Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Blair Stewart, Analyst
- Hakon Astrup, Analyst
- Jan Erik Gjerland, Analyst
- Johan Strom, Analyst
- Thomas Svendsen, Analyst
- Ulrik Ardal Zurcher, Analyst
- Vegard Toverud, Analyst
- Will Hardcastle, Analyst

Presentation

Operator

Good day, and welcome to the Gjensidige Q2 2021 Results Presentation. 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. Good morning, everyone, and welcome to the second quarter presentation of Gjensidige. My name is Mitra Negard, and I am Head of Investor Relations. As always, we will start with our CEO, Helge Leiro Baastad, who will give you the highlights of the quarter followed by our CFO, Jostein Amdal, who will go through the numbers in further detail. 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 very happy to see that the recovery from the pandemic is moving ahead many places in the world. Rising delta cases are a concern. However, it appears that the general direction is positive and the economic outlook at least in our part of the world is very promising. I am very proud of our organization's handling of the extraordinary situation we have all endured, and I am very pleased to see that Gjensidige's strong momentum has continued into the second quarter.

Let's turn to page two for some comments on our very strong second quarter results. We generated a solid profit before tax of NOK2,330 million, of which NOK1,527 million in underwriting results. This is the best ever second quarter underwriting result in our history. Earned premiums rose by a healthy 6.1%, reflecting strong sales, solid renewals, and effective and differentiated pricing measures, and we further strengthened our strong market position.

We continued improving our underlying profitability through both strong growth and very efficient operations. Our cost discipline remains strong, as you can see from the ratio of 14.2% for the quarter. And we generated a financial result of NOK802 million, altogether contributing to a very strong return on equity of 27.7%. Jostein will revert with more detailed comments on the results for the quarter.

Turning to page three and our unique customer dividend model. For the 12th year in a row, Gjensidigestiftelsen has distributed its share of regular dividend from Gjensidige to our general insurance customers in Norway. This year, more than 800,000 customers will receive a total of NOK2.3 billion, corresponding to 13% of the premiums paid in 2020. The customer dividend model is highly valued by our customers and supports our strong brand and delivery of superior customer experiences. As you can see on this slide, the model is well known.

Then turning to page four, a few words about our operations. Let me start with Norway. Operations continue to run very well despite remote working for almost all Gjensidige employees through the quarter. We plan to gradually return to our offices after December. We have gained valuable experience over the past year and explored the possibilities which lie in remote work, and we will take this with us in our planning going forward.

Sales have been strong this quarter too, particularly in the private segments. Business volumes are up and we have managed to continue to put through necessary price increases while maintaining high customer retention. The commercial segment has also continued good development through the second quarter with strong renewals, adding new business and putting through necessary price increases. Retention is at a good level on 91%.

The Norwegian Association of Insurance Brokers ranked us number one among the P&C companies in Norway for the second year in a row, emphasizing our professional ability, expertise, claims settlement, timeliness, and predictability. This is a great recognition of our highly qualified staff and the efforts they put forth for our customers every day. And although we don't primarily focus on market shares, we are happy to see that our shares of the commercial P&C space in Norway climbed further to 30.1% in the first quarter.

Going forward, we will continue to raise prices in Norway to reflect claims inflation. And for private property and certain pockets in the large corporate portfolio in the commercial segment, we will raise prices beyond claims inflation to improve profitability. I will revert to the topic of inflation on the next slide. With no signs of market contraction so far, promising economic outlook and a continued firm market, we expect premiums in Norway to continue the strong development.

We recognize the importance of taking a holistic approach to our customer needs. As discussed before, we have strong ambitions for our position in the Nordic mobility space. Executing on this, we have recently entered into agreement to acquire two toll service providers in Norway, the purpose to expand our offering with complementary services, simplifying vehicle ownership and further strengthening the relationship with our customers. We are awaiting regulatory clearance and hope to be able to close the transactions later this year.

Over to a few comments on our operations outside Norway. We have had good progress in our Danish operations. We will be adding new business later this year through the acquisition of NEM Forsikring. NEM's customer portfolio, partners, and insurance products make a good strategic fit for us. And we are particularly excited about the opportunity to tap further into bancassurance through NEM's two saving banks partners. We have also entered into a partnership agreement with Toyota, this time in Denmark, providing a strong platform for growth in the car dealership channel.

We have moved forward on the launch of our new core IT system, gradually opening up for sale of private products. We will be moving our existing contracts later this year before moving forward with commercial insurance lines in Denmark. We are convinced about the benefits of the new system and look forward to generate efficiency gains from next year.

Profitability in Sweden and the Baltics is not satisfactory. As mentioned earlier, we are fully focused on transforming our Swedish business to become a more digital insurance provider. Our ambition is to deliver excellent customer experiences through digital services and a high degree of automated internal processes. We look forward to speaking more about our measures later this year. We have a clear ambition to improve results in the Baltics with a particular focus on distribution, pricing, and claims handling processes.

Then over to page five, and a few comments on the inflation, which has caught high attention lately. Supply shortage and high demand have led to a surge in prices for many products among others, construction materials. The extent, reach, and duration of the inflationary pressure the world is experiencing now is uncertain and widely debated.

In our business, agility is key to maintaining good profitability. We need to make sure our pricing stays ahead of inflation. There are several factors mitigating the impact that the mounting inflationary pressure within certain materials has on our business. More than 90% of our motor and property claims settlements are managed through suppliers, which we have multiple year agreements.

We have of course the best terms in the market, reflecting our superior position in Norway and mitigating the impact of rising inflation. The terms in our contracts for property repairs are such that labor rates are fixed for one year at the time, according to a pre-defined index. The majority of our property claims are frequency claims with approximately 75% to 80% of claims costs related to labor and the remaining 20% to 25% related to materials. We have a similar situation in Denmark in terms of contracts and frequency claims cost.

Over the past years, we have developed advanced dynamic tariff models and robust processes to manage and stay ahead of claims inflation. Together with our deep expertise, wide channel network, and significant data pool, we are able to analyze and process tariff adjustments in a matter of days, and implement pricing measures upon renewal throughout the year.

So far, the magnitude of price increases for our property repairs have been very modest compared to the search in raw materials prices. And for motor, there has in fact been a slightly favorable development due to the depreciation of the Norwegian krone. At this point, we expect a modest and highly manageable increase in our claims inflation for property to around 5% going forward.

As communicated earlier, we have been raising prices for private property insurance in Norway, well above index during the past couple of years. We expect to be able to continue with that to continue to improve profitability for this product line.

For motor, we still expect claims inflation somewhere around 45%. Thanks to our solid position and strong competitiveness, we are comfortable that we will be able to put through the necessary price increases for this product in line with expected claims inflation.

We cannot rule out the risk of a generally high inflationary pressure impacting more than just materials, most importantly, labor costs and claims for personal injuries. This would impact the whole industry. Thanks to our strong market position and HR capabilities, we expect to continue staying ahead of and pricing at least in line with expected claims inflation.

Then over to page six, and a few comments on our latest initiatives and results to support our sustainability goals. Damage prevention is one of the most important initiatives we can put through to contribute to safer society and reduce carbon intensity. We have launched several new damage-preventing initiatives this quarter. Customer alert services have been expanded to include flood alerts based on customer data and information from The Norwegian Water Resources and Energy

Directorate. An alert will enable customers to make necessary preparations to avoid or limit damage from floods that affect our regions from time to time.

We have also launched a pilot for sensor technology installed in private homes. This enables early detection of, for example, water leakage, which are handled by Gjensidige without the customers having to take any action. Our online mental health program, together with our partner Braive, has been very well received with our commercial customers since the launch in February. And so far, 560 customers have started treatment for areas such as depression, work-related stress, and general mental well-being.

We have also signed the Guide against Greenwashing, committing to open and transparent information about our work on sustainability. And we have signed the Women in Finance charter, committing to proactively promoting gender balance in the Group.

We have also received a few recognitions this quarter. We moved two places up to a number four ranking among all Norwegian companies in the sustainability survey Baerekraftsbarometeret, conducted by the Norwegian Business School. And we have been ranked as the most attractive employer in the insurance industry and the climber of the year according to the Universum survey in Norway. And we continue preparation to report according to the EU taxonomy from next year.

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

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody. I will start on page eight. We delivered a profit before tax of NOK2,330 million in the second quarter compared with NOK2,477 million in the same quarter of last year. The results from underwriting and the pension business improved significantly year-on-year. Our financial result, although very good, was lower than the extraordinary results we saw last year as the markets rebounded in the second quarter of 2020.

Our underwriting result increased due to a combination of premium growth and improved underlying profitability. The COVID-19 pandemic had a positive impact on claims this quarter too, estimated at approximately NOK119 million or 1.7 percentage points on the loss ratio. Our Norwegian operations were the main contributors to the improved results, although Denmark and Sweden also contributed to the increase. The Baltic segment reported lower results.

Turning to page nine, earned premiums were up 6.1% or 8.6% adjusted for currency effects. All segments recorded higher premiums in local currencies. We saw a strong increase in payments for the private segment, driven by price increases for motor, property, and accident and health insurance, as well as higher volumes for motor insurance.

We also increased the number of customers. As Helge mentioned, we have a strong market position and we demonstrate high competitiveness. Demand for travel insurance is picking up. However, we are slightly below the pre-pandemic level. 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.

All the main product lines in this segment recorded higher premiums. The July renewals are also strong, boding well for the rest of the year. In Denmark, premiums increased for both the commercial and private segments. The premium growth in the private segment was primarily due to growth in change of ownership insurance, driven by a continued strong housing market. The premium growth in the commercial segment was a result of volume increases in motor and price increases in workers' compensation product lines. Travel insurance volumes are up year-on-year, but were still below pre-pandemic levels.

The increase in earned premiums for our Swedish operation were mainly driven by volume growth in the commercial portfolio. This was slightly offset by a volume decrease in the private portfolio.

In the Baltics, we saw premiums gradually growing again, mainly driven by the health and property insurance lines. Travel insurance volumes increased compared with the same period of last year, although still below pre-pandemic levels. The improvement is fragile. However, the potential for deeper market penetration and economic growth in the region represents an attractive growth opportunity.

Turning over to page 10, the loss ratio for the second quarter improved by 1.1 percentage points to 64.5%. Large losses were flat with a nominal level slightly above our expectations for our quarterly average, and run-off gains were a little higher than the second quarter of last year and somewhat higher than our planned release.

The underlying frequency loss ratio improved by 1 percentage points compared with the same quarter of last year. Adjusted for the effects of the COVID-19 claims, which are lower this year, particularly for Denmark, the underlying frequency loss ratio improved by 2.4 percentage points.

In terms of segments, I'm particularly pleased with the development in private, commercial in Denmark this quarter, showing further improvement in profitability. Sweden and the Baltics do not deliver satisfactory results yet. We see a clear upside potential here and we will continue to implement measures to increase growth and improve operations going forward. We will look forward to speaking more about this at our Capital Markets Day later this year.

So talking about costs, let's turn to page 11. We recorded NOK1,020 million in operating expenses this quarter corresponding to a cost ratio of 14.2% and 13.6% excluding the Baltics. We have steadily brought down the cost ratio over time, thanks to combination of growth in premiums, cost efficiency measures, and strong cost discipline across the group. Denmark recorded a 1.1 percentage point increase in the cost ratio, mainly driven by commissions on higher volumes of change of ownership insurance.

As Helge mentioned, we have moved ahead with a new core IT system now open for sales for private customers. We expect this to contribute to our cost efficiency in Denmark when the system is fully up and running for all products and customers. The cost ratio on our Swedish business improved by 3.5 percentage points, partly as a result of cost saving initiatives. The cost ratio of the Baltics was flat. As mentioned, we will continue to put through measures to enhance cost-effectiveness.

A few comments on our pension operation on slide 12. The pretax profit came to NOK55 million, up year-on-year, reflecting growth in the business. Assets under management continued to grow, reaching almost NOK47 billion in the second quarter. Annualized return on equity was 14.1%. The solvency margin at the end of the year or at the quarter was 150%. So far, the introduction of individual pension account has not led to any significant change in the market dynamics. However, it is prudent to expect some pressure on our profitability in the short to medium term. We and other players in Norway are in the process of transferring policies and expect it to be completed towards the end of this year.

The pension business is an important complement to our general insurance business in Norway, particularly within the SME part of operation and generates cross-selling opportunities. 68% of the customers in our pension business were general insurance customers as well in the second quarter.

Moving on to the investment portfolio on page 13. Our investment portfolio generated a return of 1.3% in the second quarter with the match and free portfolios returning 0.5% and 2.7% respectively. An improved outlook for economic growth, higher inflation, and low and stable interest rates and credit margins drove the performance of our cyclical assets such as equities, commodities, real estate and fixed income instruments with credit exposure.

Our private equity holdings had particularly strong returns this quarter as a result of both higher market valuations and successful transactions in some of the PE funds. Returns on property investments were also very good, reflecting the strong commercial real estate market in Norway.

Over to page 14. Our capital position is very strong with a solvency ratio of 212% at the end of the quarter. This is down 3 percentage points from the end of the first quarter. The Tier 2 loan in Gjensidige Forsikring of NOK300 million was redeemed during the second quarter. Adjusted for the upcoming redemption of Gjensidige's Tier 1 loan of NOK1 billion in September, the solvency margin would have been 203% at the end of the second quarter.

A minor model change has been approved by the Norwegian FSA, which gives a small reduction in the capital requirement for underwriting risk and a reduction in the risk margin. And eligible own funds increased as a result of solvency II earnings and the result in the free portfolio. And as usual, we have deducted a formulaic dividend of 80% off the result.

The capital requirement increased as a result of growth in both non-life insurance and life insurance as well as adjustments reflecting the introduction of the own pension account regime for our pension business.

High risk from an increased equity exposure was offset by lower market risk than estimated related to the two new loans issued in April. It is worth noting that the closing of the NEM and toll company transactions will in sum, based on the numbers as of June 30, bring down the solvency ratio with approximately 6 percentage points, all the other things being equal.

And finally, a few words on the latest development of operational targets on slide 15. I am very pleased with the progress on operational targets this quarter. We delivered on these operational targets by continue to improve our -- we continue to improve our competitive position and lay the ground for future profitability.

Customer satisfaction continues to be at a very high level. Retention in Norway is slightly down from the last quarter, but still at a very high level. And retention outside Norway has improved slightly for all three segments.

We have certainly exceeded our target on sales effectiveness based on running 12 months at 22% compared to our baseline year 2017, mainly driven by higher sales in Norway. There will still be some volatility in these figures going forward. The share of automated tariffs is up compared to the level last quarter and it currently standards 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 has reached the target of 80%, and the share of claims handled fully automatically has improved as well. For claims process defined as fully automated, no human interaction is required. Several sub-processes are automated and we anticipate an accelerated development going forward. We'll continue to develop these digital services further through 2021 and onwards. We have reduced claims cost further and exceeded the target even more this quarter with procurement and insurance fraud making the largest contributions to the increase.

I'll then hand the word back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Jostein. To sum up on page 16, we are very pleased with the strong results we continue to deliver. 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. We will continue to focus on growth in our markets. Together with strong and efficient operations, this is a prerequisite to continue delivering solid results and attractive returns.

Our solvency position is very robust. The economic prospects in our Nordics markets are encouraging and the pricing environments, particularly in Norway and Denmark, continue to be very good. This, together with our strong product offering and efficient operations, lay the ground for continued strong results going forward.

We are committed to having strong capital discipline. Together with our encouraging results outlook, this provides us with a solid base to deliver a continued steady and nice regular dividend curve. Special dividends have been and will still be utilized from time to time to ensure an efficient capital structure.

Finally, on page 17, before we open up for questions, I would like to remind you of our Capital Markets Day on the 24th of November. We are really looking forward to this opportunity to speak about our ambitions and plans. We will revert with more details on the agenda as we move closer to the date.

And with that, I will now open for Q&A session. Thank you.

Questions And Answers

Operator

(Operator Instructions) We'll take the first question from Blair Stewart from Bank of America.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much and good morning. I've got two questions. On the inflation point, thanks very much for all the details. Is it possible to say how much your agreements on labor rates are protecting you from the actual cost of labor at this time and how might that roll through in the years that follow? So I guess, the question is, is it a risk that inflation does pick up as those agreements expire, I think, on an annual basis? And to what extent can you react to that? So any color on that inflation question would be really useful.

And then my second question on capital. I think on a mark-to-market basis, capital position is maybe just below 200, if you adjust for the redemption and the client deals. You do, however, have quite a lot of debt capacity and you made a comment there about special dividends being used to ensure an efficient capital structure. So can you maybe comment around where you feel your capital structure is at the moment? Is it sufficient? Will you make use of those debt headrooms that you've got in future? Thanks very much.

A - Jostein Amdal {BIO 19939645 <GO>}

Thank you, Blair. In terms of the risk of kind of a wage inflation or cost of labor inflation, that is -- what we (inaudible) through these agreements of fixed is a postponement of course of the increase in the labor costs. Over time we will be exposed to these cost increases, but we will also have time to react on the pricing side. As we have commented, these spikes in certain material types are dramatic for each and every material type, but in the overall picture, the general inflation including wage inflation is more important to keep track of. This will then be an issue for the whole industry. And the point is to be agile enough to react early when you see this -- if there is a potential for these increases. And as we have mentioned, we do increase premiums now especially for property by more than the expected claims inflation going forward. So it is a short-term protection with a one-year kind of agreement and then -- but it also reflects fine with the one-year policy period. So is it clear on the inflation side, Blair?

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Is it possible to comment on how much protection you're actually getting, where is wage inflation relative to what your agreements are protecting you?

A - Jostein Amdal {BIO 19939645 <GO>}

In general, wage inflation is not a big issue in the Norwegian economy at the moment. Although unemployment is -- luckily, on its way down and the economy is doing quite well, the wage growth seems contained, I would say. So I don't see a large risk there. Yeah. And it will be much -- if there is any increased inflation, it will be much more gradual than what we've seen in these partly supply chain induced spikes in timber and so on.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Great. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

On the capital side, I think your assumption is correct. We said that we have a solvency margin of 203, if you adjust for the upcoming redemption in September of the Tier 1 loan and then the sum of the two toll road operators and the NEM Forsikring is approximately 6%, 197 if you had done everything by June 30.

And then of course we also need to take into account here that we still continue to take out 80% of the profit after tax as a formulaic dividend assumption, which then is quite a high number in this quarter. So the solvency is obviously very strong even though.

On the debt utilization part, I think the communication is that it has been always -- it's -- we have some remaining capacity still in the Tier 1 space mainly and we will consider that on an ongoing basis whether we should take on more or not. I think we'll never utilize the full capacity potential here because we'll then be vulnerable to fluctuations in the Tier 1 unrestricted capital. Yeah.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Am I right in saying you stand at the NOK1 billion of Tier 1 that is be redeemed in September. You've already refinanced that, right?

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. That was part of the communication we had in -- around the first quarter, late March, early April when we issued the new Tier 1 loan.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Okay. Great. Thanks very much.

Operator

The next question comes from Ulrik Zurcher from Nordea.

Q - Ulrik Ardal Zurcher {BIO 22026627 <GO>}

Yeah. Thank you for taking my questions. I have two. One is, do you have any comments on -- I know it's not a long time since it's expired, but the churn on the back of the loss of the Nykredit agreement in Denmark. Second question, have you seen any increase in materials cost for your building repairs in Q2? And also, if you could comment on the claims frequency on property in the same quarter or maybe compared to recent quarters. Thank you.

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

Yeah. I can take the first question and Jostein, follow. Our distribution agreement with Nykredit was terminated 1st of May, and we have strong momentum in our Danish operation, but of course, we see some leakage of customers to Privatsikring, but it's no dramatic trend actually. So -- and we have lots of measures to secure our portfolio both on the product side and towards the customers, but some churn is expected and we have some churn, but it's no dramatic development.

A - Jostein Amdal {BIO 19939645 <GO>}

In terms of the increases in building cost, I think this has - we -- it's -- what -- the headline inflation or the news is around timber and steel and raw materials directly and in the reconstruction or fixing of houses. I mean, this is process materials, it's placed where it's -- I always forget the English word for (Foreign Language) but...

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

Wooden flooring.

A - Jostein Amdal {BIO 19939645 <GO>}

Wooden flooring, sorry, but -- so -- and in these materials, we haven't -- the answer is no, we have not seen any particularly strong price increase in these inputs when we fix houses in -- so far.

The claims frequency has been benign for property in -- I would say, over a couple of quarters now, so which means we talked about in the earlier calls, the needs to improve profitability within the private property also in Norway. But I think this is well underway, I would say, now. We see clear improvements in that business line or that product.

Q - Ulrik Ardal Zurcher {BIO 22026627 <GO>}

So basically -- not to put words in your mouth, but basically, if this low frequency and low inflation on wood flooring et cetera continues into the second half, this will likely be very fine for you on your claims ratio, but let's say, we get a big storm or something like that, so the frequency goes up a lot. Will that also increase the risk of you noticing the claims inflation more, like the materials of the increase?

A - Jostein Amdal {BIO 19939645 <GO>}

It's a general phenomenon that when there are larger events, there are short-term shortages in both labor and materials. That is something we calculate in our models -- or assume in our models for our storm exposure. But overall, we don't see any particular needs for the current good trends, I mean, except for storms and other kind of volatility events that should change the direction we're heading in now.

Q - Ulrik Ardal Zurcher {BIO 22026627 <GO>}

Yeah. Thanks a lot.

Operator

The next question comes from Jan Erik Gjerland from ABG.

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

Good morning. Thank you for taking my questions. I would just go back to the competition issue here. And since you have a strong premium growth, how much is sort of price or how much is volume? And how do you see the competitors reacting to this theme of building construction inflation? What do you -- how do you see the competitive picture these days in Norway private, Norway commercial, Denmark as well as Sweden?

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

Yeah, yeah. Good morning, Jan Erik. The competition is -- you know the competitors, and it's a competitive market and you know the players. We have especially focused on two strong players, If and Fremtind, but of course, you know the others as well.

Our price and volume balance, it's actually 50-50 for motor insurance and that's -- we are really pleased with that balance. So it's an extremely strong position on the motor. We have the majority of the growth on the property side I know in Norway, property and content. The majority of the growth is price-driven, but it's positive volume development also for property and content. And as you know, for several quarters, we have priced above the expected claims inflation.

On the commercial side, the competition is If, Tryg, and we see that they take -- they are pricing to secure -- strengthen profitability and in line with expected claims inflation. So we -- the majority of the renewals are 1st of January, but we also have a significant renewal per 1st of July, and that was once again extremely strong. So that means that we increased the number of customers, and we managed to also price in line with what we have said about -- to meet claims inflation and above claims inflation for property and some large customers.

In -- and the inflation, you -- we commented maybe that, Jostein, for the next 12 to 18 months for property and commercial property, it's around 5%, and 4% to 5% for motor insurance. If we move to Denmark, it's higher underlying inflation and it's a volatile price situation for building material in Denmark. And we expect claims inflation to be around 5% also in Denmark for the next 12 to 18 months. And our pricing in Denmark is slightly below claims inflation, but we have a task force established for private property to improve long-term profitability by optimizing claims practice, terms and pricing. And as you know, we will also have gains from the new legacy system in Denmark. That will be a positive contributing measure.

Yeah, that was -- pardon?

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

Sweden?

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

Sweden? Maybe Jostein -- once again, Jan Erik.

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

No, in the competitive picture in Sweden, how are you doing on -- you sort of have -- was lower on sales in the region for private side, were up on commercial. So how do you view your competitive edge in Sweden now still?

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

Maybe Jostein can -- what I can say initially is that the written premium is very strong actually, the written premium for all segments, also including Sweden. But Jostein, you can maybe say some about the competition in Sweden.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. I mean, as you very well know, we have less than 2% market share and our position in the market is very different from -- especially Norway, but also from Denmark. So we do see a higher growth than we have had in Sweden. I mean, we've done a lot of portfolio pruning actions over the last couple of years and we see the results of that. But the -- in terms of earned premiums in local currency, that increased by 6.4% for the quarter. And as Helge mentioned, if you look at the written premiums, which is a kind of early indicator of earned premiums in the coming 12 months, that has increased even more. This is mainly driven by volume growth in the commercial portfolio, which is where we succeed most at the moment, but -- and a slight reduction in the private portfolio. In terms of the competitive position, we are -- we have less than 2% market share. We are much more of a price taker in Sweden than we are in the other markets. I think that's enough to be said on the competitive position.

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

Back to your question, Jan Erik, the overall comment is that we are in a very hard or firm market. It's really extraordinary. And bear in mind my comments regarding motor insurance in Norway. Extremely strong profitability, we gain new customers, 50-50 balance between price initiatives or price increase and volume. So that's unique.

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

It's fantastic. Why do you think you guys are not trying to sort of discount your pricing even more because it's so profitable for you?

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

Ask them.

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

I will. Finally, on the commercial side, Fremtind has said that they would like to grow in the SME side, which is sort of where you are a competitor. What -- which areas are you most afraid for? Is it DNB's distribution power in the SME side? Or what is your most largest worries?

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

No. As I said, we have lots of competitors in Norway, but we follow closely two of them, and that's Fremtind. And of course, it's SME and the distribution power of both saving bank one and DNB. But you know, it's not like SME or commercial. It's not like travel insurance, a simple property incumbent insurance and a couple of cars. So we think -- and I commented over 1st of July renewals, we actually increased number of SME customers, and that's strong when you know that the strongest part of our commercial book is SME. So we are in a very strong position there as well, but we follow Fremtind closely. They are clever, and of course, If.

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

Thank you very much for your answers. All from my side.

Operator

The next question comes from Vegard Toverud from Pareto.

Q - Vegard Toverud {BIO 17129809 <GO>}

Good morning. My questions are in the area of Jan Erik, I would say. You mentioned that your competitive position is strengthening. So the customer dividends and so on are not something new. Is it the competitive position strengthening then due to larger price hikes from the mentioned competitors? Or are there something else going on there?

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

It's -- I think it's a combination of several things. We have -- our brand is extremely strong. We are also investing heavily into our brand at the moment. The customer dividends -- dividend models, as I commented, 12 year in a row, significant contribution for our customers. But as I said, it's a firm market and our competitors, it has been lots of debate regarding claims inflation. And if you look at the profitability level of some of our competitors, they need to strengthen their profitability as well.

But if you look into our -- what's the really key point for Gjensidige, I think we are gradually improving our CRM capabilities. And I think in the Norwegian market, talking about services, in general, we are in the front line actually regarding CRM. And of course, we also work very advanced with sales effectiveness and digital solutions. And we have a very strong team working continuously to improve that part of the business. I think the main difference between maybe peers and ourselves is on that part actually. Yeah.

Q - Vegard Toverud {BIO 17129809 <GO>}

Would you say that your position is strengthening more on private or on SME?

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

I will say private and SME, but of course, the private position now is extremely strong. But you have seen what we have managed to do since 2018, '19 on the commercial side as well. We have managed to increase prices significantly. We have maintained our customers. At the moment, we also gain new customers. And we implement, on the SME side, some of the expertise from the private side, so -- but maybe the strongest part is private, slightly...

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. Thank you. And on the growth, not by product, but by business units, is it possible to say how much of the 7.9% on private and 11.8% on commercial is driven by repricing?

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

As I said -- Jostein can help me on the commercial side. The majority is price, of course, on the commercial side, but as I said, the two large business lines, cars or motor, that's 50-50, volume and price. And if you combine property and content, it's like 20-80 or something like that, volume, price. For travel insurance, it's negative volume development due to the pandemic situation. So we have some few percent points negative development in volume, but we have a positive price development, of course.

A - Jostein Amdal {BIO 19939645 <GO>}

Travel is a small business.

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

That's a small business compared to the two others. And maybe you could comment on the commercial side, Jostein.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. I don't have any fixed number, and it's actually quite hard because when commercial customers renew, they change the volume business on that the contract is based on the number of cars and so on. So it's a bit hard to distinguish price from volume effects there. But that -- maybe I will say, the overall majority are price effects for the commercial segment. So if you look at 11.8% in earned premiums increase, we will say that 70% or something like that. 60% to 70% of that are price effects and the remaining part is underlying business volume. But as I said, these are kind of estimates because the volume isn't that easy to define always in the commercial segment.

Q - Vegard Toverud {BIO 17129809 <GO>}

Yeah. Understood. And thank you very much for providing the detail.

Operator

The next question comes from Thomas Svendsen from SEB.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes. Good morning. I have two questions from my side. First, back to the issue of inflation, a more technical thing. But if I don't remember wrong, you have said in the past that you increase prices by this Statistics Norway building cost index, which is -- as far as I know, has a model composition, more 50% material and 50% labor, while you pointed to another composition for your claims. How should we think about that, the difference between the index and how you are realized (inaudible)? And the second question, now that Alm. Brand is taking on Codan Denmark, do you see any opportunities for you now in the Danish market when this transaction has been completed?

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. I'll start on the first one, Thomas. This building cost index is convenient because it's observed by everyone, but everyone is also aware that that is not the true picture of our real cost composition. So when we say that we increased prices by more than expected claims inflation, it's our expectation of claims inflation taking into the actual composition of labor and materials, not that index as such. But it's a convenient focal point for everyone because it's a well publicized and well-known index.

So if you want to -- want an estimate, our inflationary exposure, it -- use our presentation rather than the composition of the building cost index as such. And also, as Helge mentioned, there's a difference between kind of frequency claims and the larger claims in the property and commercial property and so on. There are more materials compared to wage costs and there are larger claims than in the frequency claims. So this varies.

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

Yeah. The situation in Denmark, Thomas, as you know, we have been clear about Codan Denmark being strategically interesting for us. And we assume it would have been a good strategic fit for Gjensidige, but we have to congratulate Almindelig Brand with the acquisition. But what we note is that the price is very high, boding for continued price discipline in the market.

We will continue to focus on growth in our markets, primarily outside Norway. It's about growth in the perspective of eternity for a company like ours, but the list has become shorter, but there are still further consolidation opportunities in our markets and Denmark. It's opportunities in Denmark. I think it's medium term, longer term. It's also opportunities in Sweden and Finland.

As I have said before, it's lots of companies looking at what Tryg have done after us and what we have done with demutualization, foundations, customer dividends, and really good value proposition for customers. So medium, long term, I think you will see more consolidation in the market. But short term, the list has been -- become shorter, absolutely. When that said -- yeah, I stop there. I stop there.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay. Thank you.

Operator

The next question comes from Hakon Astrup from DNB Markets.

Q - Hakon Astrup {BIO 18861149 <GO>}

Good morning. Two questions from me as well. The first one on COVID-19 effects. Q2 has also some positive effects from the pandemic. So I was just wondering if it's possible to see a permanent positive impact on claims going forward, for example, from less congestion on roads or people staying more at home and then limiting damages from certain claims such as pipes burst, et cetera? That was the first question.

And the second question on your investments into toll services. Another Norwegian company has received some regulatory pushback on the back of similar investments. And I was just wondering how will you assess the risk of you receiving similar treatment.

A - Jostein Amdal {BIO 19939645 <GO>}

COVID-19 effects. If I understand you correct -- your question correct, Hakon, is that kind of -- we reported what we have seen or estimated in -- from our numbers in the second quarter. And then your question is kind of, do we expect this to continue as a positive effect on claims going forward in the second half of 2021, for instance.

Q - Hakon Astrup {BIO 18861149 <GO>}

Yeah. Exactly, perhaps not in the same, I would say, magnitude, but we have seen some permanent shift in behavior that can support longer claims going forward.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. No, it's perfectly possible that we will see positive effects if the economic activity continues to be somewhat hindered or dampened by regulatory or government measures to keep people at home and so on. But what we've seen the most effects have been -- or estimated most effects because these are estimates; we don't have a clear number here, but it's (inaudible) investment to motor, I would say, less driving. So maybe your guess is as good as mine, but if there is less driving, there will be less claims. That's an easy statistic. And -- yeah, I don't have a very clear view on what that will look like in the second half, but probably less than normal. But comparing them with the second half of 2020, probably more driving and more returning to work and so on. We'll obviously report on these numbers as we go forward as well, but gradually, it will become less and relevant and be back to normal, in inverted commas, here, that - we don't quite know what new normal will be.

The second question on the toll service providers. We strive to increase the offer we make to our customers. And as you all know, we already are collecting the obligatory traffic insurance here for -- on behalf of the government. And we don't quite see any reason why we shouldn't be able to also collect the toll road fees as well. And by doing that, we could combine that service with other services that could be given to our customers, the car drivers. And this is obviously something that both Fremtind and ourselves see, look at in a very similar way. And we think this should be possible. And under Solvency II regulations, we are actually -- think this is actually within what should be possible. And then we have the -- what the FSA has said and we of course follow this closely and complained to the Ministry of Finance on the negative ruling that we have received on Vegamot, the first one we have bought.

Q - Hakon Astrup {BIO 18861149 <GO>}

So if I understand you correctly here, you're not in a different position than Fremtind. It's more like so you disagree with the ruling from the FSA?

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah, we disagree with that. That's correct. And I think we have a very similar view on this as Fremtind has. So we're very much in the same boat here. But of course, this is --

Q - Hakon Astrup {BIO 18861149 <GO>}

That is very clear. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. Sorry.

Operator

The next question comes from Johan Strom from Carnegie. Please go ahead.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you. I had a couple of questions on the claims inflation topic, but I think you've answered all of them. So thanks very much for all that color. So maybe just a final one. On the own partial internal model, has there been any progress on the work with the FSA on that side?

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, we've had a small, call it, improvement in what we have been able to -- what we've gotten approved from the FSA, which we also have reported -- or I mentioned in my comments to the results. It is technically related to the calibration of some Danish property insurance lines, where we've been able to get a better calibration approved, which has reduced the capital requirement, but not a large effect. I mean, you see it from the numbers.

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

But it's positive to see that our discussions and when we dig deeply into this, we have some gains down the road. So it's very positive.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. And I think -- as before, we continue to have an ongoing dialogue with the FSA on the areas within the modeling where we have disagreed historically.

Q - Johan Strom {BIO 17541253 <GO>}

That's great to see. Thanks very much and congrats with the great quarter, guys.

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

Thank you, Johan.

A - Jostein Amdal {BIO 19939645 <GO>}

Thank you.

Operator

We'll now take the next question from Will Hardcastle from UBS.

Q - Will Hardcastle {BIO 16346311 <GO>}

Hey, good morning, everyone. Just trying to really get to grips with the extent that there is underlying margin improvement. It's substantial year-on-year, but we're looking at the 1 point -- or the 2.4 point. I'm just really trying to get a handle on how you guys are really viewing the year-on-year improvement. Which number we should be thinking about or was there some slightly (Technical Difficulty) that's why it's greater in 2Q than you probably expect as a normal run rate. Yeah, that's it. And then secondly, just on solvency, just trying to clarify, did you mention the timing of when the transaction of the 6-point impact would be completed by, when those deals are closing? Is that 3Q we should expect those? Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

On the underlying development, I would suggest you would look at the underlying that we have provided in the appendix to the presentation on slide number 22 or something, which is the 2.4. This is the underlying frequency loss ratio adjusted for weather, which is really nothing in Q2 and then the COVID effects. With -- of course, a question mark here is my comment to Hakon's question earlier on the -- what is the new normal. Will -- when we kind of add back kind of some of the positive effects from the COVID-19 effect here. Will they actually continue, so we underestimate how good the underlying frequency loss ratio really is? That is something we can -- I mean, could discuss, of course.

But if you look at the underlying development tariff, 2.4 percentage points for the group, I feel that's a fairly representative picture of what's going on there. Of course, even if you take away large losses and weather, there will still be volatility from quarter-to-quarter. This is non-life insurance. But I think this is a fairly okay picture of what is going on.

And the composition of it is also fairly well stated on the -- at least by business unit level on this same slide where you see that this is mainly driven by private and the Danish segment. But we have improvements also for commercial, whereas the development in Sweden and the Baltics is unfortunately negative.

Timing on the solvency effects, NEM Forsikring closing, I guess, during -- will close during this quarter, also the third quarter, our expectation, I think. Yeah. But then this is a regulatory process. And there it's -- also the toll service provider. It's a regulatory process, and we probably would expect it to close at least in the second half. I'll be that broad in answering that one.

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay. Just coming back on that, to the extent of that, frequency improvement, clearly that -- if we roll that forward, that's a very sizable uplift in ROE, for example, presuming some of that sticks for longer. I guess is there -- on the back of that, is there no change in -- and we're talking about price increases here. Is there -- at what point should we expect perhaps competition to pick up as some of that's given away? Or do we think that this sticks and we'd be looking at a higher ROE more sustainably?

A - Jostein Amdal {BIO 19939645 <GO>}

That's a glimpse into the crystal ball you're trying to make there. I think, as I said, the 65.5 underlying frequency loss ratio adjusted for weather and COVID, I think that's a fairly okay picture of what's actually going on, what's the profitability level now. And (inaudible) we do not guide on future results there, but there is a very good momentum within non-life insurance, the whole industry in Scandinavia, and we see it certainly in our figures. And I don't quite see in the short to medium term that this competitive picture should change dramatically. But I mean, we could be surprised. So I'm not giving any guarantees there, but it looks quite promising.

Q - Will Hardcastle {BIO 16346311 <GO>}

Okay. Thanks.

Operator

As there are no further questions, I will hand the call back over to your host for any additional or closing remarks.

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

Thank you. Everyone, we'll be participating in a number of virtual roadshow meetings and a conference over the summer, starting in August. The meetings will be held with investors in Norway, the UK, Germany, Denmark, Italy, and Finland. Please see our financial calendar on our website for more details. Thank you for your attention. Have a lovely summer and stay healthy. Bye.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.