

Danica Pension: Performance affected by challenging financial markets

Danica Pension's financial performance for 2018 was particularly affected by challenging financial markets and non-recurring costs related to the integration of the former SEB Pension Denmark and the sale of the Swedish business activities. Another contributing factor was costs related to higher claims provisions.

In 2018, Danica Pension recorded a profit before tax from continuing operations of DKK 1,216 million. This was 35% lower than the profit before tax of DKK 1,861 million in 2017. The deterioration was primarily due to costs associated with the equity market decline, the integration of Danica Pensionsforsikring (formerly SEB Pension Danmark) and the sale of Danica Sweden as well as increased claims provisions.

Ole Krogh Petersen, CEO, commented on the Danica Group's financial statements for 2018:

"2018 was a challenging year, resulting in a lower profit compared with 2017. After several years of solid positive returns, the challenging market conditions unfortunately not only hit Danica's performance but also produced negative returns for our customers with unit-linked products." Ole Krogh Petersen continues:

"On the plus side, 2018 also saw the approval of our acquisition of SEB Pension Danmark and the sale of Danica's Swedish pension activities. With these transactions, Danica is today larger, stronger and more focused on realising our vision of making our customers feel financially secure."

Sale of Danica Sweden

In 2018, we sold our business activities in Sweden. The agreed price was approximately SEK 2.6 billion, or DKK 1.9 billion. The transaction is expected to be finally approved by the relevant Swedish authorities within the first six months of 2019. Payment of the purchase price awaits the completion of the transaction, and Danica Pension's profit for 2018 was thus not affected by income from the purchase, but solely affected by transaction costs.

"As the business model in Sweden differs considerably from that of the Danish and Norwegian businesses, the sale will allow us to focus on the markets that are more aligned and where Danica Pension has direct customer contact and is therefore best positioned to deliver on our value proposition for our customers," explains Ole Krogh Petersen.

Integration of Danica Pensionsforsikring proceeding to plan

Danica Pension's acquisition of the former SEB Pension Denmark received regulatory approval on 7 June 2018. Since then, the integration of the company has been progressing as planned.

"We are currently in the process of welcoming our more than 200,000 new customers to Danica Pension. Also, our many new colleagues from the former SEB Pension Danmark allow us to combine the strengths of both companies in a larger, more focused Danica," says Ole Krogh Petersen.

Developments in premiums and results in the health and accident business

Premium payments to the Danica Group amounted to DKK 44.1 billion, a DKK 4.4 billion increase compared with 2017. The increase was driven by the acquisition of Danica Pensionsforsikring and a positive development in Danica Sweden. This positive trend was partially offset by a drop in premiums in Danica Pension Denmark compared with 2017.

The principal explanation for Danica Pension Denmark's lower premiums was that some customers reacted to Danica Pension's decision to increase health and accident insurance prices as from 1 January 2018. The price increases were introduced to address the imbalance between income and expenses in this area and improve the transparency and correlation between price and quality for our customers.

"It is unsurprising that some customers have reacted to the price increases, but I am confident that quality will be in demand in the long term. Bearing in mind that about one in three women and about one in five men need to use their loss of earning capacity insurance at some point in their lives, we believe that Danica should focus on prevention, a strong healthcare offering and financial security for our customers if one day they are no longer able to work," says Ole Krogh Petersen.

Despite the higher health and accident insurance premiums, the overall loss in this area grew in 2018 due to the challenged investment return and higher claims provisions.

Returns hit by challenging financial market conditions

Danica Pension customers with Danica Balance Mix saw returns on their investments of between a negative 9.8% and a positive 0.9%. The return for customers with Danica Balance Mix, medium risk profile and 20 years to retirement was negative at 7.0%. Customers with Markedspension (Danica Pensionsforsikring) saw returns on their investments of between a negative 9.4% and a positive 0.2%. The return for customers with Markedspension, medium risk profile and with 20 years to retirement was a negative 7.3%. The difficult financial market conditions were primarily driven by the risk of a trade war between mainly the USA and China and the Eurozone being impacted by particularly the critical Brexit negotiations and Italy's budget negotiations.

"Although pensions should be viewed from a long-term perspective, it is no secret that 2018 was not a satisfactory year in terms of returns. Our investment team works hard every day to produce better returns, and indeed our overall returns have improved since the introduction of our new investment strategy in 2016, not least due to our successful investment in alternatives. These represent a growing part of our investments and, seen in isolation, have produced annual returns in excess of 10% in the past three years," says Ole Krogh Petersen.

Our ambition is to further increase the share of alternative investments in the coming years. Investment is moreover an area where the combined strengths of the former SEB Pension Danmark and Danica Pension can benefit our customers. While Danica Pension has possessed great expertise in alternatives, the former SEB Pension Danmark has produced strong results in externally managed investments.

Danica Pension		
(DKK billions)	2018	2017
Premiums*	44.1	39.7
Premiums in Denmark*	27.6	24.7
Return on customer funds – Danica Balance Mix, medium risk and 20 years to retirement (%)	-7.0	7.8
Return on customer funds – Danica Pensionsforsikring Markedspension, medium risk and 20 years to retirement (%)	-7.3	-
Return on customer funds – Danica Pension Traditionel (%)	1.7	2.5
Return on customer funds – Danica Pensionsforsikring Traditionel (%)	0.3	-
Return on customer funds – Danica Pension Traditionel after change in additional provisions, (%)	1.8	3.2
Return on customer funds – Danica Pensionsforsikring Traditionel after change in additional provisions, (%)	-0.1	-
Result of insurance business, DKK millions*	1,502	1,905
Profit before tax from continuing operations, DKK millions*	1,216	1,861
Total pension savings (total assets)	566	427

*Comprising Danica Pensionsforsikring as from takeover on 7 June 2018.

For more information, please contact Karl Kjær Bang, Head of Press Relations, tel. +45 5050 8607 / kban@danskebank.dk.

Solvency ratio disclosure			
31 December 2018	Danica Pension Livsforsikringsaktieselskab	Danica Pension Group	Danica Group
SCR (DKKm)	10.777	13.855	13.370
Solvency rate	261%	203%	193%

Summary of Danica's subordinated loan capital	
Issuer	Danica Pension Livsforsikringsaktieselskab
Securities code (ISIN)	XS1117286580
Amount	EUR 500 m
Coupon	4.375 % p.a
Issued	29 September 2015
Matures	29 September 2045
First call date	29 September 2025
Rate of interest will reset on	29 September 2025