been visiting a couple of the dedicated teams that works with, for instance, pipes. And clearly, the evidence that they can lower the price of the claim without disturbing the customer is very evident because we've increased the level of education. They're becoming pipe experts and not insurance people. But actually, that's what you need to do because, otherwise, the supplier of the repair will overcharge and he will do repair that is not necessary.

And we can see examples of reductions of 20%, 30% of the repair costs when they actually get close enough to understanding the details of that claim. And I think, to be honest, it has shown us that there's probably more areas where we will invest more in specializing on complicated claims. So, I think we're seeing clearer and clearer that a big part of the claims will be more automatic and will have more online and more systematic survey of fraud risk behavioral pattern, the plausibility of the claim, et cetera, that will be one part.

And then we'll have another part where we invest more in specializing and understanding the complicated claims. And the pipes, as an example, is progressing really well, and they are saving a lot of money in the process. We just need to make sure that the money we invest and the claims we reduce that there's always a good trade-off and business case in that. But it's progressing really well.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks so much.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. Thank you very much. Just one thing. You mentioned now the Danish motor market where last quarter we were discussing how technology is increasing some severity in claims and now you're highlighting also the frequency. Now, do you – I mean, is it your hope that we can start seeing some price increases in this line? Because so far, the focus of price increases, as far as I understand, is mostly homeowners and travel, but not really motor, also because motor is profitable already. So, if you just comment on what you are really hoping to achieve in this balance of high profit business the frequency picking up.

Then on the – just two points of clarification, please. Christian, sorry, you did say you don't want to focus on the mid-sized claims, but the reason I ask a little bit about that is because recently or last two years, you, yourself, Tryg has mentioned that some bits of claims inflation sort of got ignored. And I'm just wondering if in your mind there's any risk that some of the recent FTE compressions or other initiatives might have led to these mid-sized claims being ignored or maybe it's just not a trend and one-off (38:51). I just want to know your view.

And a very last quick one from me is just a clarification that the high run-off in Corporate rather (39:03) in Norway mostly, is coming from workers' comp, if you could just remind us then? That's just my understanding. We just want to understand that. Thank you very much.

A - Christian Baltzer {BIO 19705595 <GO>}

Okay. Vinit, good morning to you. On the motor side, I think we're actually – in our conversion of the motor products, we are also increasing our prices here. So we're actually – and you know that you can kind of hint a little bit of a price increase when you look on our average prices in motor in Denmark, but also in Norway we are increasing the prices.

So it's not true that we're not doing anything on the pricing side. I think it's important that the market understands that there's a trend here, whereas we, many years, have been talking about really, really profitable business. I think if we're not aware of the early signals of maybe some deterioration here, we're going to end up having a non-profitable business and nobody wants that.

So we are doing price initiatives both in Denmark and in Norway. And when we talk about both the technology, last quarter, it was more of having a balanced talk about the MTPL versus the casco claims. And I think actually it was Per Grønborg who last time commented on the frequency increasing from Forsikring & Pension like this public information. So we thought that would be great to also bring that forth a little bit more broadly and talking about the increase in claims.

On the mid-sized claims, I do want to reiterate that a lot of this is more stochastic variance. I do not believe that any of these are due to reduction in FTEs either on the underwriting side or on the claims handling side. This is more or less stochastic variance, I would say.

But you're definitely right that when you do compress the FTE side, it's very important to make sure that our claims handling and our underwriting is still intact and in line. And I think we have seen, especially with the sewer team where we might have – I think we mentioned that we had some of the claims adjustment off – outsourced and that was probably clearly a bad choice because that increased our average claims. And that is also what we have been taking back and in-sourced that loss adjustment. The Norwegian...

A - Morten Hübbe

And (41:12)...

A - Christian Baltzer {BIO 19705595 <GO>}

Yeah, go ahead.

A - Morten Hübbe

(41:13) that we have other parts similar to the pipes and sewerage part. I mean, we've seen – so we're doing lots of detailed studies of where is there an underlying claims trend that we can capture better. And just to give you an example, we've put up a specialized team to work with the – when jewelry is stolen, how is the value of that assessed and how is it replaced.

It sounds like a small area but actually, we've seen that the trend there has been negative. After we've now put in place a specialized team and new tools, the claims of that is being reduced and the customer satisfaction is increasing while the claim is being reduced. So there are lots of small pockets where we can improve the specialization, but that's not, as Christian says, the stochastics of the property claims in mid-size, that's not the same issue.

A - Christian Baltzer {BIO 19705595 <GO>}

On the Norwegian run-off, I think that we have seen that workers' comp in Norway has had a very underlying trend improvement in the risk, which is why we're seeing that there's more room for taking run-off in that part of the business. I think also our colleagues in the Norwegian market has mentioned that there has been positive improvements on the reserving side from their point of view, and also it would increase their run-offs. So it's very much in line with the rest of the market expectation on the Norwegian side.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Could this be linked to the oil price move recently, do you think, or not really?

A - Christian Baltzer {BIO 19705595 <GO>}

I actually think there was – but this is four or five years ago when the Norwegian government actually put in place some regulatories on the working force and then better rules on work safety and getting back to work. So it's much more what happened four years, five years ago that we are seeing the improvement and it's that part of the portfolio where we're seeing run-off gains from. It's not the 2015 or 2016 portfolio, it's more the older years that we're seeing the improvements from.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks, Christian. Thanks, Morten.

Operator

Thank you. Our next question comes from the line of Stefan Borg (43:25) from SEB. Please go ahead. Your line is now open.

Q - Per Grønborg

Hello. I assume it's me. It's Per Grønborg from SEB. Is that correct? Untrue?

A - Christian Baltzer {BIO 19705595 <GO>}

Sounds right.

Q - Per Grønborg

That sounds right. Perfect. Thank you. Okay. Thank you, guys. Just two questions from me, both related to the investment part. Your match portfolio has performed quite nicely. You have now reported the performance based on regulatory deviation and performance deviation for three quarters in a row. The performance have delivered more than DKK 50 million per quarter on average. Are there any reasons why we should expect the match portfolio to be slower (44:04) going forward or doesn't this just show that your PMs, they are able to make a quite consistent outperformers? Is that a too optimistic view?

The second question is more nitty-gritty, the other items minus DKK 95 million this quarter; (44:20) should we still look for a run rate in the magnitude of DKK 200 million going forward?

A - Christian Baltzer {BIO 19705595 <GO>}

I didn't catch your last question. Per, can you repeat that sorry?

Q - Per Grønborg

The other financial items, the hedging cost, you said it was minus DKK 95 million this quarter, clearly above the run rate you have guided on previously. Any reason to see the run rate being different from minus DKK 200 million going forward?

A - Christian Baltzer {BIO 19705595 <GO>}

Well, let's start with your last question. I don't believe that there's any reason to see things different going forward. So that will kind of clear up the last one.

With respect to our PMs and whether they are better at outperforming than the zero (45:02) that we are guiding, I think that if you take more quarters into consideration, we have seen the performance also being negative, but we clearly have some really intelligent and good people there. But expecting them to also be able to outperform the next coming quarters would be probably a little on the optimistic side. But we are definitely happy that they are currently outperforming the market.

A - Morten Hübbe

If you assume that, Per, that would be your choice and not our recommendation. We wouldn't assume that.

Q - Per Grønborg

When I look at the guidance you gave at the beginning of the year, when you turned to the Solvency II discounting curve, the general message was that it will be harder to match it going forward. And I'm just looking at the numbers and looking at the performance component, it's quite consistently positive. Then, you have the regulatory deviation, which, of course, is swinging up and down with the spreads, that's basically what I've been looking at. But it seems like your message is that you are happy with the performance you've seen, but you don't guarantee the same performance going forward, is that correctly understood?

A - Morten Hübbe

That is completely correct.

A - Christian Baltzer {BIO 19705595 <GO>}

I think you concluded very well.

Q - Per Grønborg

Okay. Thank you.

A - Christian Baltzer {BIO 19705595 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Iain Pearce from Berenberg. Please go ahead. Your line is now open.

Q - Iain Pearce {BIO 19522835 <GO>}

Morning, all. Just a couple of questions from me. On the claims inflation side, I'm just trying to understand the price moves that you did or putting through at the moment, how much of that was in relation to claims inflation that you saw in 2015?

And basically in terms of going forward if you continue to see claims inflation running as it is in 2015 (46:41), does that mean you have to move again on pricing either at the back end of this year or into 2017?

And then, just on the expense ratio side of things, in the Corporate segment, you mentioned that your expense ratio there is too high. I was wondering if you've got target for what do you think you should get that down to and is there a ratio target in terms of the overall cost-cutting plan for that segment? Thanks.

A - Christian Baltzer {BIO 19705595 <GO>}

All right. Good questions. Let's start with the claim inflation. I think you're absolutely right that the claims – the price initiatives we did in the first quarter of 2016 was definitely because we had not put enough price increases through the portfolio in 2015. So there was somewhat of a catch up there and we've put through about 3% overall on the book of price increases.

I think we'll also continue having price increases into 2017. I think inflation and price increases need to go hand in hand. So we have also planned to have price increases in 2017. I think we'll come back next quarter to detail more about what we expected actually in 2017 on the price increases like we guided to 3% in 2016.

A - Morten Hübbe

And I guess it's fair to say Christian on that that we are trying to get closer and closer to a much more gradual process of price changes because what we've realized in the autumn of 2015 was that claims inflation had been slightly higher than planned and also that our speed of gradual price changes have perhaps not been strong enough.

And then, there were specific claim initiatives where we needed to improve. So we're trying to become cleverer and cleverer of a more gradual price change and not just the catch-up impact of once and then we fall asleep again. So this is really an attempt to get into a new, much more gradual methodology.

A - Christian Baltzer {BIO 19705595 <GO>}

With respect to your last question, I don't believe that we have commented on the expense ratio in the Corporate segment being too high.

A - Morten Hübbe

I think the most structural comment was made is probably that that clearly Private lines Denmark has been moving along really well when it comes to cost and there's been a period where we felt the need to do more cost initiatives in Norway and that's why we are quite pleased this quarter to see that Commercial Norway, but also Private lines Norway are doing a large number of operational changes to reduce head count, which doesn't help their numbers currently, but you will see it in their numbers in 2017.

A - Christian Baltzer {BIO 19705595 <GO>}

And I think you have to bear in mind that when we talk about an expense ratio here, we have half of our business is non-brokered. And I think if you were to look at only brokered business and compares to other companies that do broker only business, yes, our cost ratio would be much less than that. But there you actually have an expense to the brokers that is not really shown as an expense ratio. And in our direct business, you have a higher amount of administration cost to service the customers and clients and make sure they get a good treatment. So, I think you need to make sure if you compare us to other colleagues in the market on the expense ratio side that you compare apples to apples.

Q - Iain Pearce {BIO 19522835 <GO>}

Okay. Cool. That's great. Thanks.

Operator

Thank you. As there appear to be no further questions, I return the conference to you.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Well, thank you very much for today's call. We'll be around in few destination and in London tomorrow, so hopefully, see you all there and just send us an e-mail if you need anything else. Thanks.

A - Morten Hübbe

Thank you.