Y 2021 Earnings Call

Company Participants

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

Other Participants

- Blair Stewart, Analyst
- Hakon Astrup, Analyst
- Jan Erik Gjerland, Analyst
- Samant Singh, Analyst
- Thomas Svendsen, Analyst
- Ulrik Zurcher, Analyst
- Vegard Toverud, Analyst

Presentation

Operator

Good day and welcome to the Gjensidige Q4 2021 Results Presentation Conference Call. This conference is being recorded.

At this time, I would like to turn the conference over to Ms. Mitra Hagen Negard, Head of IR. Please go ahead.

Mitra Hagen Negard {BIO 3974076 <GO>}

Thank you, operator. Good morning, everyone and welcome to the fourth quarter presentation of Gjensidige. 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 followed by our CFO, Jostein Amdal, who will go through the numbers in more detail. And we have plenty of time for Q&A after that.

Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra. Good morning, and welcome, everyone. I hope you are healthy and well. We are happy to continue breaking records for our results, thanks to our solid brand, efficient operations and dedicated employees, who put strong efforts in serving our customers every day.

Let's turn to Page 2 for some comments on our very solid fourth quarter results. We generated a solid profit before tax of NOK2,850 million. This is the highest we have ever reported in our history. The underwriting result was NOK1,347 million, also record high for a fourth quarter, when excluding run-off gains. Earned premiums rose by a healthy 8.7% or 11.1% in local currency. We continued improving our profitability through both strong growth and very efficient operations.

Our combined ratio for the quarter was 82%. Our cost discipline remains strong, as you can see from the ratio of 14.4% for the quarter. We generated a financial result of NOK1,497 million, primarily reflecting the appreciation in the value of properties in Oslo Areal. Our return on equity came to a very good 31%. Jostein will revert with more detailed comments on our results for the quarter.

So then turning to Page 3, and looking at the year as a whole. We delivered the highest results in the Group's history with a pretax profit of NOK8.8 billion. We met our financial targets on all metrics. The combined ratio was a very strong 80.4%, significantly better than our target range of 86% to 89%, thanks to a very strong performance in Norway and Denmark. It is also worth mentioning that the COVID situation contributed positively with 1.2 percentage points on the loss ratio.

Large losses came in slightly below our expectation for the year, while run-off gains was somewhat higher than the planned releases. The full-year cost ratio was 14.2%. Adjusted for the Baltics segment, it was 13.6%. We have an efficient capital base with a solvency margin of 191% or 181% adjusted for the acquisition of Falck and remaining value appreciation in Oslo Areal to be recorded in Q1.

Annualized return on equity for the year was 31%, reflecting the strong results and efficient capital base. Underwriting results outside Norway, excluding run-off gains came to NOK809 million, while beyond our 2022 target of NOK750 million. And our Board has proposed a regular dividend in line with our dividend policy, I will revert into this in a moment. As communicated at our Capital Markets Day back in November 2021, for the next four years, we have set even high ambitions and I will revert to these shortly.

Let's then turn to the next page for a few comments on the proposed dividend. Our Board has proposed a regular dividend for 2021 of NOK3,850 million corresponding to INR7.70 per share, up 4.1% from the regular dividend for 2020. For our Norwegian general insurance customer, this once again bodes for distribution of a solid customer dividend from the Gjensidigestiftelsen. With this, our solvency margin is at the comfortable level, providing us with sufficient flexibility to maintain our S&P A-rating capacity for smaller acquisitions, organic growth and a buffer for regulatory changes, and last but not least, the capacity to maintain a high and stable nominal regular dividend also after 2022 when the period with the planned NOK1 billion a year reserve releases ends. As previously communicated, our dividend streams have been calibrated to avoid a cliff in the regular dividend curve in 2023 and onwards. We expect the regular dividend at the point to reflect underlying earnings capacity.

Then, turning to Page 5, a few words about our operations. I will start with inflation. We continuously monitor the development in close cooperation with our partners and we are well prepared. This is simply ordinary course of business for us. We are confident of our ability to stay ahead of the inflation curve based on our strong competitiveness and supplier agreements in Norway with the best terms and conditions. Overall claims inflation in our markets remained broadly within expected levels and we do not currently see any areas of significant concern.

Repair costs were to some extent impacted during the fourth quarter and we expect this to continue this year and we are prepared the extent, reach and duration of the inflationary pressure is uncertain. Based on our latest analysis, we expect an increase in claims inflation for private property in Norway of around 6% to 7%. This is 1 percentage point up from what we expected last year due to the uptick in labor cost in the building sector.

For motor in Norway, we expect claims inflation to remain at 4% to 6%. We will continue to raise prices for private property insurance in Norway well above expected claims inflation. For motor, we will continue to raise prices at least in line with the claims inflation.

Sales in private Norway have been strong this quarter too. Business volumes are up. And we have managed to continue to put through necessary price increases, while further increasing customer retention. Our excellent ranking in Ipsos reputation survey is a pleasant reminder of how we are viewed among Norwegian customers.

The commercial segment also continued the good development through the fourth quarter. January 1st renewals are very strong, adding new business and putting through necessary price increases. Retaining remained at the high level. Going forward, we will continue to raise prices beyond claims inflation for certain pockets in the large corporate portfolio. The market continues to be hard, so we expect to be able to put this through.

The strong momentum in Denmark continues with good premium growth and higher profitability. We are looking forward to reaping the benefits from our new core IT system, which will, in many ways, be a game changer for our operations here, and in due course, in the rest of the Group. We have included our new partners Toyota and two saving banks in Denmark, and we continue to migrate existing private customers.

Sweden is the next in line in implementing the new system with the planning process starting this year. Our results in Sweden are volatile, and overall not satisfactory yet. However, I'm confident that our efforts as we explained at our Capital Markets Day will prove successful in improving profitability in the future. Results in the Baltics are still far from satisfactory. We are carrying out two [ph] assessments of necessary measures to turn around the situation.

Then over to Page 6, and a few words on our strategy and priorities towards 2025. As explained at our Capital Markets Day, the core of our strategy is being best today and well -- as well as best tomorrow. We have strong growth ambitions which is crucial for maintaining of a strong competitive position. We see a considerable organic growth potential in our markets and we will continue to seek value-enhancing inorganic growth opportunities either through bolt-ons or through larger M&A deals when the right opportunities arise.

We have a clear set of priorities towards 2025. These are centered around building on our strong and unique position in Norway improving profitability outside Norway and demonstrating capital discipline. So over to Page 7, and continuing on the topic of growth. We are very excited about our recent agreement to acquire acquired Falck's roadside assistance business in Norway, Sweden, Finland, Estonia and Lithuania. We expect the transaction to close later this quarter. Together with the two toll companies now merged into fleets, we are further strengthening our position in the mobility space. We see interesting opportunities in offering mobility related services in new smart and transparent ways to ease mobility needs for our private and professional customers.

Another initiative is Lettlant, of a new car sharing insurance. This reduces the hassle of lending cars to friends and family, and it is also favorable in terms of sustainability by contributing to high usage of the existing car fleet. Earlier this month, we launched of a new home seller insurance in Norway partnering with selected real estate agents. We see a very interesting market potential for this type of insurance and expect to gradually grow sales reflecting our market share.

Over to Page 8. I'm very happy to see of a strong sustainability efforts through 2021 and the strong recognition of our efforts. We have succeeded in implementing a number of measures to reduce of claims carbon footprint. Our employees continue to feel engaged despite the still ongoing pandemic. And we have taken many steps to prepare for the EU taxonomy reporting. And our new and ambitious goals presented at our Capital Markets Day back in November confirm of a strong sustainability ambitions.

So with that, I will leave the word to Jostein to present the fourth quarter results in more detail.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody. I'll start on Page 10. We delivered a profit before tax of NOK2,850 million in the fourth quarter, well above the fourth quarter last year. Both our underwriting result and financial results, contributed to the increase. The increase in the underwriting result was primarily due to premium growth and lower large losses. Our operations in Norway and Denmark were the main contributors for the improved results, while our Swedish and Baltics segment generated lower results.

The COVID-19 impact on claims continues to decline. We estimate a marginal positive impact of approximately NOK35 million or 0.5 percentage points on the loss ratio for the fourth quarter compared to 1.9 percentage points in the fourth quarter of 2020. So far, we do not see any major changes in terms of the long-term impact on customer behavior or the risk picture.

Turning to Page 11, earned premiums were up 8.7% or 11.1% adjusted for currency effects. All segments recorded higher premiums in local currencies. We saw a strong increase in premiums for the private segment driven by price increases on motor, property and accident and health insurance as well as higher volumes for motor insurance. We also increased the number of our customers. We maintained our strong market position and competitiveness. Demand for travel insurance is still picking up, bringing the total volume just slightly below pre-pandemic levels.

The rise in premiums in the commercial segment followed effective pricing measures, solid renewals and portfolio growth, including one new large contract included from the first quarter in 2020. All the main product lines in this segment recorded higher premiums. Premium growth for Denmark was strong at 9.7%, measured in local currency, driven by the commercial segment and the contribution from NEM Forsikring. The January renewals are good. Travel insurance volumes increased considerably compared to the same quarter in 2020, although they were still somewhat lower than pre-pandemic levels.

Premiums in the private segment decreased somewhat due to competitive pressure. Earned premiums in Sweden, measured in local currency, increased by 14.3%, due to volume growth and price increases in the commercial portfolio. The increase was also due to some extent driven by a negative impact related to profit sharing of a partner agreement in the private portfolio in the fourth quarter of 2020. This was slightly offset by a volume decrease in the private portfolio. We are very pleased to see that customer retention for both segments in Sweden improved, now up 2.1 percentage points to 79.2%. The rising premiums in the Baltics was driven by growth in most lines, particularly health and motor insurance. Travel insurance volumes increased significantly, although they are still below pre-pandemic levels.

Turning over to Page 12, the loss ratio for the fourth quarter improved further, down 0.8 percentage points to a very strong level of 67.6%. Large losses were down with a number of levels significantly below our expectation for a quarterly average. Run-off gains were slightly higher than both the fourth quarter last year and planned releases. The underlying frequency loss ratio increased by 0.8 percentage points. Adjusted for the effects of COVID-19, the underlying frequency loss ratio improved by 0.9 percentage points with effective pricing measures, solid renewals and good risk selection being the main drivers. We continue to improve our results in Norway and Denmark, and we're happy with both the progress and the level of profitability. Although the results of Sweden are volatile, we are convinced that the measures we have already implemented, and our continued efforts will improve results for this segment. The Baltics have a further way to go, and as Helge mentioned, we are terrifically addressing our measures to ensure a turnaround.

Let's turn to Page 13. We recorded NOK1,076 million in operating expenses in the quarter. Our cost ratio moved further down by 0.3 percentage points to 14.4%. And if you exclude the Baltics, the cost ratio was 13.8% for the quarter and 13.6% for the year as a whole. The main driver of this improvement is premium growth and strong cost discipline in the

Group. Our low cost ratio in Norway came further down by 0.6 percentage points to 11.2%. Denmark recorded 1.3 percentage points decrease in the cost ratio to 13.7%, driven by good premium growth. The cost ratio in our Swedish business improved by 2.9 percentage points, coming to 19.6% for the quarter. The cost ratio in the Baltics was stable at 29.1%. We see a strong potential to enhance cost efficiency in this segment.

A few comments on our pension operation on Slide 14. The pretax profit came to NOK59 million, up year-on-year, reflecting growth in the business. Assets under management continued to grow, reaching NOK51 billion in the fourth quarter. Annualized return on equity was 14.9%. The solvency margin at the end of the quarter was 147% after taking account of a dividend of NOK150 million. So far, the introduction of individual pension account has not led to any significant change in the market dynamics. The process of transferring policies was completed in November. It's prudent to expect some pressure on profitability in the short to medium term.

Now moving on to the investment portfolio on Page 15. Our investment portfolio generated a return of 2.5% in the fourth quarter. The match portfolio returned 0.5% and the free portfolio returned 5.6%. The result for the quarter was positively impacted by value appreciation on the property assets in the free portfolio related to Oslo Areal. Strong returns for equities, including private equity, also made good contributions. Although actual inflation and inflation expectations grew in the quarter, rates moved moderately and credit performed well. The Oslo Areal transaction was closed in January 2022 and the remaining approximately NOK800 million in profit from the transaction will be booked in the first quarter of 2022.

Over to Page 16. Our capital position is very strong with a solvency ratio of 190% at the end of the quarter. Ratio is up 8 percentage points from the end of the third quarter with the main driving being the strong result. Both the Solvency II operating earnings and the result in the free portfolio increased the eligible own funds. This was partly offset by the acquisitions of NEM and the toll companies. The funds also take account of dividends with a net effect from regular dividend proposed by the Board and the formulaic dividend. Our capital requirement rose as a result of growth in our P&C business, including the acquisition of NEM. The market risk also increased due to higher market values in the free portfolio, including the appreciation of the value of properties related to Oslo Areal. The acquisition of Falck and the remaining profit from the sale of Oslo Areal is estimated to reduce the solvency ratio by approximately 10 percentage points, all other things being equal, bringing the solvency ratio down to 180%.

Finally, a few words on the latest development of our operational targets on Slide 17. I'm very pleased with the progress on our operational targets. By delivering on this, we continued to improve our competitive position and laid the ground for future profitability. Customer satisfaction continues to be at a very high level. Retention in Norway is slightly up from the last quarter from an already very high level. And the retention outside Norway has improved in Sweden and the Baltics, but is somewhat down in Denmark. We have further exceeded our target on sales effectiveness based on running 12 months at 25% compared with the base running year 2017, driven by a combination of good sales and stringent cost control.

The share of automated tariffs is stable compared to the level last quarter, and we currently stand at around 55%. Progress is good, and we'll continue to include more products going forward in addition to further refining tariffs already included. On the claims handling side, digital claims reporting has gone slightly up this quarter and remains at the target of 80%, and the share of claims handled fully automatically has improved as well. We've continued to develop these digital services further going forward. As mentioned at our Capital Markets Day, we have selected a new set of operational targets for the next four years, replacing some of the KPIs with new ones. We're reporting on these new ones from the first quarter in 2022.

I'll then hand the word back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Then to sum up on Page 18. We are very pleased with the solid results we continue to deliver. We have set ambitious targets for the next four years, and we are confident to deliver on them. We will continue to focus on profitable growth, and together with strong and efficient operations of a strong product offering and encouraging economic prospects in our markets, this should bode well for continued solid results and attractive returns.

And with that, we will now open for Q&A session of this presentation. Thank you very much.

Questions And Answers

Operator

Thank you. (Operator Instructions) We will take the first question from Hakon Astrup from DNB Markets.

Q - Hakon Astrup {BIO 18861149 <GO>}

Hi. Good morning. Two questions from me. And the first one, high level one around the strategy, around mobility. So in order to build an ecosystem around the car mobility that you are pleased with, in your view, do you need to complement your current offering with additional acquisitions?

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

Good morning, Hakon. I think this is actually absolutely too early to say something concrete on that. We are really pleased with the acquisition we have done with the toll companies and Falck, and this will strengthen -- these three acquisitions will strengthen our position in the mobility space by integrating complementary service. And we could add on lots of services without buying companies because this new mobility group outside Gjensidige could be a very attractive partner for lots of service providers. So that's -- I think that's a more interesting strategy going forward instead of buying lots of companies outside the non-life insurance base.

Q - Hakon Astrup {BIO 18861149 <GO>}

Okay. I see. Thanks for that. And then on the claims inflation side, you stated that you are expecting somewhat higher claims inflation in the property segment. In your view there, are you ahead of the curve with these price increases? Or is there a risk that we can see some short-term mismatches where claims inflation takes effect before the price increases come into force?

A - Jostein Amdal {BIO 19939645 <GO>}

No, we are still ahead of the curve in the sense that we are increasing premium levels more than the expected claims inflation going forward, which means that the loss ratio, everything else equal, should continue to improve. But of course, the improvement is slightly less when we increase our inflation expectation, but there's a very marginal increase from the last quarter, I would say.

Q - Hakon Astrup {BIO 18861149 <GO>}

Thank you. That was very clear. And just a last quick one for me. Any particular reason why the Board did not propose an extraordinary dividend for 2021?

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

You know us, we're very well hopeful and this is a debated with the Board of Directors continuously and now and then, we pay out specials. We will continue to do that. But connection with the full year and fourth quarter, it was NOK7.70 ordinary and no specials. But of course, when it's right for us to pay out specials, we will continue to do that.

Q - Hakon Astrup {BIO 18861149 <GO>}

Perfect. Thank you so much.

Operator

We will now take the next question from Blair Stewart from Bank of America.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you, and very good morning to you all. I've got -- I have got four questions. My first question is just to ask you to talk a little bit more about the new IT system. You talked about that in Denmark being a game changer, and obviously, be rolled out into the rest of the company. What's the timeline for that? And what does it enable you to do that you cannot do today? Just interested in the game changer comment. Thank you.

The second question is with regards to inflation in the labor market. I know you're pricing for that and I trust fully that you'll be able to do that. But what about the impact on your claims reserves, particularly for longer duration claims like workers' compensation, et cetera, is there any need to go back and increase claims reserves for inflation?

My third question is, I wonder if you can comment on how you plan to replace the lost investment income from the real estate book, which was high yielding. I mean, you did get a very good price for that. So no complaints on that aspect, but it was high yielding. And what should we expect in terms of the impact on an ongoing basis from lower investment income? How do you plan to reinvest those proceeds?

And fourthly, and apologies for bringing this up, but the Baltics, throughout the time that I've covered the company, which is quite a long time, has always disappointed. I think in the last 10 years, cumulatively, you've made an underwriting loss of about NOK30 million, and I think going back to 2006, you've barely made any underwriting profit cumulatively. So I mean, bluntly, what's the point of having the Baltics? And wouldn't you be better selling that to someone else and moving on? Thank you.

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

Good morning, Blair. The new core system, it's a huge project, and we have worked with our partner for a couple of years already. And in Denmark now, we have started with all sales and migrating on the private side, as we speak, the business over to the new system. It works very, very well. And we plan to continue with commercial during this year. And as I said during my presentation, we are planning for Sweden this year, starting up next year in Sweden, and finally, in Norway. And as I have commented several times before, our present system is from '90s and we are now working with partners much more agile product development. So the new system will give us competitive advantage, enable us to shorter time to market, competitive pricing and operational efficiency, so it's lots of gains. Speed is one of them, ability to change product prices, terms, conditions, taking onboard partners in a speedy way, and of course, it will also be much more cost efficient. So this is a core system for the future, and I believe that all the insurance companies in the Nordics have to do the same and they are partly in the same type of process as we are. So Denmark, we are up, and we have gone live on the private. We are migrating the business on private, starting commercial later this year, planning in Sweden this year, starting up in Sweden next year and finally, in Norway. When we really know this system all kind of problems when implementing the system, we are taking this engine into the Norwegian market at the end. So I think we are talking then about '25 or something like that.

Q - Blair Stewart {BIO 4191309 <GO>}

Great. Very clear. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

May I also add to that question? The reason for taking Norway last is that the current system is much better in Norway compared to Sweden and Denmark. That's why it's less urgent here as well.

On the second one, labor market inflation or wage inflation, I totally agree, this is a risk on the reserving side for most longtail lines of business. We are well aware of that and try to factor that into our reserving. I'm confident that we have the right reserves given the long-term wage inflations expectations that we do have, but of course, always a risk that we might -- that it might surprise on the upside. But what we've seen so far hasn't led to any significant changes in reserving. And of course --

Q - Blair Stewart {BIO 4191309 <GO>}

Can I just ask you then why that's the case? If you have changed your inflation expectations, why you haven't reflected that in reserves? Have you not changed your long-term inflation expectations? Is that the answer?

A - Jostein Amdal {BIO 19939645 <GO>}

I think in the medium term or short to medium term, it's increased, and that is reflected in the reserves, meaning that they have actually strengthened the reserves where we need and the long-term inflation expectations hasn't changed that much. I mean, long term, meaning more than five years ahead. And this is a reserve stretching out 40 [ph] assets.

Replace real estate income was the third one. We just received the cash, which was current at the moment, not reinvested in anything else than fixed income, but it will be deployed into a broad set of assets, including possibly real estate type exposure. But we'll get back to you with more information when we have the first quarter results to see what we've done when we come there. But if we have a balanced portfolio, we think there is no need to kind of change the long-term expectations on the returns there.

Fourth one, Baltics. Agree, performance is not by any means good at the moment. It hasn't been as a total for these 15 years, not been good enough. And we are addressing these issues with a full review of the Baltic operations. And as I've said a couple of -- a year or two now, we have a pragmatic approach to kind of the -- our exposure there. We are open for various structural discussions as well.

Q - Blair Stewart {BIO 4191309 <GO>}

Great, thank you very much.

Operator

The next question comes from Ulrik Zurcher from Nordea Bank.

Q - Ulrik Zurcher

Good morning. Just one question for me. Your retention ratio in Denmark declined a bit in the fourth quarter, and I'm assuming that might be the need to the churn we're seeing? How should we think about the net of churn growth -- premium growth in Denmark in 2022? Thank you.

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

I guess, the latter we are not commenting. But the first is right, Ulrik, it's related to the competition in the private segment. My comment on that is that it has been tough competition during 2021. But we also see this as -- and we have been through this kind of changes before with partners, and typically, the first year is the toughest one. And then it's a more natural development when you come after one year. So we are optimistic regarding our position there, the growth potential, both within commercial and private. And we think after one year, it will be more, I would say, more natural competition going forward.

And I guess, the second part --

Q - Ulrik Zurcher

Okay. That's clear. Yes.

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

Yes, fine. Okay. Thank you, Ulrik.

Q - Ulrik Zurcher

Yes, thank you.

Operator

The next question comes from Thomas Svendsen from SEB.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes, good morning. Moving over to M&A again, could you sort of indicate the pipeline or ROI [ph] position you look at or at least sort of indicate if you're looking at a lot of possible acquisitions or a few thinking about the next couple of years? And the second question, Sweden, could you just repeat again why you are moving [ph] -- you'll [ph] sort of fix the Swedish program given sort of different market dynamics there? Thank you.

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

I can take the M&A question and you do the second one. Do you want to take the second?

A - Jostein Amdal {BIO 19939645 <GO>}

I'll first talk [ph] on the M&A side.

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

I can start on the M&A side overall, Thomas, and this is also related to Hakon's question. We are primarily eager to grow within general insurance in the Nordics and the Baltics. That's my first statement. And the list has become shorter, as you know, but there is room for further consolidation in our markets. And Jostein is responsible for M&A and the list is we have discussion regarding potential acquisitions in all markets. And I will say that bolt-on acquisitions is the most probable outcome for the next few years. But what we also have experienced because the dynamic is like it is due to consolidation, mobility development that we also have more interesting dialogue with larger companies. So we have interesting dialog in all markets and the appetite is first and foremost within general insurance.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, on the Sweden side, I mean, M&A could be part of that story as well and bolt-ons. But the reason why we are -- have a fairly high degree of conviction that we'll be able to return to much better profitability levels there is the measures that we talked about on the Capital Markets Day in terms of digitization, automation of the processes there and the somewhat modified approach to the market there. So -- and we've seen that improvement going through 2021 in underlying results and growth returning. So I think that trend will continue in 2022. So that's the reason for the, as you put it, the high degree of conviction.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay. Thank you for that.

Operator

(Operator Instructions) We will now take the next question from Jan Erik Gjerland from ABG.

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

Yes, good morning. A couple of questions from my side as well. The first one is what kind of risk are you adding on the commercial side? How do you price it versus those you have sort of -- from those they have left? And if you can shed some light into your growth on the commercial side, and especially, the volume?

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

Jan Erik, it's Helge. Could you please repeat what kind of -- could you please repeat your question? It was --

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

You have grown your commercial book on volumes. It seems like you added customers. Could you shed some light into what kind of customers you have taken on and where and who you've taken them from?

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

Yes. I said that we have very strong renewals into 2022, and that's actually the fourth year in a row with very strong renewals. And if you look at commercial, it's -- if you look at the premium growth within our commercial book, it's 50-50 volume price. So it's a very nice and good balance between price adjustments and new customers. The commercial segment exposure in Gjensidige is primarily towards sectors such as agriculture, property and construction, retail and housing associations. So -- and SME is a very important part of this. We have not entered into any large specific accounts or customers on new areas. It's more of the same. And therefore, I'm, I would say, extremely proud of and satisfied with the performance in the commercial division in Gjensidige.

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

Okay, thank you. Could you give us some insight, you said the solvency ratio will come down by 10 percentage points after you have actually sold Oslo Areal. So after COVID [ph] the 190 would be 180, if I understood you correctly. Could you shed some light into why that is the ratio or why that's happened?

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, what is kind of the missing link between the 190 we report and the estimated 180 is the effect of the Falck transaction, which we announced would be at around SEK1.4 billion, and that has a direct impact on solvency, and that is assumed to be approved by competition authorities in February, some time in February. So that is the mix (inaudible).

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

Okay. So it has nothing (inaudible) as such?

A - Jostein Amdal {BIO 19939645 <GO>}

No, it's the main -- the main thing is Falck, since we booked -- yes.

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

Okay, understood. You have had some heavy weather -- go ahead.

A - Jostein Amdal {BIO 19939645 <GO>}

No, please, Jan Erik, go ahead.

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

Okay. You have had some heavy weather now at the start of 2022. Could you give us any insight how damaging that has been? First, there were some heavy storm Gyda and then there were heavy rain for several days and then another heavy weather. Has that impacted your expectations for the first quarter, weather effect or large losses in any way?

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

Yes, that's, as you said, first quarter Gyda and the weakening [ph] after, I think it's 500, 600 claims or something like that, and it's very manageable amount of money involved. Of course, it's lots of work for the claims organization, but it's not significant, and it's classified that as natural peril and managed through the natural peril fund. So I would say that this is very manageable. It's more work than money.

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

Okay. I see. Could you shed some light into the partner agreements you have lost to these new toll [ph] companies worrying [ph] and I read some court issues over some type of clients you have sort of forced back or something like that. Could you shed some light into what's the discussion? And how your view is on it? And what the outcome on the premium side could be?

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

Yes. As we have commented before, the mutual fire insurance, they are agents for us in specific regions around in Norway. So -- and they, in addition to being agents for us, they underwrite fire policy themselves. And as you know, it was termination between us and four, five mutuals in 2020, they moved over to Frende, and from 1st of January last year, we defended our position, and a significant share of customers have chosen to continue with Gjensidige.

Just to remind you of the premiums, the four mutuals terminating, they represent a total premium of NOK650 million, of which 15% fire coverage. And as I said, a significant share of customers, they have chosen to continue with us, even more than significant share, actually. And the court ruling, it's discussion around several things. It's not in the paper today, it was regarding marketing and competition. The main part of the court ruling of NOK103 million is related to provisions actually and discussions regarding provisions and provisions after discontinued agreement. Remember, we have been together since 1850, so everything wasn't actually regulated. And we have partly recognized this in our 2021 figures. And as you saw today, we are surprised and disappointed over the sentence and have appealed. And I want to also add that the remaining 11 renewed multi-year contracts with us, the 11 fire mutuals and we have a very strong and mutual beneficial development. So we have a really good cooperation together.

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

Okay. I see. Just final on the run-off potential loss, which you had are a higher provision for wages. Did you do anything of those in this quarter or the prior quarter?

A - Jostein Amdal {BIO 19939645 <GO>}

It's been low, but gradually increasing throughout 2021, reflecting the -- as wage expectations have developed. So it's all kind of included in the accounts in 2021 during the year. No specific increase in the fourth quarter.

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

Okay. So a little bit more at the end, but gradually during the year.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, they have -- I think we have had more after the -- in the third and the fourth than earlier. But this is in a way nothing different from what we always do when we set the reserves. We do look at kind of all underlying factors and modify as soon as we see the need to modify both ways, both up and down, depending on the case. So for us, this isn't anything irregular.

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

Great, thank you for the answers. Have a good day.

Operator

(Operator Instructions) We will now take our next question from Vegard Toverud from Pareto. Please go ahead.

Q - Vegard Toverud {BIO 17129809 <GO>}

Hi, good morning. I have a question to the premium development in private Norway. It seems to be coming down slightly in Q4. Is this just fluctuations? Or is there something happening with the market dynamics or any other elements here? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

This is just normal fluctuation. There has been no specific changes in the fourth quarter as such there. We continue to see a mixture between good volume and price, volume growth and price increases in the motor whereas in the property side, it's much more skewed towards price increases. And then, of course, you have the travel part where the volume is -- has a negative development, but the price is a positive development or negative to flat development. So I think that's -- the picture is very much unchanged from previous quarters of 2021. But there will be some changes from quarter to quarter depending on the car side, for instance, the new sales are impacted by which models are launched this quarter and so on. So this is naturally fluctuating somewhat from quarter to quarter. Our competitive position, as mentioned, if we look at the market share over a couple of quarters is still very strong.

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

Very strong, actually, and strong beginning of 2022.

Q - Vegard Toverud {BIO 17129809 <GO>}

Great. And just continuing on that comment, Helge, with the 1st January [ph] renewals being done, what could we expect as growth in -- or to put it another way, what kind of price increases will you get to with your 1st January renewals on the corporate side?

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

I think we have commented claims inflation, and this is -- and we have also commented that we have more or less priced in line with claims inflation for the motor side and above regarding properties. So when it comes to the commercial business, it's more -- it's customized depending on risk premium, but it's a significant level. I don't want to give you an exact number in average for -- of commercial book. But as I said, we have continued our very successful pricing efforts in the commercial segment into 2022. And you remember that last year, we had one significant account. And if we adjust for that, we have increased our business volume significantly from last year into 2022 and are very pleased with that. So strong renewals, encouraging and so far, hard market. So it's customized. The pricing is customized. But remember what we said regarding claims inflation and pricing related to property and motor.

Q - Vegard Toverud {BIO 17129809 <GO>}

No, I'm just curious. The growth we see now in Q4 is a good starting point for growth also going into next year, yes?

A - Jostein Amdal {BIO 19939645 <GO>}

I think that goes a bit far towards guiding, Vegard, and we'll refrain from that. But there were January 1 renewals where we're quite positive, I think, as Helge underlined, so it will be a very positive growth also in -- or very high growth also in 2022.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. And can we see any volumes from the new home seller insurance on the private side already also in 2022, and so in that case, in which quarter should we start to expect volumes?

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

You will see that gradually, but we are far below our market share from the beginning. We are learning. It's a new product. It's a new market. And as I said, we have dialog with lots of real estate agency, and they have a contract with some agencies, and we have ambition over time to gradually build up the market share towards our general market share. But we are far below now.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. And then just finally on pension here. Margins on the administrative side seems to be coming down in Q4. Is this just temporary or fluctuation effect? Or is this a final or increased competition or something else?

A - Jostein Amdal {BIO 19939645 <GO>}

I don't get the start of the question, Vegard. It was a bit blurred there.

Q - Vegard Toverud {BIO 17129809 <GO>}

Sorry. On the pension and savings side, if you look at the margins on the administrative side, there it seems to be coming down in Q4. So my question is really, if this is a new level or part of competition? Or if this is just the fluctuations or any other effects that temporary impact to Q4 numbers?

A - Jostein Amdal {BIO 19939645 <GO>}

There are -- behind that administration margin, there are also somewhat increased cost level also in here, which is kind of a buildup of staff to meet higher volumes going forward. So it's -- and also the changes in the core system, some costs there. So it's more on the cost side than the margin out to the customers we're talking about there. And of course, in the longer term, as we talked about on pension account, we'll have a lower margin than the pension capital certificates that we had -- that they are replacing. So longer term, we say that the margins will come somewhat down in the pension side.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay, thank you.

Operator

We'll now take the next question from Samant Singh from Citi.

Q - Samant Singh {BIO 20384953 <GO>}

Yes, hi, thanks for taking my question. Just coming back to Baltics, again, I understand this is like a growth market for you. But if you can sort of already have (inaudible) secured [ph] but you can just talk about what other structural measures you're taking there and sort of any guidance on when can we expect the segment to be profitable? So just one on the Baltics.

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

Samant, it's very difficult to hear you. Could you speak more directly into the receiver?

Q - Samant Singh {BIO 20384953 <GO>}

Okay. So is it better now? Can you hear me?

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

A little bit better.

Q - Samant Singh {BIO 20384953 <GO>}

Okay. So my question is on Baltics. I just -- I mean, I see that that still remains a good growth area for you. But you also alluded some structural changes that are being done there. So can you just talk about the structural changes, and if you can give guidance on sort of when we can expect this segment to turn profitable? So that's it, just on Baltics.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll go on that, and you can answer the next question afterwards. But then I think as we talked about a bit in the presentation and in an earlier question, we are not at all satisfied with the development, of course, or the level in the Baltics. And we have implemented measures in terms of pricing, which gives a short-term effect, but also looking very much on the structure of the business as such to get costs down from the 29.1% cost ratio that we are currently, and this is obviously going to -- I mean, we are very confident that we'll get the cost ratios down. That's the easiest part. Price increases are implemented. And we will, as I commented on the previous question, also be kind of pragmatic in terms of other structural solutions. But the main point is that we think we'll -- we are turning around this business. I won't give you a very detailed timeline for that. But it is -- I mean, this is non-life insurance in the Nordic Baltic area. It's still core business, although we are pragmatic in terms of structural solutions.

Q - Samant Singh {BIO 20384953 <GO>}

Okay. Thanks. Thank you.

Operator

There are no further questions at this time.

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

Thank you very much. All right, everyone. Thank you for participating at the call today. We'll be having a number of virtual roadshow meetings and participating in conferences over the next few days and weeks. We will be speaking with investors in Norway, the UK, the US and Canada. So -- and for a more detailed overview of that, please have a look at our website under Financial Calendar. Thank you for your attention, and have a nice day, everyone.