Q3 2015 Earnings Call

Company Participants

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

Other Participants

- Christian Hede, Analyst
- In-Yong Hwang, Analyst
- Jakob Brink, Analyst
- Per Grønborg, Analyst
- Steven A. Haywood, Analyst

MANAGEMENT DISCUSSION SECTION

Lars Møller

Good morning, everyone. Here's Lars Møller, Head of IR at Tryg. We're here to present our Q3 results. With me today, I have our CEO, Morten Hübbe, and our CFO, Tor Lønnum, with me. So, with this short introduction, over to you, Morten.

Morten Hübbe

Thank you, Lars. And we start on slide three, we show the key focus areas, where we have a very strong focus on executing our efficiency program of DKK 750 million and improving our customer experience as we know that also contributes to customer lifetime and bottom line. We've seen in this quarter a positive top line of 0.6% for the first time in three years, mainly driven by existing customers, but we also see an increase in customer satisfaction.

We see some areas where the current claims inflation is higher than the current price development. We see, for instance, in travel and property insurance that that is the case. And we are, of course, taking the necessary steps to mitigate and ensure that price development is higher than claims inflation.

We're also in the process of converting a number of old products to new products. And we expect that process also to contribute positively to improve profitability and margin. And of course, we focus on the acquisition we've done of children's insurance in Sweden from Skandia, which is an acquisition which will support our ROE target of 21% within three years. It's also a positive add-on to our children product coverage and the process of broadening the product coverage per customer, because we know that motor will become slightly smaller and we know that more products will broaden and extend the customer lifetime and earnings.

If we turn to slide number four, we show the financial highlights of the quarter. We see a satisfactory technical result with a combined ratio of 86.1%, including 2.6% one-off restructuring charge to make sure that we deliver our DKK 750 million savings. So an 83.5% combined ratio before restructuring. As planned and communicated, we've done this restructuring charge. And as I mentioned, it's DKK 120 million. And that is the case for all of the restructuring between now and 2017 and the full DKK 750 million efficiency program.

As I mentioned, we see that our customer focus supports the premium development. We see an improvement in the three-plus customers, so the product coverage. And we see an improvement in retention rates, both of which are developing positively in Denmark where they are somewhat more challenged in Norway.

Then we see a negative investment return, mainly due to equity market in the quarter. And of course, that has a negative impact on our return on equity. But it's very important to communicate that we stay 100% committed to delivering a dividend despite that, which is nominally stable to slightly growing. And we find that more important than any payout percent.

If we turn to slide number five, we show a bit of customer highlights, where, as I mentioned, customer satisfaction and NPS is increasing and it's now 20%. We see that the number of customers buying more products is increasing and also the customer retention rate is improving. We see that as positive drivers because, basically, we see that the strongest combination of customer focus on bottom line is when our existing customers stay longer, buy more products and that they are more satisfied, because that is where we drive the highest also bottom line value and the highest and most positive development with our customers.

And over to you, Tor.

Tor Magne Lønnum

Thank you, Morten, and good morning, everyone.

If we move to slide number seven, I think it's first and foremost important to highlight the positive aspect in the report, i.e. that we actually have a positive top line development this quarter in fixed currency. Now, of course, you're all very well aware of what has been going on in terms of the Norwegian krone, so, of course, it doesn't sort of reflects the reported top line, but in fixed currency, as I said, it's a positive development. And it's fair to say that that's the first time in more than two years. Of course, we're pleased with that development.

There is a positive development in all business areas except Sweden. Going forward, there's no doubt that we expect the top line to continue to be under pressure, particularly because, as we have talked about before, there is a slightly weaker development in Commercial Norway and we also see some competition in terms of Danish product lines. We do expect Sweden to develop more favorably going forward into 2016, albeit it will not be sort of a straight top line growth line. It will be volatile.

If we move to the next slide and talk about the average premiums, there is a continued positive average premium development in Norway, a small positive development in motor in particular. You see that there is a continued negative development in average prices in Denmark. Motor is driven by a combination of competition and exchanges. You see that there is also a small decrease in average prices in housing, primarily driven by business mix changes.

As Morten highlighted initially, of course, we are looking into price increases in conjunction with portfolio conversion going forward. So we do think that we will be able to mitigate the impact of slightly lower prices.

If we move on to slide number nine and look at customer retention, there is a very positive development in Danish, both Private and Commercial lines. And we are actually getting close now to 90% retention in Private line Denmark, which is very positive. It's also worth highlighting, I think, the fact that Commercial Denmark has actually improved 1.4 percentage points over the last 12 months, which I think is relatively strong. You see that there is a slightly weaker development in Norway, primarily driven by challenges in Commercial, as I have highlighted, but also slightly weaker development in the Norwegian Private portfolio to a certain extent driven by sort of the car dealership insurance, but also by competition.

If you move on to slide 10, there is an underlying improvement of slightly flattish development in terms of the combined ratio. You have noted in the report that we have an improvement in terms of cost and a slightly weaker underlying in terms of claims. If you look at the business areas, we do have an underlying improvement in Corporate and Sweden and the rest is slightly weaker development in Private and Commercial.

The development in the latter, as Morten mentioned initially, is primarily driven by some increased claims inflation in property and that's across Private and Commercial and also an increase in terms of travel expense claims.

If we move to slide number 11 and look at the efficiency program, we added savings of DKK 45 million in Q3 and we are at DKK 180 million year-to-date. The savings continue to be very visible in terms of cost savings, as I'm sure you've noted in terms of development in the cost ratio. The claiming – the claim savings is less visible, as I've discussed in the last slide, primarily due to what is going on in terms of claims inflation.

If we move to slide number 12 and look at the expenses and the expense ratio, you see that we have a nominal expense reduction in all business areas. You can also see that there continued to favorable in development in terms of FTEs and there is a drop of almost 174 FTEs just since the end of Q2. Outsourcing in group finance is starting now to be visible in the numbers and something that we have highlighted before.

If we move to slide number 14, in terms of the underlying claims ratio, as I mentioned, you do see a slightly increase in the underlying claims ratio and primarily, as I said, driven by a development in property and travel expense claims in Private and Commercial.

If we move to slide number 15, you see that we have had a higher impact of large claims in the quarter, 4.3%. It's slightly higher than expected year-to-date, but we don't consider to be a trend. So more sort of a what you would call normal volatility. And keep in mind that the DKK 550 million expected for the full year, of course, is the budget. And I think I've said before that there will be natural variations around such a number.

Weather claims are lower than last year, despite flooding and heavy rain showers in Norway. Year-to-date, we are slightly higher than last year.

If we move to the last part, there is a slightly higher run-off level in Q3 at 8.8% which, of course, is driven by a strong and favorable development in the long-tail reserves related to workers' compensation and motor TPL. It's in line with the guidance, but slightly higher level of run-off releases than what we have seen in some other former years. We don't expect sort of the level to be at call it the 7% level run rate but we have had, as I said, a relatively good development in terms of resales and thus high run off this quarter.

If we move to slide number 17, I think Morten highlighted on the overall level what's going on in terms of the investment return. Relatively large loss, DKK 383 million for the quarter, 2.6% down. Equities, in particular, were down by 10.3%, which is weaker than the MSCI World that is our benchmark as well. And it means that we have had sort of most of the former quarters we have had slightly better performance than MSCI World. This quarter we had a slightly weaker performance.

High yield and emerging market debt performed better than benchmark but gave negative yields. In terms of the mismatch, you see that it's slightly lower than DKK 50 million negative but still a relatively high amount and in particular, I'm sure you've all noticed that there has been large market movements in terms of credit spreads through the period.

If we move to slide number 18, the capital buffer. It's worth highlighting that there is a relatively large movement in capital buffer this quarter. Two things I primarily would highlight, the fact that there is natural seasonality in the capital buffer as we will build up for the Q4 dividend. But there is also two relatively large movements; one is currency movements due to the weakening of the Norwegian krone and the other is related to and a reduced equity exposure as a consequence of the drop in equity markets in the quarter.

It's worth highlighting that any share buyback as you know, which is extraordinary, is something that we will announce in conjunction with the Q4 reporting. Previously we have said something about that already in December, but we will do that in conjunction with the Q4 reporting. I would also highlight for this page that there is no impact of the acquisition of the Skandia child insurance portfolio at this point in time, because we have not been given the regulatory approval. That is something that we expect somewhere in the first half.

Now, we have highlighted that that will have a DKK 400 million impact in terms of capital, so that's worth noting. There are, as you know, still elements of uncertainty in terms of capital. There is the model improvement, there is the Natural Perils Pool, some elements related to deferred tax and future profits. And there is also a discount curve change that will be implemented in Q1 2016.

The last thing that I'd highlight on the capital slide is the fact that, as Morten highlighted, there's no doubt that when we establish our dividend policy, that was established for exactly the situations that you see in this quarter. I think we were relatively transparent in saying that there will be periods where you can have impact on the insurance operations, for instance, harsh winters, like you saw in 2010 or periods where you see significant drop in equity markets like what we have seen in this quarter.

The dividend policy was defined to meet exactly situations like this. And that's why we said that there will be a 60% to 90% range, based on the profit after tax. I think it's very important for us to state, as Morten said initially, that there's no doubt that we will defend the nominally stable and slightly growing dividend. And that will be a very important priority in terms of our targets. And that's, as I said, exactly why we defined the dividend policy the way we did.

If we move to slide number 19, it's also worth mentioning the fact that we simply did this acquisition of the child insurance portfolio in Sweden from Skandia. That actually moves our market share in Sweden on child insurance products to 10%. So there's no doubt that that is a very nice fit, very good strategic fit with our existing business.

We do know that such a portfolio will contribute to very high retention levels, and has a very strong profitability, which means that in our mind, this acquisition will contribute to the overall ROE target of 21% within three years.

As you can see there on the bottom left, we have just tried to show you what kind of capital impact the various business lines will have in terms of capital, and it's just a reminder, I'm sure you're all very well aware of that, but it's just to tell you that this is the reason why you see a relatively high capital impact from such a portfolio, because it's a combination of the capital charge related to the business and the goodwill. But as I said, there's no doubt in our mind that this portfolio will contribute to the overall ROE target of 21% within three years.

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

Morten Hübbe

Thank you, Tor.

And if we turn to slide 20 for some concluding remarks, I think, first of all, it's extremely important that we have a very strong focus on improving our efficiency and delivering our efficiency program of DKK 750 million, because we know that that will benefit both our shareholders and our value creation, but also our customers and our competitive position. And we're quite pleased that in this quarter, before the restructuring charge, we improved our cost ratio by 0.5%.

We are initiating minor price changes to make sure that we manage inflation, particularly in the areas where current inflation is slightly higher than current price changes. And we're continuing to improve our price differentiation, as we know that, that is gradually improving our risk selection and our margins.

We have reiterated our financial targets for 2017 with a target of an ROE at or above 21%, a combined ratio at or below 87% and the expense ratio at or below 14% in 2017. And then of course, our customer targets also for 2017 to improve the NPS, the customer retention and the broadness of the product coverage.

We continue to work with smaller acquisitions in the case that we can see that they can support our ROE target of 21% within three years, so that they create value for our shareholders.

And also, we would like to see that they can add to our product coverage because we know that when we add product coverage to existing customers, they stay longer. They are more satisfied, and they contribute with a stronger bottom line.

And then finally, as Tor mentioned, we remain 100% committed to nominal, stable and slightly growing dividend regardless of what happens to equity markets and regardless of the payout in percent. Thank you.

Lars Møller

Operator, we are ready to take questions, please.

Q&A

Operator

Thank you very much. And our first question comes from Jakob Brink from ABG. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you. Sorry, but I know you stressed it three times, but I would still like to go back to the dividend policy. So I mean, the way I read it and the way you've put it on page 20, you have the payout ratio targets and then you are aiming or I think you're writing on your website you have an aspiration for an increasing dividend. I mean, how should I read this? Should I read it the way that you'd do everything you can to basically increase the profits, so that 90% will also lead to an increasing dividend or could we actually see you going to above 90%? And in that case, then how far above 100% could we see you going – 90%, sorry? That's the first question.

And then secondly, could you please update us on Solvency II? I, at least, have forgotten the impact of the changed discounting curve in Q1. And then also did you get any sort of more details on how you treat, for example, the 200-year event tax asset? And also maybe any news on potential H1 issues? Thank you.

A - Tor Magne Lønnum

Yeah. I think, Morten, he's pointing to me to those two questions, Jakob. So I'll start with the first and foremost, yes, there is no doubt that we are willing to go above 90% in order to defend the nominal cash dividend. Is there a limit in terms of how high? I don't really think that that's an issue, to be frank, and there is – we haven't discussed any thresholds in that respect. The ambition is to defend the cash dividend.

Q - Jakob Brink {BIO 7556154 <GO>}

But if I can just – and if I look at your net profit over the past 10 years, I know that a lot of things have happened in Tryg, both, I mean, the higher underwriting profitability et cetera. But if I look at the 10-year average net profit, it's been around DKK 1.8 billion which, I think, consensus if you just put in the negative deviation today, for 2015, will be at around DKK 1.8 billion. So basically, it's not sort of an exceptionally weak year. I do recognize that it's slightly weaker to underwriting, but having improved since the past 10 years, but still. So why is it that you can go above your own target, won't that hit you at some point?

A - Tor Magne Lønnum

I'm not sure if I sort of follow your question, Jakob. I mean, if you come for – if you sort of calculate the DKK 1.8 billion after-tax profit on average for a 10-year period, that should be sufficient to support a dividend, shouldn't it?

Q - Jakob Brink {BIO 7556154 <GO>}

I just mean if you do that, and then take 90%, then you will end up at around 5.8%, so which is not an increase in dividends, so that's why I'm asking. So if you increase the payout now, then you can do that this year, yes, but if you do that then it's kind of saying that next year you expect the profits do somewhat better.

A - Morten Hübbe

Jakob, the motivation for having the debate is the negative results on the investment income in Q3.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah.

A - Morten Hübbe

And I guess what we're basically saying is that we see that we will defend and deliver a nominal stable to slightly growing dividend regardless that we have losses on the investment book.

And I guess that ultimately what we're saying is one, that that is very important for us. It's very important for our shareholders. And basically, we are running a portfolio where we are confident that we are continuously developing our insurance operations and earnings in a positive direction. And the fact that we have volatility from quarter-to-quarter in the investment book shouldn't change our commitment to the nominal dividend. And as Tor said, if that means going outside the 60% to 90% payout in terms of range, then we're comfortable with doing that. So I guess that's the clear signal.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thank you.

A - Tor Magne Lønnum

In terms of the question related to Solvency II, it's fair to say that the discount curve that you asked about is one, among several elements that will have an impact when we move over to Solvency II. So you know, there will be positive elements, and there will be some negative elements. And as I mentioned, this is one of them.

In terms of the positive elements, the tax asset is one that has been highlighted. There is no doubt that parts of our deferred tax asset will be – we will be able to utilize the Solvency II. But as I mentioned before, this is still – there is still some uncertainty around how that will develop.

Q - Jakob Brink {BIO 7556154 <GO>}

Can you say anything, if we would exclude any debt issuance, then all those new impacts, positives and negatives, what should we be looking at on a net effect? Sort of a range maybe?

A - Tor Magne Lønnum

No, I'm not going to do that, Jakob.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay.

A - Tor Magne Lønnum

But what I can say is that – and that's really why I highlighted it because if you look into just for this quarter, you see that there is a relatively significant drop in terms of capital requirement. And I mentioned there is two elements, one is the weakening of the Norwegian krone and the other is related to the capital charge based on equities underway that they have dropped.

So that's why I think it's fair to say that the transparency in terms of what will happen related to the capital in Q1 is still not fantastic, so to speak. And that's why it's fair to say that, again, as I mentioned earlier, there will be some positive elements, there will be some negative elements. You see that the capital buffer at this point in time at least is significantly higher than what you saw, for instance, in the previous quarter. So that's why I think it's fair to say that there will be some – that it won't be the same level of visibility, at least not yet.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thanks a lot.

Operator

Our next question comes from Mr. In-Yong Hwang from Goldman Sachs. Please go ahead.

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

Good morning. So two questions for me. Firstly, on the price increases that you are planning on in travel and property, is that something that – is that a need that the market is recognizing as well or is that something Tryg will sort of be leading on?

And secondly, just on the buyback expectation, you guided to DKK 400 million capital loading from the Skandia acquisition, so I don't know if that means we should look for DKK 400 million for a buyback estimate or your individual solvency ratio still looks fairly solid and you still have got a potential for further leverage. So I just would be interested to hear kind of what your thinking is around the buyback and what kind of constraints you see, if any, aside from the kind of solvency internal model and buffer. Thank you.

A - Morten Hübbe

Good morning to you as well. I think I'll take the first question and then Tor can lead on. In terms of the travel and property, I think, first of all, they fall into two rather different categories. On the travel insurance in Denmark, what we see is that the scope of travel insurance has changed rather significantly.

Previously, the Danish society would typically pay for the accidents and illnesses you would have abroad and only, to a lesser extent, the private insurance would pay. Now, we're into new regime where the society will pay a lot less and the private insurance will pay a lot more. And that has basically changed the division of responsibility between society and insurance.

So the challenge that that increases travel claims more than anticipated is one that I expect to be a challenge for all of the insurance companies. I think they will probably choose different strategies in terms of timing and increase in percent, et cetera, but it's basically a challenge and a new role that covers the whole of the market.

When it comes to property insurance, I think, first of all, we're talking about significantly smaller numbers and we're talking about small and more gradual increases in inflation which could probably vary from company to company. But here we are talking about smaller price adjustments to make sure that we handle the slightly higher inflation in a gradual tempo and not sort of in bigger hikes. So hopefully, that sheds some more light on that.

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

Great.

A - Tor Magne Lønnum

Good morning to you as well. In terms of the question about the buybacks, first and foremost, it's important to say that – and it goes back to the dividend policy. What we are truly committed to is to maintain a nominally stable and growing dividend. The buybacks are extraordinary distribution of capital.

So going back to your question, there is no doubt that if we do an acquisition like we did with the child insurance portfolio, all other things equal, that will have an impact in terms of buyback, all other things equal, that will have an impact.

Now, as you indicate, there are other moving parts in terms of the capsule once you move into 2016 and we have talked about some of the elements earlier. We have also, as you indicate, highlighted the fact that there is a potential for some increase in terms of leverage if we have better visibility in terms of the natural payrolls fund.

Now, you know that the Norwegian government has proposed changes in the act that will support a Tier 2 attribution of the capital from that front. And as such, of course that will support a potential increased leverage in the balance sheet. But that's really why I said earlier that it's natural for us to discuss the capital elements in the Q4 reporting, i.e., in the Q1 2016 because then we have better visibility.

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

Thank you.

Operator

The next question comes from Christian Hede from Nordea. Please go ahead.

Q - Christian Hede {BIO 18642300 <GO>}

Yes. Good morning. This is Christian from Nordea. A couple of questions. I'm sorry I have to go back to part of your voicing. It seems like we are much more defensive if you can say in your voicing now. And so I was just wondering why has that changed dramatically since Q2. Is that only due to the drop in equity markets because I guess that can happen, and it doesn't necessarily change the underlying case? So that's one thing.

And another thing is on your growth ambitions for 2016 or your targeted growth of around GDP, including acquisitions. Should we expect you to do more acquisitions? Is that kind of part of your plan or will you be able to reach GDP growth as you see it now with the acquisitions you've already mentioned?

And possibly, I guess that's mostly for you, Tor, maybe you could run us through how you see the impact from a weakened Norwegian economy on such books? Thank you.

A - Morten Hübbe

Good morning, Christian. Well, I guess on the voicing question, that's the first time we have a question like that, but I guess it's relevant. The way we see it, when we have a pre-tax which is down DKK 538 million year-on-year in the quarter, then clearly we shouldn't be cheerful and happy in terms of voicing.

But as you rightly point out, when the majority of that is an almost minus DKK 400 million on investments and DKK 120 million on the restructuring charge, then, of course, as we see it underlying, we have an improvement in the cost ratio that's great. We have a slight, slight deterioration in the underlying claims ratio, which we actually wanted to improve slightly. That's why we need to make sure that we capture these few areas where claims inflation is slightly higher than the current pricing development. And we are doing so.

So you're completely right. In the underlying case, there's really nothing much that has changed. But on the other hand, DKK 538 million is DKK 538 million. So if we don't sound very cheerful, you can probably attach DKK 538 million, which is more or less investment market and a choice to do a restructuring charge as planned, and which will allow us to deliver the DKK 750 million. Yeah. Hopefully, that is slightly clearer.

Q - Christian Hede {BIO 18642300 <GO>}

Thanks.

A - Tor Magne Lønnum

To the other two questions. In terms of the growth ambition, I think we said though already after Q2, Christian, that in order to sort of reach a growth in the area, 1% to 2% in 2016, that would have to be dependent on whether or not we would be able to realize an acquisition. Now, we knew, of course, when we said that in Q2 that we would be able to realize an acquisition of the Skandia child insurance portfolio. And as such, that will have an impact and that will contribute to the growth ambitions for 2016.

The challenge, of course, is that, as I mentioned earlier, this is based on regulatory approvals. And since this is considered to be a life product under Danish regulation, there is some uncertainty as to how fast that process will progress. And that's why we have said we don't expect closing to take place before sort of somewhere in first half 2016. And as I'm sure you can appreciate, that of course will have an impact on the overall growth.

Now, I think I highlighted earlier as well that we've had a positive quarter in terms of growth, no doubt in fixed currency. There will be volatility going forward as well, but based on sort of the acquisition that we have made and based on what's going on in the portfolio, we should be able to get at least not too far off in terms of the growth ambition I mentioned.

So to your question, it doesn't mean that it will be dependent upon further acquisition. That does not mean that we will stop looking for portfolios because we will constantly be looking for more bolt-on portfolios that will contribute to our earnings. And we do think that we can take out synergies from such portfolios.

The last question that you raised was what is the impact in terms of a weakened Norwegian economy? And I think it's fair to say that we have already highlighted that the Commercial area in Norway isn't looking as good and that is particularly due to the fact that you've seen a decline in trend for smaller and medium-sized commercials on the western part of Norway.

If you continue to see a deterioration in terms of the economy, I do think that that will have some spillover effect on the Private lines as well. And it's probably fair to do a comparison to what you've looked into in terms of the Danish economy over the last two years. So, there's no doubt that sort of – the bleak prospects in terms of the Norwegian economy will, to a certain extent, have some impact.

But keep in mind that reinsurance – no, sorry, insurance is relative stable in the sense that people will always need to cover their basic insurance needs. And as such, typically also in the downturn, you will see less impact in a business like ours.

Q - Christian Hede {BIO 18642300 <GO>}

Thank you. That's very good.

Operator

Our next question comes from Per Grønborg from Danske Markets. Please go ahead.

Q - Per Grønborg

Yes. Good morning. A couple of questions from my side as well also very much related to Norway. First of all, to clarify what you just addressed to on Norway, the impact on the – of the macro economy. I assume it was premium you talked about and not the underlying environment. Are there – do you see any impact on the underlying environment from the situation in Norway?

Then all on Norway, when I look at your Norwegian country segment, I don't know, I know you don't favor to talk about the country segments, but still it looks like a lot of your volatility is coming from Norway pretty bad Q1, impressive Q2, a Q3 that solely was saved by huge prior year gains. Why are your Norwegian business, it seems to be much more volatile than other players operating in Norway? In that context, is it fair to assume that large claims are very much centered around Norway, I get that impression from looking at the result of your ceded business. Thank you.

A - Tor Magne Lønnum

Yeah. Good morning, Per. You're quite right. The comment I made in terms of macro was top line based. In terms of claims environment, it's fair to say that we haven't really seen any particular trend, any particular impact yet. And from time to time, you'll see that people are trying to make the correlation between sort of economic output and claims inflation or also claims frequency for instance. And I think it's fair to say that we think it's difficult to establish that kind of correlation.

So, the only thing that I think I'd highlight in that sense is the fact that if you continue to see a weaker economy, that will, of course, have an impact on the claims inflation that it should put a lid on the pressure, I think, of the Norwegian economy, but you know as well as me, Per, that that kind of development it will really take some time before it flows into the numbers.

Q - Per Grønborg

Then, I guess, you have a quarter (41:11) on the other side that potentially could increase in a bigger financial economy.

A - Tor Magne Lønnum

Yes, absolutely.

A - Morten Hübbe

And I guess it's required to be very detailed there. Of course, you can find this historical marginal positive on the claims development when the economy slows down. And of course it makes us slightly, slightly less worried about claims inflation in Norway. But we are talking about marginal numbers. And as you've mentioned, on the other hand, there's a slightly, slightly bigger risk of fraud and policyholders being on the water. But I think, to be honest, what we're saying is both factors are rather small.

Q - Per Grønborg

Yeah. Okay.

A - Tor Magne Lønnum

I think to your – to the last question in terms of volatility in the Norwegian business, it's important to say that it may be perceived to be volatile. But as you correctly highlight, that will be highly dependent upon the impact of large claims. And I think when you've looked into the country segments before you've seen that Sweden from time to time is moving into negative territory for instance. And of course, this is one of the good things about being a larger Scandinavian group, is that fact that you can sort of align such large claims across the portfolio.

But to be precise, we have had a very significant claim in Norway this quarter. It was this storage – this large storage building that burned, was completely destroyed. So, that had a significant impact. And you also know that although weather, as I mentioned, is not that – or is better than last quarter than this particular quarter. There's no doubt that all material part of the weather claims are actually coming out of Norway. So, of course, that is what you perceive to be the volatility related to the Norwegian business.

Q - Per Grønborg

Going forward, could you help us a bit not to ask this basically stupid questions on the Norway if you started to give us the weather impact and the large claims impact also for the two-country segment, just a wish?

A - Tor Magne Lønnum

It's duly noted, Per.

A - Morten Hübbe

Thank you.

Operator

Our next question comes from Steven Haywood from HSBC. Please go ahead.

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

Good morning, guys. With regards to your 20% ROE target for this year, considering what happened in the third quarter with the investment result, how challenging is this 20% ROE target to achieve in 2015? And do you think this – achievement of this target will have any impact on current or future share buybacks?

And then the second question is related to a previous question in this call, with regards to the discount change that's coming in the first quarter, can you quantify any impact here for us, please? Thank you.

A - Tor Magne Lønnum

Yes. Do you want me to start with...

A - Morten Hübbe

Well, I can start. I guess, Steven, that if you look at the ROE target, I think we have been at or above that ROE target in a number of quarters. I think our year-to-date ROE this year is around the 17% mark. I think around in this quarter well around 6%. And clearly, the drop in investment income in Q3 has, of course, put a negative impact on that.

And I guess, we don't want to try to guess what happens on the Q4 investment income. We can see that investment market have been slightly more positive in the beginning of Q4, but there's a rather long period of Q4 still out there. So clearly, what we're saying is that the ROE for the full year will be largely dependent upon the volatility of investment income of Q4. If that continues to be volatile or negative, we won't reach our ROE targets. If we have more positive developments, we will. On the other hand, we actually focus on our insurance operational contributions for the ROE targets. And there, we remain very confident that we will deliver as planned, mainly with our DKK 750 million program.

And I guess, as we've said, we are completely committed to delivering the nominal stable to growing dividend. You asked about the buybacks, of course, if we have more negative developments on the investment side, of course, that will have a negative impact on the buyback potential. So, clearly, there's correlation there.

But we wouldn't want to speculate on what happens with investments in Q4. But I guess we are quite pleased that our investment portfolio in general is fairly conservative because otherwise, this debate could be a lot more difficult.

A - Tor Magne Lønnum

And just a couple more comments from me, I think. In terms of when you look at into sort of achieving the 20% ROE target, there's no doubt that the material driver in terms of delivering that return is the insurance profit. And I think Morten has highlighted a couple of times, there is a strong underlying insurance result, insurance profit technical result, albeit it's slightly weaker underlying.

So, in our mind, sort of the stability of the insurance business, and that's really what we've been focusing over the last few years, that is the main driver in terms of the profitability and that will continue to configure.

Now, the reason for highlighting the fact that the ROE may be – that it may be an issue for this year's target is, of course, that the equity markets at the moment are very volatile. And I'm sure you have observed that only since the end of the quarter and up until this point in time, we have seen a very positive development. And to me, that only goes to highlight the fact that at the moment, at least, it is relatively volatile.

There's nothing new in that, but perhaps it's more volatile at this point in time than what you've seen in the previous quarters and years. And that's why we think it's okay to highlight the fact that that may be an issue for the 20% ROE target this year.

Now, to the other question in terms of the discount term, what we will do is that we will give you a description of the elements related to the Q4 report. So, you will get more clarity when we publish our Q4 report.

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

Okay. Thanks very much for your answers.

Operator

We have no further questions on the phone, so back to you, speakers.

A - Lars Møller

Yes. Thank you very much to all of your for participating in this call this morning here and thank you to Morten and Tor. We will be around here and road showing today in Copenhagen and Monday in London, and then in the coming week after in the U.S. market. So, looking forward to meet you all around there and have a nice day and weekend. Thank you.

A - Morten Hübbe

Thank you.

A - Tor Magne Lønnum

Thank you.