Q2 2021 Earnings Call

Company Participants

- Barbara Plucnar Jensen, Group Chief Financial Officer
- Gianandrea Roberti, Head of Investor Relations
- Morten Hubbe, Group Chief Executive Officer

Other Participants

- Asbjorn Mork
- Jakob Brink
- Mads Thinggaard
- Martin Gregers Birk
- Per Gronborg
- Will Hardcastle
- Youdish Chicooree

Presentation

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning everybody, my name is Gianandrea Roberti. I am Head of Investor Relations at Tryg. We published our Q2 results earlier on this morning, and I have here with me Morten Hubbe, our Group CEO; and Barbara Plucnar Jensen, Group CFO. Just with these few words over to you Morten.

Morten Hubbe {BIO 7481116 <GO>}

Thank you Gian, and warm welcome also from my side. We start on Slide 3 with the highlights of the second quarter. Be aware in this quarter, of course, that most of the numbers are Tryg Classic and are only in a few selected investment lines you can see data from RSA.

We show on the left-hand side, a pre-packed Classic result of almost DKK1.3 billion for the second quarter. And as planned as previously, communicated, we're seeing FX hedge with a negative impact of DKK1.2 billion under investments in the quarter, and we see a consolidation of RSA and Nordic only for one month's earnings and also under the investment line.

Generally, we are very pleased to see a technical result, which is up almost 8% to DKK1.144 billion. The result of a very good top-line growth and improved underlying claims and the delivery of Alka synergies.

If you look at the investments, again the Classic investment line is plus DKK253 million and this is then here we subtract the impact of the FX hedge and add the positive of one month of equity accounting, so, one month of earnings from what we have acquired including 50% stake of Denmark. Then we announced a dividend, not surprising of DKK1.07 as guided for the quarter, resulting in a 175 solvency well in line with the previous communication of an expectation between 170 and 180.

On Slide 4 we show the customer highlights. You may recall, in Q1 we mentioned a new method for measuring customer satisfaction. We're very pleased to see that customer satisfaction improves further from 83 to 84, and the advantage of the new method is that we can measure both individual touchpoints, for instance, buying insurance, and the full process from start to finish, for instance, claims handling. We do get significantly more responses with the new methodology. We get all touchpoints. And actually, that's quite a lot of variation. So for instance beneath the 84, we see that the single contact on the telephone in private Denmark has a score of 94 whereas a full process in commercial Norway has a score of 74. So this new methodology provides a ton of new data that will allow us to further improve customer satisfaction from a very high starting point.

On Slide 5, we elaborate on the technical results, very pleased that it increases almost 8% to DKK1.144 billion in the quarter, of course helped by higher premium and also the improved underlying claims. Really pleased to see that all business areas delivered a strong performance and particularly private and commercial SME space.

Corporate in Sweden continues to improve but for us, is really quite clear that the profitability initiatives in corporate needs to continue.

And on Slide 6 for the first time we add information about the performance of the new acquired business, assuming in only on Trygg-Hansa in Sweden and Codan in Norway. Be aware that here we show both the half year numbers and the June month numbers. The June month numbers is, of course, what flows into the equity accounting under the investment line together with half of Codan Denmark, together with investments, but actually, we thought we would add the half-year figures because that actually gives a better flavor of the well-being of the businesses we've bought. So will allow you to monitor the business performance better.

And we're really pleased to see strong performance in the businesses we've bought in Sweden and Norway. Top-line in Sweden and Norway growing around 3.3% and then we see a very, very strong combined ratio in Trygg-Hansa, Sweden of 76.4% for the six months numbers, and then a combined ratio of Codan Norway of 88.2% for the half year. But bear in mind, of course, a smaller portfolio in Norway, which will be more volatile.

But all-in-all, it means that the acquired businesses produce an insurance technical result of DKK1.1 billion for the first six months. Again, remember that only June is ours, but it tells you the story of very, very strong businesses with very strong performance, and of course, the zero synergies included in those numbers for the first six months.

On Slide 7, we give a brief update on COVID, hopefully we won't be doing that for much longer, but the social impact for the quarter is positive mainly due to lower level of travel claims. We also see a couple of other areas like, break-ins [ph] that has had lower claims. Then we have seen also somewhat higher level of motor claims both due to the growth in private business, but also we see for instance in Q2 that after period where people have not repaired their windscreens and they've waited during COVID, we see an unusual jump upwards in for instance glass claims in motor in the quarter, but actually will then start to normalize we believe the rest of the year.

On Slide 8, we elaborate on shareholders return. As I mentioned, we're paying out DKK1.07 per share in the quarter as guided, and as guided, this will be the pattern for all quarters this year, and despite the transition year that 2021 is and with the transaction costs and with the restructuring cost, FX hedge, et cetera. As communicated, we expect the technical results to roughly double by 2024, and we expect the dividends to follow roughly the same trajectory and of course we look forward to a significant increase in our dividend.

And then following the announcement of the sale of Codan Denmark, we announced a DKK5 billion buyback, which will start next year in connection with the actual closing of that transaction. And it shows our strong commitment to returning capital and to improve the ROI of the deals further.

On Slide 9, we show the current status of the Alka synergies, and very pleased to see continued strong delivery according to our plan. We see Q2 synergies of DKK35 million bringing the half year to DKK63 million and bringing the total up to DKK239 million of the DKK300 million announced. And we're very confident that we'll deliver the full DKK300 million by the year end. And we have learned a lot and the methodology, and the process, and the responsible is proving very important also in the RSA process.

And if we move on to Slide 11, we elaborate on the composition of the top-line growth. Total growth is 4.7% in Q2 and that is 7.1% before bonus and premium rebates. Very pleased to see that our highest growth comes from the business areas with the highest profitability. We see the private as the most profitable area has a growth of 5% after bonus and premium rebates and 8.6% before bonus and premium rebates. You can see the difference between the two numbers are -- is higher than usual. We see some spillover impact of bonus and premium rebates that actually belong to Q1 that actually impact Q2 negatively. We're trying to avoid this but with the fast closing of the quarter, not all partner contracts have been finalized when we do the closing of the quarter, so it's probably not possible to fully avoid spillover from quarter-to-quarter, and when result are very strong, of course, there is a strong sharing of that with the partners as well.

And then we're quite pleased to see that sales and the market is starting to normalize. We have seen a period where particularly in Denmark the sale of new cars with the car dealers has been lower than normal. Actually 40% of our inbound calls is new cars, the new vehicle [ph] insurance and that has been subdued due to Corona but now normalizing. And then of course, the purchase of travel insurance has been subdued, but from May to June the sale of travel insurance is actually up 43% pointing to a world that is gradually normalizing.

In commercial, we see a growth of 8.1%, really positive, also an area with strong profitability. In Denmark, this is largely organic growth, in Norway it is largely price increases. And then you see a roughly flat growth in corporate, growth is not a target in corporate stronger earnings is, so we're working hard with high price increases and that is then offset by sharing of the business resulting in a flat development. Sweden, a growth of 2.4%, which is primarily price increases.

On Slide 12, we show the development in average prices, and clearly staying up-to-date with price changes to match inflation is extremely important, Barbara will elaborate further on that. This is a very, very high area of focus and in recent years, we've managed to improve and professionalize our methodology. So I would say that today we are above average in the insurance industry. Clearly, Alka has helped us in that process with methodology and data, and we can see that particularly Trygg-Hansa in Sweden can further help us improve this area.

In general, our price increases are following a healthy pattern, but bear in mind in Q2 last year, there was a price drop in house insurance prices for large partner in Norway, still impacting Q2 numbers this year.

And then on Slide 13, we show the positive trend in retention levels. We've seen some quarters where private lines had a slight drop in Denmark because of the churn of Nordea customers. The retention in Denmark is improving in Q2, and we're seeing that the churn of Nordea customers is more than offset by the new Danske customers, but of course they don't account in the retention numbers.

We're pleased that in Private Norway, that we have a continued increase in retention, and also on Commercial retention we see stability in Norway and an improvement of 0.2 percentage points in Denmark. So, over to you, Barbara.

Barbara Plucnar Jensen {BIO 17487867 <GO>}

Thank you very much, Morten. If you turn to Slide 15, you can see the development in the underlying claims ratio. For group, this improved by 80 basis points in the quarter, while it was unchanged for Private. Please note that the underlying claims ratio doesn't include the impact from COVID-19 claims.

Price adjustments and the claims excellence program, including claim synergies related to Alka are the main drivers behind the improvement. Also, bear in mind that the growth in private has a positive impact on group figures even with a flat development in the underlying claims ratio for Private as Private is the most profitable in Tryg.

The high growth in the Private business had, as expected, a modest negative impact on the underlying claims ratio as new customers in general have a frequency approximately 3% higher than the portfolio in general. We are very satisfied that the initiatives in our corporate areas and commercial Norway supports the improved underlying claims ratio development for the group of 0.8, which is similar to the previous quarter.

On Slide 16, we address a key topic at the moment that Morten also just mentioned, namely claims inflation. As mentioned before, Tryg benefits from having worked with procurement for many years. Our procurement agreements as well as our diligent work with our specialists in key areas of the claims handling team, makes it possible for Tryg not to be hit by claims inflation in the same way as many of our competitors.

As you can see on the top-right corner of this slide, we have a very strong internal focus on coordinating and collaborating across the whole value chain around our claims, in order to help us understand the drivers of the claims development and prepare price adjustments when needed.

Please turn to Slide 17. Life in the Nordics is still impacted by COVID-19, albeit significantly less than what we have seen in previous quarters. In Q2 '21, the total impact from COVID-19 was DKK32 million, primarily related to property and travel insurance. Lower motor frequencies also had a positive impact although to a lesser degree than what we have seen in previous quarters.

On Slide 18, we take a look at large claims, weather claims, and run-off. The level of large claims was DKK105 million in the second quarter, which was higher compared to the same quarter last year, but was still lower than a normalized level that we expect around DKK140 million. Weather claims were slightly higher in the second quarter compared to second quarter of '20, with DKK57 million in this year compared to DKK49 million last year, and closer to normal levels as Q2 in general is the quarter with the lowest level of weather claims.

The discounting impact in the second quarter was somewhat higher than the same period prior year, due to increased interest rate levels. And finally, the run-off result was somewhat higher with 4% in the second quarter of this year compared to 3.6% in the second quarter last year, very much in line with the communication of run-off between 3% to 5% for the year.

On Slide 19, we take a look at the expense ratio. In Q2 this was 14.1% slightly lower than the comparable period last year. We want to invest in our business and by a continuous focus on finding more efficient distribution channels we tend to a larger group [ph] financing these IT investments. In the second quarter, a slightly higher number of employees is driven by among other things, the higher business volume and also resources needed to deliver development in IT and digitalization.

Please turn to Slide 21. As usual, you can see the split of Tryg's standalone investment assets, where we are reporting total invested assets of approximately DKK44.6 billion split between a free portfolio of DKK12.6 billion and a match portfolio of around DKK32 billion.

For more details on the investment income in itself, I want you to turn to Slide 22. Here you can see more details on the Tryg's standalone investment result. In the second quarter, financial markets developed positively and Tryg reported good returns from equities, properties and corporate bonds. The overall return on the free portfolio was

2.5% and the match portfolio was also slightly positive, while other financial income and expenses included slightly higher interest expenses and some quarterly periodization.

The chosen asset allocation has not changed much for a while. As Morten mentioned earlier, it is important to note that in this quarter, the investment result was impacted by the negative charge of approximately DKK1.2 billion related to the currency hedge put in place to hedge the proceeds for the RSA acquisition and also a positive amount of DKK181 million from the one month result of RSA Scandinavia since we closed the deal on the 1st of June. Adding these three items, overall, the P&L reported investment income therefore lands at a negative DKK757 million, but bear in mind it's very much driven by the one-off items.

I will also use the opportunity to remind you that until demerger, the earnings from RSA Scandinavia will be included in our investment income as it is taken in as equity accounting. After demerger, the results will be fully consolidated into our ordinary reporting.

Please turn to Slide 23 on solvency. The solvency ratio as reported was a record-high 899 at the end of Q1, but obviously a more meaningful 180 when we adjusted for the rights issue. At the end of Q2, we are reporting 175, right in the middle of our previous guidance for end Q2 of between 170 to 180. We now expect a full year '21 solvency ratio at approximately 180, slightly higher than what we previously guided.

Both own funds and the SCR are now included in -- now include the RSA Scandinavia asset. The main movements in the own funds are shown in this chart and it's fairly clear that as expected the inclusion of the RSA asset is the main drag on the own funds of approximately DKK28 billion. Furthermore, own funds are impacted by the increased eligible debt and the quarterly results and dividends. The SCR is also impacted by the inclusion of Codan SCR, which is close to DKK4.8 billion, meaning that the SCR for the entire group is now equal to approximately DKK9.9 billion.

Finally, it is important to remember that Tryg's solvency ratio mostly remains a function of profits and dividends, and hence, the underlying development should be stable.

On Slide 24, we're showing the additional Tier 1 and Tier 2 capacity after the inclusion of the new assets. Please remember that group SCR will decrease by approximately DKK1 billion once Codan Denmark is out of the picture, meaning that the Tier 2 capacity will be approximately DKK500 million lower compared to what is shown here.

On Slide 25, we're sharing the main components of our SCR and the main components of the market risk in the SCR. It should not be a surprise that equities due to the high capital charge and spread risk due to a high proportion of covered bonds in our asset mix shows the highest market risk charge.

On Slide 26, you see the historical development of the solvency ratio and for end Q2 the solvency ratio is as mentioned, 175. For the year end '21, we expect this to be around 180, and in a year where we have closed a, for Tryg, [ph] a very large transactions with many movements, we believe this to be a comfortable level.

On Slide 27, we show the solvency sensitivities as usual, which are broadly unchanged compared to what you have seen before. The only change this time is that the figures are pro forma, including the new asset and hence, the new starting point is of course, the reported solvency ratio of 175%. The highest sensitivity remains unchanged to the spread risk as covered bonds are by far the largest asset class.

This concludes my part of the presentation and I will hand back to Morten, to provide latest outlook.

Morten Hubbe {BIO 7481116 <GO>}

Thank you. Barbara. And rounding off, Slide 28, we show the outlook, where Monday this week, 5th of July, we increased our guidance for the technical result for the year. So from previously guidance of DKK3.3 billion to DKK3.7 billion to a new guidance of DKK3.5 billion to DKK3.8 billion. So very pleased with that. And today, we update our investment guidance for the full year from previously DKK350 million to DKK500 million, to now DKK450 million to DKK550 million. And also, a negative adjustment to guidance, other income and costs actually related to the acquisition from minus DKK150 million to DKK200 million to now minus DKK200 million to DKK300 million. And you will also notice a few modest adjustments to the overall cost of RSA, but leaving the total unchanged at DKK4.4 billion. And then, hopefully, you've all seen the Capital Markets Day date and announcement of that for the 16th of November this year. Clearly hoping that we will all meet in person, that is the plan.

And then finally, on Page 25 -- 29, we finish with our favorite quote from John D. Rockefeller. Really pleased that we have an outlook for a very strong technical result by 2024 and a dividend trajectory, which will follow that path. And also, very pleased that when we look at what we have acquired Trygg-Hansa Sweden and Codan Norway. Standalone they made one point -- or more than DKK1.1 billion of technical result for the first six months of this year, before any synergies.

And while only June is ours then clearly that gives us yet another set of data showing very strong quality in the businesses we've acquired. We look forward to the integration and we look forward to adding the synergies between now and 2024.

I think with that, we'll turn over to your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) The first question comes from the line of Jakob Brink from Nordea. Please go ahead. Your line is open.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you very much and good morning from my side. First, question on solvency and the capital gain related to the sale of Codan Denmark, could you maybe start by telling us how should we look at this, i.e., the capital gains compared to the sales price please? So what is it booked in your accounts?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think as a starting point, it's -- the sale of Codan doesn't change any of our numbers at this point in time that will be impacting the numbers once the deal is closed, Jakob, and at that point, we will give you further details in terms of exactly how it will impact. But for now, it doesn't change. You can say the numbers that we're looking at.

Q - Jakob Brink {BIO 20303720 <GO>}

I understand that, but you did disclose a DKK5 billion expected share buybacks next year after the sale has happened. So I'm just trying to reconcile that. So if we take consensus have a DKK4 billion ordinary dividend for next year, and roughly DKK4 billion net profit if you adjust for amortization of intangibles, so that evens out, so still 180% solvency at the end of next year then DKK1 billion reduction in SCR that adds 20 percentage points around DKK2 billion. So I'm just wondering how you get to the last DKK3 billion, I would have thought it was somewhat more. So that --

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think what you should remember Jakob is that we are saying approximately DKK5 billion for the share buyback because obviously when you do a trade and a transaction like what we have done with Codan, there is a number of outstanding items relating to opening balances, et cetera, et cetera. And we don't have you can say the full visibility on that. And that's why we are guiding approximately DKK5 billion, but that will be confirmed when we are a little further in the process.

So I'm sorry, I won't be able to give you more specific guidance I think your logic is right, and those are the drivers that will be impacting the solvency. But I think, it's also fair to say that there are still a number of outstanding items that we don't have visibility on that we will give you more details on, when we come closer to these items.

A - Morten Hubbe {BIO 7481116 <GO>}

As you can see, Jakob, that is completely fair question. It's also quite unusual to announce such a large buyback 10 months or whatever the number is in advance. And separating the legal entities in the Nordics is one thing that has not been finalized yet. There are also changes in accounting principles from their regime to our regime, and of course, we have plans and visibility for all of that, but there are details and moving parts that will change some of the numbers before we get to the final outcome and that's why we've chosen to give them an estimate and we will give you more information when we get closer.

Q - Jakob Brink {BIO 20303720 <GO>}

That's fair enough. And just one follow-up though. So would -- if I asked this way, would you prefer, I assume that you would still have 180% solvency ratio, but would you maybe prefer a slightly higher and then postpone some of the payout for the two following years in the forecast period or is it simply a matter of all those details?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I like your question, Jakob. I think we are very committed to returning capital to our investors, but as you also understand, there's a lot of complexity still involved in this. So I think you should revert, so you can say our position of the history and the track record we have of returning capital to our shareholders.

A - Morten Hubbe {BIO 7481116 <GO>}

I think, generally, Jakob, you should get the segue that it is the caution and a lot of moving parts rather than a desire to sit on capital.

Q - Jakob Brink {BIO 20303720 <GO>}

Of course. Thank you. Then the next question is a bit more on the detail side, but just looking at consensus estimates for investment income when things get normalized, i.e., '23 and '24, it's around DKK400 million. But I would have thought that, let's say, that you have a DKK9 billion SCR, when Codan Denmark has been divested, the solvency ratio of around 180%. That's own funds of around DKK16 billion times the normal investment return of around 1.5% at least that's what people use to have times the own fund so free portfolio that gives only around DKK250 million. This is something that have changed that would mean that we should not use total own funds as a proxy for the free portfolio, or is there something else I'm missing?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

No. You should still look at the old principals applying. I think what I would say about investment result is obviously we don't get -- you can say, our hands on the investment assets until the time of demerger. And you can say, we need to adjust a little bit on the investment profile of the assets that we takeover. And that will obviously been something that we try to do as fast as possible. But it will take some time to make sure that the portfolio we take over, which is in total around DKK24 billion of which DKK6 billion is the free portfolio that needs to be adjusted for it. So again, the principles totally agree to that, more details to come a little later, Jakob.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. And my last question -- thank you, is on other income and expenses in Tryg's standalone, if I calculate backwards from the table you gave us on one of the first pages it was a DKK113 million negative this quarter, I know it's not a big deviation, but it's usually around DKK70 million, DKK80 million. Is there any reason for this pickup and sort of be that new level going forward? Or is it still the DKK70 million, DKK80 million per quarter in Tryg's standalone?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Tryg's standalone you should see the ordinary level. If you remember in Q2, we paid an existing loan and raised new capital and so forth. So you have some other things flowing through that you wouldn't see in an ordinary quarter. So I would look back at the ordinary levels in future quarters.

A - Morten Hubbe {BIO 7481116 <GO>}

It's got a new level. We will reverse to the old level.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Thanks a lot. That was all from my side.

Operator

Thank you. The next question comes from the line of Asbjorn Mork from Danske Bank. Please go ahead. Your line is open.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Yes, hi. Good morning from my side as well. My first question basically on the underlying claims ratio improving the 80 basis points in Q2, I'm fully aware of course, that the Alka synergies are somewhat higher this year than the previous years. But at the same time, Private has been unchanged. So maybe a little bit of wording on, first of all, on the Private side, should we expect an actual deterioration here going forward, considering the claims inflation environment that we have at the moment and that kick in. I know you say that you have the situation roughly under control, but I guess all things equal. There is a headwind to some extent. And then of course, if not, if you're actually able to improve Private going forward, I guess we should look at the 80 basis points as the new 50 basis points that used to guide, or any comments around that would be highly valuable? Thanks.

A - Morten Hubbe {BIO 7481116 <GO>}

Yeah, thank you, Asbjorn. You're right that Private has been unchanged. And we still believe that the areas where we will want to improve underlying the most. It's actually cooperate and to some extent commercial -- particularly, commercial Norway. And we see largely that when we can deliver fairly high top-line growth in Private with very attractive combined ratio than the value creation of that for shareholders is very high.

On your question on whether we expect underlying for Private to deteriorate going forward, because of inflation, I think that's a very relevant question. The short answer is, no. We don't expect that. I think we will even see some periods where we have a positive underlying in Private, not changing the pattern that we believe Commercial and Corporate should be the main drivers of improvement, but there will be some periods with improvement in Private as well.

And can you then just add that on top of the level of Commercial and Corporate? Not necessarily because whichever way we turn it Commercial and Corporate is always a little bit more volatile than Private, so no, Private will not deteriorate, yes, Private will have a slight positive in periods, but watch out that you don't just add that on top.

Q - Asbjorn Mork {BIO 17028219 <GO>}

But is it fair to assume that if Private goes from basically flat to let's say, 20 basis points, 30 basis points improvement over time. Admittedly, yes, Corporate and Commercial will not improve as much as they do right now, but wouldn't the net effect then be largely neutral. Hence, your 80 basis points should be rather sustainable going forward?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I don't think we have a plan that the current level should deteriorate. So I think your line of thinking that there is stability in that makes sense. And then over time, the composition will vary and honestly the number will not be fixed per quarter either, but the logic that over time will continue to do this underlying improvements make sense that is our logic as well. And then, of course, we're working hard to make sure that we stay at or ahead of the inflation curve, but that is the outlook we have and that is what we're doing.

Q - Asbjorn Mork {BIO 17028219 <GO>}

In that context Barbara mentioned, that the claims ratio is around 3 percentage points higher for new customers, I guess your churn is just below 10%. So is it fair to assume that the new customer inflow has around 30 basis points negative impact at the moment and hence your underlying is on the existing custom basis is 30 basis points better than what we see here?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think, if you look at the new customers and the 3%, that's basically what we look at in the first couple of years in the customer journey with us or the customer lifetime value. So, again, if you look at the growth we have experienced, it sort of comes in various steps where you have a gradual inflow of new customer portfolios. If you think for instance that the Norwegian customer base that has been impacted by, we took Veneto which has given us a very strong inflow. Then after some time, you have seen an increase in customers and business from the car channel enter.

Last year, we also show inflow by a number of customers that were previously with the two companies that have their licenses we've gone. So you see a gradual inflow. So it's not that you see an inflow day one. And then after a certain time, you can say now that's over and that has a certain impact on the remaining top. Bear in mind that just this year, we have had an inflow of almost 7,000 customers in the Norwegian Private business. So it is something where we're obviously you have to see it in a slightly longer perspective than just on a fixed time with the impact that you highlight there.

A - Morten Hubbe {BIO 7481116 <GO>}

I think basically your calculation logic is right as per annum and then bear in mind that you can calculate the difference in the normal inflow/outflow if there's a net-net growth of zero customers that I think was your 30 basis point calculation. And of course, what you should add to that is if the growth is higher, so there's a net-net growth which would then change your calculation slightly. And I guess both this year and the year before, we have seen a net-net growth in Private both in Denmark and in Norway. So right logic, but I think you need to add a little bit for the net-net growth.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. Fair enough. On Slide 16, you have this very detailed slide on claims inflation and how you monitor it. Could you give us a little bit more flavor on you're saying all things equal, how has it on a group level? How has the inflation environment that we are in at the moment? How is that impacting your total claims ratio? All things equal if you don't change the pricing. So what kind of basis point effect are we talking about?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

A very good question and very relevant given what we see right now. I would more look at what are the areas that are specifically impacted by the changing places the key right now. That is very much in the property area, which accounts for about 18% of our claims business. And there, you should also look at what is the claims inflation when it comes to the raw material? And what is the claims inflation when it comes to encashment.

So there are, there are various dynamics underneath. So I think, in general, it is a question of where do we see the claims coming in and how does that then see through, but given the structure we have, which is very much the message in our presentation today. We are not as impacted by a certain spike in the month or in a half year like you would see other companies be, because first of all we have longer tenure on the agreements that we have with our suppliers and encashment that we work with. And then also, you can say, if you look at the duration of our insurances then you would also see that it is relatively short tail so by adjusting prices we will be able to take into account the potential inflation that is impacting certain areas.

A - Morten Hubbe {BIO 7481116 <GO>}

But it's fair to say also that we've left behind completely the logic of working with an overall inflation assumption. So now it is an extremely detailed bottom-up build, not only by country and by line of business, but by components within that line of business, whether that is a fixed compensation or it is salary compensation inflation or it's material inflation, et cetera, et cetera. So it is becoming a very, very large hierarchy of data with a lot of variation from product to product.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. Fair enough. So it seems like the risk at the moment seems isolate to 3%, 4% of your total claims, is that the ballpark?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes, that's --

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

That's fair assumption.

A - Morten Hubbe {BIO 7481116 <GO>}

That's a wise summary.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. Fair enough. And then on the Trygg-Hansa and Codan slide that you have. Just really one question on Norway. I guess, I'm looking Sweden, there's a lot of reasons why the combined ratio was slightly higher versus the first half of last year and I don't know how many details you have at the moment on the Norwegian business, but the improvement there, can you give us a little bit of flavor there, is this sort of the run rate we should expect from Codan Norway ahead is that DKK100 million in technical profits or how should we look at that?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, I think if you look at the historical data and obviously, we don't have full access to that data yet. So you will hopefully understand that we don't have the insight or level of detail into that data yet, but what is quite clear when you look at the historical data is that, Trygg-Hansa Sweden has been very stable with a very healthy combined ratio. When you look at the Codan Norway, the combined ratio has been significantly higher and longer periods around a DKK100 million and slightly above a DKK100 million particularly with very high cost ratio.

So when we see the improve or the delta between last year and this year for Codan Norway, one driver is that there were more larger claims in the same period last year and a more normalized level of large claims this year. The second is that we are now in a period, where for several years they've worked with price increases, which is starting to pull down the run rate. So I would say that what they saw last year is clearly above what is the future run rate.

I would hesitate to say that what we see now is a new run rate. We're quite confident that when we get the synergies through and we get the cost ratio level down, we will approach an even stronger run rate than this. But standalone, I think that the stability is not really there and that the combined ratio we see in the first half and come in Codan Norway is a little bit too flattering to just we assume there's a new run-rate. So watch out, a little bit even though the numbers are small.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. Very clear. My final question on Slide number 12 on the insurance pricing in Norway, I'm just a bit surprised to see the house insurance pricing again flat looking into the, I guess potential claims inflation we have already talked about. So should we expect that to trend upwards I know this competition but still, and of course, looking to the motor insurance, where you see quite significant repricing in Norway. So obviously, you are getting some re-pricing through on the Private side there I supposed to, any comments on the housing insurance?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. So the short answer is, yes. We do expect that to trend upwards. And the only reason why house in Norway is not trending upwards, is there's one rather large adjustment, actually a year ago in the house prices for one very, very large partner, the largest one we have, and then the earned premium impact of that adjustment for that single partner is what keeps the total flat in house Norway. So first of all, I believe that subsequently that partners pricing on house will go up once again, and we are seeing in all of the other areas of our portfolio in house Norway prices are going up. So it is really a large isolated impact in the portfolio where all of the other customers are seeing increases and this partner will see increases as well. So your expectation for the future is correct.

Q - Asbjorn Mork {BIO 17028219 <GO>}

All right. I thought that was already in the base figures by now. But okay. Thanks. Thanks a lot.

A - Morten Hubbe {BIO 7481116 <GO>}

No, it takes 12 months. So it has a bit quite long impact.

Q - Asbjorn Mork {BIO 17028219 <GO>}

Sure. Okay. Thanks. Thanks.

Operator

Thank you. The next question comes from the line of Per Gronborg from SEB. Please go ahead. Your line is open.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes. Hello. Just a single question from me. Great, as we get some numbers on the acquired business. Can you elaborate a bit on the development in Sweden, like you able to do in Norway? I think the underlying numbers one-off large claims on cost?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes, we can do that. So I think it's positive to see if you start on the top-line that growth is 3.3%. I think, if you look at the past five years the average has been closer to 2%, so 3.3% is closer to being the market growth. So I think that's one important area and we see that both in the Private and in the Commercial SME space. Then we've seen a number of good months in the first half, but we also saw a period with Private lines in Sweden, where weather claims were significantly higher than planned.

So actually, if you take the individual months and actually also the impact on the full year, we can see the underlying being very positive, both in private lines and in commercial SME in Sweden. And then we can see a negative, a clear negative on weather impact particularly in Private lines Trygg-Hansa Sweden. So it's a little bit combination of very strong underlying and then quite negative on weather and then I think fairly stable on large claims in general. So mainly weather playing a role.

Q - Per Gronborg {BIO 15910340 <GO>}

So weather has been pretty bad in the first half in Sweden this year?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

In some areas, yes.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes.

Q - Per Gronborg {BIO 15910340 <GO>}

That's overall?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

In -- around Stockholm to be specific. They have had some what do you call that rainfalls and cloud first. Yeah. I believe that was in the late spring.

Q - Per Gronborg {BIO 15910340 <GO>}

Late spring. Okay. Just one final --

A - Morten Hubbe {BIO 7481116 <GO>}

This is the summary for the six months and therefore not split into the quarters as normal, right? So that's why we're summarizing also the spring.

Q - Per Gronborg {BIO 15910340 <GO>}

What about the prior year gains in Sweden? Any impact from those, are they at unchanged level they were not last year?

A - Morten Hubbe {BIO 7481116 <GO>}

Yeah. No, that --

Q - Per Gronborg {BIO 15910340 <GO>}

Yeah. Better much in Sweden. Forgot about that comment [ph]. Any changes to prior year gains in Sweden?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

No, I think, Per, in all fairness we have had the access to the business for one month and next quarter, we will have a significantly more insights, because there we have had the business in full, but I think we'll leave it at those more generic comments and as Morten was saying focusing on the half year and just giving us a very good comfort that what we expected in terms of the business and the business result is actually what we see overall. And then I think it's positive to see that also after being interacting with our new colleagues in Sweden and Norway, we can see that there is a whole lot of areas that we will be working on together going forward.

A - Morten Hubbe {BIO 7481116 <GO>}

Generally have -- we have -- we haven't seen big moving parts on prior year's gains or losses. I think the main volatile thought we've seen are these weather claims in the spring around Stockholm.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. That explains why the numbers are trending in the wrong direction. I'll be not that concerned about that. Just one final question. Amortization of intangibles, it looks like you won't start amortizing that before you consolidate the data designed by line, is that correctly understood?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Correct. Remember that right now, we have them as we're taking them in by equity accounting, they are an associated investments, and not until demerger where we have a full consolidation line-by-line.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Perfect. Thank you.

Operator

Thank you. Next question comes from the line of Will Hardcastle from UBS. Please go ahead. Your line is open.

Q - Will Hardcastle {BIO 16346311 <GO>}

Good morning, everyone. Just following up on the claims inflation questions. I guess, can you provide us with a few more tangible examples by act [ph] of how you've achieved this significantly lower average claims for the motor? And how much of that advantage you think is sustainable? And perhaps a follow-on to that is, do you think some of the smaller players perhaps are finding this a bigger challenge and that's making you increasingly competitive, is that a fair comment?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yes, I think that's absolutely a fair comment. I think we have been prioritizing this with our procurement team and our claims team for a number of years now. So we have built strong competences in the areas. It is something that requires that you are well equipped also with technical experts in certain areas both in order to challenge and make sure that you negotiate the right terms and use with year supply chain. But I think, what we have demonstrated in the last couple of years and exactly like you see in the example with the claims cost promoter, then it is something, where we believe that we are in a good position.

I definitely believe that it is something that all our peers are also looking very much into, because it is something where in particular in select areas like properties that we have talked about today. It does have an impact and it does impact composition in terms of the results and so forth. But we will focus on and you can see ensuring that our business is as strong as possible and as much as possible in control in the area.

A - Morten Hubbe {BIO 7481116 <GO>}

We note as well that even some of our larger competitors has been trying and have been stealing a few of our staff in this area, so I believe that's probably because they are good and our methodology is better than the industry. I think longer term we'll see that the tops of the three, four players will become professional at this. And then exactly as you put it the smaller players will struggle. And that is part of, I think the scale advantage with that will allow the bigger players to perform in this area and make it more challenging to be competitive as a small player.

Q - Will Hardcastle {BIO 16346311 <GO>}

Yeah. Very helpful. Thanks.

Operator

Thank you. The next question comes from the line of Martin Gregers Birk from Carnegie. Please go ahead. Your line is open.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Thank you so much. Two questions of my side. The first one on Norway, where I believe you book a check, the results of DKK388 million, I guess that's the highest technical results. I have -- I can remember at least what's happening there? And then coming back to your claims costs inflation slides. When we talk about price hikes, can you put any elasticities on how much are you actually able to raise prices without seeing any notable churn?

A - Morten Hubbe {BIO 7481116 <GO>}

Well, if we take the first question, gross margin. I think that we've seen, I think if you put out the -- if you look at the data series in a longer time horizon clearly there is a bigger difference between the summer quarters in Norway and the winter quarters in Norway and we've seen in Denmark. And if you look at the combined ratio from Norway as a country in Q2, we're seeing a combined ratio just around 79. So clearly a very strong quarter for Norway. It should be a strong quarter given that its Q2, but we're also seeing the fact that Commercial Norway starting to contribute more, we're seeing the Corporate Norway is starting to contribute more and we see less volatility on large claims. So it's a combination of underlying improvements, the summer quarter and then less large claims in the quarter. So hopefully we'll be seeing more quarters that are good in Norway going forward, but probably still more volatility particularly between quarters.

I think on the pricing and elasticity, it's a little bit easier to see the elasticity question in a private and SME context, where you largely see that as long as you're not above 5% of price differences the reaction is very, very limited. And when you move to Corporate's it does to a large extent also depend on what the rest of the market does. And I think what we're seeing at the moment is to a large and larger extent that competitors particularly Norway are increasing prices as well. We see in Denmark a little bit of more of a mixed picture in terms of competitors pricing. But also, there was starting to see a tendency of competitors increase in prices. So we've seen examples of price increases of more than 25%, 30% of corporate where the customers stay, but we've also seen price increases of 7%, 8% where the customer leaves.

So I wouldn't say that there's a sort of statistically clear pattern of elasticity on pricing in corporate. And that's probably why we need to continue standing firm that we do the price increases necessary and we accept what are consequences we'll see on the top line. But of course, it is helpful that compared to the following suit particularly in Norway and starting to see the same in Denmark.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay. Very clear. Thank you so much.

Operator

Thank you. The next question comes from the line of Youdish Chicooree from Autonomous. Please go ahead. Your line is open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good morning, everyone. I have got three questions please. And the first one, sorry to go back again on this just on claims inflation, you have -- clearly you have procurement agreements that protects you against the spike in claim inflation, but considering these agreements will come up for renewal, is there risk of a large adjustment in the coming year? And should you not be adjusting your prices today? So that's my first question.

The second one is on claims frequency and coronavirus-related restrictions. I was just wondering, have you seen a material change in frequency trends has -- some of the restrictions have been eased and what are your expectations going forward? And then, finally, a question on the Swedish business, your own Swedish business, I mean, the results seems, I mean, they were down quite significantly, year-on-year, and part of that seems driven by run-off, so could you just give us some color on what's driving this, please?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Yes. I think, if we start with the claims inflation Youdish, I think when it comes to the tenures of the agreement, I think it's important to understand that this is not just something that benefits us, it actually also benefits the suppliers that we are working with, because by having a counterpart like us when it comes to the claims handling it also means that they have a more stable inflow of work activity and so forth, which is stabilizing their own businesses.

So it is not something, where you should see this only has a benefit for us in terms of better pricing as we should see an increase, but it is actually also benefiting the counterparts that we are working with in the various areas. And hence, because you have that mutual -- you can say interest in having those agreements in place. It is also something where we don't foresee that there will be a sudden large spike related to the agreement when also renegotiating them.

A - Morten Hubbe {BIO 7481116 <GO>}

So I guess it's fair to Youdish, that don't expect sudden spikes, but we do ourselves expect that some of them will have increases and we have built those assumptions into the price increases we are doing and have been doing for a while. So I think we completely agree with your logic, but we don't expect big spikes.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Got it. Thank you.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

When it comes to the frequencies, I would say, related to COVID, what we have seen in the last quarter is very much building on the trends that we saw in the second quarter where you start seeing, you can say an increase in areas like health and dental insurance and so forth. But also where we have a catch-up related to glass repairs in the Motor segment, which is increasing the number of frequencies there in this particular quarter, but we see that as a backlog that we are addressing right now.

Overall, we see that you can say the car claims outside the glass repairs as mentioned they would typically follow the increased volume that we have in the area. Where we have seen an increase as well and whether that is COVID-related or not is within pet, I think everyone in the Nordics have seen an interest in getting cats and dogs so first of all, we have seen an increase number of policies, but is also an area where we see a slight increase or actually quite an interesting increase in the level of claims on pets. But so far, it is still a very small part of our business.

In general, I think you should expect which you can also see under COVID-19 impact that we are getting back to more normalized level. What we assessed to be the COVID impact in the quarter is around DKK32 million now. And I would expect that to gradually decrease further going forward unless we see sudden new third waves or whatever might happen over the course of the summer. Last question was around Sweden?

Q - Youdish Chicooree {BIO 17430923 <GO>}

Yes.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

And the run-offs? I think again, that is something where some of the areas where you have the run-off is related to the motor area, where you have seen a slightly different development, which has supported the business in this particular quarter. I think, when looking ahead, yes, I wouldn't sort of guide that this is a new level as such.

Q - Youdish Chicooree {BIO 17430923 <GO>}

All right. Okay. Thank you very much.

Operator

Thank you. The final question comes from Mads Thinggaard from ABG. Please go ahead. Your line is open.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yeah. Thanks. I just have two, two small questions list. And the first one is on the bonus and the premium discounts. Of course, I realize it's not a negative thing that it's growing from DKK150 million last year to DKK279 million in Q2 this year, but could you help up a bit with what you expect for the remaining part of the year here? Will it come down in Q3 and Q4 or what should we expect here?

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

I think, as such we do guide on the bonus premiums. I think again, you should look at, where does it impact, probably the majority is related to the Private business, and again, we have seen a very strong performance somewhat also held in the first quarter by COVID-19, somewhat less in the second quarter, which is supporting the performance there, and how that will look in the coming quarters depends and you can say whether we will see any major impact again, but, yeah.

A - Morten Hubbe {BIO 7481116 <GO>}

In the current run-rate is a little bit higher than usual and the spillover is a little bit higher than usual, but it is generally a reflection of strong performance in Private as you put it, Barbara. So in periods where we deliver strong performance in Private, we will see an elevated level of premium discounts, but the current level is a little bit high, I think we'll have a little bit high level also the next couple of quarters, so -- but again reflecting a positive underlying trends.

Personally I think it's a bit confusing that accounting-wise you need to subtract, a, what is in a sense sharing some of the profits comes up as a deduction in top-line is a slightly challenging principal and that's why we try to give data on both before and after. So you can monitor, what is the actual growth that the machine is delivering and then what is after subtraction of what is essentially profit sharing.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yes. And thanks for giving that information. And then just a more high-level question. Now, I think was asking about, I mean, perhaps a bit conservative buyback guidance or indication for next year. Do you have any thoughts about normal buybacks? I mean, I know you love your Rockefeller quote but I mean, could you, are you entirely against having a part of your normal distribution as buybacks, how do you see that?

A - Morten Hubbe {BIO 7481116 <GO>}

I think, clearly our view is that a high level of returning capital to shareholders, it's extremely important for us and we see that, that is extremely important for our shareholders and for the value creation from the discipline of how we run the business. I think as such for us it's not very important whether it is dividends or buybacks, but we get a clear signal from most of our shareholders that dividends is preferred and that's why we use a dividend as the typical route and we expect to continue to do that. If over time investor sentiment changes and the preference for the split between dividends and buybacks changes, then we will listen to our shareholders and the strategy willing to change that, but as of now the signals we're getting from our shareholders is a very clear preference for particular.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Thanks for that.

Operator

Thank you. We have no further questions. So I will pass back for any closing comments.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Yes, this is Gianandrea again, I will just thank you all for the very good question and as usual Peter and I remain around if you have more and we will wish you all a great summer at this point. Thank you.

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you.

A - Barbara Plucnar Jensen {BIO 17487867 <GO>}

Thank you.

Operator

Thank you for attending. You may now disconnect your line.