Y 2020 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
- Derald Goh
- Hakon Astrup
- Jan Erik Gjerland
- Johan Strom
- Jonathan Denham
- Steven Haywood
- Thomas Svendsen

Presentation

Operator

Good day, and welcome the Gjensidige Q4 2020 Results Presentation Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mrs.Mitra Hagen Negard, Head of IR. Please go ahead, ma'am.

Mitra Hagen Negard {BIO 3974076 <GO>}

Thank you. Good morning, everyone, and welcome to this fourth quarter presentation of Gjensidige. My name is Mitra Negard, and I'm Head of Investor Relations. As usual, we will start with our CEO, Helge Leiro Baastad, who will give you highlights of the quarter followed by our CFO, Jostein Amdal, who will go into further details on the numbers. And after that we have plenty of time for Q&A. Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra. Good morning and welcome everyone. I hope you all are healthy and well. We have put behind us an extraordinary year dominated by the pandemic which has deeply affected the world. The Nordics has been spared for the worst impact so far although we have had several infection waves, and we have yet to see the end of this. 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 very healthy results.

The pandemic has challenged us in many ways. But it also has given us the opportunity to demonstrate our ability to quickly adapt and respond to a new reality. Some shifts have come to stay. Others will be history once the vacation has been completed. The Gjerdrum landslide at the end of the year was a national tragedy, reminding us of the infrastructure vulnerability and the need to put strong efforts into understanding the climate impacts and get an in-depth understanding of our infrastructure and damage preventive measures. I will revert to this in a moment.

Let's turn to Page 2 for some comments on our very strong fourth quarter result. We generated a profit before tax of NOK2,314 billion, or which NOK1,162 billion in underwriting results. This is the highest underwriting result we have ever delivered for the fourth quarter when adjusting for runoffs. The record result reflects 8.9% increase in earned premiums and a very healthy combined ratio of 83.1%. Large losses were somewhat lower than expected, while runoff gains were broadly in line with the planned releases. The underlying frequency loss ratio at 68% was very good, considering that this is a winter quarter.

The pandemic had a positive impact on our results this quarter, primarily related to travel and motor insurance. The estimated total market claims from the Gjerdrum landslide are significant. However, thanks to our reinsurance program, the impact on our results has been limited to NOK205 million. Our cost discipline remains strong, as you can see from the ratio of 14.7% for the quarter. We generated a financial result of NOK1,152 billion, reflecting the very strong development in the financial markets. Jostein will afterwards rework with more detailed comments on the results for the quarter.

Turning to Page 3 and looking at the year as a whole. We delivered the highest results in the group's history when adjusting for gain on the sale of Gjensidige Bank last year. The full-year pre-tax profit was a solid NOK6.3 billion. We met our financial targets on all metrics except for a slight shortcoming on the ROE. The combined ratio was a very strong 81.3%, significantly better than our target range of 86% to 89%. Thanks to very strong performance in Norway and Denmark. It is also worth mentioning that the COVID-19 situation contributed positively with 1.1% on the loss ratio. Large losses came in slightly below our expectation for the year, while runoff gains were broadly in line with planned releases.

The full-year cost ratio was 14.5% around the area where we would like to see it. Adjusted for the Baltic segment, it was 13.9%. We are comfortably capitalized with the solvency margin at 198%, adjusted for both the proposed regular and declared special dividend. Annualized return on equity year was 19.2%. We are very pleased with this, given the weak financial results in the first quarter in combination with a very high solvency ratio through much of the year.

Underwriting results outside Norway, excluding runoff gains came to NOK740 million just below our 2022 target of NOK750 million. We expect some volatility in results for our Swedish and Baltic businesses. However, we still expect to meet our target for the 3 segments in total in 2022.

Let's then turn to the next page for a few comments on the proposed dividend. Our Board has proposed a regular dividend for 2020 of NOK3.7 billion corresponding to NOK7.40 per share. This corresponds to a payout ratio of 75% for the group. For our Norwegian general insurance customers this once again bodes for distribution of solid customer dividend from the Gjensidige Foundation.

In addition, the board has declared a special dividend of NOK1,2 billion or NOK2.40 per share. This represents distribution of excess capital to support a more optimal capital structure. For this special dividend, the board has utilized its authorization to determine distribution of dividend during the year granted by the Annual General Meeting last year.

With this our solvency margin is at a very comfortable level, providing us with sufficient flexibility to maintain our S&P A-rating, capacity for smaller acquisitions, organic growth and a buffer for regulatory changes. And last but not least, the capacity to maintain a high and stable nominal regular dividend also after 2022 when the period with the planned NOK1 billion a year reserve releases ends. As previously communicated, our dividend stream have been calibrated to avoid a cliff in the regular dividend curve in 2023 and onwards. We expect the regular dividend at that point to reflect the underlying earnings capacity.

Over to Page 5, the landslide at Gjerdrum is a national tragedy and the worst slide we have experienced in Norway in decades. Our response to the situation was immediate and swift with our customer well-being, being our first priority. Company representatives from Gjensidige were at the site shortly after the slide persist our customers. And we made sure to have ample capacity and readiness at our customer centers for those who had been impacted. The slide is defined as a natural peril events by the Norwegian Natural Perils Pool, which operates as a clearing center allocating claims among the different insurance companies according to the national market share for fire insurance.

The current estimate for the total claims to the peril is NOK900 million. Being a member of the peril, we will cover our share of these claims corresponding to 24.3% market share last year, net of the fire mutuals' share of the pool. We will also cover claims from the event which are not part of the pool arrangement. Thanks to our reinsurance program. Our net claims recorded in the fourth quarter amounted to NOK180.4 million.

The Gjerdrum landslide is a strong reminder of the importance of continuous efforts to analyze climate effects and gain a deeper understanding of such risk to mitigate the significant impacts on human lives and properties. We expect enhanced focus on the risk assessment going forward both from property developers and regulators and we will continue to cooperate with the municipalities by sharing our knowledge on damage prevention.

Then turning to Page 6, a few words about our operations. We have put behind us yet another year and quarter with very strong operations. We have continued to put through necessary price increases in Norway for both segments. And I'm particularly pleased with our high customer retention and growth in business volumes despite the ongoing pandemic and tough competition. We take this as a vote of confidence from our customers and the confirmation of our strong value proposition.

The very strong momentum has continued into this year with very strong January 1 renewals in the commercial segment. Renewals of private and commercial customers in the areas where we have terminated cooperation with 4 fire mutuals, effective from the 1st of January, is also very encouraging. We are confident to maintain our strong customer relations in these areas. We will continue to put through price increases in Norway going forward, for Private, in line with claims inflation for all products expect property where we still see the need to price above this to reach satisfactory profits.

We also see further need for price increases in the commercial segment, particularly for large corporates. With no signs of market contraction in light of the pandemic so far, we expect a strong development for premiums in Norway this year as well. We continue to see mixed performance outside Norway, Denmark showed strong performance both for the year and in the quarter.

The new core IT system is at the final stage of implementation and will shortly be taken into use for the first products. This will be a significant contribution to enhancing our profitability in Denmark, our distribution agreement with Nykredit will be terminated from the 1st of May this year. The negotiations last year failed to establish an agreement, which could be commercially attractive. Our cooperations has been based on referrals, and we have had the direct customer relationship. Being a well-established player in the Danish market and having established targeted measures, we expect to maintain and improve overall customer retention in Denmark.

Performance at our Swedish and Baltic operations have a strong upside potential. As mentioned earlier, we are transforming our Swedish business into becoming a more digital insurance provider with a high degree of automated internal processes. Key initiatives have been identified and several are in the process of implementation. We will address more on this as we proceed later this year.

Our results in the Baltics reflects the fierce competition, which has resulted in top line contraction. Our planned measures are unchanged with a focus on optimizing multi-channel distribution, improving data analytics and price optimization. We are also seeking further efficiency in claims handling processes.

Then over to Page 7, and a few comments on our key achievements in 2020 to support our sustainability goals. Starting with safe society, which is one of our 3 focus areas. We have implemented insights on climate change and expected increase in water-related damages from the research cooperation with the Norwegian Computing Center in our tariffs. We will share this knowledge and use it to improve our damage prevention activities going forward. Damage prevention is a core element in our sustainability efforts. We continued to moderate our customers to implement risk reducing measures by reflecting this in the pricing.

Product and service innovation is a key to become a true problem solver for our customers. To this end, we introduced CO2 reducing incentives in 2 products last year as a response to increasing customer demand for sustainable products.

Realizing the mental pressure many of our customers have experienced through the pandemic, we established counseling and self-help services, which have been highly appreciated by many of our customers. And we have established a project to help people in need. With social isolation, reinforces loneliness and challenges related to mental health. We are in a strong position to retain and attract employees and key competence. This was evident in the peokon survey results last year which sold increased engagements among our employees.

Then moving on to our next focus area Gjensidige was climate neutral in terms of own operations in 2020, compensating for greenhouse gas emissions through purchase of UN gold standard carbon offsets and we have increased digital interaction with our customers. Jostein will revert with more details on this.

We have also good achievements for our third focus area, responsible investments. We became signatory to the UN Principles for Responsible Investments last year. A new policy for responsible investments has been adopted by the Board of Directors, widening the scope of our work on sustainable investments. And we have established carbon intensity reporting for equity and property investments. Our key focus this year is to prepare for and comply with the EU taxonomy for sustainable insurance. We have already started implementing activities to be able to report according to the new regulations.

Over to Slide 8. The core of Gjensidige's more than 200-year long success story is that we have always been there for, and played an important role in our customer lives. Through a fully integrated value chain and direct contact with customers. We have gained strong customer insight that has contributed to efficient sales customer loyalty and the development of a strong brand. Our overall goal is to become a problem solver for our customers, with an even stronger focus on damage prevention and sustainable solutions. This also involves broadening our value proposition both in terms of services and products. And we will seek to do this alone or through strategic partnerships.

The core of our strategy is being best today as well as best tomorrow for our key stakeholders. This requires us to further build capabilities and strategic flexibility in order to provide cost efficient innovative solutions for our customers going forward. We have a clear set of priorities for our different segments to be able to deliver on our ambitions. In Norway, we aim to maintain our strong and unique position and ensure that pricing reflects risk development. We continuously work on measures that generate cost savings, better customer experiences and grated competitiveness.

In terms of the commercial segments, our aim is to maintain our market-leading position while strengthening customer relationships. We will achieve this by building digital service solutions, refining our role as a damage preventing problem solver, exploring new growth industries and being prepared to meet future customer needs. For our businesses outside Norway, we see room for further improvement in profitability driven by the new core system, more sophisticated price models, a wider product range among our customers and cost efficiency measures. As you can see on the right hand side of this slide, we have identified different measures for the individual segments.

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

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody. I'll start on Page 10. We delivered a profit before tax of NOK2,314 billion in the fourth quarter, significantly higher than the same quarter last year. Our underwriting result was the best we have ever had for a fourth quarter when adjusting for runoffs. The main drivers were the same we saw through the year, continued high customer retention, effective pricing measures, higher business volumes and good cost control. We also had a positive impact from the pandemic situation. I will rework with more details on this in a moment. The financial result on our investment portfolio was significantly up year-on-year reflecting market movements.

Turn to Page 11, earned premiums were up 8.9% or 6.3% adjusted for currency effects. In the private segment, earned premiums rose by 7.9%, mainly due to price increases for motor and property insurance as well as accident and health insurance. Adjusted for the transfer of a portfolio to segment Denmark, the growth was 8.2%. Our competitiveness was very strong through the quarter. We continued to attract more private customers mainly driven by motor insurance.

Earned premiums for the commercial segment rose 8.9%. Thanks to effective pricing measures, solid renewals and portfolio growth. All the main product lines recorded higher earned premiums. And as Helge mentioned, we are off to a very good start for 2021 with solid renewals and volume growth. We'll continue to implement necessary pricing measures in Norway. And given economic outlook and our solid market standing, we are comfortable that we will be able to put this through.

Earned premiums in Denmark were up 7.8% in local currency and 5.7% adjusted for the discontinuation of a quota share reinsurance contract and transfer of the portfolio from the private segment. The increase was mainly due to portfolio growth in the commercial lines, partly offset by lower premiums for travel insurance due to the pandemic. Earned premiums for our Swedish operation were down 2% in local currency, primarily due to the decrease in the private portfolio related to profit sharing on partner agreement.

Adjusted for this, earned premiums were up 2.8%. We had both price and volume growth in the commercial lines during the quarter, partly offset by lower volumes in the private lines. In January, our first renewals were good. For the Baltics, we reported the decrease of 7.4% in local currency. This reflects the lower prices in the motor insurance line due to fierce competition in addition to lower the volume for travel insurance due to the COVID-19 situation.

Turning over to Page 12, the loss ratio for the fourth quarter declined 1.9 percentage points to 68.4%. Large losses were somewhat up year-on-year, although the nominal level was lower than our expectation for a quarterly average. The landslide at Gjerdrum incurred a large loss of NOK180 million net of reinsurance. Including the reinstatement premium, the net effect of the rent on the group's loss ratio was 2.9 percentage points for the quarter.

Runoff gains broadly affect our planned release, although being somewhat lower than last year. The underlying frequency loss ratio improved by 4 percentage points to a very healthy 68.3%. This was due to our strong and robust premium growth as well as a favorable claims development, particularly for our property insurance product in Norway. Apart from travel and to some extent motor through the past months, the general claims pattern is back to a more normal level in our markets. Estimated COVID-19 effects on claims for the fourth quarter amounted to approximately 1.9 percentage points on the loss ratio.

Going forward, we expect stable activity in our markets and claims at more normal levels, except for travel and possibly motor insurance, which will continue to be impacted by the ongoing restrictions. In terms of segments, I'm very particularly pleased with improvement in private, commercial and Denmark this quarter. In Sweden, the underlying frequency loss ratio was up year-on-year, the increase being driven by profit sharing of a partner agreement and higher claims on our payment protection insurance.

The underlying frequency loss ratio in the Baltics improved by 1.5 percentage points mainly due to lower travel activity. The pressure on prices for motor insurance and lower demand for travel insurance continued to put pressure on profitability for this segment. We're not satisfied with the profitability in Sweden and the Baltics. As Helge mentioned, we will continue our efforts on improving operations. We intend to transform our Swedish business to become a more digital insurance provider, combining this with the automation of internal processes in order to obtain higher cost efficiency. And in the Baltics, we have a clear priority of returning to a more profitable level, and we will continue to focus on improving our cost efficiency.

Let's turn to Page 13. We recorded NOK1,013 billion in operating expenses in the quarter, corresponding to a cost ratio of 14.7% and 14.1% excluding the Baltics. We continue to demonstrate a strong cost discipline across the group. We are pleased with the cost ratio for our combined Norwegian businesses at 11.8%, slightly up year-on-year. Denmark recorded a cost ratio of 15%, slightly down year-on-year due to the increase in premiums. The new core IT system will make a significant contribution to our cost efficiency in Denmark when it is fully up and running next year and we're able to phase out the old ones.

Our Swedish business had a cost ratio of 22.5%, somewhat down from the same quarter last year. The ratio is inflated by the top line impact from the profit sharing I mentioned earlier. Direction is good, although there definitely is more to do on the cost side in Sweden. The cost ratio in the Baltics was up 0.6 percentage points, reflecting the top line contraction. Nominal costs are down, and we have a strong focus on putting measures to enhance profitability.

A few comments our my pension operation on Slide 14. The pre-tax profit came to NOK56 million down year-on-year with difficult comparable due to last year's positive risk result related to the payback policies. Excluding this, the result was up compared to the fourth quarter last year reflecting growth in the business. Good returns on real estate investments and the recovery of the financial markets generated high financial income on the pension portfolios. Assets under management continued to grow, reaching NOK42 billion at the end of the year.

Annualized return on equity was 13.1%. The solvency margin at the end of the year was 146%. The arrangement of own pension account in Norway entered into force on January 1. The process of collecting the pension capital is expected to take most of this year. It's too early to conclude on the market dynamics as a consequence of this. However, it is prudent to expect some pressure on our profitability in the short to medium term. The pension business is still an important complement to our general insurance business in Norway, particularly within the SME part of our operation and generates cross-selling opportunities. As of the end of the year, 67% of the customers in our Pension business were general insurance customers as well.

Moving on to the investment portfolio on Page 15. The global financial markets continued the rebound through the fourth quarter. Interest rates and credit spreads came down and equity and commodity markets were strong. The commercial real estate market in Norway continued to hold up well. All asset classes in in our investment portfolio generated positive returns in the fourth quarter. Private equity funds with exposure to the oil sector had a weak performance. Our exposure, in general, towards the oil sector is limited. The total return amounted to NOK1,152 million or 2%. At the end of the quarter, the total investment portfolio amounted to NOK 58.9 billion.

The match portfolio yielded 0.5% return excluding changes in the value of the portfolio valued at amortized cost. This portfolio amounted to NOK36.4 billion at the end of the quarter. Bonds at amortized costs had a positive return of 0.9%. This portfolio is running yield at the end of the quarter was 3.4%, while the reinvestment rate for the year was 3%. And unrealized excess value amounted to approximately NOK1 billion.

The free portfolio yielded a return of 4.4% in the quarter. At the end of the quarter, this portfolio amounted to NOK22.5 billion. The quality of assets in the portfolio is good. We have a solid fixed income portfolio with a large majority having an investment-grade rating. We have a good share of property investments mainly in offices in the central business districts of Oslo and with very low vacancies in the portfolio.

Looking at our capital position on Page 16. Our capital position is strong with a solvency ratio of 198% at the end of the quarter, which is down from 219% last quarter. The reduction is mainly driven by the declared special dividend of NOK2.4 per share pertaining to accounting year 2019 and the proposed regular dividend of NOK7.4 per share for the accounting year 2020. The regular dividend will be resolved at the Annual General Meeting this year while the special dividend will be paid on the 4th of February.

The total Solvency II earnings and return in the free portfolio contributed with NOK1.5 billion this quarter. The capital requirement is somewhat higher compared to the last quarter. This is driven by growth in the underwriting business. In addition, market risk is up following higher exposure to equities. Our own partial internal model gave a solvency margin of 248%.

Finally a few words on the latest development of our operational targets on Slide 17. I'm very pleased with the progress of the majority of the operational targets this quarter. By delivering on these operational targets, we continue to improve our competitive position and lay the ground for future profitability. Our customer satisfaction score has climbed further, with the highest score ever for our private segment and a continued high level for our commercial segment. One of the factors driving this is the very high availability and good service we have provided to our customers during the pandemic. Retention levels in Norway remained very high. We still have a potential to improve retention outside of Norway.

Sales effectiveness based on running 12 months is up 10% compared with our baseline year 2017 for the second consecutive quarter. The improvement reflects higher sales in the private segment, but also in other segments we see higher sales effectiveness this quarter. There will still be some volatility in these figures between quarters going forward.

The share of automated tariffs is at the same levels as the last quarter at around 52%. We will continue to include more product lines going forward, focusing on commercial lines of business, in addition to further refining tariffs already included. On the claims handling side, digital claims reporting has remained at our target level of 80%. The share of claims handled fully automatically have increased to 17%. But the development has been somewhat slowed down due to some corona related claims handled manually.

We'll continue to develop these digital services further through 2021 and onwards. We have reduced claims costs even further with insurance fraud and process automation being the largest contributors. We are very well positioned to reach our target of NOK500 million in 2022. And regarding CO2 intensity, we will report this in our 2020 annual report which will be published on the 11th of February.

I'll then hand the word back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Yes. To sum up on Page 18. We have had 3 quarters in a row this year with record underwriting results. This is to a large degree a result of our solid brand, efficient operations and dedicated employees who put strong efforts in serving our customers every day. We expect this to continue, laying the ground for continued strong results going forward.

Structural growth is still on our agenda. Our solvency position is strong. Together with the encouraging results outlook, this provides us with a strong 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 base.

And then finally today, I will then now open up for the Q&A session. Thanks.

Questions And Answers

Operator

Question And Answer

Thank you. (Operator Instructions). We will take our first question from Alexander Evans with Credit Suisse. Please go ahead.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi, everyone. Alex Evans here from Credit Suisse. I hope you're well and congratulations on the highest ever Q4 underwriting results.

I've got three questions, please. So, firstly, just on sort of the strong January renewals you highlighted in commercial. Is it possible to give any color there on what sort of pricing you've achieved relative to sort of previous/ And what's your expectations going forward? How long do you need to sort of price at this level to overcome the claims inflation that you're seeing there?

Secondly, on the unsatisfactory developments in Sweden and the Baltics. How sort of far behind Norway are there because of just looking at numbers and I know it's perhaps not unreasonable to suggest that your underwriting target of NOK750 million in 2022 to just be Denmark could just achieve that by itself. So have you thought about giving separate targets to Sweden and the Baltics there? And then thirdly, just on the special dividend, you've got a solvency ratio of 198, that's right at the top end of your range. What was the thoughts there? Is that the ultimate test to hold some excess capital for a sort of potential M&A or is this to do with the sort of the run-off releases post 2022 with a potential further there? Thanks.

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

Yes, I can -- good morning. I can start with the renewals in our commercial business in Norway. And as you understood from my presentation, and maybe Jostein's comments also, it has been very strong renewals into 2021. And this, as you know, has been the situation for two years now, even stronger renewals this year compared to earlier years. As you know, it's tough competition. But we have managed to increase prices, highly customized actually. But it has been a significant level when it comes to price increases once again. And we have also gained new customers.

How long this could continue? What's important for us is to secure that we have the right risk price for the risk we take on board, and still we think it's still pockets which we need to address particularly among large corporates, and hence we are -- we will continue to raise prices going forward, but the significant levels we have seen for three years now, it will gradually be more normalized going forward. But this situation in corporate in Norway, I would say that my -- I'm really satisfied with what we have experienced and the team really, really satisfied?

Sweden and Baltic, maybe some comments from you, Jostein.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. I think it's spoken to turn the clock back to the Capital Markets Day in 2018 when we launched this target of 750. At the moment, it seemed like a tough target. We have behind us then almost one -- approximately one-third of that level in the same geographies. Maybe profit development has run a bit faster than we expected, but there's a number of measures to be taken to -- that was planned to be taken to get to that NOK 750 million in 2022. And we continue to work on those measures.

There will be some result volatility. And of course, we are extremely pleased with the results in Denmark now, but we acknowledge that there will be some volatility around those numbers. The same time. There's further potential in Sweden and Baltics, as we said, there. Cost ratios are still too high in both those segments. And we have a number of measures on tariffs, cost cutting, digitization and so on, that should improve profits going forward. We haven't talked about establishing separate targets. We'll continue with the same communication around the NOK 750 million for the combined. But you could say it looks promising that we will reach that target now.

On third question on the dividends. I think we've done what we said we should do according to the dividend policy. It's high and stable nominal dividends and when underlying profits are growing like they have been doing, we will also increase the regular dividend. So I think we increased by approximately 2% from the previous year.

Also, we have a long-term view on that. We will continue that dividend policy, and we're very committed to that. But if we only done the regular dividend, we would still be above the 150% to the 200% solvency, so we have a special dividend addition. If you move back to the sale of the bank, which were not what was announced in 2018 and generated some NOK5.5 billion in capital surplus. We said that we were looking for M&A targets, and it's now gone two and half years. We haven't executed on that, but we paid out part of that capital surplus that was generated through the sale of the bank. At 198%, we're within the range which we've guided beyond and are comfortable with that.

Q - Alexander Evans {BIO 19956412 <GO>}

Thank you.

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

I think just to add, Jostein, of course, we will continue scouting the market for attractive opportunities. So, the growth strategy is unchanged.

Operator

And we will now take the next question from Jon Denham with Morgan Stanley. Please go ahead.

Q - Jonathan Denham {BIO 19972914 <GO>}

Good morning. Thank you very much for taking my questions. Firstly, I was just wondering how much you think you need to improve profitability in private property in Norway still. And then secondly, I think at 3Q, you were saying that you were looking to add your first products on to the new core IT system in Denmark during 4Q; just wondering, if there were delays there. I think you said you were looking to do it this quarter into third. Maybe just wondering kind of updated time line for the new IT system, and kind of when do you expect to be completing in kind of other geographies? I was also wondering if this is related to making Sweden a more digital insurance provider. Or if that's got absolutely nothing to do with the new core IT system? Thanks.

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

Yeah, private property in Norway, just to start with the expected inflation, we expect around 4% going forward. But this will be volatile. The current macro situation may limit underlying inflation in the short-term. We have done several adjustments to tariff in addition to rates adjustments during 2020. We have also adjusted terms and conditions and claims handling process. We have also gone through that process. So -- but still, we think still it's necessary to increase prices above the expected claims inflation to reach sufficient profitability level. And remember, this product is quite volatile when it comes to winter effects. And so -- but you know we have done a lot during 2020. We will continue in '21 and I expect we will see a more normalized and sufficient profitability at the end of this year. Yes. That was question number one. And number two was related to --

A - Jostein Amdal {BIO 19939645 <GO>}

Timing of core system.

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

Timing of core system, yeah, thank you, Jostein. Yeah, we said fourth quarter. We had a soft launch towards employees late in December. And I think we have launched the first products in early this or January.

A - Jostein Amdal {BIO 19939645 <GO>}

It's really -- I mean we said fourth quarter, and it's very short into the first quarter.

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

First quarter, so it's --

A - Jostein Amdal {BIO 19939645 <GO>}

It's not a major delay.

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

Yeah, it's from few weeks, actually. It's according to plan. And I would say that I'm really also pleased that we have managed to develop this core system in a very different kind of year with people in Norway, Denmark, and also internationally, consultants and resources. And we are on track with that core system in Denmark. This year, we will roll out the private products and we will then start to take the commercial products into the system during 2021. So, the overall comment is according to plan with some few weeks delay at the end of the year.

A - Jostein Amdal {BIO 19939645 <GO>}

I mean --

Q - Jonathan Denham {BIO 19972914 <GO>}

Okay. And when are you expecting to take outside of Denmark?

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

We will come back to that. We haven't decided yet, but we are preparing and we evaluate what we have done in Denmark. So, far it has been very successful. I've done this once -- one time before, and that's 20 years ago. And compared to what we did 20 years ago, I'm really pleased with what I have experienced this time. So, this will be rolled out sooner or later in all countries.

Q - Jonathan Denham {BIO 19972914 <GO>}

Okay. Thank you very much.

Operator

And we will now take the next question from Blair Stewart with Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good morning. Thank you for the presentation, both of them. I've got a few questions starting with the private segment in Norway, I just wonder are you seeing any price pressure in the motor segment given the restrictions and the fact that people are not driving their cars very often? And how receptive are they to any form of price increases?

And then, just a little bit of more color on how you deem the property segments to be subpar in terms of profitability. But what are we talking about in terms of combined ratios or any other profitability measure? Do you care to share, just to get an idea of how much work is needed?

And my second question or third is really based on excess capital. I just wonder you've obviously distributed some excess capital today, not for the first time. I think you've got a very good track record of doing that. But just thinking about possible M&A opportunities across this sector. There's one obvious one that may come to market. I just wonder, it's an interesting decision to distribute that excess capital at this point. What sort of organic firepower do you think you have in the business for M&A taking into account excess capital that you still have and also a debt levels that you could resist to reset? Thank you.

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

Thank you, Blair. Jostein will maybe give you some comments on the third question. What I will say regarding to final question, we have a growth agenda and are looking for M&A opportunities also in Denmark. So that's very, very clear. Regarding motor and price pressure and competition, remember we had this special situation during '18, '19 into '20 with significant inflation for motor. That was related to modern cars and the mix of the cars and several reasons for that, as you remember.

Looking back, I think we were quite early with significant price increases. And we managed to hold the majority of our customers, but we struggled on new sales. I would say that, of course, it's price competition, but I think some of the competitors also are in the same type of process, maybe with a lag effect compared to what we had in '18, '19, into '20. And my comment is that our competitiveness in the Norwegian market in general, and specific when it comes to the private segment are better at the end of 2020 compared to the beginning of 2020.

And if you look at our sales efficiency and our actual sales, second half '20 versus first half, it's significant better. So the momentum into 2021 is very strong. But you know, you can this business very well. And it's tough competition, and it's hard competition regarding volume and market share. So, but we haven't seen all the small competitors as we saw some years ago. So, it's more or less related to the competition is related to the core name you know.

Property, Jostein, maybe you have some more in-depth details on the property profitability in Norway-.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah, I guess, so also to sum up that in John's questions previously. But I mean, given that in our pricing line, the expected inflation in motor, as you just said, there is, in a way, slightly easier to continue pricing significantly above expected cost claims inflation within the property side, and we continue to do that into 2021 as we have gone through the whole of 2020. I won't give your specific target of how much is done. We're adjusting this very dynamically and looking at kind of sales figures, retentions and so on. And as Helge just mentioned, these have been very good and even better in the second half than the first half of 2020.

Bit more on the excess capital side. I mean, you have our target ranges on the -- margin, where we are at the top-end of that range. We also have utilized subordinated debt capacity of, say, around NOK2.5 billion in Tier 1 and bit more than NOK1 billion in Tier two. And then there is, of course, also if there's a substantial M&A target that we will act upon. Then we have faith that we can come to the market with that case. And so that's kind of -- yeah, I think that sums it up.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay, thank you. It's just on the private segment, it's difficult as an outsider to understand where there might be any deficiencies in profitability when you're reporting a combined ratio of under 71. I% recognize that there's obviously pockets in there that might be higher than that, but it doesn't strike me as an area, where there's any profitability concerns, frankly.

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

Blair, if you look at 2020, the landslide at Gjerdrum that was a major event. We reported a majority of that claim on corporate center. It's limited on the segments. And it was a mild winter, and we also had this pandemic situation with less driving, people at home, taking care of the properties, et cetera. So, this is volatile. So we have to normalize for more weather and more fires, so we are looking to what we actually just experienced. And of course, it's some differences between motor and property, and we are looking at every business line isolated. But as I said and Jostein said, we gained new customers. We have much stronger competitiveness into 2021 compared into 2020. And then we can manage to secure that we can strengthen our profitability within the property in a better way maybe now compared to one year ago.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes, fair enough. Thanks, guys. Well done.

Operator

And we will now take our next question from Derald Goh with Citi. Please go ahead.

Q - Derald Goh {BIO 20775137 <GO>}

Morning, everyone. Just a couple of questions, please. So, the first one is on the SCRs. So looking at the quarter-on-quarter change, there seems to be an increase in the non-life underwriting risk. Is that primarily related to your strong growth on the commercial side? Or are there some other effects there? And correspondingly, there's also a decrease in the life underwriting risk if you don't mind just sharing a bit more color in terms of the moving parts there. And on the own fund side, that's also a reduction attributed to model changes. Are there any particular drivers as to what might cause the reduction? Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

On the SCR part, the non-life increase is mainly due to growth in the business, right. You can also see slight FX effects if the Norwegian kroner depreciates since we report in Norwegian kroner. But maybe this is just reflecting the good underlying growth in the business. The life side is slightly more technical, both related to the introduction of this own fund -- own pension account system, which we briefly touched upon in the presentation, which will in the longer term or in the short at least medium term, it probably will lead to lower profit margins as such. But also have a short term positive a reduction in the capital requirement with a similar reduction in the own funds. It doesn't really change the net position that much slightly negative, actually on the net position on the capital Surplus.

And your second question was the reduction in the own funds. Yeah, it's mainly the dividend, which is the reduction own funds. That's the main -- I mean, we do generate positive capital surplus except for the dividend decision. And then we take out the dividend as dividends.

Q - Derald Goh {BIO 20775137 <GO>}

Sorry, Jostein, I meant the reduction that's been attributed to regulatory and model changes.

A - Jostein Amdal {BIO 19939645 <GO>}

Oh, that specific part of the bridge share. That is related to the pension accounting.

Q - Derald Goh {BIO 20775137 <GO>}

Right.

A - Jostein Amdal {BIO 19939645 <GO>}

account I talked about, the introduction of the own pension accounts which reduces both capital requirement and capital -- and own funds.

Q - Derald Goh {BIO 20775137 <GO>}

Yep, and just a quick question if I may. Do you have any thoughts around managing the solvency at below the upper end of the mid-range, say, the midpoint of it? Or do you intend to stay at the upper end of it?

A - Jostein Amdal {BIO 19939645 <GO>}

We're comfortable to be within that range. That's why we set it like that. It could be at the lower end, but where we are at the moment, this fits well with our dividend policy.

Q - Derald Goh {BIO 20775137 <GO>}

Okay, great. Thank you.

Operator

We will now take our next question from Steven Haywood with HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you very much. Firstly, I noticed that your reinvestment rate in the fourth quarter dropped down to 2% from 3.3% in the third quarter. Can you explain why such a drop and what happened to it? And then secondly from me -- or finally from me is mainly on RSA Denmark. That's an asset that's up for sale. Would it be an interesting asset for you to own? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll start with the first one and Helge with the second one. The reinvestment rate is we purely report the average of the investments we've actually done, it's can be a bit volatile quarter-to-quarter because depending on the what type of paper is available in the market for us, but I think, the trend has been downwards for a long time. So actually, I think back in the second quarter, we had -- due to the financial turmoil, we did actually manage to invest at some higher rates. But there, will not come back and credit spreads have gone down during the fourth quarter. So, it's only natural that our reinvestment rate drops as well.

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

Could you please repeat your second question? Was it if we are interested or if we -- what was your question regarding --

Q - Steven Haywood {BIO 15743259 <GO>}

RSA -- sorry, Helge. Would RSA Denmark be an interesting asset for you to own?

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

Yeah, I'd say Denmark as I said, I think I said it during my presentation, and I said we -- the growth strategy for Gjensidige is unchanged. We want to grow in the Nordic area. And if it raise opportunities as it may raise in Denmark. We are, of course, interested in looking into growth opportunities. So that's a positive answer for me. But I can't go more deeply into that, of course.

Q - Steven Haywood {BIO 15743259 <GO>}

I appreciate that. Thank you very much.

Operator

And we will now take a next question with Hakon Astrup from DNB Markets. Please go ahead.

Q - Hakon Astrup {BIO 18861149 <GO>}

Good morning. Two questions from me. The first question on premium growth, where you also stated in the report that near-term growth is expected to be above the long-term level of nominal GDP. Is it possible to give some more color on, yes, how much above and for how long? That is the first question. The second question is on taxonomy. Can you be a bit more specific here on what activities you're going to do to prepare their taxonomy and how you think the taxonomy will impact into the year? Thank you.

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

Could you -- yeah.

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

It was a bit unclear on the first one, Hakon. I didn't quite catch what the question was actually, the first one.

Q - Hakon Astrup {BIO 18861149 <GO>}

Okay. Helge, I'll try again. So the first one is on premium growth. You stated in the report that near term growth is expected to be above long-term level of nominal GDP. Can you give some more color on how much above and for how long?

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

I think I will not give that type of guiding. What I can say and repeat, Hakon, that 1st January renewals for commercial are very strong. Our competitiveness in I'm talking about Norway now in the private segment is good. Our new sales is significantly stronger second half 2020, compared to first half. So, we will be above, expected to be above expected claims inflation short, medium term, but how much and how long, I think I will not go into that.

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

In terms of taxonomy, Hakon, as Helge said, we've already started implementing activities to be able to report on this. We will come back to more details as the year progresses, but we are fully prepared to comply with the taxonomy when it comes into force.

Q - Hakon Astrup {BIO 18861149 <GO>}

And how do you think that will, say, in general, the new taxonomy will impact Gjensidige?

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

Excuse me, I --

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

How it will affect Gjensidige in general, the taxonomy?

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

How it will affect us, it definitely motivates us. It motivates us in terms of sustainable operations. And it sort of fits in with the focus areas that we've been talking about earlier. So, we have a number of measures ongoing and initiatives which we will be adding up to, placing us in a good position in terms of our reporting. We will get back to more details on this as with the year progresses.

Q - Hakon Astrup {BIO 18861149 <GO>}

Okay. Thank you.

Operator

We will now take a next question from Jan Erik Gjensidige with ABG. Please go ahead.

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

Hey, good morning from me as well. I just want to have a couple of questions. And the first one goes really to the M&A opportunity. And do you see the RSA transaction as a sort of change in cultural rights for Gjensidige yours -- is 10% something you can adopt without actually losing your identity long-term, if you see it in that way?

Secondly, on the IT cost, since you are willing to sort of take this IT system onto the other countries, how much are actually the revenue cost for the existing systems in Norway? And how much lower do you think it really could be long-term? Finally, what is your claims inflation expectation for housing motor in the two different segments in Norway? Thank you.

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

Yeah, good morning, Jan Erik. If I understood your first question regarding culture, I think my general comments is that when we look at the Nordic non-life market, of course, it's differences between company and countries. But overall, I will say that it's many similarities regarding focus on profitability, cost reduction activities, digitalization, et cetera, et cetera. So, I do not think that the culture differences is I would say any problem or course when we -- if we acquire companies and if we go into structural changes, it will be a period of lots of changes, of course. And we have done this for many, many years. We have experienced what to do. So I will not say that culture differences is a large issue when we look at opportunities to grow structurally in this market in the Nordic market.

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

Okay.

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

The final question, Jan Erik, was regarding inflation. And private property as we have said before, around 4% going forward, but this is very volatile. Claims inflation from private motor, we also say that this will be expected to be around 4% going forward. When it comes to commercial for accident and health, it's around the going forward and GE in 2020 was 1.5%. The commercial property, it's quite stable development regarding inflation. So 4% on the private side and lower on the commercial side.

A - Jostein Amdal {BIO 19939645 <GO>}

The last question was on the IT costs.

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

Yes, we've started outside of Norway because the IT costs related to the core system was higher. At least among others, it was higher in the outside of Norway with the systems we have in Denmark. And there are two sides -- the two parts of the benefits side of changing the IT system. One is the improved function ability, which will come as we start taking it into use. And the second part is the cost reduction. That mainly starts coming into force when we reduce the use of the old one. So it will be a gradual move from the new to the old system. And when closed down the old ones, we get the full cost reductions from the change of core system.

So it's a gradual process and it won't come that fast as might suggest from that, yes. But it is coming. The same goes for Norway. The cost differential from the existing to a new system is lower in Norway. But the new system will also be more cost efficient there. But there is some -- as we said, changing a core system in a company like a big insurance company is a process that takes some time.

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

So, just one follow-up on the inflation in Denmark. How well phased the Gjensidige Foundation as they pay out a lot of their sort of excess money to your customers as a dividend? So how much capacity do they have? And how willing are they to lower their share in Gjensidige over time? Have you discussed this with them more recently?

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

I think it's hard for me to be very precise and comment the foundation specific. What I will say that the foundation is, yes, healthy and strong. They have also representatives in our Board. We have strong good cooperation with the foundation and have had that for many years. So, I think it's not right for me to go even further than that overall comments.

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

Okay. Thank you for your questions and time.

Operator

We have four more questions left. The next is coming from Ulrich Goh with Nordea. Please go ahead.

Q - Analyst

Thank you for taking my questions; don't have that many left now. But just wondering if there's any new views on how the run-off gain cliff in 2023 can potentially be avoided on earnings. I think you're very clear on the dividend, but any sort of areas -- where your model is the more conservative on reserves or anything like that?

A - Jostein Amdal {BIO 19939645 <GO>}

I think, we've been very clear and that we have a forward looking view on the dividend assessments. And that means that when we end the period of the currently communicated run-off gains, we will have earnings that are sufficient to support that dividend stream of the regular dividends. That is kind of our basic policy there.

Q - Analyst

Okay. So, you are preparing for like a potential zero run-off gain for 2023.

A - Jostein Amdal {BIO 19939645 <GO>}

Our accounting policy is that we have a best estimate on the claims reserves, except for this specifically communicated planned runoff releases. Whether actual run-off gains will be positive or zero or negative could vary from year-to-year. Historically, we've had, on average, positive run-off gains. But we've also had years going a bit back in time when we have negative, so there is kind of no guarantee there. But the accounting policy is to have best estimate on the claims reserves.

Q - Analyst

Great. Thank you.

Operator

And our next question is coming from Johan Strom with Carnegie. Please go ahead.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you. Several questions have already been answered. But let me ask one on the capital model. Can you just remind me the difference in your approved pin model and own p-in model that has not yet been approved. And also are there any new signs from the FSA that you could get the own p-in model validated?

A - Jostein Amdal {BIO 19939645 <GO>}

The main differences are related to impose on but first imposed on our model of the parts of the market risk, the correlations between market risk and underwriting risk, and modeling of catastrophe or storm risk, which we are using this -- where we're using the standard on this. We are, I mean, continuously working on improving our documentation and relying that to the FSA to get more parts of our own version of the -- our own calibration of the model approved, but I can't give you any guidance on how long that will take.

Q - Johan Strom {BIO 17541253 <GO>}

Okay. Thanks Jostein and congrats with a fantastic year and quarter.

A - Jostein Amdal {BIO 19939645 <GO>}

Thanks.

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

Thank you, Johan.

Operator

And our next question is coming from Paul Walsh with Peel System Media. Please go ahead.

Q - Analyst

Good morning. Can you hear me okay?

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

Yes, we can.

Q - Analyst

Yeah, terrific. Thank you. Couple of questions for me, please. Obviously, we are still in a remote working environment across the sector largely. Could you just perhaps explain if there are any operational risks you're encountering due to that environment? And what steps you're taking to mitigate them. Can I also ask as well, a couple of things were mentioned in your results about various climate change and sustainability initiatives that you're involved with. Could you perhaps comment a bit on what you think the wider industry could do in order to address climate change? And lastly, if you could possibly just explain some information about your IFRS 17 preparations as well, please. Thank you.

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

Did your first question related to COVID-19 situation and expected impact going forward?

Q - Analyst

Yes.

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

Yeah.

Q - Analyst

Operational risk essentially.

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

Operational in general, yeah. We -- as you have seen, we have delivered a very strong year during the pandemic and activity is more or less back to normal now around us, expect travel and possibly driving for some few months. But as for the rest of the world, the pandemic has had a significant impact on economies in Gjensidige's market. So -- and thanks to large stimulus packages and gradual easing of restrictions, we do not see any large operational risk going forward. Of course, a significant and persistent increase in unemployment could increase claims cost for disability insurance. But you have to remember that to large extent, we have one year contracts that enables us to change prices and coverages every year actually.

So when it comes to business interruption and things like that, we have commented that earlier. When we talk about general operational risk, we have large rational players around us, Tryg, If, Fremtind is the new combination of SpareBank 1 and DNB. They have really high ambitions, but they are owned by rational banks. So we think we will have a rational climate also going forward around us. So, growth expectation is good. When it comes to claims, we do not see any large operational risks related to COVID-19 situation going forward. When it's related to competition, it's more rational compared to previous years, the situation we have now. And have I forgotten some areas, Mitra?

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

Remote working and the impact on our operations.

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

Remote working, okay. I think, we will have a combination of what we have experienced in 2020 and the normal situation we had in '19, '18, and '17.

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

Perhaps I can add something here --

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

Yes.

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

-- that we have been talking for several quarters that we have had very good operations through a very difficult years --

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

Yeah.

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

-- with remote working and all the challenges around that, so we're very pleased to see that we have an organization which is very agile and able to adapt to this.

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

Yeah. What's interesting, actually. I think I commented that during my presentation. We have all-time high customer satisfaction at the end of 2020, a year where the customers more or less have been supported by people sitting at home. We have also all-time high customer at an employee satisfaction. So we have really experienced that we managed to handle our business in an extremely different way compared to before. Going forward, I think this gives us flexibility, further cost effectiveness and ability to take the best out of 2020 and continue with a slightly different way of working methods.

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

On your next question regarding what the industry can do in terms of climate.

Q - Analyst

Yes.

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

Well, typically the most important thing we can do is to try to prevent damages. We are working very focused on this to firstly just avoid that the damages happen, alerting our customers, working on their knowledge on the damages, et cetera particularly what we have done in the agricultural sector earlier, and for other sectors as we move forward. Now once the damages happen, what we can do is to try to make the claims processes as sustainable as possible. One example is for example for cars, motor, we can work more on increasing the usage of secondhand parts, circular economy, just as examples. So, we are working dedicatedly to reduce the carbon footprint in our claims processes.

A - Jostein Amdal {BIO 19939645 <GO>}

Move on to the third question on IFRS 17. I think we're well on way to test our test reporting. And as I've said, we're working on implementation of the systems needed to be able to report there together with the rest of Norwegian insurance industry discussed and agree on principles for discounts curves and so on. And terms of actual changes, it is of course most dramatic in a way to the life insurance industry and we also have the Gjensidige Pensjonsforsikring, our pension company, which will be affected by that. I think we've set aside necessary resources and are well underway to manage the transfer to IFRS 17.

Q - Analyst

Thank you very much.

Operator

And our final question is coming from Thomas Svendsen with SEB. Please go ahead.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes, good morning. A question to your expectations for dividend and earnings beyond 2022. If we look at the numbers there, you say that runoff gains will come down towards zero, I guess, so it's only even less there. And also, you're saying the COVID -- positive COVID effects are around two percentage points. So, if you assume -- back to normal then, results might come down by another NOK 0.5 billion from 2023, SO we're talking about NOK 1.5 million less there. So are you talking about -- when your talking about your projections, are you thinking that earnings will stay stable or not fall off the cliff? Or is it -- looking what's only the ordinary dividend that that you expect that will not come down in 2023?

And Question Number 2, if you could just remind us again your required rate of return or your cost of equity in Commercial with M&A. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I mean, as you perfectlty well know, Thomas, we don't guide on results. But I mean, we do have our combined ratio targets and the growth that we see. And we think we're able to avoid that cliff effect on earnings and dividends through just running the business according to these targets. And as you also can observe, we are actually delivering quite a lot better than those targets at the moment, and we have good speed into 2021 what's happening -- that's -- yeah, I think -- I won't guide you anymore on that one. But the communication remains the same, we will avoid that cliff effect. The acquired cost of equity is 6% after tax. And then, of course, we aim to value above that.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay, thank you.

Operator

And that will conclude our question-and-answer session for today. So, I would like to turn the conference today to our host for any additional or closing remarks.

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

Yes. Thank you, everyone, for good questions. We will be participating in a number of road show meetings and conference meeting, sorry, over the next few weeks virtually also this quarter due to the pandemic. The meetings will be held with investors in Norway today and over the next few weeks with investors in UK, Germany, Copenhagen, France, Canada, and the U.S. You can see more details on this on our financial calendar.

Thank you for your attention. Have a nice day and stay healthy, everyone. Bye.

Operator

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