Q3 2012 Earnings Call

Company Participants

- Catharina Hellerud, CFO
- Cecilie Ditlev-Simonsen, EVP Brand Management, Communications
- Helge Leiro Baastad, CEO
- Janne Flessom, Head of IR
- Kaare Ostgaard, EVP Claims & ICT

Other Participants

- Gianandrea Roberti, Analyst
- Matti Ahokas, Analyst
- Per Gronborg, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

The conference is now being recorded.

Janne Flessom

Welcome to the presentation of the Third Quarter results for Gjensidige. My name if Janne Flessom, and I am head of IR.

Today our CEO, Helge Leiro Baastad, will start with presenting the headlines for the quarter, before our EVP for Claims and IT, Kaare Ostgaard, gives you some insight into our strategic initiative for simplification and automation of processes.

Then, our EVP for Brand Management, Communication and Marketing, Cecile Ditlev-Simonsen, will introduce you briefly to our strategic brand initiative, before our CFO, Catharina Hellerud, gives you some more details into the financials for the quarter.

Finally, we'll have a Q&A session, as always. Before we start, I would like to remind you that the presentation can be downloaded from our website, Gjensidige.com. Then I leave the word to our CEO, Helge Leiro Baastad.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you. The profit before tax expense for the year to date was almost NOK4.3 billion, and the Insurance result amounted to NOK2 billion, both well above what we have delivered previously for a full year. So we comment the result in Third Quarter as a strong result (in fact).

If I then go to the quarter, the profit before tax expense in Third Quarter, seen in isolation, was NOK1.6 billion, and the Underwriting result was a sound NOK780 million with a combined ratio 82.9%, up 37% on the same period last year.

Adjusted for the loss of the breakdown insurance agreement with NAF and exchange rate effect, we had a growth in premiums of 2.6% in the quarter, which is satisfactory.

Claims incurred developed in a positive direction and the loss ratio was 68.2%.

The underlying development of costs was satisfactory, and we are very pleased with the development in the Norwegian segments, Private and Commercial, where we had a decline in costs in Third Quarter.

Return on the investment portfolio of NOK829 million, which is 1.5%, was positively affected by strong development in the bond and equity markets. The analyzed return on equity, before tax expense, amounted to 24.3% for year to date.

So what I said, we feel justified in calling this a strong quarter. We experienced good competitiveness in Norway, which is reflected in good underlying growth in premiums, and a net increase in the number of customers in both the Private Norway and the Commercial Norway segments. And we achieved this in combination with excellent profitability.

Combined ratio in Private Norway became 77%, and we are seeing a very good effect of measures implemented to retain customers and increase activity. In the Private Norway segment, the gross loss of customers this year was reduced by 15%, compared with the corresponding period last year, and the quality of customer portfolio continues to improve. This shows that we have the right priorities.

In the Commercial Norway segment, the level of activity has increased considerably following the introduction of the multichannel model which we presented a couple of quarters ago, which was also reflected in the development of premiums. In the quarter, we had seen growth of 6% in premiums written compared with last year.

Finally, the Nordic segment; although we still have some way to go in relation to growth in the Nordic segment, we have established good profitability in this segment as well, with a combined ratio above 88% for both the quarter and the year to date. We believe that we now have a good basis for a profitable growth in the time ahead.

Finally, we have initiated several important strategic initiatives in order to ensure increased efficiency and loyalty on the part of our customers. One of them you have heard about before is the tariff setting project. I will give a short status at the end of the presentation, and the tariff setting project we have presented, as I said earlier, and which has had good effect on the loss ratio.

Two other such initiatives are our investment in ICT and what we call the brand initiative. We are convinced that simplified processes and automation, in combination with a good and correct customer dialogue, will be crucial if we are to stand out in the competition for the good customers in the time ahead.

In time, as you have heard, we, therefore, which to devote more time to our operational focus, relating to these two group-wide initiatives.

First, I will leave the word to Kaare Ostgaard which is responsible for ICT and this project regarding automation and self-service. Go ahead.

Kaare Ostgaard {BIO 17583401 <GO>}

My name is Kaare Ostgaard; I have the pleasure of leading one of Gjensidige's main initiatives to ensure that we reach our financial goal of a cost ratio of (15%) by 2015, in addition to developing the best customer experience in the Nordic insurance market.

Technology development, combined with changed customer behavior, both enables and makes necessary changes in the industry. Customers who wish to do so will increasingly be able to use self-service solutions, and tasks that were previously done manually will be automated.

In all our efforts, we try to see the operation from our customers' perspective. We have to make choices that set us apart and deliver what we call the Gjensidige experience, at all customer contact points.

From a customer perspective this entails receiving good advice, relevant and understandable communications, swift response, as well as reliability in a client claims settlement process.

From a technology perspective, this entails streamlining various processes and introducing tools that make it easier for our employees to help our customers, automating internal processes, and introducing self-service solutions that customers prefer to use. This will contribute to a profitable operation for us and to flexibility and simplification for our customers.

Gjensidige's ambition is to be in the forefront of this development. Now I would like to give you a short status report on this work.

In Norway, Gjensidige has reduced the number of branch offices from 200 in the 1990s to 36 today. During this period, we have also further developed our range of services available by phone, and on the Internet. This restructuring has significantly improved the profitability of our core business, and helped us be better at meeting customer expectations of accessibility and flexibility.

Penetration of Internet, smartphones and tablet computers is high in the Nordic countries, and the trend is clear. Around 60% of the Norwegian general insurance customers want to purchase insurance, or receive insurance offers online. And around 60% say they prefer to report claims or use self-service solutions via the Internet.

In theory, it's making good progress. Today, the processing of four out of five car window claims is fully automated. One out of three travel claims is reported on the Internet, and we settled 25% more claims within 24 hours than we did a year ago. And online sales continue to increase.

Just keeping up is not enough; we intend to stay ahead. And introducing new technology and new distribution solutions require firstly, a good structure, and efficient processing of massive amount of customer and market data.

Secondly, our (fine meshed) methodology for tariff setting and systems are also needed to verify customer data and cover attempted fraud.

Information technology is becoming increasingly important in general insurance, and we believe our unified Nordic ICT platform gives us an excellent basis in this context.

You might think that having one ICT system for all customer data and processes is an industry standard, but I can assure you that this is far from the case. Already this is something Gjensidige has invested in over time, and most of the costs are behind us.

Over time, we have built up a joint system platform with one joint customer system for insurance, which is also leveraged by our banking pension and saving businesses.

The core system contains all the terms and conditions and it covers sales, renewals and settlements. It is integrated with a separate solution from migrating, which provides excellent risk assessment and selection.

It's integration with the data warehouse provides the basis for efficient reporting and follow up, efficient handling of fraud in the settlement context and, thereby, a basis for further automation. And efficient use of analytical CRM for the distribution of sales leads.

(inaudible) information is processed and harmonized in an efficient ecosystem that ensures transparency and swift handling of all customer communications. This gives us a high degree of flexibility and provides a uniform customer experience across channels. And it also reduces cost because maintenance is carried out in one place.

We have also established a flexible, service oriented architecture, providing a basis for self-service solutions, internal use of interfaces, or other support systems.

We believe we are well positioned in the area of technology, as confirmed by Gartner Group survey in September this year.

So what initiatives can you expect in the time ahead? Firstly, we are well underway with implementing new work processes and tools throughout the organization. You have already seen the preliminary effects of the multi distribution model in the Commercial division in Norway.

The combination of new user interfaces for (centers), and analytical CRM allow for a considerable increase in the number of customer contact points, with almost 20% fewer employees.

This autumn, we will roll out new user interfaces for settlement staff in Norway, followed by the distribution in the Private division. Denmark and Sweden are next in line, scheduled for 2013.

Employees will have better access to the system support and faster access to customer data than before. To put it simply, our employees can spend more time helping customers, and less time searching for data in different systems. The customer will receive faster and better service, and in the longer term they will be able to use exactly the same user interfaces for self-service purposes.

Secondly, we are working on further automation and more self-service. Today, our customer can buy all our material damage products online through fully automated processes.

In the settlement context, we have also come a long way in automating travel and car window claims. As well as that, this autumn customers will be able to keep track on their own claim settlements on line.

In the time ahead, we will continue to promote the use of online solutions and continue to work on automation of the settlement processes.

Every year, around 350,000 frequency claims are reported to Gjensidige, and only a limited proportion of their settlement processes relating to these claims are currently automated. And we believe that, in the long term, it will be possible to automate almost 80% of these processes.

The (inaudible) how quickly this will happen and the pace of development is, in any case, not solely up to us; the customers' preferences will decide.

The potential for rationalization will be considerable as customers increasingly buy insurance online and take advantage of our self-service solutions. And the program, the Group program, for focusing on simplification, automation and self-service will make an important contribution to realizing our goals; a combined ratio of (90% to 93%) and 15% by 2015, as well as the new customer-oriented standard in the Nordic countries.

By doing this, we are able to enter an area in which our perceptions and solutions are increasingly adapted to the digital age we live in.

Before I turn you over to Cecilie Ditlev-Simonsen, we would like to inform you that we have made a short film explaining our work, and this can soon be seen on Gjensidige.com. Thank you.

Cecilie Ditlev-Simonsen {BIO 4958713 <GO>}

Thank you. Now I have the pleasure of leading what we have given the name, brand initiative. It's also about making actual improvements in our customer relations, and it's also about driving perception.

Market surveys confirm that Gjensidige is, first and foremost, associated with stability, safety and traditions which, of course, is great. However, we are not sufficiently associated with the customer orientation and customer service, and this we have set out to change.

As you can appreciate, it's demanding to differentiate ourselves based on customer orientation in an industry where products and positioning strategies are virtually identical. But we have a great starting point. Our brand is one of Norway's best known and most respected brands. And the corporate initiative that Kaare just presented to you will give actual change. Put simply, it will become easier for us to service our customers and they, in turn, will find it easier to be customers.

Our brand initiative consists of several concrete projects and continuous improvements. I would like just to highlight two of them. One is that we are launching, in December this year, new customer portals, in Norway first and then Denmark and Sweden early next year. The main change is that we are restructuring all the information on the portal, basing it on the needs of customers rather than on displaying our entire product portfolio.

The solution will be both modular and flexible, allowing us to sell across different areas and leverage the full spectrum of services in Norway. We will introduce the portals, together with a new visual design, which is a big change for us. We are renewing and organizing our traditional watchman logo, trying to balance the respect for history with the need to modernize it and adapt it to digital channels.

At the same time, we are modernizing, more dramatically, the rest of the elements that are included in our visual profile. The point is to communicate in a more friendly, easier to understand, even playful, way and try to reach our customers, also through our visual profile in order for them to perceive us as what we are, increasingly customer oriented.

Now the rollout of the visual profile will begin in December, as I said. And we have taken a quite pragmatic approach to this in terms of the timeline in order to reflect the cost discipline; that is important to us in all aspects of our operation.

However, just to conclude, our goal is quite ambitious. We want our customers to recognize us when they see us, when they see our communications and our profile element. Even without seeing the Company name or the logo, they should actually realize, okay, this is Gjensidige talking to me.

So that's quite ambitious, and it just means that we intend to set a new industry standard in this area as well. So we are showing these elements on our web pages today, and I also showed a film earlier this morning, and there are lots of reactions to this in Norway, because our logo is very familiar. Most people like the change; some don't, and that's as expected. And we look forward to implementing this, as I said, starting in December. Thank you.

Catharina Hellerud {BIO 17276650 <GO>}

The Insurance operations have delivered strong results in 2012. With the exception of the Baltics, the other Insurance segments have shown improvement in financial performance in relation to the corresponding quarter last year.

If you look at the first nine months of the year, however, all segments show an improvement in financial performance, with Underwriting results for the year to date that exceed the results for the whole of 2011. The Group's Underwriting result, year to date, exceeds the full year result for 2011 by (41%).

These good results are mainly due to a favorable development in the loss ratio. Underwriting result for the quarter was a sound NOK780 million. There was also positive development in the results from Gjensidige Bank, whilst the results from Pension and Saving was negatively affected by the strengthening of the claims provision of NOK11 million.

Investment portfolio yielded a good return in the quarter and is positively impacted by the development in the equity and bond markets. Taken together, this means that a profit before tax expense of around NOK1.6 billion for the quarter and NOK4.3 billion for the year to date.

The combined ratio for the quarter ended at a strong 82.9%. Of this, the cost ratio was NOK14.8 million and the loss ratio was 68.2%. The favorable development in the loss ratio continues into the Third Quarter this year. The new tariffs have led to better risk selections and risk pricing, which in turn has led to a positive shift in the portfolio with regard to risk.

The loss ratio is also affected by seasonal variations in weather. Motor and property insurance saw a good development in First Quarter this year, as a result of mild winter, whilst products such as motorbike and leisure craft insurance saw a good development in Third Quarter this year, as a result of poor weather this summer.

There has also been fewer natural events so far in 2012, compared with last year. In addition, the loss ratio will be volatile from one quarter to the next as a result of more random factors. This has had an impact on the loss ratio in Private Norway and Commercial Norway in the second and Third Quarter, where have seen continued loss claims frequencies for the main product in motor insurance and for property.

In addition, the proportional medium sized claims have been relatively low during the period. These typically concern house fires. Earned premiums increased by 0.7% during the quarter, with an underlying increase of 2.6%, adjusted for the NAF agreement and negative exchange rate effect on Nordic operations.

The Private division has an underlying premium growth of 3.5% in the quarter. The negative trend in the number of customers has been reversed, and they have net growth in customers in the Private segment in both the second and the Third Quarter.

The Commercial segment has a negative development in earned premiums. The decrease in earned premiums was mainly due to a reduction in accident and health products as a result of the loss of two large customers which we have commented on earlier. However, there was a positive underlying development in premiums for the biggest group, P&C insurance products.

The Nordic region reports of growth in earned premiums of 0.5% in the quarter. The figures are affected by a negative exchange rate effect. Adjusted for the exchange rate effect, the underlying growth was 2.8%. However, earned premiums for the Third Quarter last year were negatively affected by reinstatement premiums of NOK36 million following the cloudburst in Copenhagen in July last year.

Large losses in the quarter had an effect on the combined ratio of 4.4percentage points, roughly on par with the expected 4.5percentage points. Large losses were mainly related to the Commercial Norway and Nordic segments and they mainly concerned fires. There were also on natural event during the quarter in Norway with an effect of NOK50 million for Gjensidige.

There was a run-off gain of NOK88 million in the quarter, which corresponds to positive effect on the combined ratio of 1.9percentage points compared with 0.6percentage points in the corresponding quarter in 2011. As you can see, the run-off gain largely comes from the Nordic segment this quarter. It is mainly due to two factors; there has been a positive development in the workers' compensation portfolio in Denmark due to a downward adjustment of the expected inflation rate. That is the workers' compensation index for 2012.

In addition, some large losses were adjusted downwards during the quarter. The cost ratio was 14.8% in the quarter, and the positive development in nominal operating expenses continues in the quarter with a decrease of NOK14 million. The reclassification in the indirect claims settlement costs, which we commented on in connection with the Fourth Quarter presentation last year, explains the substantial part of the effect in Private Norway and Commercial Norway. But there has also been a reduction in normal expenses over and above these effects.

There's negative development in cost in corporate centers, mainly related to increased provision for collective bonuses. In 2011, most of these costs was expensed in the Fourth Quarter.

(Earlier), Cecilie presented the strategic focus areas, simplification, automation, and the re-launching of the brand. These are ongoing programs that will be delivered within the goal we have set of a cost ratio of 15% by 2015.

The illustration on page 29 shows the breakdown of internal risk-based capital requirements. The calculation were carried out using Gjensidige's risk-based internal model. The total capital allocated to operational activities that was practically unchanged in the quarter, and it amounted to NOK7.3 billion at the end of the quarter.

The asset risk has increased from NOK3.8 billion to NOK4.0 billion in the quarter. This is mainly due to a combination of increased asset risk as a result of the higher market value of the (Storebrand and SR) Bank as a bond at amortized cost, and increased exposure due to a somewhat larger investment portfolio. The total risk-based capital requirement amounted to NOK11.3 billion at the end of the quarter.

On page 30, you can see that we have decided to make some changes to how we illustrate the Group's capital position from this quarter, to make it easier to understand how the figures relate to each other. The bar charts show available capital, capital requirements, and excess capital for each of the three perspectives that we examined.

In this quarter, as before, it is the rating requirement from S&P, the A rating that is the most binding of the three capital requirements. Taking account of this capital requirement, the calculated excess capital amounts to NOK3.9 billion, an increase of NOK0.6 billion. The increase in excess capital in S&P model is mainly due to an increase in the available capital and there are only minor changes in the calculated asset and liability risk.

Bear also in mind that interim profits are not included in the S&P model when calculating available capital. This means that the overall profits for the period of NOK3.0 billion, after tax expense, has not been taken into account in the excess capital.

Investment portfolio amounted to NOK55.8 billion at the end of the quarter, an increase from NOK54.5 billion at the end of the Second Quarter. You are probably well aware of the (divisionality) of the investment portfolio into three different sub portfolios, the match portfolio, the free portfolio and the associated companies.

There was no major change in the asset allocation during the quarter. There is still an exposure towards the PIIGS in the portfolio. It was NOK193 million in the match portfolio, and NOK72 million in the free portfolio.

Then turning to the next page, the investment portfolio has yielded a good result, both for the quarter seen in isolation and for the year to date. The match portfolio yielded a return of 0.8% in the quarter, down from 1.1% in the Third Quarter last year. There was a net return on bonds valued at amortized cost, and in the match portfolio was 1.0% in the quarter.

The average reinvestment rate in this part of the match portfolio has been around 4.6% in the quarter, compared with the approximately 4.9% in the Second Quarter this year. The reduction in the reinvestment rate is due to a combination of a fall in the (swap) interest rate and the lower credit spread. The continued fall in interest rate is becoming an increasing challenge that will affect the return on financial assets in the coming quarter.

The return for the current bonds in the match portfolio was negative in the quarter, and impacted by a negative result element of NOK60 million due to different shifts in the interest rate currently used for discounting of the damaged workers' compensation liabilities, and the interest rate curves for the assets used to hedge the interest rate risk.

The associated companies produced a profit over NOK152 million in the quarter. Part of this profit is due to a positive estimate deviation of NOK40 million from the previous quarter.

The portfolio yielded a return of 2.4% during the quarter. Bonds, equities and variously owned properties made a positive contribution, while the return on property funds was negative. All in all, a good return on the investment portfolio, both in the quarter, and for the year to date.

Then I will leave the (floor) to Helge to sum up.

Helge Leiro Baastad {BIO 5865247 <GO>}

Yes. Then, finally, some comments related to outlook and priorities, the last page we will use today, page 21.

As you know, there is still great uncertainty about the international economic situation, and several key economies are experiencing financial challenges. This creates uncertainty for Gjensidige as well. The continued fall in the interest rates, in particular, is becoming an increasing challenge.

Gjensidige has a robust investment strategy. However, at the same time as the Group is financially sound, it has a high proportion of its business in the Norwegian general insurance market. The macro situation, as regards the Norwegian General Insurance business, is still regarded as good, and there are some signs of improvement in the Danish markets. The Baltic economies are experiencing positive development.

In addition, there is still uncertainty attached to the changed framework conditions for the financial sector in Norway and internationally. We expect increased focus on the Norwegian life insurance regulation during winter 2013, and it appears likely that clarification of the Solvency II regulation will be further postponed, but until further notice, we are planning implementation of January 1, 2014.

The General Insurance business in Norway, and in Nordic countries, is very profitable at the moment, which we are, of course, very pleased with it. With strict requirements for customers and risk selection as before, we are, nonetheless, experiencing good growth and increased competitiveness. High profitability attracts competition, of course, and it is important not to rest on our laurels. We are not willing to compromise on our policy of profitability (or) growth, and our organization is working continuously to ensure increasingly efficient operations and more optimal pricing of risk through sophisticated tariff setting.

So far, we have implemented new tariffs in most of the Private Norway segment, with documented good results. Still, there is a certain potential for further reduced claims ratio. For the Commercial Norway segment, we estimate that nearly 70% of the portfolio is suitable for new tariffs, and some tariffs have already been implemented during this year. It will, however, take some time before we see the full effect of the loss ratio.

In the Nordic segment, we will start implementation in 2013, and we expect to be able to use the new tariffs on (60% to 70%) of this portfolio. In other words, we still expect a considerable rationalization potential from the ongoing tariff setting project. And it's important also to comment that this, of course, is a continuous improvement process of developing the tariff system, and of course, this will continuously be part of the business, going forward, as well.

Reducing costs is simple, as I commented after the Second Quarter this year, but reducing costs in parallel with investing in the right solutions for the future is challenging. And I'm convinced that, in the space of a few years, we will see a completely different way of conducting insurance operations than we have been used to, driven by increased digitalization automation, and changed customer behavior.

In Gjensidige, we're focused on customer orientation more than ever before, and today you have heard a bit about our current situation and our initiatives to position ourselves for the future, and I am confident that Gjensidige is in a strong position in relation to our competitors. In the short term, we are particularly looking forward to launching our new profile, before Christmas, with a new version of the watchman.

And with that, we are ready to take questions from you. Please go ahead.

Questions And Answers

A - Janne Flessom

And we would kindly then ask you to ask only one question at a time, please.

Operator

(Operator Instructions) Matti Ahokas, Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

Actually, my question is more general in nature. Many of your peers, or actually most of your peers, gave guidance on the combined ratio for the current year, and you haven't done so. If you look at your track record, you've been beating the estimates now for a number of quarters. I was just wondering, is there any chance that you might consider giving more detailed guidance on the fiscal year, just to make it a bit easier for the markets? Thanks.

A - Catharina Hellerud {BIO 17276650 <GO>}

We do not give any guidance on our results, so what we do is that we guide on our long-term financial targets, which is, as you, of course, know is a combined ratio between 90% to 93%, and also the cost ratio target of 15% in 2015. And these are principles that we are planning (for the Company) going also in the future.

Q - Matti Ahokas {BIO 2037723 <GO>}

All right. Thanks.

Operator

Per Gronborg, Danske Markets.

Q - Per Gronborg {BIO 15910340 <GO>}

I have a question, related a bit the same issue, your 90% to 93% combined ratio target. You have been below that level for some quarters. You could argue in Q1 and Q2 you had exceptionally strong -- so you had exceptionally good weather. In Q3, I guess, you had less tailwind, so that excuse is not really valid any longer. You have a lot of initiatives you address where you will improve your cost situation, you will improve your underwriting situation, also outside the Private Norwegian book.

Where should the pressure come from that should move you materially up on combined ratio, in the next three years, as your financial targets basically indicates that you'll be satisfied if that happened?

A - Catharina Hellerud {BIO 17276650 <GO>}

I think I'll just go back to my comments regarding the especially the loss ratio, which is the factor, to a large degree, giving us a very low claims ratio.

As I said, of course, the loss ratio is affected by seasonality, a variation in weather. And it's correct, we had a very benign winter this year, and we also had, from our perspective, a very benign summer. We had a low frequency within a typical like motorbike and leisure craft insurance. And we have also seen fewer natural events.

In addition, I also commented that, of course, also, the claims ratios are affected by more random factors. But when we look at our long-term financial targets, we have to look at a normalized situation. We have to have a position on what is a normal claims ratio, based on a normal rate of large claims, and a normal rate of other related claims, etc. And our long-term financial target is based on such a normalized situation.

And as you also commented, there are different initiatives that we do. The strategic initiative is to make sure that we're able to deliver on the cost ratio target. Obviously, it (matters) to be able to deliver on the cost target.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you.

Operator

Gianandrea Roberti, Carnegie.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

I have a couple of questions, but I'll start asking the first one first. I think, Helge, you mentioned the possibility of further improving the claims ratio in Private Norway, which is a standing statement, looking at the current profitability. Have I understood that correctly?

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

When did I say that, during my presentation today, or --?

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. A few seconds ago, while you were speaking. But maybe I misunderstood you, that's why I want to double check it.

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

I will refer to what Catharina just said. The combined ratio for the Private line in Norway, Third Quarter is 77%, and that's extremely strong. And it's driven, first and foremost, by the claims cost ratio. And if you go into the claims cost ratio, it's driven by the frequency element, which is a combination of stable and significant decreasing, when you've got to look into the property.

So I do not hope that I have guided in a better way, compared to what we actually see now. It is a very strong situation, of course.

What I said is, the unique combination of improving of the competitiveness; increasing the net amount of customers for the first time since, I think, 2006 or '07, in combination with a combined ratio below 80%.

So I am very satisfied with the Norwegian situation at the moment. So I haven't given any guidance of a long-term improvement for the Norwegian claims cost in the Private line.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Okay; I appreciate that. If I could just have one follow-up. The run-off gain in the Nordic segment, NOK75 million, I think Catharina explained and said something about the workers' comp index in Denmark. But if you could just explain it again, because I didn't really get what you were saying before. Thanks.

A - Catharina Hellerud {BIO 17276650 <GO>}

Yes. It's actually about the workers' compensation product in Denmark, where you have these long-term annuities, where we increased the annuities based on what we expect of inflation level. And the inflation level is set by the Danish authorities. It's a workers' compensation index, but it's set once a year. It's actually based on the wage increases the last two years.

What we see now is that the model that we used to estimate the workers' compensation index has given a too high inflation expectation for 2012. So based on observations on what happened in the wage increases in Denmark, as you know that we have used too high inflation adjustment for 2012.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Super. That's helpful.

Operator

Vinit Malhotra, Goldman Sachs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So just on this topic of very strong combined ratios again, if I may? So if I look at the Commercial Norway, for example, the 80.9%, and if we strip out the large losses and the reserve releases, we are seeing a number which was 74.7% in 2Q and 76.3% in 3Q. And I link it back to Helge's comment just now that the cycle has been -- it's been very good and you want to prepare the Group for any competition that could happen and deteriorate.

Are you already seeing something's changing in the market which makes you feel that the Norwegian market has had a brilliant run, everything's great, but now --? And the reason I ask it because when we ask your peers, the answers we get are that the barriers to entry are very high, so the cycle, by itself, has changed, or it looks very different in Scandi market or in Norwegian market in particular.

So any comments on that would be really appreciated at this time. Thank you very much.

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

If I can (perhaps start), and maybe Catharina could follow. But the barriers to enter; I think the barriers to enter is increasing, actually, and the main reason for that is the cost effectiveness from our side and our main peers.

And secondly, I think the barriers to enter is related to what we have heard today actually, that we, and I think also our main competitors, the main Nordic non-life players, they are investing highly into ICT systems, business intelligence structures, and the fact that they see that it's a huge potential for further effectiveness improvements, and quality improvements and personal satisfaction improvements, by investing into a new way of doing this business with customers, going forward.

And thirdly, I think what I also commented related to the tariff development, I think the barriers to enter is increasingly more complicated to enter when the main players introduce more micro-tariff oriented pricing. And as you've heard, 70% of our Norwegian Commercial business can be part of a tariff-type of business.

Regarding competition, of course, as you have seen today, we have a return on equity of 24.3% with a strong capital position. That's strong, as we wrote in our report. And of course, you will see competition, and we have lots of competition both in Norway and the Nordics every day. Where we see most (strange) competition, if I can use that word, it's on the private lines, and we also see more variety of competitors, not only the pure non-life players, but also life companies. We are dealing with new players. The variety in pricing for the large personal risks is higher related to personal lines.

Yes, I have elaborated around the enter of barrier, or the competition in the Commercial segment, and said something about the competition. Maybe you have something more, Catharina? No.

Did that an answer to your question, or --?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Thank you very much. I will just give you that -- are you worried that the market or your business is at the peak of its performance and now the cycle could turn? Or if you are not worried about that, then it's fine, but you are changing a lot in the business, like the brand and the logo, for example. And are you fixing something which isn't broken, or are you thinking that it might break a bit, so let me be ready?

I just wanted to understand, because these kinds of numbers are amazing numbers, and we always look from the outside and think if the cycle is peaking in terms of profitability.

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

Before I give the word to Cecilie Ditlev-Simonsen I want to say that we absolutely do not have any brand which is broken. We have the strongest brand in the Norwegian financial sector. That's the reason why the changing; maybe you can repeat that, Cecilie, because it's a strong, good reason for that change.

A - Cecilie Ditlev-Simonsen {BIO 4958713 <GO>}

Yes, happy to. There are a couple of reasons. One is that, as we increase our business in the digital space, we need to basically adjust our visual profile to communicate more efficiently and practically on the Internet and on mobile. So that's one reason.

Now we could have, of course, done some very simple changes and not do the entire brand initiative. However, this initiative will allow us to communicate, allow me to say, in a less self-absorbed corporate and generic way, and in a much more customer oriented way, which we think will contribute both to positive associations in the direction of customer service and friendliness. And it will also help us outside of Norway, where of course we are trying to improve and increase our business because we are introducing a more modern look.

So basically, what we've done is we've modernized a very strong logo, and we have introduced some other visual elements that we think will work very nicely, especially in digital communication. So I think that we're not fixing anything broken, simply revitalizing something very vital.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. And does this cost a lot, this branding?

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

I want to add one sentence. You asked if I am worried. Without branding, I would say that I'm actually not worried at all. As we have presented today, we have a very strong base of underlying growth and profitability. What actually -- I am very optimistic around the initiatives. We actually have managed to invest into tariff developments, automation and self-service initiatives, and finally, that we can, with the same type of financial targets, invest highly into our revised review brand name. So I'm quite optimistic; I'm not worried, actually.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. And just one quick follow-up. The brand will not cost much, because you said it will be within the 15%, even when you're doing all this reinvestment into brands and IT. Is that a fair understanding?

A - Catharina Hellerud {BIO 17276650 <GO>}

That is a fair understanding, but to be a little bit more specific from our end, we have just said today that costs will be, for the rest of this yea, another NOK20 million of the development costs we've already expensed earlier this year. And for next year, another NOK40 million for customer portals, new signage and profiling elements in the entire Nordic region.

I might add that we will do this professionally and elegantly, but this is still a very moderate cost compared to what the other big brands have done in our part of the world.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you very much.

Operator

Per Gronborg, Danske Markets.

Q - Per Gronborg {BIO 15910340 <GO>}

I'll try my second question. On your capital, you (address) yourselves that Solvency II seems to continue to be postponed out into the future. On your excess capital, you have previously stated that you would keep it on board; you would keep the 80% payout ratio and keep the remaining capital on board until you had visibility into the regulatory framework.

You're showing today in your slides that the key limitation today is very far from being your internal model, of which, I guess, it's very much Solvency II inspired, or the current regulatory regime, but more rating agencies. Are we going to wait until '14, '15, '16, whenever Solvency II is coming in place, or have you any thoughts about taking action on your capital situation earlier than that?

A - Catharina Hellerud {BIO 17276650 <GO>}

I'll just a short comment to that. I think, first and foremost, we need to have -- we still have to work under the 2014 implementation date until we get a final (certification) from the European authorities. Probably that will be within the next couple weeks, hopefully. And of course, if the implementation is postponed until '15 or '16, we will have to go back and do a new discussion on what we do on the capital side.

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

Yes, I would say that when we have enough visibility related to Solvency II for the non-life and the life companies, and when we have enough visibility also for the life regulation, which is important in the total picture, we'll of course take the discussion internal.

Q - Per Gronborg {BIO 15910340 <GO>}

Saying that Life is important. I know the size of your Life business; I have a hard time seeing that being important to the overall capital need for your Group as long as you don't plan to take over Storebrand.

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

As you know, we have associated companies and it's what kind of regulation we will have related to Solvency II capital requirements, and also related to the capital (binding) as a non-life company. So that's part of our business now.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you.

Operator

No further questions.

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

Okay. Thank you very much.

A - Janne Flessom

Thank you.

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