Q2 2018 Earnings Call

Company Participants

- Helge Leiro Baastad, Chief Executive Officer
- Jostein Amdal, Executive Vice President and Chief Financial Officer
- Mitra Hagen Negard, Head of Investor Relations

Other Participants

- Claudia Gaspari, Analyst
- Jan Erik Gjerland, Analyst
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Steven Haywood, Analyst
- Vinit Malhotra, Analyst
- Wajahat Rizvi, Analyst
- Youdish Chicooree, Analyst

Presentation

Operator

Good day and welcome to the Gjensidige Q2 2018 Results Presentation. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Mitra Hagen Negard, Head of IR. Please go ahead ma'am.

Mitra Hagen Negard {BIO 3974076 <GO>}

Thank you. Good morning and welcome to the second quarter presentation of Gjensidige. My name is Mitra Negard and I'm Head of Investor Relations. As always, we will start with our CEO, Helge Leiro Baastad, giving you the highlights of the quarter, before we go on to Jostein Amdal, our CFO, who will run through the numbers in more detail. And of course we will have plenty of time for Q&As at the end. Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra and good morning and welcome everyone. 2018 started off with a harsh and long lasting winter, also severely affecting the first part of the second quarter. Luckily, we did not experience severing floodings in Norway as initially feared, since we had a warm, but also very dry climate in the last part of the quarter. However, all in all, winter effects characterized the second quarter results, together with the continued deterioration in motor profitability in Norway.

Our results are summarized on page two. Profit before tax amounted to NOK1.3 billion in the quarter. The underwriting result amounted to NOK707 million. The combined ratio was 88.2% and we had the premium growth of 2.8%. The underwriting result was impacted by a significant increase in the frequency claims level for property in Norway, mainly driven by the long and harsh winter leading to claims being reported long into the second quarter as well.

Areas in the south and south eastern part of Norway were hit to a larger extent than the rest of Norway and it is in this part of the country Gjensidige has its strongest presence. In addition, this is also an agricultural area, which is an industry where we have a very high market share. Therefore, both private and commercial property portfolios were hit. We estimate the weather-related deviation in the frequency claims level in second quarter compared with historically second quarter average to be in the range of NOK150 to NOK200 million. This means we have had the total of NOK400 to NOK500 million in claims during the first half year in 2018, related to the particularly harsh winter in Norway.

Large losses were also higher compared to the second quarter last year, partly due to the heavy snow leading to damages on buildings. Aside from weather effects, the underlying inflation trend we have seen in motor insurance in Norway over some quarters now continued into 2018, which I will come back to on the next slide.

Outside Norway, we continue to deliver significantly improved results. The financial result came in at NOK371 million, corresponding to a 0.7% return. Annualized return on equity year-to-date was 14.2%. Jostein will revert with more granular comments on the numbers.

Then turning to page three, I will comment the Norwegian motor situation in particular. I will start by saying that we are not satisfied with the profitability development we have seen over the past couple of years. As you remember back in 2014/15, we anticipated a 1% claims inflation. Motor profitability was very high with claims ratios in the 50s and as we communicated, it was better than we -- than what we could normally expect partly driven by a benign weather situation over several years.

From the second half of 2016, we started to see inflation increasing more than anticipated for the reason we have discussed over several quarters now. Given the fact that we came from a situation with a very high motor profitability, the initial price increases were modest. We took a deliberate choice to increase our competitiveness, at the same time as we built the leading position in the car dealership channel by delivering a combined product offering on attractive terms together with the Gjensidige Bank.

The consequence, as inflation just continued to increase more than we anticipated almost quarter-by-quarter, it is that price increases have been lagging the inflation curve and that the accumulated effect on this has increased over the past two years, resulting in a harder hit on profitability than we had foreseen. As previously communicated from the first quarter this year, we have increased prices beyond the expected and the line inflation of around 6%.

We are fully committed to stabilize and ultimately also improve the profitability, meaning that we are willing to sacrifice some volume to achieve this. What we see in our numbers as shown to the right is that we are reducing our exposure towards customers with low scores and high claims ratio after approaching this with the highest price increases. Consequently, we then adjusted risk exposure in the portfolio, we will have lower realized price increases, but also an improved book of business.

This situation is similar to what we experienced back in 2009 and '10, when we increased motor premiums significantly, and at the same time improve the overall quality of the motor-book, supported by high quality tariffs. But, it is important to remember, General Insurance is like a tanker, it takes 12 to 24 months to see full effect from price increases in our P&L. All in all, this means we expect the motor profitability in Norway to marginally decrease further before we will see a turning point during the first half of 2019.

You might wonder why we were not able to see the rapid change in the inflation curve being the market leader in Norway. It is a good question and the best answer I can give is that in particular the new situation in Norway with regards to highly incentivized electrical and hybrid vehicles is unique, leading to totally new experiences both in portfolio mix, driving habits and claims severity. In June this year, 62% of all new cars sold or leased were either electric or hybrid in Norway. While we are the market leader overall in the motor market in Norway, we have a number three position in the market for new EVs and hybrids, reflecting a deliberate strategy to actually be more cautious towards these segments for instance by pricing Tesla's high from day one.

To be honest, I don't think any of our competitor did foresee this rapid structural shift either. And I know here competitors confirming they see the same inflation picture as we do. I'm confident we are better informed today to understand and predict inflation going forward. The last 1.5 to 2 years of experience have been a learning experience for the whole organization, leading to new insights into the interaction of terms, sales channels and claims experience.

Going forward, we will be even more differentiated and much more agile in our risk selection and risk pricing. And remember that overall, it is positive for the insurance industry that the risk volume in the motor segment increases as long as we are able to price the risk correctly and I know we are. All this said, it is important for me to remind you that motor is still a very profitable product for us both in absolute terms and relatively to the whole book of business. My ambition is to continue securing a high and also improving profitability in motor going forward.

Then looking at page four, we continue to see a very high retention among our customers in Norway. High retention means more products per customer and lower distribution cost, which again is important for our overall very competitive cost position. In the Private segment in Norway, the retention is as high as 92% among our affinity and loyalty customers, representing 85% of the premium volume. Likewise in the Commercial segment in Norway, the retention is 90%. So how come, we succeed in holding onto to our customers to such a great extent? Well, first of all, our brand has unique standing in Norway. We have the strongest brand awareness in our sector. And the brand awareness is among the highest also independent of any sector.

Going forward, we believe brand strength will be even more important than before given the destructive focus -- forces we are all facing these days. Secondly, we deliver superior customer experiences throughout the whole value chain everyday through advanced analytical CRM. We are able to be relevant in all touch points with our customers at the right time, with the right customer offering. This combined with advanced micro tariffing and advanced digital solutions for self-service creates a win-win situation for our customers and ourselves. Record high customer satisfaction several years in a row proves to be are succeeding.

Last but not least, the customer dividend model is unique retention tool. Since the IPO in 2010, the Gjensidige foundation has paid more than NOK15 billion in customer dividends to our General Insurance customers in Norway. These days, our customers have again received back more than 14% of the insurance premiums they paid in 2017. Almost 80% of our customers say the model contribute to their loyalty with Gjensidige and more than one-third of the non-customers say they -- the model could make them become a customer with Gjensidige.

Then turning to page five, let's spend some time on the bank sale announced on 2nd of July. To understand the rationale for selling the bank, it is important to understand the rationale for having the Bank in the first place. I will spend a couple of minutes reminding you. We established a bank back in 2006, simply as a defensive move to secure loyalty among our private insurance customers in Norway, when several banks established their own insurance operations. The bank has grown significantly and contributed to earnings, but not to capital generation. We have therefore said that if we could find other and better solutions supporting our General Insurance customers with banking products, without owning the bank, we will look into that. And I'm really glad now how we have achieved and excited how -- about what we have achieved with Nordea.

It is slightly kinder surprise achieving three things in one. First of all, we can continue the loyalty-enhancing bank offering to our insurance customers and the strong combined foothold in the car dealership channel built through Gjensidige Bank only to an even stronger extent than before through a partnership with the second largest bank in Norway.

Secondly, the partnership opens up the opportunity to sell insurance to Nordea's customer base. And last but not least, capital is freed up and can be put into work in less capital intensive insurance operations. Even though the Gjensidige Bank has generated earnings, it has not generated capital due to its relatively small size, combined with high growth and a very high capital requirements for banks, meaning, it has been a drag on our dividend capacity so far. Therefore, selling the bank will have an immediate positive effect on capital generation and increases the robustness of the dividend capacity for the group.

Approximately NOK5 billion of capital will be freed up and our ambition is to put this capital into work in less capital consuming insurance assets in the Nordic countries and/or in the Baltics. Replacing earnings from the bank and resulting in an even higher dividend capacity than the group would have had by owning a bank. If such assets are not found at a decent price, we will distribute excess capital back to our owners as special dividends over time.

And with that, I will leave the word to Jostein to present the Q2 results in more detail.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge and good morning, everybody. I will start on page seven, where you can see that we report a profit before tax of NOK1.25 billion in the second quarter. This is down compared to the profit we reported for the second quarter last year, driven by lower underwriting and financial results, partly offset by an increase in profit from Gjensidige Bank. The decline in the underwriting result was mainly a consequence of significantly higher claims in the Private and Commercial segments and mainly impacted by the long winter in Norway, with large amounts of snow in several of our largest regions.

We estimate the weather related deviation in claims in the second quarter compared to the historical second quarter average in the range of around NOK150 to NOK200 million. The results in Norway were also impacted by the continued deterioration in motor profitability, as Helge as mentioned, affecting both Commercial and Private. Results outside Norway generally improved. The underlying frequency claims development in Danish operation improved over last year, continuing the positive development we have seen over the past quarters.

However, the reported underwriting result was down year-over-year due to more large losses related to commercial properties. Sweden generated significantly improved results, also adjusted for higher run-offs and lower large losses, reflecting effective pricing and risk selection measures. The Baltic segment also contributed positively to the underwriting result, with ongoing restructuring programs continuing to show good results. The pension business recorded the best ever quarterly result. Contributions from the Bank were positively impacted by gains of NOK130 million on sales of non-performing loans. Results adjusted for this were somewhat down year-over-year. The financial result from our investment portfolio declined following lower contributions from bonds and current equities.

Turning to page eight, premiums rose 2.8% compared with the second quarter of 2017 and 2.7% [ph] adjusted for currency effects. All the main product lines in the Private segment recorded higher premiums during the quarter. Premiums for the Commercial segment were up compared with last year, reflecting solid renewals. Reported premiums in Denmark were flat, but down [ph] adjusted for both local currency and more now (inaudible) which was included in our accounts from May of last year. Decline is a result of the ongoing portfolio re-underwriting and price adjustments in the commercial lines, aiming at improved profitability over time.

Earned premiums in Sweden declined. Our repricing strategy is on track, we focus on generating enhanced results going forward. The Baltics reported a slight increase in premiums, but the decline measured in local currency as a consequence of our portfolio restructuring and repricing activities.

Turning over to page nine, we can see that the loss ratio rose from 68% to 33% year-on-year. Large losses were up resulting in a 1.1 percentage point increase in the loss ratio compared with Q2 last year. Run-off gains somewhat higher than expected had a positive impact of 0.7 percentage points in the loss ratio compared with last year, a higher underwriting frequency claims level was the main driver for the increase in the loss ratio. This was purely related to Norway as our operations in Denmark, Sweden and the Baltics all reported underlying frequency claims developments. The deterioration in Norway was twofold. The first being weather related. The large amounts of snow in south and southeastern Norway lasting well into Q2 caused melting and freeze damages for a significant number of Commercial and Private properties. And finally with respect to weather-related claims, the settlement of some property claims in Q1 exceeded the provisions made at the end of the first quarter. The second main reason for the rise in the frequency claims level is a deterioration in the motor segment as Helge as discussed, reflecting the change in the region we had complete and related dynamics.

Let's turn to page 10 for an overview of large losses. Total large losses amounted to NOK210 million, below our expected long-term average of 295 million. The losses translate into 3.5 percentage points on the combined ratio. And the large losses were mainly related to commercial property, with the majority in Norway and Denmark.

Moving on to page 11 to comment the run-off gains. Run-off gains for the quarter came to NOK292 million, which is higher than our planned reserve releases of 250 million, deviation of NOK42 million is due to random variations. The run-off had a positive impact of 4.9 percentage points on the combined ratio. We maintained our estimate of approximately 250 million in run-off gains per quarter for the rest of 2018.

Let's turn to page 12. The cost ratio for the quarter was 15.2%, reflecting continued good cost control across the group segments. Our cost ratio excluding the Baltics was 14.4%. It is particularly encouraging to see the positive effect from our restructuring efforts in Sweden and the Baltics. Page 13 illustrates highlights from the bank and pension operations. Gross lending in the bank at the end of the quarter was NOK48 billion. The bank reported a pre-tax profit of 218 million in the second quarter, the improvement from the same period last year, driven by gains on sales of non-performing loans.

Profit adjusted for this were somewhat down year-over-year, mainly reflecting increased acquisition costs and loan losses, as well as lower gains on financial instruments. Annualized return on equity was 13.8%. The pension company recorded a profit before tax expense of 38 million. Assets under management in the pension operations amounted to NOK30 billion, and 69% of the customers in our pension business are general insurance customers as well. Annualised return on equity amounted to 13.9%.

Moving on to the investment portfolio on page 14. The investment portfolio of NOK52 billion yielded a return of 0.7% in the quarter, which we deem satisfactory. The Match portfolio yielded a return of 0.6% on a portfolio of NOK35 billion, a large part of the Match portfolio consist of bonds at amortized costs, which yielded a return of 1.0%. The running yield in this portfolio was 3.8% at the end of the quarter and the average reinvestment rate in the quarter was close to 3%. Unrealized excess value amounted to approximately 1 billion. The free portfolio which amounts to NOK18 billion, yielded a return of 0.8% in the quarter. The positive return was primarily driven by returns on investments in property, equities, private equity funds, and convertible bonds, while other fixed income instruments had a small negative return.

Last but not least, looking at our capital position on page 15. The capital position is still strong. The legal perspective gets a solvency margin of 160%, while our own calibration of the internal model gets a solvency margin of 173%. Solvency margins would be 187% and 203% respectively, when adjusting the capital position to reflect best estimate reserves, taking the planned runoff gains into account.

Changes in the capital position in these two perspectives from last quarter are relatively small. Eligible capital increases mainly driven by retained earnings, contracted somewhat by several other minor changes. There is a stable development in the capital requirement. We will continue to balance our capital structure in a disciplined way in order to support long-term target return on equity of about 15%, while at the same time supporting our A rating, stabilising regular dividends over time, ensuring financial flexibility for smaller acquisitions and organic growth, as well as providing a buffer for regulatory changes. This means the solvency margin should remain in the upper part of the target range. Given the sale of the Gjensidige Bank, the pro-forma solvency margin as of June 30 was 236%. As already communicated, we will prioritize exploring M&A opportunities before distributing any excess capital as special dividends.

I will then hand the word back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Jostein. To sum up on page 16, our second quarter results were significantly impacted by winter effects. As for the Norwegian motor-book, margin deterioration is now mostly behind us, with margins expected to reach the turning point during first half 2019. This combined with the overall strong franchise in Norway and continued positive development in results outside Norway make us confident the group is very well positioned for continued solid value creation in the years to come.

Balancing cost efficiency measures with strategic investments into technology, people and brand continue to be high on our agenda also during 2018. Our capital position is strong and supports our ambition to seek value accretive M&A opportunities and if such opportunities do not materialize, we will distribute excess capital over time in line with our dividend policy. And finally, our long-term financial targets are unchanged and we are more dedicated than ever to customer orientation, aiming at delivering the best consumer experiences in every customer touch point.

Thank you very much. We will now open for the Q&A session.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) We will now take our first question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hello. Good morning. Thanks for taking my questions, three from me today. So firstly, Gjensidige's deteriorating underlying results have become a bit of an outlier versus listed peers over the last 18 to 24 months. In motor, I think the peers are seeing claims inflation as you guys acknowledge, but they don't see the sharp acceleration in claims inflation that you've seen. In property, Gjensidige's 2Q results look like a bit of an outlier again and was been a relatively benign period for large losses. I appreciate the commentary around being over the way Tesla is in motor and agriculture and property, but I guess my question is, is Gjensidige is operating under performance bad luck or is it bad underwriting? And how confident are you in your systems and processes and is more investment needed in the underwriting function? That's the first question.

Secondly, I guess on a related topic, how confident are you in the 86% to 89% combined ratio target for 2019 and 2020, given the level of underlying deterioration that we've seen in the loss ratio. We've seen nine quarters in a row now of pressure and I appreciate you're matching out claims inflation now on motor, but we'll probably still see another three or four quarters of drift until they earn through. So what's the risk, when the loss ratio stabilizes and is higher than the 89%. And then finally how are you thinking about the sustainability of the ordinary dividend? Once the banking earnings are removed and factoring in further pressure on the loss ratio, it looks quite tight the dividend covenant. Now you've obviously replenished the capital buffers, so there is money there to pay the dividend, but I'm just wondering about the split we should be expecting between ordinaries and specials and have you had any change and thought there after the bank disposal. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. I think we have -- on the first question, on the -- is it look core or the opposite of skill given the more trend on the property developments. I think as we have explained and as Helge went into quite detail today on the motor side, we have been a bit behind the curve on the pricing of the motor inflation. We are now pricing at least in line with our communicated claims inflation. And as Helge said, a slight deterioration further in 2018 before we reach the turning point in 2019, which means that is not going to go down from there and rather they are upset, that's the motor communication. And on the property side, they -- as we have stated weather-related effect, which we regard as one-offs in the Q1 and Q2 of 2018 and that means that for property as such we think profitability will go back to the previous level once you take away these one-off effects.

There is whether we need to invest more than writing skills and I think that's ongoing a variation that we make whether it's also a good or not, it is, yeah. So, no specific comments on that. On the second question about 86 to 89 for 2019, we are obviously very confident that we will be within that range for 2019. We have seen that there are one-offs that could lead us astray, but kind of given those special effects on claims or weather related large claims or weather related losses, we keep that -- the target for '19 .

On the sustainability of dividend after the Bank sale, remember that the Bank hasn't really contributed to dividend capacity ever and we have put more money into it, as it has grown as capital requirements for the banking sector has increased, the dividend capacity has always been within -- will come from the insurance part of Gjensidige. I think, I'll leave it with that.

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

Just a comment on, you commented the competitors and the motor inflation and we heard a couple of days ago, Tryg referred to 4% increase in repair costs in Norway. And adding to that the structural increases in frequency they should see just the same overall claims inflation as we do. So we actually see that the competitors that are commenting on this level, they are commenting the same type of picture as we do.

Q - Jonny Urwin {BIO 17445508 <GO>}

I guess the difference Tryg as they're not -- they haven't seen the curve that you've seen. So obviously you know 18 months ago, you guys were talking about 1% claims inflation, then it was 3 to 4 then it was 5 and it was 6, that's quite sharp deterioration, which I mean I'm more focused on the actual curve than the overall quantum and I think that's why you guys are telling quite a different story to the peers.

A - Jostein Amdal {BIO 19939645 <GO>}

I can really only comment on our own estimates and not Tryg's, but I think we gone through, we have as Helge said today, we have underestimated claims inflation back in 2016 and that's the reason why the loss ratio has deteriorated. And we hope that and the things that we are not correct with the 6% inflation estimate that we have and the pricing according to that. Our communication and our actual practice has always been to try to price based in line with the claims inflation and then -- but with kind of segmental approach, so that we don't -- our price attractive segments within the Norwegian market. So, that's kind of -- there is no change there, I don't think the changed is our claims inflation estimates. Please also remind that when you compare to other companies that have -- the majority of their operations outside of Norway and the the claims inflation picture that we and they say outside of Norway is very different from what they see in Norway due to the composition of the car fleet in Norway and in Denmark or Sweden.

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

And it's also important to take into consideration, the starting point, what kind of combined ratio had the different competitors, if you go two years back. As I said, we operated with loss ratios in the 50s and if you look at other competitors two years back, they operated in a completely different area actually. So, that's also important to take into consideration.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah, that's fair enough. Thanks guys. Thanks for your comments.

Operator

We will now take our next question from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good morning. So, just a few questions on motor again please, if you don't mind. Just looking at the 1H '19 turnaround projection, could you just discuss, are there any risks to that as well because I mean -- could it be that there is some trends in frequency that could surprise, or just if you could discuss how you thought about that 1H, I appreciate the 12 month cycle. But on pricing, but what I don't know is what you assumed on frequency and these habits of drivers, et cetera?

And then again, just on the page three, so thank you for the customer segmentation and churn approach. Could you help us quantify a bit, because when I look at the weighted average line, it seems to edge a bit towards the upper end of the chart. You said that the proportion of the -- sort of the -- which I presume is not the good customers, is the proportions bit very high and in line with that are you looking for a -- are you willing to give up a lot of market share as well.

And just lastly, is there any again I've asked in the past, do you see the need for any reinsurance solutions on this? And if I can sneak one more, if there are any difference in private and commercial trends that you are seeing now in the motor area? Sorry, too many questions, but I think there are four questions, sorry about that. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay, I will start. There is of course always a risk in the prediction and you might be surprised, but given what we know and the measures we have in place, we are pretty confident about this turnaround as we reach the turnaround in the first half of '19. And the risk here is that two way risk its -- it could be sooner, it could be later, it's not that it's the most optimistic estimate that we'll reach in the first half of '19. There is -- there's a number of measures we are taking place, its not just pricing, it's also how we do loss adjustments and the terms of the contracts and so on. So, it's a comprehensive package of measures not just pricing that we are putting in place.

On the page three and distribution of customers and the different customer scores, you're right, that there is an old rate on the fee and that just because when you have a new customer they came in -- they come in a fee and then they move either way over time. So, there would naturally be a tendency to be a higher share there in the middle of that distribution. And on three in need of insurance, no, we're not thinking about doing any reinsurance on the motor business as such, we still view reinsurance as a capital instrument to protect the capital position of the company and not kind of either way any lack of underwriting profit.

And for difference between Commercial and Private, there are of course differences in the loss ratio because in the Commercial segment we have fleet insurance and we have the commercial -- sorry agricultural customers there as well. But I think on balance, there's a slightly lower -- higher loss ratio in the commercial than in the private because of the fleet thing and so on, but that's more of a market dynamic thing. It's not a difference in the claims inflation picture as such.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry, I just meant to know private commercial motor please --.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah, but in Private and Commercial motor was my comment as well, the claims inflation in Private and Commercial motor isn't significantly different, it's more from market dynamic perspective.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you.

Operator

We will now take our next question from Matti Ahokas from Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, good morning. Two questions from my side, please. Firstly, could you elaborate a bit more on the agriculture impact. You said that part of the reason why the weather impact was big was also your exposure to agriculture. How big is the exposure to agriculture? And how much of a risk could you also see now with the kind of very, very dry weather and that impact also impacting Q3 underwriting profit?

Then the famous slide number three on motor insurance, could you give us some kind of quantification on this. How much is the -- are the premiums in the motor side? How much further negative pressure there is in terms of Norwegian Kroners before we see the turnaround in the first half, some kind of quantification on this, the impact of the motor turnaround and how much further pressure we will see in terms of Kroners? Thanks.

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

Just to start with agriculture, that's the history, Jostein [ph]. So, in Norway, we have 75% market share for agriculture business and that's related to buildings, equipment and all kind of our annuals [ph]. The winter effect was related to buildings, private buildings and also the typical agriculture buildings, that was of a claims related to agriculture business in first and second quarter. The dry weather know, that's more discussion between the farmers and the government. We do not have any exposure to the situation that they have a hit by the dry weather. And over time the agriculture business has been quite profitable for us and we have, as I said 75% market share.

Q - Matti Ahokas {BIO 2037723 <GO>}

How much is that of total premiums roughly, the agricultural claims?

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

The agriculture business?

Q - Matti Ahokas {BIO 2037723 <GO>}

Yeah.

A - Jostein Amdal {BIO 19939645 <GO>}

Sorry, we don't -- we don't disclose (inaudible) business that --

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

No, we don't -- but, it's small and medium farms in Norway. You do not have the same structural situation in Norway as we have in Denmark, Germany and other countries. It's small and lots of these farmers are typically working both on the farm and they have a second job as well. So, it's much also related to private business actually, but we do not release the figures for the agricultural business line.

A - Jostein Amdal {BIO 19939645 <GO>}

No, but just remember that our agriculture business line is booked under the segment commercial.

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

Yes.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay.

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

And motor?

A - Jostein Amdal {BIO 19939645 <GO>}

The second one the motor, we don't disclose having a disclosed effect on in Kroners, that our turnaround comments are related to the development in the loss ratio as such. But you --

Q - Matti Ahokas {BIO 2037723 <GO>}

Can you a bit talk about the kind of what has been the impact roughly when you talk about the weather impact between 150 and 200 in the quarter. So -- but some kind of indication how much has this motor situation impacted the profitability in the Gjensidige group negatively?

A - Jostein Amdal {BIO 19939645 <GO>}

Our comment on the 150 to 200 were purely related to property, whereas the Q1 weather effects --

Q - Matti Ahokas {BIO 2037723 <GO>}

Could you give us a similar kind of comment on the motor situation, some kind of guidance, how much of an impact was this on the figures?

A - Jostein Amdal {BIO 19939645 <GO>}

No, sorry, we don't disclose that, but we have some approximate size and number of motor and yeah, but that's -- we don't have an amount to communicate on that.

Q - Matti Ahokas {BIO 2037723 <GO>}

All right, thanks.

Operator

We will now take our next question from Youdish Chicooree from Autonomous Research. Please go ahead.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Hi, good morning everyone. I've got two questions please. Before related to the sale of your Bank and the capital deployment, firstly, how much of the capital release of roughly 4.3 billion would you like to inject in the non-line business to improve the S&P ratio? And how much would be earmarked for M&A opportunities? And secondly, I think you mentioned if the M&A opportunities do not rise at the right price, the proceeds will be returned by way of special dividends over time, but can you just help us understand what time frame are you thinking in terms of finding the right M&A target in replacing the lost earnings before you think about special dividends? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Well, the first question is that we are not going to inject any money to improve the S&P rating. We have -- we are confident about that the capital level we have injected in the life insurance business is sufficient to keep the A rating and the stable outlook. And maybe Helge comment on the time frame.

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

Yeah, it's -- it's the Board decision, everything related to dividend. And just to start with M&A opportunities within the insurance, we believe size and scale will be increasingly important in our industry to secure the capacity to invest in the right technology, attracting the right people et cetera going forward. And we think we will see more consolidation, observed market dynamics and the need for companies to prioritize their investment budgets going forward to follow the technological and regulatory development make us believe more opportunities will come. It's -- I will not be precise regarding the time frame. But if we do not see opportunities and we will be patient and rationale and disciplined.

And I think you also have seen that transactions in our industry the last year we haven't participated when we think it's to be too pricey. But in the medium time frame, meaning, yeah, I will not be very -- but we will not year-after-year have the same communication to you. We think we will see some in the next couple of years actually, so --

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, fine. I mean, historically, I mean, there has been a lack of M&A activity and generally speaking, the targets have been very small. So, that's why I was wondering, whether you believe there would be some major opportunities going forward, or probably as you say, more will be reinvested in the business on digital et cetera, as opposed to the investment made in the past?

A - Jostein Amdal {BIO 19939645 <GO>}

I think we do invest quite a lot in digitalization and automization of our businesses, but that will happen within the current cost ratio target of around 15%. So, these amounts are not to be invested in the development of the non-life insurance business as such. These amounts are either used for inorganic growth, or if that doesn't materialize over time, hand it back to the shareholders.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, great. Thank you very much.

Operator

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

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you very much. I see, one of your competitors predict, announcing a 106% combined ratio in its Norwegian business up from about 73% last year and that is they say driven by motor, liability, health, and lot of other business lines here. And they're also saying that the claims ratio in motor is increasing rapidly as well. So, I wonder if you could tell us about any other peers that you may know about or have heard from that are seeing similar kind of impacts from the motor businesses in Norway, as well because due to my lack of disclosure in this sector, it will be very, very good if you could tell us other ones that are seeing these sort of problems?

Secondly, once you sold the Bank, can you state whether your solvency margin target the 125% to 175% will that change? And then thirdly back on the motor again, sorry about this, the 6% motor inflation now, do you still see that as the peak level going forward? Thank you very much.

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

I can start with the motor, I was rather detailed when I went through the motor business. And as you know, we are market leader and I also commented that on EV's and electrical vehicles, we have a number three position, while we are number one for motor totally. I think as I said that this is not a situation for Gjensidige, again the market leader, it's a situation for the total market. And it's completely different compared to what we see in Denmark with very stable inflation for many, many years. And in Norway, all of us had the winter effects, as I commented, very benign winters for many years and then we saw a very harsh winter now and you have to adjust for that.

When it comes to our competitors, I commented what Tryg have communicated, that's the inflation around what we have seen. You saw maybe DNB yesterday, they have the same type of communication related to property in second quarter due to the harsh winter. Going forward, you have to adjust for the winter effect. We think this is a peak, because we have had the situation with EV's and hybrid cars for many many years now. So we do believe this is actually a peak. In Norway, you also have the special situation with the bonus scheme. You saw so maybe DNB commented that yesterday and we have said that the change in the bonus system in Norway, we estimate that that's 1% points for inflation.

So this is a market situation. And as I also commented, we have pricing power. We have increased prices over time now and we do not see that this hurt our market share significantly. And at the end of the day, this is a positive situation when you manage to meet these claims inflation situation with price increases, without losing customers. Secondly, Jostein --

A - Jostein Amdal {BIO 19939645 <GO>}

On the Solvency target?

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

Yeah.

A - Jostein Amdal {BIO 19939645 <GO>}

We'll look at our solvency targets again as we do regularly and it's about the solvency target, solvency margin target and the minimal dividend payout ratio which needs to be looked up, but we don't kind of pre-own of any changes, so that will be a Board decision and an ongoing evaluation by the Board.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

Operator

We will now take our next question from Jan Erik Gjerland from ABG. Please go ahead.

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

Very good morning. Jan Erik Gjerland from ABG in Oslo. Yeah, just coming back to your strategic initiative on the expense side on IT investments, as you have previously stated that will be within the 15% total cost ratio range. Is it so that we should expect cost ratio to stay around 15 now then for years really, so that you can implement your long-term IT investments plans, or is it so that should continue to be down further as you see the Baltic and or the Nordic operation being more efficient going forward? Thank you.

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

I guess, we -- during the fall we'll be more detailed regarding the target going forward. But I guess it's a decent estimate, Jan Erik, regarding the cost ratio going forward, yeah.

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

Thank you.

Operator

(Operator Instructions) We will now take our next question from Wajahat Rizvi from Deutsche Bank. Please go ahead.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Hi, good morning. Just a quick question on understanding your comment on turning point for loss ratio during first half of 2019. So, are you looking to restore profitability at sort of your, let's say, if you go back to 2017, sort of level? Or are you looking to maintain the loss ratio once you get to the 2019 level? So, what is -- essentially I'm trying to get to is, your price increases, are you just about matching claims inflation, or just pricing bit a hedge. So, by 2019 you stay flat at that level, or are you also looking to drive the loss ratio down from that point. That would be the first question.

The second one would be, once your, Gjensidige Bank earnings have now -- have gone away, do you have room to lift the payout ratio and if you do, when should we expect a decision on that? And then finally just on the weather losses, I recall, I think there was a comment that there were some 1Q losses which were effectively not reported then have fallen into to 2Q numbers. So, just trying to understand, is there a delay in these kind of claims, is there possibility that some of the claims from 2Q may actually now fall into 3Q as well. So, bit more clarification on that would be very helpful. Thank you.

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

I can start on the motor side and Jostein will follow-up, but just to comment the market situation in Norway now, we have seen recently more consolidation in Norway, that's positive. We have also seen that some competitors really have weak motor business book, both bank insurance companies, but also other companies. And we have also realized that, that some of our main competitors communicate around the inflation just as we do, that means that we will see the dynamic in the Norwegian market, which is positive for the situation related to the motor business. As Jostein also said, it's lot of measures implemented and it's new measures also planned, not only related to price increases, but we have lots of measures ongoing and planned for the fall and going forward, that will help us regarding profitability for motor business.

And I was very clear and I can repeat that, my ambition is to not only turn this point, but it's to improve the profitability going forward. To be more concrete than that, I think it's not right to be, but I also commented and I think this is important to remind you that the strong pricing power we actually have. So, I also commented the retention levels, so all-in-all, I'm quite positive and we are offensive and we have situation around this, which is very positive to actually bring through all these measures now.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. Moving over to the bank and just to remind you of our dividend policy which remains firm, it is to have a high and stable nominal dividend. And if you manage to increase underlying profits, we will also increase the dividend. And as I also said that the dividend capacity as such is actually improved through the sale of the dividend -- of the bank, because it has been capital consuming down rather than capital generating for the group. I don't think I will be more specific and offer any changes in the financial targets on the either payout ratio or also on to margin targets than that.

On the delayed reporting of weather related losses, every reporting period, every quarter, the accrual departments makes an estimate of the amount of late reported claims, that is just ordinary run of the business. And hence, they make a best estimate, but that might be wrong from every time. And so we have seen that we have a slight overrun on from the first quarter to the second quarter. I do not estimate that that will happen again from the second quarter or the third quarter, that's a way of business, we do operate with uncertainties there, so it's -- there is a potential for either way that there could be lower or higher than the actual estimate.

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

If not only overrun, Jostein, because we also had actually winter in April.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah, specifically for a kind of, if there are delays, but as we mentioned, we had the winter in April and we do also have customers kind of not or customers not seeing that they have a loss until the snow melts for instance and then you see that there is actually a damage to your house. So, that's natural delay, yeah.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Excellent. Thank you.

Operator

We will now take our next question from Claudia Gaspari from Barclays. Please go ahead.

Q - Claudia Gaspari {BIO 15148414 <GO>}

Hi, good morning, everyone. Just going back on the sale of the Bank and the point on replacing the earnings. I mean, I appreciate there is a lot of different moving parts, but if you're looking at replacing the full earnings or the bulk of it, you'd be looking potentially at a deal between of a size between 6 billion and 8 billion. I mean, is that kind of deal something you would consider? And also again assuming you wouldn't want to dilute your ROE, you would be stretching your balance sheet quite significantly. So can you just talk to us, how you think about M&A, the hurdles, the financials, what are the key considerations here?

A - Jostein Amdal {BIO 19939645 <GO>}

As Helge already talked about kind of we don't comment specifically on what we think our M&A targets, the balance sheet is very strong. So we have a potential now for larger acquisitions than we have before the sale of the Bank. We also always have the possibility of going to the market if we see a really large transaction coming up and we have our supporting shareholder in the Gjensidige Foundation. But I think we have the capacity to do larger deals and we could continue doing more small to medium size bolt-on acquisitions, but I want to be more specific on that in terms of M&A going forward.

Q - Claudia Gaspari {BIO 15148414 <GO>}

Sure. Thanks.

Operator

We will now take a follow-up question from Steven Haywood from HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Just want to follow-up on the inflation on motor. You said 1 percentage point for the bonus change, I wonder if you could sort of especially tell us what sort of percentage point would come from the falling Norwegian Kroner, how much sort of the cost of importing parts has impacted the inflation here as well? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Of the -- the remaining 5% after you take whether 1% point related to bonus scheme, some part of that is related to more expensive parts. Some part is related to the fact that actually electrical and hybrid vehicles actually just have more expensive parts current suggested and take longer time at their workshop when they are -- when they have a claim. The weakening of the Norwegian Kroner is a factor, they actually try to monitor quite constantly which was -- it was one of the reasons why we underestimated inflation back in 2016, but I don't have a specific number for you from how much is due to the weakening of the Norwegian Kroner over the last two years, sorry.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. That is fine. Thank you very much.

Operator

There appears to be no further questions at this time. I would like to turn the conference back to yourself for any additional or closing remarks.

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

Thank you. We will be going on roadshow meetings after the holidays. In August, we will start with roadshow meetings in Oslo, Bergen and Stavanger, moving onto Geneva and Zurich. And later on in September, we'll be visiting Edinburgh and Stockholm. So we're looking forward to seeing you there. We would also like to take the opportunity to remind you of our Capital Markets Day, which we will be holding on the 28th of November. Hope to see you there. Thank you very much for your attention and have a nice day.

Operator

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