Q1 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

- Alexander Evans
- Analyst
- Blair Stewart
- Christoffer Adams
- Hakon Astrup
- Jan Erik Gjerland
- Johan Strom
- Thomas Svendsen
- Vegard Toverud

Presentation

Operator

Good day, and welcome to the Gjensidige Q1 2021 Results Presentation. Today's 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 this first 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 give you the highlights of the quarter; before our CFO, Jostein Amdal, will go through the numbers in further details. And we will have plenty of time for Q&A at the end. Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra. Good morning, and welcome, everyone. I hope you are healthy and well. We have started 2021 on the strong foot continuing the good momentum from last year. The pandemic is still in progress and many countries including the ones where we operate have been hit by multiple infection waves, followed by a tough restrictions.

However, thanks to tremendous efforts to rollout vaccination programs. It seems like we are bending the curve in many geographies. And although, it is too early to see the end of the pandemic, it is encouraging to hear plans for gradual reopening of some societies.

We are very pleased to see that despite the challenges and economic hardship, general insurance continues to be highly valued by our customers. And thanks to our strong product offering and dedicated employees, we have managed to generate good results.

Let's turn to Page 2 for some comments on our strong first quarter results. We've generated a solid profit before tax of NOK1.597 billion of which NOK1.040 billion in underwriting results. Earned premiums rose by 6.1%, reflecting solid renewals and effective and differentiated pricing measures. Our combined ratio was 85.1% significantly impacted by the unfavorable weather conditions during the quarter. The pandemic had a positive impact on our results this quarter, too, primarily related to travel and motor insurance. Large losses were slightly lower than expected, while run-off gains were somewhat higher than the planned releases.

Our loss ratio adjusted for the unfavorable weather conditions and COVID impacts improved compared with the first quarter last year. Our cost discipline remains strong as you can see from the ratio of 14.5% for the quarter. And it generated a financial result of NOK556 million. Jostein will afterward rework with more detailed comments on the results for the quarter.

Then turning to Page 3, a few words on our operations. Let me start with Norway. Operations are running very well, despite the strict pandemic restrictions and remote working for almost all Gjensidige employees. I am very pleased that we have managed to continue putting through necessary price increases in both Private and Commercial and at the same time increased volumes and maintained our high customer retention. Being able to do this in this tough competitive environment is the strong proof of our solid value proposition to customers. We see the need for further price increases in Norway to reflect claims inflation. The challenging weather conditions this quarter are a strong reminder of the volatility we must be prepared for with implications for claims inflation. We have been raising prices for private property insurance in Norway well above index during the past couple of years, and we still have pockets in this portfolio, which need to be addressed before we reach a satisfactory probability. We also plan to continue with significant price increases for certain pockets in the large corporate portfolio in the Commercial segment.

With no signs of market contractions so far, and a continued hard market, we expect premiums in Norway to continue this strong development. We have had good progress in our Danish operations. Our efforts to consolidate and strengthen the Gjensidige brand have proven effective, with the record score for brand awareness among prospective customers this quarter. We see further upside to operational efficiency, and to that end our cooperation with Tata Consultancy Services is progressing well, leads prospects for promising results within claims handling. The new core IT system in Denmark is currently in the last stage of testing before opening up for the first private products. We have spent some more time than initially planned on this stage to ensure a successful and smooth launch later this year.

In Sweden, we are fully focused on transforming our 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 are in the process of identifying and implementing a number of new measures and we look forward to speaking more about this later this year.

We see the need to grow in the Swedish market. To that end we have recently acquired a well-established insurance agent Nordeuropa, which will strengthen our position in the commercial market. And this standing market trends and customer needs is vital to succeed in establishing a strong position for Gjensidige in Sweden. We have recently invested in Schysst, a platform providing a flexible subscription solution for using and owning car. The offering includes a variety of services such as insurance provided by Gjensidige, road assistance, car service and the second holiday car. We expect Schysst to provide us with key learnings on mobility ecosystems and car ownership trends. Challenging market dynamics continue to put pressure on our profitability in the Baltics. We have a clear ambition to increase the results through improving our distribution, pricing and claims handling processes.

Then over to Page 4, and a few comments on our latest initiatives and research to support our sustainability goals. We strongly believe in encouraging our customers to make sustainable choices. Earlier this month, we entered into an agreement with the official Nordic ecolabel, The Swan, in

Norway. We are the first insurance company in the Nordics to provide ecolabling of private house reconstruction in connection with claims settlements, with focus on low carbon footprint and a good indoor environment. We ranked number two in the insurance and pension category in Norway in the Sustainable Brand Index ranking for 2021. Competition is tough and we have no less ambition than to get back to the top ranking.

Earlier this quarter, we launched a new coverage for our health insurance in Norwegian commercial market in collaboration with our partner Braive. The extension includes access to an online mental treatment program led by a psychologist. Many companies have increased focus on mental health among employees with an aim to reduce pressure from stress and depressing following the conditions during the pandemic. Gjensidige has recently renewed the sponsor agreement with the Norwegian Athletics Association, which through a number of projects will continue to target physical and mental health. We had a strong focus on our employees, who have shown high resilience and made tremendous efforts to maintain our strong operations through this pandemic. We are very pleased to see that engagement scores have remained on a high level so far. We pay high attention to their well-being and monitor the situation closely. We have introduced a number of initiatives to mitigate potential negative effects in terms of physical and mental health conditions.

As you know, the EU taxonomy reporting will come into force from January 2022. We will report on sustainability metrics across three dimensions, operations, customer base, and products and services. Our focus is currently on transforming product design, tariffs and damage prevention initiatives to meet the criteria. The transformation will be carried out in a customer-oriented manner, and in close collaboration with academic partners.

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 6. We delivered a profit before tax of NOK1.597 billion in the first quarter, compared with the loss of almost NOK500 million in the same quarter last year. The significant improvement was driven by our financial results, which were hit hard by the financial turmoil last year. Our pension business also recorded higher results than the first quarter of last year. Despite strong growth in premiums, our underwriting result was slightly down year-on-year, reflecting unfavorable weather conditions in Norway compared with the same period last year.

The winter in Norway this year has been extraordinary cold, with long periods of low temperatures in many regions. This resulted in significantly higher freeze and fire claims for property insurance in the first quarter, compared with the first quarter of last year, when weather conditions were favorable.

We saw some positive claims effects from the COVID-19 situation for all segments this quarter, too. Adjusted for both the weather and COVID-19 claims effects, the underwriting result was up compared with the first quarter of last year, driven by Private, Commercial and Denmark. Sweden and the Baltics reported lower results.

Turning to Page 7. Earned premiums were up 6.1% or 6.4%, adjusted for currency effects. All segments except the Baltics recorded higher premiums. In the Private segment, the increase was driven by price increases motor, property and accident and health insurance. We also increased the number of customers. I'm very pleased with us demonstrating such strong competitiveness and maintaining our solid position in Norway. Lower demand for travel insurance due to the pandemic, resulted in slightly lower earned premiums for this product lines.

The rise in premiums in the Commercial segment was the result of effective pricing measures, solid renewals and portfolio growth, including one new large contract. All the main product lines in this segment recorded higher premiums. Price increases and volume growth in the Commercial segment drove the premium growth in Denmark. Premiums rose from most the insurance products in the Commercial segment. Price increases for workers compensation have been substantial going into 2021 in response to index increases. Premiums in the Private segment were somewhat down. We continue to see lower demand for travel insurance and motor insurance; it was negatively impacted by depressed auto sales.

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. Premiums in the Baltics were down year-on-year. There has been lower demand for travel insurance over the past quarters as a consequence of the pandemic. And we've had significant price pressure in motor insurance on the back of fierce competition.

Turning over to Page 12. The loss ratio for the first quarter was up 1.7 percentage points to 70.6%. Large losses were up the year-on-year, although the normal level was somewhat lower than expectations for our quarterly average. And run-off gains were somewhat higher than our planned release. We have estimated increase in weather-related claims in Norway to approximately NOK360 million or 4.5 percentage points on the loss ratio.

The low temperatures cause problems not only for pipes but also vehicles. However, motor claims were not materially above the first quarter last year as motor SKUs are less costly than many of the types of motor claims. We saw less travel activity and driving during the first quarter as a result of the pandemic. We estimate the positive impact on claims to approximately NOK130 million, corresponding to 1.9 percentage points on the loss ratio of this quarter. This is 2 percentage points higher than the same quarter last year. Then we have the negative pandemic impact of 0.1 percentage point.

Adjusted for both these weather and COVID-19 claims effects, the loss ratio improved by 0.8 percentage points, and the underlying frequency loss ratio improved by 0.7 percentage points compared with the first quarter of last year. In terms of segments, I'm particularly pleased with the development in Private, Commercial and Denmark, all starting further improvement in profitability.

We see a clear upside potential for the results in Sweden and the Baltics. As Helge mentioned, we are on the path to transform our Swedish business into becoming a more digital and highly efficient insurance provider. We're implementing fundamental changes laying the ground for becoming a strong niche player in the attractive Swedish market. Also in the Baltics, we have a clear priority of returning to a more profitable level, with the particular focus on improving cost efficiency. We have already seen results of some efforts in the cost ratio, however there is much more to be done.

So talking about costs. Let's turn to the next page. We recorded NOK1.011 billion in operating expenses in the quarter, corresponding to our cost ratio of 14.5% and 13.9%, excluding the Baltics. We have steadily brought down the cost ratio over time. Thanks to our combination of growth in premiums, cost efficiency measures and strong cost discipline across the group.

We are pleased with the decline of our cost ratio in Norway to 11.5%. Denmark recorded the stable cost ratio of 14.6%. As Helge mentioned, we are in the process of preparing for the launch of the new core IT system. The system will allow more flexibility, increase our ability and enable further simplification of processes. We expect this to make a significant contribution to our cost efficiency in Denmark.

Our Swedish business had a cost ratio of 18.4%. As mentioned, we are in the process of making significant changes to operations and we expect to see further cost efficiency when the changes are implemented. The cost ratio in the Baltics came down 0.7 percentage points. Nominal costs were also down, thanks to cost saving initiatives. We'll continue to put new measures to enhance cost effectiveness in the Baltics.

A few comments on our pension operation. The pre-tax profit came to NOK45 million, up year-on-year, reflecting growth in the business and good returns from the financial investment, but also the financial turmoil of Q1 last year. Assets under management continue to grow reaching NOK44 billion in the first quarter. Annualized return on equity was 13%. The solvency margin at the end of the year was 150.5%. So far the introduction of individual pension accounts has not led to any significant change in market dynamics. However, it is prudent to expect some pressure on profitability in the short to medium term. We and the other players in Norway are in the process of preparing for the transfer of policies, which will start in May. This is expected to make -- take most of the year.

The pension business is an important complement to our general insurance business in Norway, particularly within the SME part of our operation and generates cross-selling opportunities. 67% of the customers in our pension business were general insurance customers as well in the first quarter.

Moving on to the investment portfolio. Tremendous fiscal stimulus packages and accelerated vaccine rollout in many countries have fueled optimism about the global economic rebound. Equity markets perform strongly this quarter with a sharp boost and appetite for cyclical shares. And credit spreads continue to contract.

On the flip side, the flare of inflation and rising interest rates put pressure on bonds. Our investment portfolio generated a return of 0.9% in the first quarter with the (inaudible) portfolios returning 0.6% and 1.3%, respectively. We have a solid fixed income portfolio with the large majority having an investment grade rating. The rise in interest rates had a negative impact on our fixed income investments with long duration, while the improved the outlook for economic recovery, supported returns on our fixed income investments with credit exposure.

Our equity investments and commodities generated good returns reflecting the strong market development. Our private equity holdings had particularly strong returns this quarter. This was a result of both higher market valuations and successful transactions in some of the underlying PE funds. We have a good share of property investments, mainly in offices in the central business district of Oslo and with very low vacancies in the portfolio. We however, pleased with the return on our property investments reflecting the strong commercial real estate market in Norway.

Over the Page 12, a few words about the successful issuance of two subordinated loans back in March. We wish to utilize the attractive market opportunities and our loan capacity to ensure a more optimal capital structure. We issued one-tier one bond and one subordinated Tier-2 bond both in amount of NOK1.2 billion. The Tier 1 bond has a perpetual tenor, with floating rate coupon of three-month NIBOR plus 225 basis points and the Tier 2 bond has a 30-year tenor, with the floating rate coupon of three-month NIBOR plus 110 basis points. Both bonds were settled on the 7th of April. As announced earlier, we will redeem the subordinated to Tier 2 loan of NOK300 million (inaudible) Forsikring in June. And we also have the intention to call the (inaudible) Forsikring Tier 1 loan of NOK1 billion, issued in 2016, later this year.

Looking out for capital position on next page. Our capital position is very strong with the solvency ratio of 215% at the end of the quarter, including both the subordinated loans, which were settled on the 7th of April. The solvency ratio is up 16 percentage points from the end of Q4, mainly driven by the issuance of the loans, I just mentioned.

Operating earnings, our returns on the free portfolio also contributed to the increased eligible own funds. And as usual, we have led [ph] dividend of 80% of the result. The capital requirement is up due to rising market risk reflecting higher exposure to equities both for non-life insurance business and in the unique link portfolio in our pension business. The proceeds from the new subordinated loans also led to an increase in market risk. Our own partial internal model gave a solvency margin of 263% at the end of the first quarter.

Finally, a few words on the latest development of our operational targets on Slide 14. I'm very pleased with the progress on the majority of our operational targets this quarter. By delivering on these operational targets, we continue to improve our competitive position and lay the ground for future profitability. Both customer satisfaction and retention in Norway remain very high. The latter reflects the strong renewal for both Private and Commercial. The retention level outside Norway is slightly down for all three segments this quarter, primarily driven by temporary market contraction due to the pandemic.

We have exceeded our target on sales effectiveness based on running 12 months at 17% compared to the baseline year 2016 -- '17, mainly driven by higher sales in Norway. There will still be some volatility in these figures going forward. The share of automated tariffs is somewhat up compared to the level last quarter. And we currently stand at around 53%. Progress is good and will 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 down this quarter, whereas the share of claims handled fully automatically have been stable. We'll continue to develop these digital services further through 2021 and onwards. We have reduced claims costs further and exceeded our target this quarter. Procurement and process optimization making the largest contributions to the increase.

I'll then hand the word back to Helge for some concluding remarks.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Jostein. To sum up on Page 15, we are very pleased with the strong underlying results we have delivered in this winter quarter. This is to a large degree result of a solid brand, efficient operations, and dedicated employees, who put strong efforts in serving our customers every day. Structural growth is still on our agenda. Our solvency position is very robust. We are committed to having a strong capital discipline. Together with the encouraging results outlook this provides us with a solid base to deliver a continued, steady and nice regular dividend curve also beyond 2022, when the planned run-off gains will come down. Special dividends have been and will still be utilized from time to time to ensure an efficient capital structure.

Our outlook is promising. Our Nordic markets have shown strong resilience, and the pricing environments particularly in Norway and Denmark are very good. This together with our strong product offering and efficient operations lay the ground for continued strong resurge, going forward.

And with that we will open for Q&A session. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We'll now take our first question. Caller, your line is open.

Q - Hakon Astrup {BIO 18861149 <GO>}

Hi. Good morning. This is Hakon from DNB Markets. So two questions for me. The first one is on the run-off side. Can you just explain particularly why the run-off is a bit higher than the (inaudible) quarter? And --

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

Sorry, Hakon, your line is blurred. Hakon, your line is blurred. Could you speak directly into the microphone?

Q - Hakon Astrup {BIO 18861149 <GO>}

Is it better?

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

Not really. Let's give it a new try.

Q - Hakon Astrup {BIO 18861149 <GO>}

Hello. Is this better now?

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

Yes.

Q - Hakon Astrup {BIO 18861149 <GO>}

Yes. Okay. Sorry for that. Two questions for me. The first question on the run-offs. Is there any particular reason why run-off was higher this quarter than usual? And the second question on solvency. You have reduced solvency position at the moment, 215%. So if we assume that you're going to call bonds later this year. So what would you do with the excess capital?

A - Jostein Amdal {BIO 19939645 <GO>}

Thank you, again, Hakon. On the first one, we continue with the plan of run-off somewhere around NOK250 million per quarter and then each and every quarter there will be volatility around those NOK250 million and that could go both ways. And that's based on the just an ordinary process of setting reserves. Remember that we are talking to book around NOK30 billion technical reserve side and climate[ph] changes in the credit models may introduce small changes there. And there has been some positive run-offs this year, but there's nothing particular about the run-offs this quarter.

Q - Hakon Astrup {BIO 18861149 <GO>}

Yes. So the message was the run-offs is coming down after 2022 still stands?

A - Jostein Amdal {BIO 19939645 <GO>}

I think the message is still the same that we have the planned run-off gains of approximately NOK1 billion per year throughout 2022 and that we continue to reserve according to best estimate.

On the solvency question, as you correctly pointed out, if you follow up on our intention to redeem the Tier 1 issue of 2016, that takes out around NOK1 billion or approximately 10 percentage points on the solvency ratio. I'd like to stress that what we did now was to utilize what we saw as to get market opportunity to issue new loans. And I think if you look at the spreads that we achieved here, that seems to be at the very competitive level compared to what others have done recently and what we also done ourselves earlier. And that has been the intention all the way to utilize good market opportunities to increase the utilization of the available capacity for subordinated loans and then how to spend or use that capital is a matter that will be resolved over time.

Q - Hakon Astrup {BIO 18861149 <GO>}

Okay. Thank you very much.

Operator

We will now move to our next question. Caller, your line is open. Caller, please make sure you're not on mute.

Q - Christoffer Adams {BIO 15217428 <GO>}

Yes. Hi. This is Christoffer Adams from Kepler Cheuvreux. Helge, you said that there's a need for further price increases in Norway. How large do you expect these price increases to be and what you expect from claims inflation? Thank you.

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

Yes. Thank you, Adams. First and foremost, we are really satisfied with the momentum in our Norwegian business. And we have increased competitiveness and strong growth. As I said, we still see some room for further price increases above claims inflation which is -- on property which is around 4%. We think that claims inflation for motor insurance will be in the span of 3% to 5% and we will also price above that, but when it comes to motor insurance, if you look at our earned premiums, we have a very balanced mix now between price and volume effects. It's 50/50. So we have a very strong and good compositional volume and price effects.

So I guess going forward, we will be just above claims inflation for motor; for private property, we will be more than above still and we still see some pockets also in the commercial book for price increases above claims inflation. But we are in a much better competitive position now as compared to one year ago with more balance between volume and price effects.

Q - Christoffer Adams {BIO 15217428 <GO>}

Thank you. Can you be a bit more specific on the commercial side in terms of the price increases?

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

That is some pockets both for SME and large corporates. So -- but as you also have seen from the report, we have strong momentum in our commercial business. It's a hard market. We gain new customers. The retention levels is high, 91%, 92% but it has been a long period behind us with soft markets. So still it's pockets where we have to increase price increases more than claims inflation and we managed to do that without losing customer. So, so far this is very -- is a very good position also for the commercial business.

Q - Christoffer Adams {BIO 15217428 <GO>}

All right. Thank you.

Operator

We'll now move to our next question. Caller, your line is open.

Q - Analyst

Good morning. Thanks very much for taking my questions. Especially, how large was your acquisition in Sweden? What's the expected ROE? And what's your latest hurdle rate for maybe larger M&A more broadly?

And secondly, it sounds like your year-over-year price increases, based on your comments about now requiring price increases above claims inflation in certain pockets and certain books, do you think that the 0.8 percentage point year-on-year underlying frequency loss ratio in group, I mean you're flagging this quarter, is a reasonable run rate for the short term based on your current actions and what's still to (inaudible)? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll then start with the first one and I might need to ask you repeat it also, but I'll start on the -- you asked about the Gjensidige's asset and acquisition in Sweden of Nordeuropa, which is a general managing agent. So it's not an insurance company, it's a managing agent. And we have not disclosed neither acquisition price nor any ROE. There is no reserves or portfolio as such following this, this is not an insurance company, but they have a very competent and good staff with a good standing in the Swedish market, especially towards brokers, and their loyal customer base. But it's not a general insurance company. So we will take into these customers, if you will, as new.

So sorry about not being precise about the hurdle rate. Our general hurdle rate, as we said is 6% after tax, is our cost of equity, that's what you're asking. And of course, when we look at acquisitions, we will see how much value can we drive above that hurdle rate at that cost of equity.

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

On the second question, I could maybe start and give you some more visibility regarding the underlying change in frequency loss ratio and you mentioned 0.8%. As you have seen, it's still positive COVID effects in first quarter of 2021, at the same level as we had in fourth quarter, 1.9%. And you have also seen from the report that it has been really cold winter in Norway and significantly higher freeze and fire claims for property. And you have to go back to the year we listed the company to find a similar year 2010. We have estimated this to NOK360 million, 4.5 percent points on the loss ratio.

The impact on the underlying frequency loss ratio was 3.1%. And so we also have large losses into this picture. So -- and we are very pleased with the positive change in frequency loss ratio adjusted in Norway and Denmark. So if you look at the private segment, we have a positive change -- 1.9% positive change in underlying frequency loss ratio adjusted and for the commercial segment 1% and in Denmark 0.7%. And talking about the future and it's hard for us. We have commented that we have strong competitiveness, strong momentum, hard market in commercial market in Norway. And if you adjust for the freeze and the COVID, we have improvement underlying frequency loss ratio. So that's a good starting point for the next quarters.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. And if I may add also, you remember that when things go -- start to go a bit sour insurance, it takes time to turn it around. The good thing about that is when things -- when we are in a good momentum like we are at the moment it also lasts for some time. And as Helge mentioned, if you take away one-offs we are or -- and the COVID isn't a one-off effects, it is in the fifth quarter or whatever it is now. But there is a good momentum in our profitability underlying taking away these kind of disturbing elements like weather and the COVID.

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

And that combination with growth, so it's a good situation.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes.

Q - Analyst

Thank you. And is it fair to say that your price increases have peaked year-on-year or is it I guess, you're saying with your more corporate business that you're not now SME in some pockets of large corporate that needs rate increases or because it's a hard market that you're going to try and put through the rate increases even if you don't necessarily need them?

A - Jostein Amdal {BIO 19939645 <GO>}

I think what we're going to do is just put through the prices increases where in some pockets we do and don't think the profitability meets our targets, which is just ambitious targets. But in general, we take out the price increases that we deem also possible. So it's a combination. And it's still a fairly -- in the commercial segment we're talking about, it's still a fairly hard market I would say, also driven a bit by a much harder reinsurance market, which probably mostly effects the top end of the commercial segment, but still trickles down some of the remaining market.

Q - Analyst

Thank you.

Operator

We will now move to our next question. Caller, your line is open.

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

Yes. Good morning. It's Jan Erik from ABG. Jostein, just to be clear on your weather versus large losses. Did I understand it correct that you have 3.1 percentage points underlying over the losses and 1.4 of those are sort of taking into the large level? If you can clarify that?

A - Jostein Amdal {BIO 19939645 <GO>}

It' not 1.4 of those, it's 1.4 on top of the 3.1. So 4.5 percentage points altogether.

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

Yes. So there is 4.5 in total, 3.1 as a reminder and 1.4 as large losses out of 4.5?

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

Yes.

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

Okay. Thank you. And then is there any news on the run-off gains beyond 2022, which you can shed light into as to further we should expect zero from that level or is this something we should take a half level or what should we think about that? If you could shed some light on in terms of details.

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

Jan Erik, I think the communication is just as it was last quarter. The planned releases ends at in '22, and from '22 onwards it's best estimate. And we have also said that we think we will live with positive gains instead of negative gains also after '22, but we haven't given any guidance on that.

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

Okay. Finally then on the weather side, the 4.5 percentage points. Is all of that into housing or a (inaudible) offering to cards, it's sounded like on your card for motor insurance side was more flatfish level versus end of the year, if you think about driving versus the weather claims this time around or the colder weather. Is there -- could you just shed some more light into the second half how the split into housing and motor, please?

A - Jostein Amdal {BIO 19939645 <GO>}

This is only related to property. Only property.

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

Okay. Perfect. Finally then on the structural side here. I expect structural growth to happen, how should you do that?

A - Jostein Amdal {BIO 19939645 <GO>}

Structural what?

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

Structural growth --

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

Structural growth, yes.

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

Yes. The communication is unchanged also there, it's on our agenda. We want to increase our -- strengthen our position in Nordic general insurance and we are prepared to look into any M&A opportunities that arise and you know our hurdle rates, et cetera, et cetera. And we have a very strong financial position. So it's quite unchanged also on that side, Jan Erik.

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

Okay. Thanks for the answers.

Operator

We will now move to our next question. Caller, your line is open.

Q - Vegard Toverud {BIO 17129809 <GO>}

Good morning. This is Vegard from Pareto. I was first wondering on the run-off gains in the quarter. Could you say something about which products these are related to? And how we should think about the run rate and the yearly communications, the high run rate -- high run-off gains in Q1? So that reduce the expectation for the remainder of the year or is this with the no impact going forward?

A - Jostein Amdal {BIO 19939645 <GO>}

The run-off gains above the NOK250 million that was planned is spread around different lines of business. It's nothing particular about these run-off gains. What we've done now outside the NOK250 million does not have an impact on the planned reserve releases for the remaining part of the year.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay, thank you. And then on couple of foreign operations there. Customer retention seems to be falling in the March. Are you losing market share there and how should we think about the growth outlook in local FX?

A - Jostein Amdal {BIO 19939645 <GO>}

I think the target remains the same of this 85 outside of Norway, but the COVID situation and effects through travel insurance has an effect on the retention rate as well, because these are also policies that are not renewed. So it has a negative effect on retention. I think this is the main single reason. Now, as we talked about in the Baltics, we have the tough competitive situation on the especially the obligatory motor product and motor TPL insurance, which also weighs negatively on our retention numbers. This we are kind of trying to keep up profitability there and down there we lose some customers.

Q - Vegard Toverud {BIO 17129809 <GO>}

But in Denmark, is your understanding that you are maintaining your market share?

A - Jostein Amdal {BIO 19939645 <GO>}

Market share numbers in Denmark are extremely lagging. So it's -- but I think we have the impression that we are more or less in line with market development overall. But these numbers are I think more than a year lagging.

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

One year lagging, I think, Vegard. The situation now in first quarter is actually very strong sales and strong momentum in Denmark also, but the latest market shares, do you have.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. The latest market share, but I think development is so old (inaudible) there's old. So it doesn't really -- our retention numbers are fresh.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. I think you'll need to look at when other companies report.

Q - Vegard Toverud {BIO 17129809 <GO>}

Picking up on your comment there on the Baltics and also your previous reminder that it takes a long time to turnaround the profitability. The pressure you see on multi-product there, how long do you expect it to you to turn that around?

A - Jostein Amdal {BIO 19939645 <GO>}

I mean, the two problems on top line of Baltics is COVID, which is based heavily on the travel insurance and then the competition on the motor side. I think these (inaudible) kind of main two headlines there. And COVID, your guess is as good as mine. On the multi, I think we are seeing positive signs underlying which means that we should be able to come back to with positive results over coming quarters. But let's wait and see, giving any short-term guidance here, but we're still fairly confident that Baltics will contribute positively to the NOK750 million outside of Norway and it should promise for the next year.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. And then finally moving on to Sweden. You were referring to the loyal customers of Nordeuropa. Could you tell us roughly how much premiums these loyal customers currently have?

A - Jostein Amdal {BIO 19939645 <GO>}

I don't think we have this real stuff, Vegard. So it's -- yes, I'm sorry. I can't -- of course we have them, but we haven't disclosed those premium figures. It's something large --

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. Hope we will find out over the next two years.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, let's say next 12 months really when we -- when the renewal -- these are annual policies, so.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. Thank you very much.

Operator

We will now move to our next question. Caller, your line is open.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi, everyone. Alex Evans here from Credit Suisse. I just wanted to follow up on something you said, Helge. You said 3% to 5% claims inflation in motor. I seem to remember you previous saying 3% to 4%. So is that a rise in claims inflation you've seen there?

And then maybe just secondly on private property in Norway. Maybe if you could just give bit of an overview of what you've seen competitors doing in there? Do you think you have been a little bit of hedged and now competitors are maybe catching up, so there's potential for some volume growth there?

And then just finally on commercial, obviously very strong growth. It looks like commercial, accident and health has been a big driver there. Could you just give some details on what's driving that?

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

Yes. On the claims inflation first, I think we have earlier quarter commented 4% to 5%, and now we have it's down to 3% to 5%. I think the main figure from Norway is actually 4% claims inflation. That's maybe the estimate for -- that's the estimate for property, and I guess that's a good estimate also for motor insurance. But it's a more -- it's more, I would say uncertainty to motor insurance going forward. It's new cars, as you know. And so therefore, I commented 3% to 5%. But I think 4% is a good estimate. And 4% is a good estimate for property and personal lines is more G Regulation and wage increase regulation.

This is higher claims inflation, when you compare to Denmark. So in Norway, we still have to increase prices above these levels to maintain the profitability level. And as I said, we have to increase prices in some areas more to strengthen the profitability. So if anything from last quarter to this quarter, it is maybe slightly reduced around 4% is a good estimate, talking about motor insurance claims inflation.

A - Jostein Amdal {BIO 19939645 <GO>}

In terms following up on the property side. It's -- I mean, we have fairly flat development in terms of number of houses that we're insuring, but fairly high price increases, which drives, of course, for a good premium growth there. Given that we put through price increases significantly above the expected claims inflation, it should mean that -- and without losing customers, it should mean that competitors probably are doing something of a similar. But this is hard to kind of discount because this is -- most companies like us, they use fairly differentiated tariffs. So it's not one market price for health insurance as it's for travel. But judging from our price increases and the market tractions, I think probably competitors are doing something similar.

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

And for motor insurance, you asked if you are ahead or not versus our competitors. As I commented, the premium growth for motor insurance, it's absolutely balanced, 50/50 between price effects and volume effects. That means I think that we maybe are ahead of some of the competition when it comes to price increases from motor insurance.

A - Jostein Amdal {BIO 19939645 <GO>}

And your final question was about the volume growth within the commercial sector. I think Gjensidige have a very good starting point there, because we have significantly higher profitability in that segment than a couple of our main competitors here and our market share is higher within commercial than in private. We have an extremely loyal customer base and we have very satisfied customers. So it's -- I think the potential here for driving through price increases on average still above expected claims inflation is absolutely in place.

And here we have also, as we've already commented, this is the total premium growth within commercial, it's a combination of volume and price although prices probably a bit more than 50%, but still it's a combination.

Q - Alexander Evans {BIO 19956412 <GO>}

Thanks. Can I just follow up on the commercial, accident and health? Is there anything in particular going in that line or is it just (inaudible)?

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

That is mainly volume growth.

Q - Alexander Evans {BIO 19956412 <GO>}

Thank you.

Operator

We will now move to our next question. Caller, your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Good morning, everyone. It's Blair Stewart from Bank of America. I've got a couple of questions left. Firstly, you mentioned, Jostein, about pressure -- sorry, pressure in the pensions market. Could you maybe just quantify that? I know it's a small segment for you, but are you able to quantify what margin pressure you would expect as the individual pension account rolls through?

And I wonder, if you could comment just generally on the M&A environment in the Nordic region? Is there anything going on that you can talk about? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll give you a flavor of the movements in the pension business rather than quantifying it. It is I think new way from what's been the main source of income pension capital certificates and over to this new and old pension account. We expect and there to be a margin pressure, but also the volume is over time growing here. So I think longer term this could still be positive for the -- our profits within that business given that we maintain or at least maintain our market share. So that is margin negative, but profitability as such will grow in line with increases in assets under management still.

M&A environment, Helge?

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

Yes. Blair, as you know, the list has become shorter, but there are still further consolidation opportunities in our markets and I guess it's always something going on. It's not always it ends with M&A transactions, but we see still opportunities and we are actively seeking opportunities and we are well prepared for small opportunities and bigger opportunities. That's I think the signal from us.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Thanks, Helge. Can I just ask one thing that's been troubling me on M&A? You've got a very good business that generates attractive returns on equity. I think your target return on equity is 20% or 16% excluding reserve releases. Yet, when you talk about acquisitions, you talk about hurdle rate of only 6%. Just wonder, how did you square those two things. Should we just expect the M&A would be dilutive to your ROE targets or would M&A with businesses that you buy be expected to move up to the 16% to 20% ROE over time? Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

I think the two numbers are slightly different; 6% is the cost of equity, the kind of the cost of new money put into our business, whereas the book return on equity is 20% after tax that you are referring to. And if you take a look at, for instance, the one really large acquisition that has taken place in the Nordic market over the last 12 months, which is the acquisition of Tryg by -- of RSA by Tryg, for its Scandinavian part, here it, of course, has a huge effect on ROE as a booked ROE. But when we've done our 17 whatever it is portfolio transactions and small transactions over the last year, that is contained within the book ROE target. So it all depends. That's the easy answer.

Q - Blair Stewart {BIO 4191309 <GO>}

So I'm assuming by that your group ROE target will change?

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

It's unchanged.

A - Jostein Amdal {BIO 19939645 <GO>}

It is unchanged, but --

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. But if you were to do a sizable acquisition, let's say by historical standards, is that -- does that present a risk to your ROE target?

A - Jostein Amdal {BIO 19939645 <GO>}

I think I will comment on that when we get there, if we get there.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you very much.

Operator

We'll now move to our next question. Caller, your line is open.

Q - Analyst

Hi, there. It's Will (inaudible) from UBS. Just a couple of quick questions left. Just as you know, new way home, I'm just trying to understand what must be the underlying concern on this line, this demanding prices is above claims inflation. I think we are assuming (inaudible) losses as largely just one-off. Is there any adverse claims trends, for example, I may not have captured or is it just a pricing issue over a month of same period?

And secondly, just thinking, if I look at market by the U.K., there's pricing pressure coming through, for example, because of COVID frequency being passed to the consumer. Is there any debate in the mortgage market? Is there any challenge on pricing that we have as a result? Thanks.

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

The last question is it's easy to answer. It's no discussion and no pressure so far.

A - Jostein Amdal {BIO 19939645 <GO>}

First one, your line was slightly bad, but I think you asked about private property or housing, was that correct?

Q - Analyst

Yes. That's right. Just trying to understand the exact drivers of what's causing prices to be expected to be above claims inflation. Is there an adverse claims trend on the roll?

A - Jostein Amdal {BIO 19939645 <GO>}

I think we've commented on this since around 2019 that there is -- that we haven't pricing -- been satisfied with the profitability in that line of business. When we kind of turned the corner on private cars, we kind of moved on to private housing as there is a need there to increase prices more than claims inflation to get those rates down. And also longer term, we do expect what we call climate effects or at least increased volatility in weather to have the unaffectedly need to price in on average. And then from each and every quarter, there will be growth in both directions, but on average we do expect higher claims for private housing due to weather or climate. And this is also part of our kind of strategic agenda to try to mitigate those claims effects to claims prevention and preventive measures. But in the short term, we need to price this up to meet the price increases.

Q - Analyst

Okay. Thanks.

Operator

We will now take our next question. Caller, your line is open.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you. Johan Strom, Carnegie. First on the weather effects. I'm not sure, if I missed that in previous comments there, but can you break that down into different segments? And then secondly, you obviously have very impressive cost efficiency with 13.9% cost ratio, excluding the Baltics. But I'm just still a bit curious, if you have any impacts on costs from COVID-19. Thank you.

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

Maybe you can try to explain what I tried to explain, Jostein, maybe it's easier.

A - Jostein Amdal {BIO 19939645 <GO>}

But sentimentally I was not.

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

No. I said the right thing, but you can repeat.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. Now on the weather effects that we quantified per segment, that is NOK316 million overall that we said is there. And just to be open about it both weather and COVID effects are estimates. We don't have an accounts or claims type, which says it's weather or COVID, so this is estimates based on our analysis of the claims patterns. On the weather effects, we've only included the property related there and with the kind of the claims types that are typically related to cold weather. And it hits the private and the commercial segment in Norway, as well as we have one large loss including that very large loss above NOK30 million is included in the corporate sector in our segment setup. So it's -- on private, we included the NOK136 million and in commercial NOK107 million and the remainder is in corporate sector related to the large loss.

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

And maybe comment the improvements for underlying frequency losses once again.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. Just one explanation regarding the large losses is not one single thing. It is that within our insurance program, we are allowed to accumulate within a certain time period all claims related to the freeze, and that's why we kind of call this a large loss, it's also a large loss in the reinsurance market as such, although not large enough to get those any recovery this time, since it's below the NOK200 million general limit.

If you look at the underlying frequency loss improvements, for the private segment, and I just think for both COVID and -- which is positive and weather which is negative, we have an underlying improvement of 1.9 percentage points compared to 2020. And for the commercial, we have 1.0 percentage points improvement compared to first quarter of 2020 and for the group effect, 0.7 frequency loss and 0.8 on the total loss ratio.

Q - Johan Strom {BIO 17541253 <GO>}

Okay. Fantastic. Thanks for the numbers, Jostein.

A - Jostein Amdal {BIO 19939645 <GO>}

No problem.

Operator

We will now take our next question. Caller, your line is open.

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

Hello. It's Jan Erik from ABG again. Just on the housing and claims level. Is it so that you have discovered more local damages other than the freeze pipes that are in the housing or is it because people are staying at home, they're actually detecting more staying at home, is that a trend you have been seeing of late?

A - Jostein Amdal {BIO 19939645 <GO>}

Could you please repeat, Jan Erik? I didn't quite capture what you have said.

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

On the housing insurance claims, do you have more sort of damaging detected by people staying at home, not the cold weather as freezing pipes may have caused, but generally, have you seen any road damaged section as people have stayed more at home during last year than previously and that has been reported so to speak. Is that something you have seen in your housing claims?

A - Jostein Amdal {BIO 19939645 <GO>}

No, actually, I think, if anything, we have discussed the hypothesis that we could actually see less kind of ordinary water damages, because people stay at home and discover it before it's a serious loss. But I mean, we haven't tried -- we haven't managed to quantify it really. So these are kind of truly related to the cold weather as such.

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

Okay. So you're actually seeing that people managed to do better housekeeping, so to speak, while staying at home?

A - Jostein Amdal {BIO 19939645 <GO>}

This is I'd say an unquantified hypothesis we have that there could be some positive effects there. But as I said, it's not included neither in the weather estimates nor the COVID estimates.

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

Thank you for clarification.

Operator

We will now take our next question. Caller, your line is open.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Hi. Good morning. It's Thomas Svendsen from SEB here. The question is just on the weather again. Is it fair to say that it was February that was extremely cold that caused all these damages and as March was more normal, so we don't get the risk on any time lag effects moving in to Q2?

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

That's right, it's February. That was really a special month. And so it's right what you are saying. Talking about the future, you know what kind of policy we have, but that's right, it was February and not March.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Thank you.

Operator

There are no further questions. So I'd like to hand the call back to our speakers for any additional or closing remarks.

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

Thank you. We will be participating in a number of road show meetings and conferences over the next week virtually also this quarter due to the pandemic. Our meetings will be held with investors in Norway, the U.K., Switzerland, Sweden and the Netherlands. Please have a look at our financial calendar on our website for more details. Thank you for your attention, everyone. Have a nice day and stay healthy. Bye.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect.

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