Q3 2016 Earnings Call

Company Participants

- Helge Leiro Baastad, Chief Executive Officer
- Janne Merethe Flessum, Head of Investor Relations
- Jostein Amdal, Chief Financial Officer & Executive Vice President

Other Participants

- Blair Stewart, Analyst
- Jakob Brink, Analyst
- Matti Ahokas, Analyst
- Niccolo C. Dalla Palma, Analyst
- Paul De'Ath, Analyst
- Steven Haywood, Analyst
- Vinit Malhotra, Equity Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Gjensidige Q3 2016 Results Presentation Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Janne Flessum. Please go ahead.

Janne Merethe Flessum {BIO 19368607 <GO>}

Thank you, and welcome to this third quarter presentation. As always, our CEO, Helge Leiro Baastad, will start by giving you some highlights from the quarter before our CFO, Jostein Amdal, will continue with some details around the numbers.

And then we will, of course, have plenty of time for questions afterwards. So Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Janne, and welcome from me as well. I want you to look at page two in the presentation. We report strong result in this quarter. Profit before tax NOK 1.5 billion and underwriting result of NOK 712 million, with combined ratio 87.5%, but adjusted for one-off provision relating to the restructuring, it's 85.4%.

The underlying underwriting result is only NOK 89 million lower than in the same quarter last year, which was a record strong quarter, as you can remember. Jostein will come back with more details on the figures and the waterfalls related to the underwriting result.

Growth in premiums was 4.3%. Underlying growth is 1% adjusted for currency and acquisitions. Growth in Norway, both private and commercial was 1.3%. All the main profits in the private Norway portfolio had positive growth except for motor, which had a slight decrease in premiums despite an increase in the number of customers in the quarter.

The growth in commercial is driven by new business initiatives. The growth rate is in line with the expectations we have communicated earlier given the general slowdown in the economy, and thereby slightly increasing competition.

Growth in the Nordic segment in the quarter was 14%, driven by acquisitions. We are on track in Sweden, coming to be profitable in 2017 and we are on track in the Baltic States as well, we will breakeven 2017 and become profitable in 2018.

Claims expenses this quarter are somewhat affected by a short period of heavy rain in the parts of Norway early in the quarter. However, we still have a good underlying frequency claims development, and when it comes to run-off and large losses, it were at expected level in third quarter.

The cost ratio was 17.3%. Adjusted for the restructuring provision of NOK 120 million, it's 15.2%. The retail bank and the pension company in Norway together contribute with NOK 178 million in profit before tax expense in this quarter. And the financial result was NOK 700 million, return on financial assets 1.3%; and altogether, the annualized return on equity is 21.7%.

If you turn to page three, the Board has adopted a dividend of NOK 4 per share related to excess capital release. We have further optimized our capital structure during this third quarter by successfully issuing a Tier 1 loan of NOK 1 billion. In addition, we recently sold more than half the stake in SR-Bank, releasing capital of around NOK 300 million. Distribution of excess capital over time is in line with our dividend policy. And as you can see, the share will trade ex-dividend on November 1.

Then moving on to page four, we have made our good strategy even more targeted. Our customers' preferences and financial targets govern our strategic priorities. One, we will deliver the best digital customer experiences in the Nordic general insurance. Secondly, we will enhance insight and analytics-driven insurance operations with more analytical use of data. And thirdly, we will further develop the organization by knowledge sharing, job rotation and a flexible organization. Analytical and digital skills will be reinforced throughout the organization.

And as you heard in connection with our second-quarter presentation, we will strengthen our presence in the growing market for accident and health insurance in light of the expected gradual shift to less motor insurance and more accident and health and technological development, changing demographics and a less-sustainable welfare system in the Nordics.

Value-adding services, product simplifications and new partnership distribution models will be increasingly important for growing and development going forward.

Then turning to page five, we are taking measures to ensure continued good competitiveness and delivery according to unchanged financial targets. In order to underpin our strategic priorities, efficiency measures will be implemented, as communicated in September. Our Executive Vice President Catharina Hellerud will now lead the area, analytics, product and price, where we gather all data and analytics capacity to form a dynamic center for better utilizing analytical insight in product development, tariffing and customer servicing, to mention some.

Martin Danielsen, who has played a decisive role for several years in our efforts on advanced risk pricing and risk selection, is now leading senior group management to dedicate all its time to lead the Company's commitments on analytical-driven assurance. And as mentioned, Jostein Amdal is our new CFO. He has previously been in charge of risk in the Group, and for the past two years, has been Head of the Capital Management and M&A department.

Krister Aanesen is Acting EVP for the private segment, while Hege Yli Melhus Ask is on maternity leave. Continued focus on cost efficiency throughout the business is crucial to create room for investments in technology, the brand and skills that will strengthen our position going forward. So during 2017, staff and support functions will be reduced by about 190 FTEs.

With this, I leave the word to Jostein for more details on the numbers.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge. Good morning. I'll start on page number seven. We report a good underwriting result of NOK 712 million for the quarter. The development from the corresponding quarter last year is affected by a few one-offs that I will return to in more detail. The retail bank and pension and savings have a positive development, and contributed a total of NOK 178 million in the quarter, NOK 36 million more than the second quarter, and just over NOK 100 million than the same quarter last year.

The positive development in pension and savings in the quarter is due to our growing customer portfolio and increased assets under management, combined with the higher financial results. The retail bank's good result is largely driven by growth and a positive financial result. The investment portfolio yielded a satisfactory return of 1.3% in the quarter, corresponding to NOK 700 million, which is up NOK 130 million from the previous quarter.

And the profit before tax expense thereby amounted to NOK1.5 billion compared with NOK 0.95 billion in the same quarter last year. And the profit before tax expense for the year-to-date is then NOK 4.8 billion, which reflects improvements in all the group's business areas.

Turning to page eight, we report a strong underwriting result this quarter, underlying only NOK 89 million weaker than in the same quarter last year, which was a record strong quarter. Overall, the reported result is affected by a few one-offs and increased level of large losses. Last year, the underwriting result was affected by a one-off related to a review of actuarial models for the calculation of claims submissions. This had a positive effect of approximately NOK 100 million in the third quarter of 2015. In the third quarter this year, we have a one-off of NOK 120 million related to restructuring costs, which Helge has already commented on. The provision is expensed to the corporate center.

If you also adjust for changes in run-off and large losses between the two quarters, we see an underlying weakening of the underwriting result of NOK 89 million. Some of the underlying change can be related to one short period of heavy rain in parts of the country in August which affects both private and commercial. The remaining weakening is well within what we would expect in variations in an industry as general insurance.

Our long-term annual combined ratio target is in the corridor of 90% to 93%, and adjusted for run-off gains in the next two to four years, the target is 86% to 89%. Adjusted for one-offs, combined ratio this quarter is below this level with 85.4%, and the 12-month rolling, normalized combined ratio is also at the lower end of the corridor with 85.9%. As previously commented, the annual combined ratio will be at the lower end of the corridor in the time ahead.

Turning to page nine, the loss ratio was 70.2% this quarter, 4.6 percentage points higher than the corresponding quarter last year. Adjusted for changes in run-off and large losses and the change in the actuarial model from last year, the underlying loss ratio related to frequency claims was 1.6 percentage points higher than in the third quarter last year.

And as mentioned, some of the deterioration can be ascribed to the heavy rain which led to a weaker frequency claims development, especially for property, which otherwise shows good underlying profitability in the quarter. The motor portfolio in private Norway shows continued good profitability, on par with the same trend last year and better than we normally expect. We do see signs of a somewhat increased claims inflation, and monitor the development closely to ensure appropriate pricing initiatives.

Claims level in commercial Norway was also affected by the heavy rain. In addition, we saw an increased proportion of large losses related to commercial property in this quarter. Over the long-term, profitability trend is still good for this product. The accident and health products saw stable, good development. We see signs that the economy in general is stabilizing, but we're still experiencing price pressure in the market, as we have previously communicated.

The Nordic segment had an increase in claims this quarter compared with the same quarter last year. This is mainly due to a higher proportion of large losses and lower run-off gains. The underlying profitability in the Danish portfolio was, however, also somewhat weaker than the corresponding period last year. The Vardia portfolio affected the profitability in Sweden negatively, but profitability in the rest of the Swedish portfolio is developing in a positive direction and we expect to reach profitability in Sweden in 2017. In the Baltics, we are on track to reach breakeven during 2017 and profitability in 2018, as previously communicated.

Moving to page 10 on premium growth, we have a good premium growth in the quarter 4.3%, 4.2% adjusted for currency effects, and 1% adjusted for appreciations and currency. Helge has already commented on the growth in Norway. The Nordic segment reported growth of 14%; 2% when adjusted for acquisitions and currency. The growth in premiums in the Danish portfolio wasn't particular driven by growth in the commercial property portfolio.

In Sweden, we saw good growth in the private portfolio, while growth in the commercial portfolio is still subdued due to repricing. The Baltic segment reported growth of 86%, including the acquisition of PZU Lietuva, and approximately 4.9% when adjusted for currency and acquisitions.

The underlying growth is affected by repricing and implementation of new tariffs on the one hand, and increased strength in distribution and customers increasing by more than one product on the other hand.

Over time, we generally expect to grow organically, in line with normal GDP growth. Although the underlying growth rate is somewhat lower at the moment, disciplined structural growth is still on the agenda.

Turning to page 11, you can see the cost development per segment. Cost control is still good while we continue to focus on efficiency measures to create room for strategic investments. The increase in nominal cost is driven by current operations and the restructuring provision of NOK 120 million. The cost ratio, excluding the Baltic and adjusted for one-offs, was 14.1% in the quarter.

And if you adjust the cost ratio for the provision for restructuring, it was 15.2%. As previously communicated, the cost ratio will be slightly above the 2015 level both this year and next due to integration activities outside Norway, but it will still be at the 15% level.

On page 12, you will see that large losses amount to NOK 321 million this quarter, which accounts for 5.6 percentage points on the combined ratio. This is in line with expected level, but higher than the third quarter last year with large losses amounted to NOK 259 million.

(14:13) for most costs the large losses this quarter and increased frequency is considered to be random, they were limited by the related large losses this quarter.

On page 13, we show the run-off gains. The run-off gains of NOK 234 million had a positive effect on combined ratio of 4.1 percentage points in the quarter, against 4.4

percentage points in the third quarter last year. And as earlier communicated, the run-off gain in the Norwegian segment is primarily related to motor TPL and workers comp, and we expect run-off gains in the region of NOK 200 million per quarter in the next two years to four years.

Turning to page 14, so, details from the investment portfolio. The investment portfolio yielded a return of 1.3% in the quarter. The portfolio amounted to NOK 56 billion. The match portfolio of NOK 36 billion continued to make a stable contribution to the financial result with a return of 0.9% against 1% in the second quarter. Portfolio at amortized cost is a large part of the match portfolio. The running yield in this portfolio was 4.6% at the end of the quarter, and the average reinvestment rate has been 2.9% year-to-date.

Unrealized excess value amounted to approximately NOK 1.7 billion. The free portfolio amounted to NOK 19.6 billion and yield return of 2% in the quarter. The result was driven by positive development of our stake in SR-Bank, while the narrowing of credit spreads also has led to positive contributions from the investment grade, convertible, and high-yield bonds.

The property portfolio also made a positive contribution to the result in the quarter partly-driven by our re-evaluation of the portfolio.

Since the quarter ended, we have, as you know, sold 14.5 million shares in SR-Bank. We have now hold 12.3 million shares in the bank, which represents 4.8% of the company's shares. The sale will not have a big impact on the result for the fourth quarter as the share price as of September 30 was 45.6 and the sales price was 46 (16:19)

On page 15, you can see our capital position in the three relevant perspectives. The rating model is still the most binding. Available capital before dividend increased in all three perspectives, which is mainly due to the issuing of a Tier 1 bond of NOK 1 billion and retained earnings in the last quarter.

The capital requirement increases slightly in all three perspectives, which is primarily due to increased balance sheet value on the investment side, mainly equities, which results in a small increase in market risk requirement. There are only minor changes in the requirement relating to insurance risk. The capital margins from the rating perspective is 104% which gives a strategic buffer of NOK 0.6 billion adjusted for the adopted dividend, and also adjusting for the sale of shares in SR-Bank, the strategic buffer is NOK 0.9 billion.

This is a strategic buffer level which we consider to be reasonable in relation to the purpose it's intended to serve and given the current situation. The solvency margin is 141% based on the standard formula, and 179% based on the internal model adjusted for the adopted dividend. And based on our understanding of the guarantee scheme, the solvency margins were 144% and 183%, respectively.

In summary, we have a solid capital position in all perspectives, and we'll continue to further optimize our capital structure in a disciplined way in order to support the target of a high return on equity. Helge?

Helge Leiro Baastad {BIO 5865247 <GO>}

Then it's me again to briefly sum up, then on the last page 16, we have and will and (17:54) competitiveness combined with stable market share development and good profitability going forward.

Secondly, we will continuously focus on cost discipline, and we are implementing efficiency measures in making our strategic efforts more targeted. This creates room for strategic investments in the integration and brand and skill.

And finally, we have a strong capital position, we are disciplined and committed to deliver on the ROE target of minimum 15% after tax, and are again distributing excess capital to our shareholders. So then, Janne.

Janne Merethe Flessum {BIO 19368607 <GO>}

Operator, we are then ready to take your questions, please. Operator?

Q&A

Operator

Thank you. We take the question now from Matti Ahokas from Danske Bank. Please go ahead. Your line is open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Hi. Yes, good morning. Matti Ahokas from Danske. Just one question regarding the extra dividend. Could you a bit elaborate how you came up with the NOK 4? Should we see the kind of NOK 900 million as the S&P strategic buffer as the absolute minimum, or what was the thinking behind the NOK 4? And could you see yourselves going below the NOK 900 million, or should we expect that that is the level where we should see the S&P strategic buffer? Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll try to answer that question. The Board continuously monitors the capital position and there is no strict limit that we have stated on how large the buffer should be. We do regard everything in between NOK 0 billion and NOK 1 billion that's perfectly normal as a buffer to the S&P requirement. So the NOK 900 million does not represent a strict minimum requirement.

Q - Matti Ahokas {BIO 2037723 <GO>}

If I may have a follow-up on that. Just when looking at the partial internal model and the standard formula, do they play a role in this at all, or is it basically just the strategic buffer on top of the S&P rating requirement which we should look at?

A - Jostein Amdal {BIO 19939645 <GO>}

They do play a role since we need to consider all three perspectives, and they communicate as buffers on both the partial internal model and the standard formula where we -- there are buffers above the 100% solvency margin level. But for a long time, and we expect also in the near future, the S&P requirement or the rating requirement will be the most binding.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks a lot.

Operator

We take our next question now from Jakob Brink from ABG. Please go ahead caller. Your line is open.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you and good morning. I have two questions, please. The first one is regarding also the capital after you have sold the 14.5 million shares in SR-Bank. Just to make sure, it sounds very much like you have decided not to reinvest the money. Is that correctly understood? We should not expect you to invest in other equities or similar?

And basically, a follow-up on that one as well, I don't know if you could maybe help us a bit. There's also been some quite big movements between the different types of financial assets since Q2. So could you maybe help us, guide us a bit your normal investment result for 2017? It seems like consensus is NOK 1 billion between high and low, so some help would be nice. Thanks.

And then my second question. You're writing a small cheque (22:22) about this new tax in Norway of 5 percentage points on salaries, NOK 60 million. You also mention that you hope to be able to offset part of it. Could you maybe give us some more detail on what exactly you expect to do to offset this NOK 60 million, please? And also when should we expect you to be able to offset it? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. I'll start on the first one, the use of the proceeds from the sale of SR-Bank. As you know, (22:55) there is no covering of money (22:57) you can't follow them, the cash from that sale to other asset classes. But when we now distribute in a very short time NOK 2 billion kind of goes that the money from SR-Bank is not reinvested in equities as such. The asset allocation is within the boundaries stated by the Board and our risk capital (23:24) very constantly changing, especially when you look at the free portfolio, whereas the match portfolio is more or less stable because it's tied to our insurance technical liabilities.

So I'm afraid that's a precise answer to the first part of the first question, and it's also going to go to answer the second question that on the free portfolio, we take the liberty of trying to meet what we see as the market development, and within very controlled risk environment take tactical views on asset classes.

On the second question about the tax situation, and it's – this is a proposal from the government. It has not been approved or decided yet. So it's a bit early date. We have estimated the fact that if the government's proposal is actually approved, then we have stated a NOK 60 million effect.

The other part of the proposal is not to lower the corporate tax rate, which doesn't have an effect compared to the historical result, but it would have a positive effect if we were allowed to have a reduced tax rate. That's the other part of the service (24:59) in Norway.

Our metrics to be taken to mitigate this, it's a bit too early to comment on, but if there's any real cost increase for us, will need somehow to be shared with our customers. Because we have the same profitability targets as we have before. Yeah, I think that's for us (25:22).

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. But, sir, just to follow-up on the tax, so I understand that you would like to pass it on, but how would that be done? Is that by increasing premiums? Or (25:35) mentioned something about a base or stand-out premium in Norway that could quite easily be increased. Is that what you're thinking? And would it be from the 1st of January or is it kind of more down the road?

A - Jostein Amdal {BIO 19939645 <GO>}

I think we'll wait in answering that question until we have the actual decision made by the parliament that this will actually take place. But it's two ways. Either we find some mitigating cost measures, or we pass it on to the customers, and that means premiums.

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

Or a combination.

A - Jostein Amdal {BIO 19939645 <GO>}

Or a combination.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thanks a lot.

Operator

We'll take our next now from Paul De'Ath from RBC. Please go ahead. Your line is open.

Q - Paul De'Ath

Yeah, hi, there. Thanks for my questions and firstly, I just wanted to touch on the level of competition in Norway. I mean, you mentioned again today that the growth rate is going to be somewhat subdued in Norway in part due to competition. Has there been any active change in that in the quarter, or is it just a continuation of the themes we've seen before? That's question one.

And then the second question was just looking at the potential for further bolt-on M&A. I think you've spoken before about the fact that you're currently integrating, obviously, the Baltics and Vardia, so you're quite busy on that front. Is that still the case, or are you actively looking for additions to the portfolio still? Thanks.

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

It's Helge Baastad. I can start on the growth and competition in Norway. Just to remind you what we have said, overall long-term expectation is premium growth in line with the GDP growth. At the moment, the insurance growth is lower than GDP growth.

Short-term, we will expect slower growth in the overall insurance market, and that's in line with what we have communicated before. It's the meltdown in the Norwegian economy and intensified competition. So it's actually no different. I do not have any different communication regarding that compared to last quarter.

Our situation is that we have a stable, more or less stable market share in the Norwegian market. Just to comment on pricing going forward, as you know, we have to look at the long-term claims inflation to find the right curve for pricing going forward. Regarding properties, it's the same communication as before, around 4% going forward. It's volatile, as you know, the property part of the business.

Regarding motor insurance, you know that we have communicated that the inflation has come down from historically 3% to 4% down to 1%, but we see signs now are increased claims inflation going forward. So, we – that's the most important analytical part of the business, is closely monitored the claims inflation for motor and of course, we have to secure that we can price in line with any tick-up on the inflation side.

The main competitors last quarter have been the large one, actually. We lose fewer customers to the small competitors, and we are competing more with the well-known brand names like Tryg in the last quarter, Arno in Norway. Outside Norway, it's -- yes. The question was about Norway, so I leave it with that.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. I'll try to answer the second question on M&A integration. And is of course, as you point out, extremely important for us that the decisions we make are well-integrated into the business and they deliver on the targets they set and when doing this, these acquisitions and that's number one priority now, both in Sweden and the Baltics, to get this business profitable in line with what we've already communicated.

But we are able to do two things at the same time so we are always on the lookout for good acquisition opportunities that fit into our business in a good way. It needs to be easily-integrated, and we managed that with our previous acquisitions, and that will be a criteria for any new acquisitions we would like to make. As always, we would never comment on any specific opportunities or anything like that.

Q - Paul De'Ath

Excellent. Thanks.

Operator

We take next question now from Vinit Malhotra from Mediobanca. Please go ahead. Your line is open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. Good morning. Thank you for the question. On the special dividend, please, could you also remind us of the – when last year in 3Q you had mentioned you had started talking about the motor reserve were basis of the lower motor inflation. The expectation was that some of that would be continuing to come as future special dividend. Is that still part of the plan, or is – I mean, because at the moment, you seem to have funded the special somewhat with the Tier 1 debt, and obviously the state of banks. So I'm just trying to understand how you think about any future special based on the motor reserving patterns you imagine or you proposed.

And second question is just on Sweden and Vardia. When you say Sweden is on track for 2017 profitability, is that guidance including Vardia or excluding? Because we don't yet have a number, and I would obviously appreciate a lot more if we could get a combined ratio for Vardia, but if in case we don't, could you guide us what this guidance includes?

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

I can take the latter first. When I am saying that Sweden are on track, it's of course including all our business, and that includes Vardia as well. And the first one is a more elaboration, so I'll leave it to Jostein, actually.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. Thank you, Helge. There is some – since I communicated the strategy of releasing reserves over a number of years going ahead, this is part of the total dividend potential that we consider, and it's both the normal or the ongoing dividend which is supposed to be high and stable and grow in line with our underlying profitability, and special dividends that we, from time to time will pay out to be in line with our capital strategy of paying out excess capital.

That will be paid out over time. There is no kind of automatic calculation of that. It's based on judgment of where we are and what we see on the – going ahead. These reserve releases go into the total picture of our capital situation when we access both the special and the ordinary dividends.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Another way to put it is that if it is -- sorry?

A - Janne Merethe Flessum {BIO 19368607 <GO>}

Vinit, if I just may add to that, we have also said before that we need to calibrate these two dreams. We want to avoid a clip in the regular dividend scheme after the two years to four years ahead. So meaning you should use then 60-40 (34:05) as a starting point when you think of the regular dividend. And if we're beyond any excess capital over time, you could also expect specials from time to time, but I still can sense no irregularity around that.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. And just a quick clarification, the zero to 1 billion strategic buffer range that you just said is reasonable, shall we assume that is kind of the cut-off for these decisions? So if it's above NOK 1 billion, you're happy to pay. Is that a good interpretation?

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

We are more happy if it's above than below NOK 1 billion, that's for sure, but there is no (34:44)

Q - Vinit Malhotra {BIO 16184491 <GO>}

No, but you're happy to pay at above?

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

And there is some general (34:48) effects that if we go NOK 1 billion that there will be a special dividend. That will be a judgmental call at every point of time.

A - Janne Merethe Flessum {BIO 19368607 <GO>}

Remember, again, that the purpose of the buffer within it is threefold. We need to have flexibility to do small bolt-on acquisitions or medium-sized acquisitions; we want to stabilize the regular dividend; and also, we need to look into regulatory uncertainty. And we need to look into these three issues at all times, so we can't afford varying (35:21).

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you very much for the (35:27)

Operator

We take next question now from Niccolo Dalla Palma from BNP Paribas. Please go ahead. Your line is open.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Hi, thank you. I've got three questions from my side, please. So first one, I have a question on the comments you made in terms of the strategic priorities for the next few years. You dropped a couple of priorities compared to your previous statements, specifically, multi-channel distribution and value-adding services for loyalty and preference. I was wondering what the reason behind this is, is this just a simplification of priorities, or are there any other thinking behind this? That's the first question.

The second one is on the Norway private business. If you could break out how much of the top line of the 1.5% growth is price and how much is volumes, just to get a better idea of what the price effect is there.

And thirdly, on the investment portfolio, so could you help us here on the match portfolio specifically on two parts? What is the expected, let's say, decline in the yield you would see on the bond at amortized cost part? Because that's – based on your current investment yields, how fast year-on-year will you expect that to drop off from the 3.6% at nine months, for example, that we just saw?

And then secondly, what's the market yield on the current bonds at the moment, so that we can get a better sense of where it should be on a normalized basis? Thank you.

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

Yes. Regarding the strategic priorities, I think it's like a simplification. Multi-channel distribution, that's the way of doing business in this type of business. We have actually said that the main channel going forward will be the digital channel, but we, of course, have all kind of call centers and branches as well.

This is for sure the situation in Norway. Outside Norway, it's about keeping up in the Nordics with all their expertise and their systems and their surplus we have in Norway with higher speed in the Nordics.

And finally, talking about the Baltics, that's a completely different distribution model. So what we actually want to do there is to destruct that model, sooner or later, with a modern also there multi-channel distribution system. So I think the strategic priority is that's more -- it's a simplification.

It's more or less the same going forward. But digital is increasingly important also in the multi-channel perspective, so we want actually to invest more and we want to speed up, actually. The split between price and volume in Norway, have we actually commented on that before? Not specific, I think.

A - Janne Merethe Flessum {BIO 19368607 <GO>}

No, not specific, but its main is still price-driven, so the volumes are relatively stable and flat. So it's mainly price driven, as it has been for a while.

A - Jostein Amdal {BIO 19939645 <GO>}

On the third question, (39:00)

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Sorry. Just to follow-up, if I can, on the volumes. The one thing I want to check is that you're not yet at the point where you have to give up volumes to maintain price?

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

No.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Okay.

A - Jostein Amdal {BIO 19939645 <GO>}

The third question was about the Match portfolio, and reduction, of course. As I commented, the running yield is 4.6% whereas the reinvestment rate, so far this year has been 2.9%. This means that over time, the running yield of portfolio will decrease.

Your guess is as good as mine as where the investment interest rates are going this year. It's about roughly you can see the 2.9% that we have reinvested so far as a kind of an approximation of the level that it will move towards over time. But remember, the average duration of the portfolio is 3.5 years, so it will take some time to actually run through and get kind of all these portfolio repriced.

And when we reprice our products, we price that according to current market rates at all times. So that's the kind of expected (40:09) that we look at when we price the products to the customers.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

And what is the market yield that you have on the current bond portfolio at the moment?

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

Are you talking about the match portfolio, or ...?

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Yeah. Within the match portfolio, the current bond portfolio, which I guess is mostly the Danish part.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Just wondered because we have a lot of quarter volatility, so just trying to understand what the current spot yield is on that portfolio.

A - Jostein Amdal {BIO 19939645 <GO>}

I think if you kind of look at the match, if you talk only about the Danish part, it's around 0%.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Around 0%, you said?

A - Jostein Amdal {BIO 19939645 <GO>}

On the Danish part only, yeah.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Yeah. Okay. Thank you.

Operator

We take our next question now from Blair Stewart from Bank of America. Please go ahead. Your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good morning. I think I've got three questions. The first is really a clarification. Just at the restructuring charge you've taken in the quarter and the initiatives that you've talked around costs and efficiencies. Those are entirely in line with previous guidance. There's nothing new happening in this quarter, I just want to get some clarity on that.

Secondly, you mentioned a NOK1.5 billion hybrid capacity. I just wondered if you could share some thoughts around the intention to use that and if you can give any indication of timing. I guess not. Thirdly, just talking about the underwriting conditions, there was a 1.6 point change in Norway. I think you mentioned that on slide nine. You talked about the variation, the underlying variation being in line with a normal range, I think, is what you said and just checking that that 1.6 percentage point is in line with the normal range. It seems on the high side to me.

And then with apologies, finally, you mentioned, Helge, I think, there will be some deterioration in claims inflation in motor. Could you comment on that with respect to your expectation that claims inflation will be around 1%, which is the assumption behind your guidance on future reserve releases? Thank you.

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

I can start with the latter, Blair. As I said, we have communicated for the last three years, I think, that we have come down from historically 3% to 4% down to around 1%. But as I said, we see signs of increased claims inflation going forward. I also said that we are closely monitoring this, just pricing accordingly to this eventual (43:17).

It's uncertain level going forward, of course. We see mix of effect from safer cars and roads, and more expensive repairs and claims increase for small coverage.

So actually, we see an uptick now for small coverages. It's also, of course, lots of uncertainty related to the fact that we see more and more hybrid cars in Norway due to favorable prices, and all these hybrid cars, they have more horsepower compared to what we have seen before.

So this is one of the areas we are most closely monitoring going forward. And as I said, (44:08) secure that we also adjust our prices going forward. But...

Q - Blair Stewart {BIO 4191309 <GO>}

I get the point about adjusting the pricing, Helge, but is that something that would impact your assumption on the appropriate inflation assumption for the reserves that are held, or is this something purely that's going forward for new cars and new experiences?

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

No.

Q - Blair Stewart {BIO 4191309 <GO>}

It's not?

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

No, It's no historical impact. Blair, its pure related to new cars and what we gradually see during the quarter. We do not have any figure, but we expect this claims inflation figures to tick up from 1%.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. That's clear.

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

And no effect related to releases, absolutely not (44:54). That trend...

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Okay. That's what I wanted to check.

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

Is it related to small coverages first and foremost.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

(45:04) and you're right, there's nothing new communication on this. This is the same what we communicated on September 26, I think it was.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Thank you.

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

Your second question about hybrid capacity. It's really the same comment that we've had before. The hybrid capacity that we have remaining of NOK 1.5 billion is in the way of theoretical capacity.

It would never go as high as utilizing that full capacity because the capacity itself is a function of the available capital. So we get a double leverage effect there if things start to turn sour. But we do have more capacity and we will over time utilize more capacity. But as you correctly guess, we will not say when.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Okay. Understood.

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

Yes. And the third question was about the 1.6% effect on the loss ratio and if that's a normal change. My comment was that the NOK 89 million underwriting result deviation from third quarter last year, it's equal to 1.6 percentage points. And part of that is explained by heavy rainfall in the Oslo area, really, between August 6 and August 8 this year. And if you take away that effect as well, the remaining uncertainty is well within a normal volatility of claims or of a general insurance business of approximately NOK 5 billion in premiums every quarter.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes, yes, yes. Okay. That's great. Thanks for that.

Operator

We take next question now from Steven Haywood from HSBC. Please go ahead your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Hello and good morning everyone. Could you just confirm a couple of things for me? When you talk about profitability in Sweden and the Baltic regions, are you talking about just on solely on the underwriting side of this, or do you include any associated investment returns in these businesses? And then in terms of the 190 employees reduction, can you say which regions these are coming out of? Thank you.

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

I can start with the first one. When we talk about profit, we talk about underwriting profit. And with a 0% interest rate, unfortunately, there's not that much difference between the two at the moment. But, yes, we're talking about underwriting profitability. (47:39). The second question I don't understand. Yes. It's related to staff functions. It's not related to any – in the distributions. We have separate programs for claims going forward. As you know, on the Capital Markets Day, we said that we are going to -- lots of efficiency measures on the claims side, but this is related to staff in Oslo and Copenhagen and in Stockholm.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

Operator

There is no further questions at this moment.

A - Janne Merethe Flessum {BIO 19368607 <GO>}

Okay. Thank you then. And just before we end, I would like to remind you where we are doing road shows this quarter. We're going to London tomorrow and then we'll then go to Copenhagen, Swedish (48:37), Geneva, Frankfurt and then Milan, as well.

And of course, we hope to see many of you at the sell-side analyst breakfast meeting tomorrow meeting in London. Thank you everybody and have a nice day.

Operator

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