Q4 2018 Earnings Call

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Company Participants

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

Other Participants

- Blair Stewart, Analyst
- Jan Erik Gjerland, Analyst
- Jonny Urwin, Analyst
- Kevin Ryan, Analyst
- Matti Ahokas, Analyst
- Paul Walsh, Reporter
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Gjensidige Quarter Four 2018 Results Presentation. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Mitra Negård, Head of IR. Please go ahead, ma'am.

Mitra Hagen Negård

Thank you very much. Good morning and welcome to the fourth quarter and full-year presentation of Gjensidige. My name is Mitra Negård, and I'm Head of Investor Relations. As always, we will start with our CEO, Helge Leiro Baastad, who will go through the highlights, followed by our CFO, Jostein Amdal, who will run through the numbers in further detail. And we will have plenty of time for questions at the end. Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra. Good morning and welcome, everyone. 2018 was indeed an extraordinary year for Gjensidige with extreme weather impacts hitting our earnings for the first three quarters. The fourth quarter was a more normal quarter from a weather perspective.

Starting with a few comments on our fourth quarter results on page 2. We generated a profit before tax of almost NOK 1.7 billion. The group's underwriting result for the quarter

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amounted to NOK 1.9 billion corresponding to a combined ratio of 68.5%. We released run-off gains of NOK 1.4 billion in the fourth quarter, significantly more than we had planned for earlier following an in-depth review of our claims reserves. Adjusted for this, the combined ratio for the quarter was 91.3%, down from 95.7% year-over-year.

The improvement was a result of premium growth and a more favorable underlying profitability, particularly for motor in Norway, mainly as a consequence of more benign weather conditions compared with the fourth quarter 2017. Our operation outside Norway continued to show good progress and our strong cost discipline resulted in a decline in the cost ratio. Market turmoil resulted in negative returns of NOK 231 million on our investment portfolio. Jostein will work (00:02:37) with more detailed comments on the results.

Turning to page 3 and looking at the year as a whole, we reported a pre-tax profit of NOK 4.3 billion. We are not satisfied with the underlying results we have delivered in 2018, even when adjusting for the extraordinary weather effects last year hitting us with somewhere between NOK 530 million and NOK 660 million through the first nine months. Hence, first and foremost, our focus is on getting our Norwegian business back on track. I will revert shortly to this.

But first, let's look at our dividend proposal on the next page. Based on the full year results, our board has proposed a dividend of NOK 3.55 billion corresponding to NOK 7.10 per share. This is in line with dividend payout last year despite lower profits confirming our commitment of delivering high and stable nominal dividends to our shareholders.

For our customers, this again bodes for distribution of a solid customer dividend from the Gjensidige Foundation. The proposal corresponds to a payout ratio of 95.5% on the group level. For Gjensidige Forsikring ASA, the proposal corresponds to a payout ratio of 117%. A proposal on ASA level above 100% requires approval from the Norwegian FSA. Based on the strong capital position for both the group and the parent company, we expect the application to be approved.

Then turning to page 5, I would like to elaborate on the operational status in a few key areas. After several quarters of disciplined and focused efforts, we are very pleased to see that underlying profitability for our motor product in Norway is on its way to reach a turning point during the first half this year as expected. We have put through significant price increases and adjusted terms reflecting the inflation which have so clearly been impacted by the structural changes in the Norwegian vehicle fleet. So far, we see very limited change in churn levels in motor and most of the customers we lose are still the least attractive ones, meaning overall portfolio quality is gradually improving.

Looking at our overall retention numbers for private and commercial, they have actually strengthened during this quarter. By year-end, we had 90% retention in the private segment and 92% in the commercial segment. We are continuing with significant price increases into 2019 and are prepared to see high churn going forward, and we can live with that. However, we will monitor the development closely, aiming at striking the

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optimal balance between profitability and volume. Competition is still fierce and our pricing initiatives make new sales more challenging. However, we see signs that competitors start following with price increases and we expect them to step this up during the next quarters, reflecting the underlying claims inflation for motor in the Norwegian market.

Our operational outside Norway continue to develop according to plan, and we are confident in our ambition that these operations will contribute NOK 750 million ex run-off to our underwriting result in 2022. Overall for the commercial lines, we are satisfied with renewals so far across all segments. In order to remain competitive, we need to continue lowering our cost structure and increase efficiency and utilization of best practice. Automation of tariffs and the new core IT system are important catalysts for improved efficiency and future profitability. And we are moving forward with increasing digital interaction with our customers. It is all about simplification for the benefit of our customers and for ourselves.

We are in the final phase of closing the sale of Gjensidige Bank to Nordea and expect to complete the process during this quarter. We have spent the past months laying the ground for a strong and effective strategic partnership. We look very much forward to embark on this journey together with Nordea.

And with that, I will leave the word to Jostein to present the Q4 results in more detail.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody. I will start on page 7. We delivered a profit before tax of NOK 1.7 billion in the fourth quarter. As a reminder, the bank's results are recorded as discontinued operations and, hence, not included in this table. The increase in profits over Q4 last year was driven by the underwriting result rising to NOK 1.9 billion. This was, to a large extent, driven by NOK 1.4 billion in run-off gains.

Our updated reserve reviews revealed NOK 1.1 billion higher excess claims reserves than previously anticipated. These excess reserves are related to personal injury in connection with workers' compensation and motor TPL in Norway, and still applies mainly to the vintages 2008 to 2014. This increase in excess reserves was now released in its entirety in Q4.

The excess reserves of approximately NOK 4 billion (00:09:06) still remains and we stick to plan to release these over the next four years, NOK 1 billion per year. The underwriting result was also driven by somewhat lower large losses and improved underlying profitability for operations both in Norway and outside Norway.

Turning to page 8, earned premiums were up 1.9% and 2.2% adjusted for currency effects. We continued putting significant price increases in Norway in particular for motor and private property and larger accounts in the commercial sector. We see the result of this with 5% premium growth for the private segment and almost 7% for the commercial segment.

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Our operations outside Norway remain dedicated to improve the quality of our portfolios for better risk selection and considerable pricing measures. This has a temporary negative impact on the top line, but we are convinced that we need to establish healthy portfolios in our operations outside Norway before shifting our focus to growth. Having said that, we believe we are reaching that point in near future, especially for the Baltics.

Turning over to page 9, the loss ratio decreased by 21 percentage points to 53.8%. Majority of this is related to a significant increase in run-off gains recorded in the quarter. However, it is also important to point out that underlying profitability improved. The weather conditions in Q4 2017 drove up losses for motor in Norway. And this year, with a more benign Q4 weather-wise, we saw claims coming down. We've seen the positive effect of our pricing measures starting to come through. This in combination with other measures such as increased retention levels make us confident that the underlying loss ratio for private and motor in Norway will reach a turning point during the first half of 2019.

We also recorded lower frequency claims in Denmark and the Baltics in Q4, proving effective pricing and pruning measures. And we will continue pursuing optimal risk selection and pricing in order to further improve profitability.

Let's now turn to page 10. We recorded NOK 898 million operating expenses in the quarter, corresponding to a cost ratio of 14.8% or 14.1% excluding the Baltics. Both are down 1 percentage point from Q4 last year. The improvement is a result of continued cost discipline across the whole group and our focus on simplification of processes, automation of internal operations, and further digitization.

A few comments on our pension and bank operations on slide 11. Our pension business posted yet another quarter of good results with a profit before tax of NOK 56 million and 15.8% return on equity for the year as a whole. The rise in profit from last year was to a large extent driven by strengthening of IBNR reserves in Q4 2017, but also strong insurance risk results for fully paid policies due to the completion of the buildup of the longevity reserves in the portfolio.

But the consistent high profitability level in 2018 is mainly due to continued growth in our customer base, strong operational performance, and high returns from property investments. Assets under management decreased somewhat towards the end of the year reflecting the market turmoil. By year-end last year, as much as 70% of the customers in our pension business were general insurance customers as well. Looking at the other way, around one-third of our SME non-life insurance customers, with a health and accident coverage also have their pension arrangement with us. This proves both the benefits of cross-selling and the potential for more growth within pensions.

The bank reported a pre-tax profit of NOK 15 million in the fourth quarter. The decline compared with Q4 2017 was due to several nonrecurring items: higher operating expenses following growth (00:12:51), lower lending margins and losses on financial instruments.

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Moving on to investment portfolio on page 12, the investment portfolio of NOK 53 billion yielded a negative return of 0.4% in the quarter, reflecting significant market turmoil. The match portfolio yielded a positive return of 0.1% on the portfolio of NOK 34.5 billion. A large part of the match portfolio consists of bonds that amortize costs, which yield a return of 1.0%. The running yield in this portfolio was 3.8% and at the end of the quarter – and the average reinvestment rate for 2018 was close to 3.3%. Unrealized excess value amounted to approximately NOK 0.8 billion. The relatively low yield in the match portfolio in the quarter reflects the negative effect of spread widening in the part of this portfolio that's not booked at amortized costs.

The free portfolio, which amounts to NOK 18 billion, yielded a negative return of 1.5% in the quarter. Credit spread widening and decline in value of equities contributed negatively to the result, whereas properties, private equity and government bonds contributed positively in the quarter.

Now looking at capital position on page 13. Our capital position is still strong. Our approved internal model gives us Solvency margin of 169%, while our own partial internal model gives us a Solvency margin of 190%. This is well within our target range. The Solvency margin is somewhat lower than that we had at the end of Q3, reflecting several factors. Q4 profits made a positive contribution to own funds. However, this was offset by dividend adjustments to reflect the actual proposed dividend.

Own funds were negatively impacted by implementation of the new tax rules on deferred tax related to the security provision. The Solvency capital requirement increased following implementation of the remaining FSA requirements regarding the approved internal model. All these factors came in in line with our earlier communication on what to be expected at year-end. The Solvency capital requirement was further impacted by reduced market risk in investment portfolio towards the end of the year, reflecting our lower exposure towards equities and credit risk. The pro-forma Solvency margin given the sale of Gjensidige Bank is calculated to 245% as of the year-end 2018.

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

Helge Leiro Baastad {BIO 5865247 <GO>}

To sum up on page 14, standing at the very beginning of 2019, I'm very optimistic about Gjensidige's prospects. I'm confident of the significant probability measures across the whole operation of feeding through and I'm confident we will deliver on our ambitious targets presented at our Capital Markets Day in November last year.

We expect our organic growth to be in line with nominal GDP growth over time. Continued efforts to maintain and further strengthen our unique position in the Norwegian market is on top of our agenda. We will continue with significant profitability measures in motor to counter the impact from the expected claims inflation.

Profitability is still expected to reach a turning point during the first half of 2019. In general, our pricing is based on extensive analytical insight. And we are moving towards

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tariff automation for more dynamic risk pricing. This field represent a game changer as for our ability to react on market dynamics and improve profitability.

Further, we will continue our efforts to deliver the best digital customer experiences in the Nordic and Baltic general insurance industry. We will continue to see profitable growth through a disciplined acquisition strategy, reaping the benefits of economies of scale and transferring the best practice across the group. We are firmly committed to deliver attractive returns to our shareholders.

After closing the bank sale this quarter, we will give ourselves some time to explore different M&A opportunities in our marketplace. Hence, we do not plan for paying out any special dividends during 2019. However, I can promise you, we will stay disciplined and rational and return excess capital to our shareholders over time, if opportunities do not (00:17:17) arise.

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

Q&A

Operator

Thank you. We will take our first question from Jonny Urwin of UBS. Please go ahead. Your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Morning. Thanks. Thanks for taking my questions. Just two, please. So, firstly, the underlying improvement in the loss ratio came through a bit sooner than expected which is good to see. And I note in the presentation that you talk about weather being a partial driver. I know it's always hard to isolate the weather impacts from the underlying movements, but I'm just trying to get a sense for how much was true underlying and how much was weather just given it's a bit sooner than expected?

And then on the reserve releases, isn't there a risk here that when we released the good news from the strong underwriting years in 2008 to 2014, isn't that a bit risky given the most recent underwriting years have been a bit weaker from a profitability perspective? And it's often a trend and actuaries always say this, but the good underwriting years tend to get better from a reserving perspective and the bad underwriting years tend to get worse. So any comments there would be great. Thank you.

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

I can give you a comment on the first question and Jostein are preparing the second one. You're actually asking if you see a turning point of profitability in fourth quarter, especially for motor. Profitability for motor Norway improved in fourth quarter 2018 compared to 2017 after several quarters of lower year-on-year profitability as commented. And the improvement is partly due to more favorable weather conditions in fourth quarter 2018. And it's too early to conclude on an underlying improvement as there are always random variations in insurance from quarter-to-quarter. But what I can say, we are very encouraged by the results and feel confident that we will see a turning point during the first half of 2019.

A - Jostein Amdal {BIO 19939645 <GO>}

On the reserves, I mean even though loss ratio very higher in the last – say from second half of 2016 somewhat, loss ratios haven't been really high. And I feel very confident really that we have sufficient reserves on these past vintages and don't see any special risk of future negative run-offs on these years.

Remember that the releases (00:20:31) from very long tail lines of business, workers' comp and motor TPL. And it's not those lines of business that have been especially hit in 2017 and 2018. So I'm not too worried about that.

Q - Jonny Urwin {BIO 17445508 <GO>}

Fair enough. Great color. Thanks, guys. Thank you.

Operator

We will take our next question from Matti Ahokas of Danske Bank. Please go ahead. Your line is open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good morning. Two questions. It sounds like the weather in Q4 was a bit better than kind of a normal Q4. Is it possible to quantify this? You obviously gave the negative weather impact in the previous quarters. And then regarding the sale of the bank, how will this impact the diversification benefits in your capital calculation? Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

Hi. We don't have a specific number for how bad was Q4 2017. Q4 2018 is not far from normal, maybe slightly benign but not – yeah, but not very. Q4 2017, we said, but without quantifying that we were hit by winter effects in Q4 2017, especially on the motor side. So I'm sorry I can't give you any precise number. But if you kind of take away the run-offs and look at the remaining improvements, I would say that's partly due to more benign weather than Q4 2017, partly due to a real underlying improvement in profitability. Sorry for not being more precise.

On the bank, there is no diversification benefit at all in the capital calculation from bank and insurance.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks a lot.

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Our next question today comes from Vinit Malhotra of Mediobanca. Please go ahead. Your line is open. It seems they have dropped from the call. Our next question today comes from Blair Stewart of Bank of America. Please go ahead. Your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Hello. Good morning. I've got a couple of questions. Helge, when you talk about the turnaround happening in the first half of the year, how should we think about quantifying that in terms of the impact on the combined ratio? If you can give us some color there.

Secondly, just with regards – just remind me on the calculation of the Solvency. Do you accrue the dividend all the way through the year, or is that just the Q4 effect? And on that as well, what was the additional NOK 1 billion of excess reserves? Was that, in any way, included in the Solvency position or has that provided a boost? Thank you.

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

Yeah. Hi, Blair. By turning point, we mean an improvement in underlying profitability year on year. That's the turning point. It's important to also mention that motor is and will still be an very important insurance plan for us. And as you know, we came from extreme profitable situation with years with very benign weather situation. And it has weakened from the very strong profitability levels we had over several years, which, as I said, was to a large extent driven by the benign weather situation in our region.

We will continue with our pricing measures this year aiming for a gradual improvement after this turning point. Whether we will ever reach historical peaks, it's difficult to predict, but we will certainly do our best to improve profitability from that turning point. So, once again, it's the underlying profitability improvement year over year.

A - Jostein Amdal {BIO 19939645 <GO>}

For the Solvency calculation throughout the year, we assume a 70% dividend as a percentage of IFRS profit because that, until now, is the minimum average and will increase to 80% going forward. So, not to speculate in what the actual dividend will be, this is just a matter calculation.

And then when we come to the fourth quarter, we take the actual proposed dividend then. And since payout ratios have been higher than 70% the last years, then there is a drop in Solvency for that reason every fourth quarter. And that's something we're going to try to be clear about in our communication throughout the year. So 70% of profits after Q3 was less than the NOK 3.55 billion that we now propose or the board has proposed.

On the extra NOK 1 billion reserve releases, it's important to distinguish that by recognizing that there is an extra NOK 1 billion of potential reserve releases that has a positive effect on the Solvency margin because we use best estimates for reserves in the Solvency calculation. But taking it to the P&L has no special effect on the Solvency margin. That's indifferent there. So, the NOK 1 billion wasn't in any way necessary to boost Solvency margins to manage the dividends or anything. It has no relation to that.

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Q - Blair Stewart {BIO 4191309 <GO>}

Understood. That's very clear. Just to come back on the first question, perhaps it might be useful to have a view on to what extent price increases that you're managing to implement are above the inflation level. That might be a good guide for us. So are the price increases exceeding the claims inflation level in motor?

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

Yeah. Talking about – to start with our expectation for – just to give a comment on expected claims inflation going forward first. So, our expectation is unchanged and, if anything, tilting a bit down to around 5% to 6%. And remember, however, that this reflects our expected increase in risk premium, meaning a combination of frequency, repair costs, and portfolio mix effects. And we have talked about the latter several times regarding new cars, EV and hybrids in Norway.

When it comes to price increases, fourth quarter and into 2019, we are significant above that level. And I commented churn, the retention is unchanged. We see gradually somewhat more challenging new sales. That's natural. But, overall, we are very confident into 2019.

Q - Blair Stewart {BIO 4191309 <GO>}

The price increases don't look significantly above that level, Helge. They're between 5% and 7%, so they're really above but not significantly above, would that be fair?

A - Jostein Amdal {BIO 19939645 <GO>}

Please also remember the earnings effect of these price increases since 24 months. We're talking about price increases that will hit new policies and that then takes time both for the policies to renew and the earning into the accounts.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Yeah. Sure. Okay, great. Thank you. Thanks very much.

Operator

Our next question today comes from Kevin Ryan of Bloomberg Intelligence. Please go ahead. Your line is open.

Q - Kevin Ryan {BIO 1814771 <GO>}

Many thanks. Just a point of administration. Could you let us know how quickly the FSA are likely to approve the dividend payout? And secondly, on the dividend, given that you're maintaining it this year with lower underlying profitability and having to go to the FSA for approval, is this a look forward as to your optimism for 2019 that we can expect growth from here? Many thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

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On the first one, to be fair I don't really know how fast, but based on our previous communication with FSA, we are very confident that we will get this approval, but how fast this will actually happen, it's hard for us to be very concrete on that. Yeah, actually (00:30:09).

Q - Kevin Ryan {BIO 1814771 <GO>}

Okay. Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

On the second, our dividend policy remains is that we strive to keep a high and normal and stable dividend and if we have growth in underlying profits then dividends – or their dividends should also grow. We do have a fairly solid Solvency margin both before and after this dividend, partly also to meet volatile results and keep dividend at the same level or increasing.

Looking forward, of course, we do have one-offs (00:30:41) that we talked about in 2018. We have weather effects to the tune of NOK 500 million, NOK 600 million and we have unusually negative investment return especially in the fourth quarter if you look at an investment return for the (00:30:54) it's low. It's a little bit kind of normalized assumptions. Yes, we do expect higher profits in 2019 and 2018 as I expect all of you have as well.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thank you.

Operator

Our next question today comes from Jan Erik Gjerland of ABG. Please go ahead. Your line is open.

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

Yeah. Good morning. It's Jan Erik from ABG. I have four questions. The first one is about price versus new wins in commercial. You have a quite steep growth in commercial premiums, so how much is really price increases versus new business wins during the year and how is the outlook for the 1st of January and onwards?

Secondly, you talk about not being afraid for churn. After looking into it, it might be that you're also getting rid of your profitable customers with your sort of heavy price increases. What is your (00:32:05) or how would you deal with that going forward when you see the profitable customers also leaving you?

The third one is the negative frequency in commercial. Could you shed some light to that because you talked about the positive frequency in private? And, finally, just very fast on the bank, what kind of margin has been coming down and which product? Thank you.

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

It's large questions, all of them, Jan Erik, and I can start and Jostein, please fill me out. Regarding commercial, we have actually last, I would say, during 2015, 2016, and 2017 had – remember, we have 80% is direct distribution. It's SMEs. It's large motor book also in the commercial. And, of course, we have had a soft market for a period. Our volume in 2018 has been stable to positive. So the majority of what you can see here is price increases. And you have also seen comments from other of our peers regarding the commercial. So it's a different type of market we're operating in now into 2019 compared to what we saw one year ago.

When it's about churn, I read your paper last week and I wouldn't say that we are...

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

Thank you.

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

...afraid of that many thing. We are not that afraid of that many things. But of course, we are conscious regarding churn for new sales. And of course, we are monitoring A, B, C and D customers. And A and B customers, we want to keep the broad customers. But what I said previously is that, looking forward if anything, regarding what we had defined as claims inflation which is a broad – it's several things. It's more increase in risk premium. We – if anything, we see tilting a bit down. So we can act, I would say, smart and we can act proactively to retain our broad profitable customers.

What I said so far, we have more or less – we have had problems on the churn side for the C and D customers slightly during fourth quarter. We haven't seen anything regarding our present customers. But forward, of course, we have to monitor this closely and we have to keep and try to retain our broad profitable customers.

Commercial, the third, and the bank, maybe you could comment on the third and the fourth questions.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, Helge. On the negative frequency in the commercial sector, you see that we have a small negative development in the underlying losses or underlying results in the commercial (00:35:34) particular line of business that has been hit. But it's mostly related to property and motor, but no specific flavor I can give to that. It is part of just the ordinary short-term volatility in that and that we are looking to mitigate through price and other measures. Similar problems in the motor line as we have...

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

Just a question. On the motor side, it's a little odd that if you have a sort of improved weather situation on the private side in motor, while we have a negative observation on that same kind of frequency on the commercial side.

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A - Jostein Amdal {BIO 19939645 <GO>}

It is slightly different that – in the pricing environment tends to be a bit different and motor in commercial also includes more heavy trucks, car fleets, and so on which are different than the private. And on the property side, there's been several smaller losses that has been kind of contributed to this negative frequency.

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

Okay. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

The bank, which products have lower margins, what's really hitting the bank in the fourth quarter has been a lot of one-offs, but we also have some lower underlying margin in the ordinary mortgage book. Funding costs have increased and we've delayed some of the price increases out to the customers, but they have been put through now.

We were hit by, what I would say, a conservative approach to meeting the recommendations that's now turning into requirements from the FSA in terms of how to market consumer loans, which has meant that we had to use kind of more costly marketing channels than we used to before because we haven't been that competitive with the brokers, and also that we also had to keep a big lid on the interest rate of the customers in the consumer loan sector. Yeah, I think that's the broad story.

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

Perfect. Thank you very much for very good answers.

Operator

Our next question comes from Paul Walsh of Field Gibson Media. Please go ahead.

Q - Paul Walsh {BIO 3076077 <GO>}

Good morning. Just a couple of questions if you don't mind, please. I remember during your Capital Markets Day in London at the back end of last year, you talked about a target of increased claims reporting to be done digitally. Could just give me an update on that, please, in terms of how many policies are being handled digitally? And also, if you could possibly give me an update on IFRS 17 preparations, please.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll start on the IFRS 17, while we're struggling to find the figure on the digitalization here. IFRS 17, we expected to start in or to be implemented by 1/1/2022. And we are well under way to implement these new accounting regulations. It will have a fairly limited impact on the non-life side since you can choose a simplified method because you have the 12-month policies, whereas there will be a more heavy impact on our pension business and the life insurance sector in total.

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In terms of implementing costs, there is nothing like a Solvency II project or anything like that. It's fairly limited implementation costs. Yeah, I think that's enough for now. It's a project that (00:39:35) extremely concerned about the effects of that project.

On the updated numbers on the digitalization of claims handling, we are at 69.6% of frequency claims in the private segment in Norway that's applied online as of Q4 2018. And then I don't have a combined figure for the other geographies, but it's increasing.

Q - Paul Walsh {BIO 3076077 <GO>}

Good. So, just to confirm, it was 69.6% in the private segment.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah, in Norway.

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

Norway.

Q - Paul Walsh {BIO 3076077 <GO>}

In Norway.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah, private segment.

Q - Paul Walsh {BIO 3076077 <GO>}

Thank you very much.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

Operator

Our next question comes from Vinit Malhotra of Mediobanca. Please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Thank you for letting me come back into this call. Sorry about the technical hassle. Maybe a few follow-ups, please. Just on the Solvency and the reserving topic, please. If you could clarify, so when the FSA had approved the excess reserves in Q3, is it a safe assumption that this NOK 1 billion or NOK 1.4 billion depending – this amount was not included in that Solvency or was it included? If you could just clarify because, from the regulators' point of view, it might be a bit of surprise that they've just probably reviewed

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your reserves and allowed you to add them in. And now, there is suddenly such a large amount of new reserves coming in, so that is on the Solvency topic.

Then just on Denmark, it seems that the kind of re-underwriting is sort of stabilizing because the – I mean, I'm reading a report that in the fourth quarter, there's just NOK 1 million lower local currency premiums. Is it reflecting that you're a bit more positive about Denmark, particularly commercial, or is it just a coincidence that this quarter was sort of flattish? That's the second question, please.

And last question, just probably follow-up because I missed some of the things. In the bank, is it just, again, maybe by chance that since the sale was announced, the profit that are being reported are quite lower? I mean, is there a chance that there could be some conversation that, hey, what's happening here, is there something else – I mean, is there any conversation with Nordea on the price or anything else that you think is worth flagging because it's quite noticeable that the bank used to be sort of always a very strong profit level and it's coming down a bit since the sale announcement? Thank you very much.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. On the first one, the FSA – what the FSA are approved and/or said to us that was when they identify a margin in the claims reserve that should be included in the Solvency margin calculation. They didn't approve the numbers or anything like that as such. So, this extra NOK 1 billion that you're talking about now is something that come through the fourth quarter reserve release and not been part of any dialog with the FSA. But the size of this claims – well, the margin in the claims reserves, we haven't been in any dialog with the FSA about. It's just the principle of how you calculate the Solvency margin.

On the Danish business, it's true that we have going through a re-pricing exercise over – say started in 2017 gradually means that we are getting closer to the profitability level where we are supposed to be. It's not quite there yet, but we're getting there gradually. That helps in the competitive situation, but still we think we'll capture more of the growth when we are at the right profitability level and don't have the same need to go through these pricing and pruning measures.

On the bank, various effects I'd say that's contributed to the lower results in the fourth quarter. There are costs related to the separation of the bank. It's not just costing to get business. It's also costing to segregate them from the existing operations in terms of IT and others that we need to do that weighed somewhat on the results.

And as we talked about in the previous question with ABG that there is also margin pressure on some of the products. So it's a different set of factors that contribute to the lower results. There's no dialogue with Nordea regarding these results. They'll take over from the formal closing some time during Q1. And beyond that, the profit or lack of profit is our risk and not theirs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

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And sorry, if I can follow up please. I think Helge mentioned that claims inflation, the expected levels were sort of unchanged, but still a bit better at 5% to 6% instead of 6% before. Is that because of something in the market? Is it because of better behavior by competitors? Is it just some trends you are observing? Could you just comment a bit about why that 5% to 6% versus 6% before, please?

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

Yeah. As I said, it's – expectation is unchanged actually. But...

Q - Vinit Malhotra {BIO 16184491 <GO>}

Unchanged, okay.

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

...if anything, it's tilting a bit down to around 5% to 6% and we communicated 6% during the Capital Markets Day. And I also commented I think that's important to maybe repeat that we are talking about increase in risk premium. And when the competitors and the market talk about claims inflation, it means maybe different thing.

When we talk about what 5% to 6%, that's increase in risk premium and that's a combination of frequency. And frequency is slightly increasing due to the change in the bonus system last years. But we are doing lots of measures to handle that. It's also repair cost, average increase in the repair cost. And finally, it's a portfolio mix effects. And of course, when you have the proper and right tariffs, you are dealing with the new cars, of course, going forward. But we see that combination of average increasing in claim repair cost, frequency development and portfolio mix. That adds up to 5% to 6%. And I commented also that other price increases has been in average above that last quarter and into 2019. And that gives just opportunities going forward.

A - Jostein Amdal {BIO 19939645 <GO>}

Vinit, I'm just getting back to your Denmark question. I think maybe to clarify one thing if I understood you correctly that there was NOK 1 million lower premiums in local currency. It's the decrease, which is NOK 1 million lower when measured in local currency. So, if you have approximately NOK 30 million in Norwegian kroner, it will be NOK 29 million measured in local currency.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Sorry. I misread it quickly. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

Operator

It appears we have no further questions in the queue.

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A - Mitra Hagen Negård

All right. Thank you. Thank you, everyone, for your time. We will be meeting investors and analysts in Oslo today, in London tomorrow. And we will be meeting investors in the U.S. and Canada, New York, Boston, Montreal and Toronto next week, and also in Paris. Looking forward to speaking to you. Thanks and goodbye.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.

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