Q3 2020 Earnings Call

Company Participants

- Helge Leiro Baastad, Chief Executive Officer
- Jostein Amdal, Executive Vice President, Chief Financial Officer
- Mitra Hagen Negaad, Head of Investor Relations

Other Participants

- Alexander Evans
- Blair Stewart
- Hakon Astrup
- Jan Erik Gjerland
- Johan Strom
- Jonathan Denham
- Thomas Svendsen
- Ulrik Zurcher
- Vegard Toverud

Presentation

Operator

Good day, and welcome to the Gjensidige Q3 2020 Results Presentation. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms.Mitra Hagen Negaad, Head of IR. Please go ahead, ma'am.

Mitra Hagen Negaad {BIO 3974076 <GO>}

Thank you. Good morning, everyone, and welcome to this third quarter presentation of Gjensidige Forsikring. My name is Mitra Negard, and I'm Head of Investor Relations. As always, we will start with our CEO, Helge Leiro Baastad, who will go through the highlights of the quarter; before our CFO, Jostein Amdal, who will run through the numbers in further detail. And we have plenty of time for Q&A at the end. Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra. Good morning, and welcome, everyone. I hope you are healthy and well. Since our last earnings call many countries, including the Nordics have experienced new spikes of COVID-19 cases, forcing governments to reintroduce restrictions. It seems like we must be prepared for new ways until an effective vaccination has taken place. Although, the pandemic has caused significant economic hardship for many people and industries. The overall economic outlook in our region is encouraging, pointing towards a gradual recovery. Gjensidige has continued to manage well through the pandemic.

Let's then turn to Page 2, for some comments on our very strong third quarter results. We generated a profit before tax of NOK2.048 billion, of which NOK1.512 billion in underwriting results. This is the highest underwriting result we have ever delivered for a quarter when adjusting for run-offs. The record result reflects 10% increase in earned premiums and a very healthy combined ratio of 78.2%. Large losses were low and run-off gains were slightly higher than the planned releases. The underlying frequency loss ratio at 66.4% was very good.

The pandemic had a slightly positive impact on our results this quarter, primarily due to less travel activity. The general claims pattern apart from travel is back to a more normal level in our markets, and our cost discipline remains strong. We generated a financial result of NOK551 million, reflecting continued recovery in the financial markets. And annualized return on equity year-to-date was 15.3%, reflecting the weak financial result in the first quarter in combination with the very high solvency ratio.

And I'm pleased that the clarification from the Norwegian Minister of Finance enabled us to finally pay off the dividend for 2019. We paid a total of NOK6.125 billion, or NOK12.25 a share, on the 30 of September to our shareholders. This is the same as our original proposal in January, and after this we still have a very strong solvency position. Jostein will afterwards revert with more detailed comments on the results for the quarter.

Then turning to Page 3. And our unique customer dividend model. Following of a dividend payment, the Gjensidige Foundation has again passed on its share of the regular dividend to our general insurance customers in Norway as it has done every year since our listing in 2010. This year the dividend from the foundation amounted to almost NOK2.3 billion, corresponding to 13.7% of the premiums paid in 2019. The payment to 800,000 customers started earlier this month. A positive contribution to many customers in these extraordinary times. The foundation has paid more than NOK21 billion in customer dividend since their inception in 2007. The model is highly valued by our customers, and complements our strong brand and delivery of superior customer experiences in building customer loyalty.

Then turning to Page 4, a few words about our operations. Starting with the macro view, as for the rest of the world, the pandemic struck hard on the economies in our region too, with sharp contraction in the beginning. But thanks to the enormous stimulus packages and gradual easing of the toughest restrictions, we have seen a much swift rebound that we dare to hope for just a few months ago.

We're still not out of the woods. However, the forecast for Norway is encouraging. Most recently voiced by the Norwegian Ministry of Finance earlier this month with the mainland GDP growth estimate of 4.4% next year. Unemployment has declined by close to 2/3 since its March peak and is forecast to decrease further in 2021 to 3.1%. We find this encouraging and see a lower risk of pressure on the insurance volumes in Norway than we expected earlier this year. The recovery for the rest of the Nordics is also encouraging.

Then back to the third quarter again. We continue to put through necessary price increases in Norway for both segments. I'm very pleased to see that we have maintained our superior market position despite tough competition. Thanks to our strong brand and effective sales efforts. We have continued to gain business volumes in the third quarter, alongside maintaining high retention levels for both over private and commercial segments.

Renewals for our commercial segment are still strong without signs or contraction despite the pandemic. We'll continue to put through price increases for both segments in Norway going forward, for private in line with claims inflation, for all products except property where we still see the need to price above this to reach satisfactory profits. We also see further need for price increases in the commercial segment, particularly for large corporates. We continuously improve our analytical models and customer scoring models to address the relevant products and segments.

Our latest excellent ranking in Ipsos reputation survey is the pleasant reminder of how we are dude among Norwegian customers. Once again, we ranked number one on overall reputation in the Norwegian finance sector, and we ranked number six among over 100 companies in the survey independent of sector. We have climbed further in all subcategories. And we are particularly pleased to see that we once again, we are voted number one on social responsibility and morality in the finance sector.

Our operations outside Norway generated mixed results. We are pleased with the underlying profit development in Denmark. Thanks to a good development in premiums. We are making progress in Sweden too, although at a slower pace. I'm very pleased to see premium growth here. We need to improve profitability further. We will seek to transform our Swedish business into becoming a more digital insurance provider with a high degree of automated internal processes.

Our results in the Baltics reflects the fierce competition, which has resulted in top-line contraction. Our planned measures are unchanged with the focus on optimizing multi-channel distribution, improving data analytics and price optimization. We are also seeking further efficiency in claims handling processes.

Then over to Slide 5. Innovation is key to maintaining of a strong position and growth going forward. To that end, we have recently partnered with Norway's leading research center on digital innovation for sustainable growth at the Norwegian School of Economics. We have high expectation for this partnership, which includes a number of large international corporations and research institutions. The aim is to increase the effectiveness of customer-oriented innovations, developed new business models and adapt organizations to a digital everyday life.

We have recently launched several products offerings, we are very proud of. Demand for medical services is rising rapidly. Catering to our customers' needs and through to our strategy of being a problem solver for the customers, we are now the first insurance company in Norway to provide free direct access to online medical consultation with the doctor on a 24/7 basis.

We also offer a digital solution to ease of a customer's navigation in the public health service domain. We are convinced that this is a valuable addition to our insurance products further strengthening our ties with our customers. Sustainable solutions are a prerequisite for long-term value creation. We aim to make our entire product line even more sustainable, as an example, this quarter we have adjusted the terms in our home content and travel insurance product for our young customers by adding climate compensation for emissions related to the claims processes.

Catering to the social aspect of sustainability, we have recently launched a new service for our commercial customers for a quick return of employees on sick leave. The assistance is carried out together with medical and work coaching professionals. This is an important damage prevention measure to avoid long-term disability, and yet an example of delivering on our problem solver ambition.

With that, I will leave the word to Jostein, to present the third quarter results in more detail.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody.

I'll start on Page 7. We delivered a profit before tax of NOK2.048 billion in the third quarter, significantly higher than the same quarter last year. Our underwriting result beat the record we set in Q2, climbing to the highest level ever when adjusted for run-offs. We had no large losses this quarter, which of course contributed positively. However, the main driver of the improved performance was continued high customer retention, effective pricing measures, higher business volumes and good cost control.

We also have a slightly positive impact from the pandemic situation. I will revert with more detail on this in a moment. The financial result on our investment portfolio was also up year-on-year, reflecting the continued recovery in the financial market. After two consecutive record quarters, the underwriting result year-to-date is of course significantly above previous years results or any other year for that matter. The financial result year-to-date is however still significantly below what we would normally expect due to the negative returns in the first quarter.

Turning to Page 8. Earned premiums are up 10% or 7.3% adjusted for currency effects. In the Private segment, earned premiums rose by 5.6% mainly due to price increases for motor and property insurance as well as accident and health insurance. Adjusted for the transfer of our portfolio to segment Denmark, the growth was 6.3%. Our competitiveness remained strong through the quarter. We continue to attract more private customers through the quarter, mainly driven by motor insurance, while the volumes on property insurance were somewhat impacted by the significant pricing measures we have and are continuing to put through.

Earned premiums for the Commercial segment rose 9.4%, thanks to effective pricing measures, solid renewals and portfolio growth. All the main product lines recorded higher earned premiums. As Helge mentioned, we will continue to implement necessary pricing measures in Norway and given the economic outlook and our solid market standing, we are comfortable that we will -- we'll be able to put this through without hurting volumes. Earned premiums in Denmark were up 8.5% in local currency and 4.1% adjusted for the discontinuation of a quota share reinsurance contract, and transfer of the portfolio from Private segment. The increase was mainly due to portfolio growth in the commercial lines partly offset by lower premiums of travel insurance due to the travel restrictions.

Earned premiums for our Swedish operation were up 10.2% in local currency, reflecting price and volume growth in the commercial lines, partly offset by lower volumes in the private lines. For the Baltics, we reported a decrease of 7.2% in local currency. This reflects lower prices in the motor insurance line due to fierce competition, in addition to lower volume for travel insurance due to the COVID-19 situation.

Turning over to Page 9. The loss ratio for the third quarter declined 4.8 percentage points to 64.3%. Large losses were somewhat down year-on-year and a nominal level of losses was low compared to our expectations for a quarterly average. As a reminder, large losses are random in nature. Run-off gains were in line with Q3 last year although slightly higher than the planned release. The underlying frequency loss ratio improved by 4.4 percentage points to a very healthy 66.4%. This was due to our strong and robust premium growth as well as favorable claims development, particularly for our property insurance product in Norway.

Bear in mind, there are always randomizations in frequency developments from quarter-to-quarter in insurance. The general claims pattern, apart from travel is back to a more normal level in our markets. I'll be more specific about COVID-19 effects shortly, but for the third quarter according to our estimates, this amounted to approximately 0.6 percentage points on the loss ratio.

In terms of segments, I'm particularly pleased with improvement in Private this quarter as well as the profitability level for Private and Commercial. In Sweden, the underlying treatments in loss ratio was slightly down compared to the same quarter last year. The Baltics showed almost 9 percentage points increase in the underlying frequency loss ratio, mainly due to pressure on motor insurance prices.

We will continue our efforts on improving operations, particularly in Sweden and the Baltics. As Helge mentioned, we intend to transform our Swedish business into becoming a more digital insurance provider, combining this with automation of internal processes in order to obtain higher cost efficiency. We have started downsizing our labor force in Sweden and closed down our customer center and we will continue to identify further cost cutting opportunities going forward. In the Baltics, the price competition, especially within motor TPL is fierce, but we have a clear priority of return to more profitable level and we will continue to focus hard on our operating expenses, where we see a significant potential for improvement.

A few more details on the COVID impact on Page 10. As you can see from the table here, the impact for the quarter was limited and almost slightly positive on our claims.

According to our estimates, it amounted to NOK41 million or 0.6 percentage points on the loss ratio. We recorded gains related to cancellations on home transportation this quarter too, mainly in the corporate center line. This was offset primarily by less travel activity for all segments, but also somewhat less driving in the Commercial and Danish segments. In Sweden, we saw higher claims on payment protection insurance this quarter as well.

In addition to the impact of claims, we saw negative impact on premium growth in Denmark and the Baltics related to travel insurance. Going forward, we expect stable activity in our markets and claims at more normal levels. However, with the ongoing travel restrictions, we expect a lower level of claims for travel insurance in the near future.

Let's turn to Page 11. We recorded NOK969 million in operating expenses in the quarter, corresponding to a cost ratio of 13.9% and 13.3%, excluding the Baltics. The cost ratio for our combined Norwegian business was at a very good level, down 0.4 percentage points to 11.1%. Denmark recorded a cost ratio of 14% with the increase compared to last year, mainly due to changes in the reinsurance program. Progress on the new core insurance system is good and we will sell the first policies from new system before year-end, as planned. The first part of Denmark covered will be the Private segment, and thereafter we'll start rolling it out to the Commercial segment. Our Swedish business has as mentioned a potential for higher efficiency. The cost ratio came in at 17.4% this quarter, more or less in line with the same quarter last year. The cost ratio in the Baltics continued to come down and ended up 28.2% for the third quarter. It benefited from lower sales commissions as sales were impacted by the pandemic, but we also saw positive results from our ongoing cost savings initiatives.

A few comments on our pension operation on Slide 12. The pre-tax profit came to NOK41 million, down year-on-year due to higher operating expenses. A shortened depreciation time frame for IT investments and higher headcount in response to the growth in business volume drove the increase in operating expenses. Good returns on real estate investments and the recovery of the financial markets generated higher financial income on the pension portfolios.

Assets under management was NOK39 billion at the end of the quarter. Annualized return on equity came to 11.7%. The solvency margin at the end of the third quarter was 154%. We expect higher operating expenses in response to growth in addition to the market dynamics in the wake of the implementation of some pension account to put some pressure on profitability in the short to medium term. The pension business is an important complement to our general insurance business in Norway, particularly within the SME part of our operation and generates cross-selling opportunities. As of the end of the third quarter, 68% of the customers in our pension business were general insurance customers as well.

Moving on to the investment portfolio on Page 13. The global financial markets continued to rebound through the third quarter. Interest rates and credit spreads came down and equity and commodity markets were strong. The commercial real estate market in Norway continued to hold up well. We continued to re-risk our portfolio in the third quarter. However, in retrospect, we should have done so earlier. All asset classes, except private equity, generated positive returns in the third quarter. Private equity funds with exposures in the oil sector had a weak performance. Our exposure in general towards oil sector is limited.

The total return amounted to NOK551 million, or 0.9%. At the end of the quarter, the total investment portfolio amounted to NOK58 billion, reflecting market movements in addition to the payment of the NOK6.1 billion in dividends at the end of the quarter. The match portfolio yielded 0.7% return, excluding changes in the value of the portfolio value at amortized costs. This portfolio amounted to NOK36.6 billion at the end of the quarter.

Bonds at amortized costs had a positive return of 0.9%. This portfolio's running yield at the end of the quarter was 3.5%, while the reinvestment rate year-to-date was 3.3% and unrealized excess value amounted to approximately NOK1.2 billion. The free portfolio yielded a return of 1.1% in the quarter. At the end of the quarter, this portfolio amounted to approximately NOK21.8 billion. The quality of assets in our portfolio is good. We have a solid fixed income portfolio with a large majority having an investment grade rating. We have a good share of property investments, mainly in offices in central business district of Oslo and with very low vacancies in the portfolio.

Looking at our capital position on Page 14. Our capital position is very strong with a solvency ratio of 219% at the end of the quarter, down from 283% last quarter. The reduction is mainly due to the dividend payment for 2019. The total Solvency II earnings and return in the free portfolio contributed with NOK1.6 billion, but was reduced by a formulaic dividend of 80% of the accounting results so far in 2020.

Without deducting this, the solvency margin would have been 242%. Eligible capital is also reduced by the planned run-offs of NOK250 million, this will continue through 2022. The capital requirement is somewhat higher this quarter. Underwriting risk increased, mainly due to growth in premium volumes and technical reserves. Market risk increased due to higher exposure to equities and convertible bonds.

Our appeal on FSA's decision on the calibration of market risk has been partly approved. The impact of the change is a reduction of market risk by approximately NOK0.2 billion. We are very pleased with the partial approval, but we aim to have all of the difference, including the other factors related to the store model and correlation effect between market and underwriting risk approved. We have an ongoing dialogue with FSA. Our own partial internal model as at the end of the quarter showed a solvency margin of 274%.

Finally, a few words on the latest development of our operational targets on Slide 15. I'm very pleased with the progress on the majority of the operational targets this quarter. By delivering on these operational targets, we continue to improve our competitive position and lay the ground for future profitability. Both customer satisfaction and retention in Norway remain very high. The retention level outside Norway is slightly down this quarter, prolonging the tendency from the second quarter. This is primarily driven by the temporary market contraction due to the pandemic in the Baltics.

We have now reached our target on sales effectiveness based on running 12 months at 10% compared with our baseline year 2017. The increase this quarter is mainly driven by higher sales in the Private segment, but also in the other segments, we now see higher sales levels compared to difficult second quarter. There will still be some volatility in these figures between quarters going forward.

The share of automated tariffs continued to increase. We currently stand at around 52%, we will continue to include more product lines going forward, in addition to further refining tariffs already included. On the claims handling side, both digital claims reporting and the share of claims handled fully automatically have been stable this quarter. We will continue to develop these digital services further and I'm proud to announce that we have reached a digital milestone regarding a fully automated motor claims process.

The first phase in this development has been in single access and we continue to push forward with new claims processes. We have reduced claims cost even further. Most recently, reduction related to insurance fraud, process automation and procurement. We are currently well positioned of reaching our target of reducing it by NOK500 million in 2022. And in terms of our CO2 intensity, we will continue to develop our framework and to continuously reduce the carbon footprint of our claims process.

I will then hand the word back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Jostein. To sum up then on Page 16. We have had two quarters in a row this year with record underwriting results. This is to a large degree a result of our solid brand, efficient operations and dedicated employees who put strong efforts in serving our customers every day.

Our financial targets remain unchanged. The pandemic is far from over, creating uncertainty for large parts of the world. The outlook for the Nordics is encouraging. This together with our strong market position, robust model and efficient operations lays the ground for continued strong results going forward. Our solvency position is very strong, even after paying out the 2019 dividend.

Given the negative return on the investment portfolio for the first quarter of 2020 and a very high solvency ratio through the third quarter, the group's return on equity target is not expected to be achieved for the 2020 fiscal year.

We continue to seek attractive M&A opportunities. And in terms of dividends, we maintain our policy, targeting high and stable nominal dividends on a regular basis, reflecting the group's underlying earnings capacity. This means we expect a continued steady and nice regular dividend curve also from 2022 to 2023 and beyond, when run-off gains come down. Special dividends have been and will still be used from time to time to calibrate capital to meet our solvency target.

And with that, we will now open for the Q&A session.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) We will take our first question from Jon Denham with Morgan Stanley. Please go ahead.

Q - Jonathan Denham {BIO 19972914 <GO>}

Good morning. Thank you very much for taking my questions. And you've been consistently operating below your 2022 target of a 90% to 93% combined ratio ex-run-off gains even when stripping out COVID. Just wondering is the current level sustainable in the medium term? I think you said you've been pricing in line or ahead of claims inflation in the different lines and other than a pickup in large claims, what could really go against you? And then just secondly, thanks for the additional COVID disclosure, I was just wondering how much uncertainty is there around the estimated 0.6 percentage points benefit from COVID in 3Q, i.e., what are the error bars around attributing frequency benefits to COVID versus underlying improvement? Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

Hi, Jon. I will -- on the first one, I mean, we are in a very good position. I mean we're able -- with the competitive position we have -- we are able to put through price increases, especially in Norway to mitigate claims inversion and also somewhat above where we see that the profitability level is not right where it should be on us. And as we said, on the Property segment of -- on the private property in the Private segment and certain parts of the commercial book, we still see the need for repricing and we are pretty comfortable that we will get that through. What that means is that the current level of profitability is fairly sustainable in the short to medium term. The main long-term risk is of course the competitive dynamics in the market that someone -- somehow some of the major competitors should start going for volume instead of profitability, but we don't see any signs of that happening at the moment at least, but that's something that's outside of our reach. From where we see, this is fairly sustainable in the short to the medium term.

The uncertainty about the COVID-19 impact is -- it's a good question because this is really an estimate as we try to underline. It's our best estimate of what the effects have been. I don't have a specific band around it how uncertain it is, but it -- there are uncertainties related to this because there are a lot of other effects, including weather and other changes that could have affected this strange from year-to-year. But it is our best effort to give you some numbers on the -- per segment on the COVID-19 effects.

Q - Jonathan Denham {BIO 19972914 <GO>}

Great. Thank you.

Operator

We will now take our next question from Blair Stewart with Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Hi. Good morning, everyone. I've got three questions, please. You've just reported an outstanding underwriting result, I think not for the first time. I'm just wondering and looking through the various segments, it's not obvious where there's a weakness, but you are still talking about pushing through price increases and certain lines of profitability is not where you'd like it to be. Just -- I wonder if you could just give us a bit more color on that because it's not obvious where that is given the kind of outstanding underwriting results that you've been producing.

The second question is just on the reserve releases. Could you just remind us of the expected pattern of those over the next few years? I think you talked, Helge about 2022, '23 when you expect those to drop away, still being able to pay steady dividend. Just really looking for an update on the expected progression of those reserve releases, if there's any change to your previous expectations?

And thirdly, I guess with a view to COVID and certainly what's happening in my part of the world, hardly anyone is working in their offices and there's some concern over the impact that might have on real estate prices in some countries, that doesn't seem to be the case in the Nordic region. Could you just give us some thoughts on that? Is -- are things really back to normal? Everyone going back to the office in the Nordic countries, so therefore, no pressure on the real estate market? Thank you.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Thanks, Blair. In terms of weakness, I think we already in the previous question highlighted that within the property product in the private book and in certain parts of the commercial book, we still see the need for repricing and of course, it's not obvious from the overall figures, but when we look at the need for profitability measures, we much look, of course much more granular and we see some areas where we see a need for more price increases than the expected claims inflation. And then in other parts, the overall picture is that we try to price in line with claims inflation.

Also outside of Norway, it's obviously that we're in -- the profitability level this quarter in the Baltics isn't good at all, and the volatility of the profitability level in Sweden is too high as -- we have a weak second quarter and then a fairly okay third quarter in Sweden. And I think, I said on various occasions earlier that, we need to build a more robust profitability in the Swedish operations and we are working hard to achieve that. So there are weaknesses and rooms for improvement in results and of course, you need to remember that there are -- look through volatility in large losses, of course that is -- every quarter that is -- that's the case.

On the reserve releases, we've been fairly clear that our kind of policy is to reserve every new underwriting year at best estimate. And then we identified a bulk of run-off gains stemming from winters 2014 and earlier, which has led to this NOK250 billion a quarter run-off gains. But when calibrating our dividend profile, the ordinary dividends, we have been very eager to make sure that we can plan this, so if there is kind of no cliff effect when we move from 2022 to 2023, we need to improve underlying profitability and grow the book of business, and I think we demonstrated that we are able to do that. Future reserve releases after that, when we try to reserve at best estimate, it should be zero, and -- but history shows results that on average, I think we have been slightly conservative in the reserving, but the effort is -- our best estimate is what we're aiming for.

Your third question was related to real estate prices. Our property investments are mainly offices in the Oslo area. There could of course be large changes in how that could affect the future, but so far real estate prices in Oslo have actually gone the other way during the pandemic. So there are no signs of that happening at the moment that is then. As what's happening in years ahead, I'm sure you are as a fortune teller as I am, Blair.

A - Jostein Amdal {BIO 19939645 <GO>}

Just to add a comment on the first question. We have, as you know Blair, I will say we have a very unique position in Norway, both when it comes to Private business and Commercial business. And you heard me also said that since 2010, the Foundation, they have paid out NOK21 billion in customer dividends. So the combination of the business itself, our cost position in Norway and the strong and unique customer dividend model, I will say that we have a very unique and strong and robust model also for the coming years in Norway.

Q - Blair Stewart {BIO 4191309 <GO>}

All right. Thanks, guys.

Operator

And we will now take our next question from Hakon Astrup with DNB Markets. Please go ahead.

Q - Hakon Astrup {BIO 18861149 <GO>}

Good morning. Two questions from me. The first one is on growth. You have a strong underlying growth in the quarter at 7.3%. Is it possible to say how much of that comes from price increases and how much is market share in development? That was the first question. And the second question on the impact from COVID. So is it fair to expect some positive COVID-19 impacts going forward as long as we have the current structure -- restrictions in place? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Hi, Hakon, it's -- I don't have a precise breakdown of the 7.3% overall growth in volume and price, but if we look at it segment by segment, there is -- the majority is price, both in Commercial and Private in Norway. But there is also positive volume effects, I mean we've gone through these price increases and still been able to have a high retention and attract new business, especially within the motor business in the Private and in general in the Commercial segment, I would say. In Denmark, we do also have volume growth in the commercial part of the book and the same goes for Sweden. So it's a combination of volume and price in both Denmark and Sweden. I don't have the specific split there. And of course, in the Baltics, we have negative growth and growth that's mainly volume. We try to keep our stand in terms of pricing.

Q - Hakon Astrup {BIO 18861149 <GO>}

If I just -- my follow up on that. So in Norway, who are you taking market shares? Are they from smaller players? Or are you taking market share from other incumbents?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

I'm not sure if we are taking market share. I think it's quite stable, Hakon. The main competitors when we discussed this with the distribution these days in the private line is -- it's Tryg, If and Fremtind, so it's the three large competitors actually. And overall, I think maybe the four significant players in Norway maybe take some small shares together from the small ones, but it's quite stable when it comes to market shares.

A - Jostein Amdal {BIO 19939645 <GO>}

So we take our share of the underlying volume growth.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

That's right, that's right, that's right.

A - Jostein Amdal {BIO 19939645 <GO>}

Your second question on the forward kind of estimates on COVID-19 effects going forward. As we said, travel activity is very low. So there is some small positive effects probably from travel. Apart from that, I don't expect any significant effects really.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

But it's important when it comes to travel insurance, it's important to remember that this is a 12 months product and Norway is a huge country, and it's lots of travel also in Norway. So it's international travels where we have restrictions these days. So yes.

Q - Hakon Astrup {BIO 18861149 <GO>}

Thank you.

Operator

We will now take our next question from Jan Erik Gjerland with ABG. Please go ahead.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Good morning. Three questions from my side as well. First one is the fantastic underwriting you have in Norway and having private at 55.6% claims ratio. How long is really acceptable for you? Or what could customers really accept when it comes to these levels? Is there any sort of lower level here on the profitability at all? Or is it so that you just repay over this fantastic returns should give back to your clients and they are sort of pretty happy with it? That's my first question.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Jan Erik, it's important to remember that when you're looking at the figures, you have to adjust for run-off gains. You have to remember that we pay customer dividend. This year's between 13% and 14% back to the consumers, and you have to -- you must also remember the unique and low cost position and efficiency position. That's really important to bear in mind when you're talking about profitability and future. Jostein maybe commented that, but we -- the growth in private lines in Norway, it's a combination of volume and price. It's more price than volume, but still it's a combination. So -- and the competition is fierce, and finally, it's also important to remember that we in Norway with zero interest level, it's a completely different situation compared to only few years ago. So we think this is sustainable, that's the summary actually.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay. Perfect. And on the pricing and volume, you mentioned in the report that you see some kind of rolling off in travel insurance, and you also have some payment protection schemes in Sweden which sort of give you some headache. And if you can comment also on how you will develop Sweden digital? And that will also be helpful.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. I'll start on the first part of the question, Jan Erik. The volume loss you're talking about in travel is that the bulk of our travel insurance products are 12-month policies. So you don't see an immediate reduction in premium on there, but we also have a part of the travel insurance book that is more travel by travel insurance and sold through travel agencies and so on. And that's more common in the Baltics and on the Gouda brand in Denmark. So there we see a loss in travel business related to their travel restrictions from -- stemming from COVID-19.

On the PPI, we have a small book of payment protection insurance in Sweden. It's not enormous, but it -- yes, when there has been some increase in unemployment that is typically when we do experience losses in that book, yes.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Sweden?

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay, understand. And Sweden, the digital?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Yes, getting that. We do have of course trying to digitalize and automate most part of the business. But we see the need to be -- to differentiate ourselves somewhat in Sweden, given our relatively weak position there. So we decided to intensify our efforts in Sweden to digitalize all our customer oriented processes and automate as much as possible of the -- of what's beneath the hood in internal processes. This should both give us the cost reductions we need there, but also cater better to a more modern customer need there. And also -- yes, so I think, we'll get back more with more details on the future Swedish position at a later stage, but that's the headlines.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay. So will it be on the restructuring cost or any lay-off which will make a significant part of it? Or how should we think about it? Should you run with zero people everything from Norway? Or how should it really be played out?

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, not quite. But it's too early to comment on any specific restructuring costs and so on, but it will probably involve fewer people than today.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay. Finally, just comment on -- and a follow-up on Blair's question on run-off gains. You have this run-off situation up to 2014, if I understood you correctly, six years apart from since 2014, so is it so that we should expect more run-off to come as the sales conservative provisioning levels going forward? Is that what you should prevent your cliffs from coming? Is that sort of an indication?

A - Jostein Amdal {BIO 19939645 <GO>}

No, I think what we're trying to say is that we are intending to avoid that cliff with just pure underlying good profits, growth and profitability level. And our communication, as I commented on Blair's question, remains the same. We reserve at each new underwriting year at best estimate. We have a specific sort of pool of vintage run-off gains from workers compensation and personal and individual motor stemming from 2014 and earlier and we're taking that NOK250 million a quarter approximately. So I'll leave it at that.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay. Thanks for your answers.

Operator

And we will now take our next question from Johan Strom with Carnegie. Please go ahead.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you. Just one question from me. In your target to achieve NOK750 million of underwriting results outside Norway, do you feel that you're running according to plan or maybe a little bit above that?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

I think it's fair to say that we -- if you look at the fingers -- figures, we are ahead of the plan. But what Jostein also said, it's volatile in Baltics, and it's volatile in Sweden and we are going to implement a new legacy system in Denmark. So when we communicated that target, we said that this would be volatile, but we are quite confident that we will reach the target, Johan. I think that's important to remember, that we have a weak position in Sweden and it's more vulnerable in the Baltics. And as I said during my presentation, we are really pleased with the progression in Denmark and that's important.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you.

Operator

We will now take our next question from Ulrik Zurcher with Nordea. Please go ahead.

Q - Ulrik Zurcher {BIO 22026627 <GO>}

Good morning. Thank you for taking the questions. I have two. I was wondering if you could give a bit more color on why the property profitability in Norway isn't exactly where you want it and specific claims inflation so forth? And secondly, I think Jostein, you said you have a reinvestment yield of 3.3%, which sounds a bit high when the Norwegian swap is around 1%. So yeah, what's going on there? Thank you.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Inflation for property insurance in Norway.

A - Jostein Amdal {BIO 19939645 <GO>}

No, the -- why -- the first one, why we're not happy with the product.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Okay, okay. Yes, it's -- when it comes to property, it's volatile and we also have this problem with more water claims, more volatile weather. So when looking at the figures, you have to remember that it has been lower large losses and lower medium size losses in the quarter and in -- during 2020 as a whole also. And we haven't had any significant weather-related situations during this year.

So when we look underlying, we want to secure better, a stronger position to meet more volatile weather situations going forward. It's first and foremost related to water related claims and weather-related claims, but we have improved our profitability significantly, I would say since we started to implement lots of measures not only price measures one year ago. But still we have to look at terms and our tariffs and price measures to secure even stronger underlying profitability for our property insurance in Norway, but we are really on our way.

A - Jostein Amdal {BIO 19939645 <GO>}

And for your second question on the reinvestment yield. I mean these are the reinvestments of what actually matured during the year so far and as you correctly point out, if you look at the interest rate development throughout the year, it's been dropping from the start of the year. So the bulk of the reinvestments we've done year-to-date actually took place not in the third quarter, but in the two previous quarters when interest rates were a bit higher. And there've been some issues with fairly okay yields for a good investment credit, not the third quarter, but in the second quarter for instance. So we've not increased our risk or reduced our credit requirements or anything like that to achieve this, but going forward, we do expect reinvestment yields to continue to drop given where we see interest rates curves are at the moment.

Q - Ulrik Zurcher {BIO 22026627 <GO>}

Thank you. Great.

Operator

And we will now take our next question from Vegard Toverud with Pareto. Please go ahead.

Q - Vegard Toverud {BIO 17129809 <GO>}

Thanks. Good morning. I was thinking about the maintained guiding of 86% to 89% combined ratio with the 50% cost ratio, implying then 71% to 74% claims ratio. What would that be for Q3? So what would you do with your current guiding, expects as a claim ratio for Q3?

A - Jostein Amdal {BIO 19939645 <GO>}

I didn't quite catched what you actually meant, Vegard. It's --

Q - Vegard Toverud {BIO 17129809 <GO>}

I'm just looking at the current Q3 with 64% claims ratio.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Are you asking about (Multiple Speakers) --

Q - Vegard Toverud {BIO 17129809 <GO>}

And you are --

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Please bear in mind that there is seasonality in the numbers, as you very well know. It's second and third quarter are typically much better than the fourth and the first quarter due to just the weather in Scandinavia. So it's probably not so useful in looking at the quarterly figures. We rather look at the 12-month rolling picture and kind of normalized for said we have this NOK1 billion loss in run-off gains per year and normalized large losses, we would now be at 83.9% on a 12-month rolling basis. That is comparable to the 86% that we -- that we guide, that means that at the moment we are below that target there and it's assumed, we say below 15% cost ratio. So if you say 15%, make it easy, that should be almost 69% loss ratio on a 12-month rolling basis. Does that make sense to you?

Q - Vegard Toverud {BIO 17129809 <GO>}

Yes, that makes sense. And also that's -- in the quarter, you have only 0.6% positive impact from COVID-19. And in your pricing, you see some need to reprice in some areas, but our pricing in line with inflation in other areas. So how are you going to get back to 86% to 89% level from the current significantly lower (inaudible)?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

As I asked, I think was on the Jan's question, the first one on the sustainability of 1993. We do believe that at the moment, we will continue to deliver somewhat below. And the main risks to that are of course the long-term competitive situation there and for everything that we have under control, we are -- we have fairly good cost control. So we won't be that we will break on the cost side, so be the loss ratio side. And given the current competitive position in Norway, we are able to get through prices, as we've indicated. And we need to improve the situation outside of Norway to get to the NOK750 million in 2022. So it's -- in the short term, we probably deliver somewhat better, but this is a long-term target. It's not year-by-year target.

Q - Vegard Toverud {BIO 17129809 <GO>}

You look very impressive. Thank you very much for your answer.

Operator

And we will now move to our next question from Alexander Evans with Credit Suisse. Please go ahead.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi, Helge. Hi, Jostein. Just a couple of questions left for me. Firstly, just on the dividend. You sort of paid the ones relating to 2019, sort of as the coronavirus situation seemed to have normalized to some degree. You mentioned sort of the emergence of a second wave. Does that change your outlook on dividends at all similar to the fashion of the start of the year? Or does the guidance from the Norwegian FSA annual capital position mean that you're quite comfortable in paying a dividend if we were to see it worsen? And then secondly, on the own model approval, is there any time line sort of approval of your own model and that dialogue going forward?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

We saw a shift in regulatory stance after clarification from the Minister of Finance in September and they were very clear that they saw differentiating between banks and insurance companies. And it has been no change announced since that. So we are quite comfortable that we will continue as we have been doing for many years with high and stable and -- dividend and now and then, we also look at the total capital position. And as I said, we -- now and then, we also pay out extraordinary dividends. So we are comfortable with that.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, as far as we see it, it will be up to kind of our specific solvency situation, our own assessment --

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Related to the company.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, that was a clear signal from FSA and it's the Board's and then Gjensidige assembly to decide that, not the FSA. On the own model time line, unfortunately, I'm not -- I don't have a time line. It's -- it drags out, but we are working, as you see patiently to get our -- the remaining parts approved at some time and we had a small victory this quarter.

Q - Alexander Evans {BIO 19956412 <GO>}

Thank you very much.

Operator

And we will now take the follow-up question from Jan Erik Gjerland with ABG. Please go ahead.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Yes. Just on Vegard's questions as well. Why would you not sort of seek more growth or profit since you seems to have both available out there and grab some market share for now and then get a better, even better position going forward?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Just to the DNA of the company, at least since I have been here for the last 20 years, Jan Erik, has been to focus primarily on profitable growth and that's still the overall target. And as we communicated, now we have a combination of volume growth and premium growth. So we are really pleased with the situation and the overall growth is really strong. I think it's not right for me to change that in the organization and ask them for -- pushing market shares. We have a strong distribution setup and they aim for growth where they can secure growth in a profitable way and that's the way we steer this company. So in small segments, for some products in regions, of course we -- when it's possible, we will try to increase our volumes, but overall signal from me on this call to the organization to start to run for market shares, that's not right.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Thank you. Very clear.

Operator

We will now take our next question from Thomas Svendsen with SEB. Please go ahead.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes. Good morning. Two questions. First on premiums on the large corporates, you have talked about for some time about increased prices there. Is it -- do you see it's more difficult to increase prices? Or is it easier to increase prices there? Or is it sort of a gradual process of increasing prices in this segment?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

I think --

Q - Thomas Svendsen {BIO 6070863 <GO>}

That's the first question. And the second question is --

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Yes, come on, Thomas, yes.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yeah. Just the second question on motor claims because we had this anecdotes here in Norway, that traffic were up 30% some part of the country and you might expect some more claims from that. Did you see any effect from the increased traffic? Or was it natural both? Thank you.

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Yeah. Large corporates, it's always tough discussions. But I would say that the situation is unchanged since two years back and until now. So it has been easier for us to implement price increases also for large corporates, both direct -- in the direct channel also through the broker channel. So it's unchanged situation compared to what we saw one-year ago and also two years ago, but we are soon reaching 1st of January renewals and that's always tough discussions. But we are, I would say, quite confident that we will continue to these renewals also in a very strong way.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. I guess we'll have more to report on that in the third quarter -- fourth quarter report again. And on the second part of the motor side, we -- I think that the claims pattern also in motor has returned to a fairly normal level after being somewhat lower in the first, say before -- say from March to May somewhat. So it's some more normal pattern, we don't see anything particular within our claims numbers at least.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Thank you.

Operator

And we will now take up one more follow-up question from Blair Stewart with Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Just wanted to come back on the dividend question. You said that the -- your ability to pay dividends will be related to your old solvency situation. But there seems to be a change in the regulatory view compared to earlier this year where there was a blanket ban on dividends. What do you think has prompted that change and what would be the risk that the Norwegian FSA reverts back to that policy where there's a blanket ban?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

Regulation is always a risk, but I think when you read the clarification from the Ministry of Finance in September, it's a very clear differentiation between banks and insurance companies. So we think this will be the situation also going forward. When you look at the solvency position of the companies and Gjensidige today, I do not think -- and also when we commented that macro situation and the forecast for next year, I do not see a risk -- a large risk at least or any changes in that there.

Q - Blair Stewart {BIO 4191309 <GO>}

Was that a regulatory error earlier in the year then do you think?

A - Helge Leiro Baastad {BIO 5865247 <GO>}

No, I will not comment that. It's dynamic, it's dynamic.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Great. Thank you. Very political. Well done.

Operator

There are no further questions at this time. So I would like to turn the conference back to our host for any additional or closing remarks.

A - Mitra Hagen Negaad {BIO 3974076 <GO>}

Right. Hi again, everyone. We will be participating in a number of roadshow meetings and a conference over the next few weeks virtually also this quarter due to the pandemic. The meetings we will be holding with investors in Norway, the U.K., Sweden, Germany, Switzerland, and Netherlands and also the U.S. Please see our financial calendar on our website for more details. Thank you for your attention. Have a nice day and stay healthy. Bye.