Y 2019 Earnings Call

Company Participants

- Helge Leiro Baastad, Chief Executive Officer
- Jostein Amdal, Executive Vice President, Chief Financial Officer
- Mitra Hagen Negrd, Head of Investor Relation

Other Participants

- Alexander Evans
- Blair Stewart
- Jan Erik Gjerland
- Johan Strom
- Jonathan Denham
- Jonny Urwin
- Matti Ahokas
- Philip Ross

Presentation

Operator

Good day, and welcome to the Gjensidige Fourth Quarter 2019 Results Presentation. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms.Mitra Negrd, Head of IR. Please go ahead, madam.

Mitra Hagen Negrd

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

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra. Good morning and welcome, everyone. Starting with the fourth quarter on Page 2. We delivered a strong result. We generated a profit before tax of NOK1.7 billion. The group's underwriting result for the quarter amounted to NOK920 million.

Premiums increased by 3.8%. The combined ratio was 85.4%, a good level for the fourth quarter. The fourth and first quarters are, as you know, winter quarters in our region, which normally leads to higher claims ratios. The fourth quarter in 2019 was a quite typical winter quarter in our region overall.

The combined ratio was significantly weaker than the same quarter in 2018 due to the difference in runoff gains. Adjusted for this, our combined ratio was better year-on-year. The improvement was a result of effective pricing and re-underwriting measures across all segments as well as continued strong cost discipline.

Our investment portfolio generated the strong return of 1.4% or NOK832 million in the quarter, reflecting the strong development in the financial markets. Jostein will work with more detailed comments on the results for the quarter. So then turning to Page 3, and looking at the year as a whole. We delivered a record strong full year result with a pretax profit of NOK7.7 billion. We met our financial targets on all metrics as shown in the right.

Return on equity was 28.2%. And excluding the NOK1.6 billion in gains on the sale of Gjensidige Bank, return on equity was 22.6%, both higher than our target. This is particularly pleasing, considering the fact that the bank proceeds are on our balance sheet.

The combined ratio was 83.6%, significantly better than our target range of 86% to 89%. Thanks to strong operations in Norway and progress outside Norway. Low large losses and high runoff gains also contributed positively. The full year cost ratio was 14.7% around the area where we would like to see it.

Adjusted for the Baltics segment, it was 14%. We have a solid capital position with the solvency margin at 206%, adjusted for the proposed dividend. Underwriting results outside Norway, excluding runoff gains, came to NOK494 million, well underway to reach our 2022 target of NOK750 million.

Let's then turn to the next page for a few comments on the proposed dividend. Our Board has proposed a dividend of NOK6,125 billion, corresponding to NOK12.25 per share. The dividend proposal consists of two elements, a regular dividend of NOK7.25, this corresponds to a payout ratio of 72% for the group, adjusted for the gain from the sale of Gjensidige Bank.

For our Norwegian general insurance customers, this once again bodes for distribution of a solid customer dividend from the Gjensidige Foundation. The remaining five kroner is a special dividend, representing distribution of excess capital as part of ensuring an optimal capital structure. We have been actively scoping the market for attractive M&A opportunities for a while and will continue to do so going forward.

We still believe, we can add value from Bolt-on acquisitions in our markets. But as you might have noticed, there has not been no deal since we sold the bank. And as we are also highly conscious of maintaining a strong capital discipline and strive to deliver attractive returns, we believe it's the best interest of our shareholders to pay out excess capital at this point.

With this, our solvency margin is at a very comfortable level, providing us with sufficient flexibility to maintain our S&P A rating, capacity for small acquisitions, organic growth and a buffer for regulatory changes.

Then turning to Page 5, I would like to elaborate on the operational status in a few key areas. We continued implementing necessary pricing and reunderwriting measures through the fourth quarter across all segments. And I'm very happy to see that despite strong competition, we have maintained our superior position in Norway with very high retention.

And the January first renewals have been very strong for all markets, boding well for 2020 in the commercial space. Thanks to high retention and strong new sales volumes in the Private segment continued to increase into the fourth quarter, although somewhat lower than the fourth quarter of 2018 due to termination of the NITO agreement and higher churn in the first half of 2019.

While profitability for motor in Norway has remained at a good level, we have not been satisfied with profitability in our private property line. We have intensified our pricing efforts and expect to see the results in due course.

Strong partnerships are an integrated part of our business model. To that end, we are very pleased that we have extended our reach in the Norwegian motor insurance market by entering into a partner agreement with Volkswagen Mller Bilfinans for distribution through the largest car dealer in Norway Mller Mobility group.

We have also entered into a pan-Nordic agreement with the largest Nordic fitness chain SATS, together we will be exploring the possibility in developing services and health insurance to the benefit of all customers. I'm very satisfied with the development in our Commercial segment, reporting strong new sales and low churn despite considerable pricing and re-underwriting measures. There are still pockets in this segment, which we need to address, particularly among large corporates, and hence, we will continue to raise prices going forward.

We renewed the agreement with Bondelag, the Norwegian Farmers Union during the quarter. The partnership supports our strong position in the Norwegian agriculture sector and confirms our strong delivery. This is the largest Norwegian interest organization for farmers and has been our partner over the past 60 years. As part of the agreement, we will jointly establish a sustainability fund with the purpose of promoting claims prevention, measures and sustainability in the Norwegian agriculture sector.

Our operations outside Norway continued to progress according to plan. We will continue to focus on cost efficiency and improving customer experiences and loyalty, and we are confident in our ambition to reach our target for these operations in 2022.

Then turning to Page 6, a few words on our updated strategy; we have together with our Board recently concluded on the Gjensidige strategic plan for the next few years. Based on anticipated long-term trends and scenarios, involving globalization, technology, sustainability and demography, predicting the future is hard, but what we can be certain about is our ambition, delivering the best customer experiences also tomorrow.

To succeed, we will have to work continuously with efficiency improvements alongside making investments in data and technology. We are putting a lot of efforts into launching the next generation tariffs and CRM and investments in the new core system and IT infrastructure. Altogether, this will improve our flexibility to act and react upon future opportunities and challenges.

Our key strategic priority over the next few years is to maintain and cultivate the direct customer relationship. We aim to achieve greater relevance and create sales opportunities by offering our customers a broader value proposition than ever before. In terms of both services and products, alone or in partnership with other providers, our goal is to become an even better and more relevant partner for customers. A problem-solver with a stronger focus on claims prevention, and thereby further strengthening our customer relationship.

As an example, we have recently entered into an agreement with a leading supplier of sensor technology, exploring the opportunities which lie in earlier detection of water leaks and the prevention of water damage on buildings.

Another example is our recent launch of an online service provider, easy access to qualified. Our customers are very happy with the new service, and we have reduced payments for physical consultation which are considerably more expensive.

Then turning to Page 7. Before I like to -- before I leave the word to Jostein, I'd like to remind you that sustainability is at the very core of our operation. Our key focus areas are initiatives for a safer society, reduced CO2 intensity and responsible investments. Claims prevention is the most sustainable thing we can do. And with reference to my past slide, claims prevention will increasingly be core in our value proposition to our customers going forward.

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

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody. I will start on Page 9. We delivered a profit before tax of NOK1.7 billion in the fourth quarter. The solid underwriting result at NOK920 million was higher year-on-year when adjusting for runoff gains.

As you remember, we released almost NOK 1.4 billion of excess reserves in the fourth quarter of 2018, of which NOK 1.1 billion was beyond the planned releases. The additional NOK 1.1 billion was related to the Private and Commercial segments in Norway. The releases this quarter are more in line with the planned runoffs, we have communicated earlier.

Both the Private and Commercial segment delivered improved underlying frequency loss ratios, effective pricing, reunderwriting measures starting in the second half of 2018 and continuing throughout 2019 were the main drivers. The underlying results improved in Denmark, while Sweden and the Baltics reported lower results, reflecting the size of the operations and inherent volatility.

Profit from Pension business was higher than last year, and our investment portfolio generated solid returns this quarter at NOK832 million.

Turning to Page 10. Earned premiums were up 3.8% or 2.8% adjusted for currency effects. In the Private segment, we continue to put through price increases, primarily for motor and property. The number of insured objects within motor and property insurance were down compared to the fourth quarter of 2018, but up compared with the third quarter of 2019.

Earned premiums increased for most product lines, but increase was mainly offset by changes in intra-year accruals. Adjusted for this, the premiums would have been up 2.2%.

Our pricing initiatives in the Commercial segment continued into the fourth quarter, resulting in a healthy 7.5% growth in earned premiums. We will continue the price increases to at least reflect expected claims inflation but in a differented way. So for some customers and segments, the price increases will be even higher. And as Helge mentioned, our January first renewals have been very strong.

Earned premiums in Denmark, measured in local currency were up 1.6%, mainly driven by the termination of a reinsurance agreement. We continued repricing and reunderwriting in both the private and commercial lines. We still see some areas requiring further pricing actions, but we're starting to reach a point where we can expect growth in line with the rest of the market. The January 1 renewals this year have been very strong, proving our improving position in the Danish market.

Our Swedish operations saw a 0.8% decline in earned premiums in local currency. Adjusted for termination of one large unprofitable contract, earned premiums are up 3.6%, driven by price and volume growth. Despite tough competition, we are very pleased with January renewals in Sweden too, in light of price increases. We'll continue increasing prices particularly in the commercial space.

The Baltics reported a higher top line than the same quarter last year. Competition in these markets is fierce, putting pressure on prices. However, we experienced good demand particularly for accident, health and motor insurance lines.

Turning over to Page 11. We generated a solid loss ratio at 70.3% for the fourth quarter. The ration rose compared with the same quarter last year, due to higher run-off gains as explained earlier. Large losses remained at a low level, but most important, we saw a further improvement in the underlying frequency loss ratio due to effective pricing and re-underwriting measures.

Profitability in the Private segment improved, following the effective profitability measures for the motor insurance line. With the continued pricing efforts reflecting expected claims inflation, we expect profitability to remain around the current good level going forward. Travel insurance, and accident and health also recorded improved profitability. The profitability of the property insurance line was weaker than the same quarter in 2018. As Helge you mentioned, we will continue to implement pricing measures here.

I'm very pleased with the improvement in profitability for the commercial segment, with higher profitability for both the property and motor insurance lines. Denmark generated stronger underlying profitability on the back of improvements in both the private and commercial lines. The improvement in the underlying frequency loss ratio in Sweden was related to improved risk selection in the commercial portfolio.

Our Baltic operations showed a higher underlying frequency loss ratio with the increase being due to margin pressure in motor and health insurance.

Let's turn to Page 12. We recorded NOK957 million in operating expenses in the quarter, corresponding to a cost ratio of 15.2% and 14.5% excluding the Baltics. The ratio of our combined Norwegian operations were broadly in line with the same quarter of last year, reflecting continued cost discipline as well as necessary measures to enhance future profitability.

The development outside Norway moves more in leaps and bounds as a consequence of ongoing efficiency measures and the size of the portfolio. Denmark reported a flat cost ratio, while Sweden showed an increase and the Baltics came in lower than the same quarter of last year. We'll continue our focus on simplification of processes, automation of internal operations and further digitalization. We expect further efficiency gains from our efforts, particularly in Sweden and the Baltics.

A few comments on our Pension operation on Slide 13. The pretax profit came to NOK61 million, higher than the fourth quarter last year. A strong insurance risk result as well as continued growth in our customer base, and an increase in assets under management were the main drivers behind the higher profit. This was partly offset by higher operating expenses, driven by increased business volume and impairment on IT systems.

Annualised return on equity came to 17.9%. Assets under management increased to NOK37 billion at the end of the quarter, reflecting increased payments and a positive market trend. The ratio of shared customers with our general insurance business is high. As of the end of the fourth quarter, 68% of the customers in our Pension business were general insurance customers as well.

Moving on to the investment portfolio on Page 14; the investment portfolio yielded a return of 1.4% in the quarter, reflecting the favorable market conditions in the quarter. The total investment portfolio amounted to NOK 59.1 billion at the end of the quarter.

The match portfolio yielded a positive return of 1.1% on a portfolio of NOK34.1 billion. A large part of the match portfolio consists of bonds at amortized cost, which yielded a return of 1.9%. This was positively affected by earlier redemption of bond in the portfolio with a positive result effect of NOK151 million.

The running yield in this portfolio was 3.6% at the end of the quarter, and the average reinvestment rate for the quarter was approximately 3%. Unrealized excess value amounted to approximately NOK0.5 billion. The free portfolio, which amounts to NOK25 billion, yielded a return of 1.9% in the quarter. All asset classes except for private equity contributed positively in the fourth quarter.

Looking at our capital position on Page 15; the approved internal model gives a solvency margin of 206%, down from 235% last quarter, while our own partial internal model1 gives a solvency margin of 250%. The main driver for the reduction in solvency margin is the proposed dividend.

The total Solvency II earnings was -- and the return in the free portfolio was 0.7% NOK7.7 billion, which is less than the IFRS result. This is due to adjustment in the calculation of technical provisions, realizations in amortized bond portfolio and the planned runoff results having a positive effect in IFRS figures but no effect on the Solvency II earnings.

The capital requirement also increases as a result of technical adjustments. We will continue to balance our capital structure in a disciplined way in order to support the target return on equity while, at the same time, are leaving us some leeway for further bolt-on acquisitions and stabilization of dividend.

Finally, a few words on the latest development of our operational targets on Slide 16. We can report good progress on our operational KPIs as communicated on our Capital Markets Day in November 2018. By delivering on these operational targets, we continue to improve our competitive position and lay the ground for future profitability. There are no major changes in customer satisfaction or customer retention.

As already communicated, the January 1 renewals were strong across the group. All else equal, this should further strength the retention. Maintaining higher renewals and customer satisfaction at the same time a significant repricing over the last two years, confirms our strong position in Norwegian market. We've also seen increases in the renewal rate for all the three segments outside Norway, boding well for the coming periods.

Sales effectiveness has increased this quarter. The main reason being the positive trend for volume in the Private segment in the second half of 2019. But you also see a positive trend in the other segments except for the Baltics. The share of automated tariffs continues to increase as further [ph] products and insurance cover are included in this methodology.

On the claims standing side, we saw an increase in digital claims reporting, but a drop in the share of claims handled fully automatically. There is some seasonality in these numbers as the types of claims vary throughout the year, but we're still on track to deliver on both targets. And in terms of our CO2 intensity, we will report the ratio in our 2019 annual report.

I will then hand the word back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Jostein. So then to sum up then on Page 17. Standing at the very beginning of 2020, I'm very optimistic about Gjensidige's prospects going forward. We will continue our efforts to retain our strong and unique position in the Norwegian market. We will continue to raise prices when necessary and maintain a strong focus on operational efficiency with a strong emphasis on digitalization, automation and simplification of processes.

Our operations outside Norway are improving, and we are confident in our ability to deliver on our targets of NOK750 million in 2022. We have a solid financial position, and we remain firmly committed to exert strong capital discipline. Sustainability is at the core of our business. We are firmly convinced that sustainable operations are a prerequisite for long-term value creation. Our financial targets towards 2022 are unchanged.

And with that, we will leave the word to the Q&A session now. Thank you.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions). The first question comes from Matti Ahokas of Danske Bank, please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, good morning. I'd like to go back to the dividend discussion. Helge you mentioned earlier, so if I understood correctly this extra dividend proposal means that a larger acquisition is off the table. Is this correct? And what's the reason for it basically, you said, you've been screening the market was the reason that there was simply nothing interesting to buy or were the prices too high?

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

Thank you, Matti. As I said, we have been scouting the market for attractive opportunities for a while. And we will continue to do so going forward. So one day, we will see consolidation in the Nordic Market and we want to be part of value-creating consolidation in the Nordic Market also going forward. But we are also highly conscious of maintaining a strong capital discipline and strive to deliver attractive returns. So we believe it's in the best interest of our shareholders to pay out excess capital at this point. But as I said, we have a strong capital position, we can continue with bolt-on acquisitions and if it arise opportunities in the Nordic market, we will be active looking into that going forward.

So, I think that's the right answer on that question Matti. The appetite is the same as before. But as you know, it's consolidated, and it hasn't been any transactions in the period from when we sold the bank. So at this moment, the board decided to pay out extraordinary dividend. It's not --

Q - Matti Ahokas {BIO 2037723 <GO>}

It's a good dexision in my view --

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

Yes, yes. Sorry. It's not a signal in any direction regarding our appetite, strategic and growth wise.

Q - Matti Ahokas {BIO 2037723 <GO>}

Got it. Then one detailed question. What's the expected tax rate for 2020?

A - Jostein Amdal {BIO 19939645 <GO>}

-- you dropped off in the last then there, Matti.

Q - Matti Ahokas {BIO 2037723 <GO>}

The expected tax rate for this year?

A - Jostein Amdal {BIO 19939645 <GO>}

For 2020? Our normal tax rate is, as you know, 25% and then gains on realization on equity are tax-exempt. So it all kind of depends a bit on the composition of result, but I think usually, it'd be 22, 23-ish, depending on the kind of the actual composition of the investment return, as I said.

Q - Matti Ahokas {BIO 2037723 <GO>}

Thank you very much.

Operator

We will now take our next question from Jonathan Denham of Morgan Stanley.

Q - Jonathan Denham {BIO 19972914 <GO>}

Hi. Thanks for taking my questions. You spoke about it a little bit, but is it possible to get a specific number for the level of rate increases you put through at January 1, renewals in aggregate and maybe say a bit more commentary around what the impact was on volumes. And I think you said those considerable repricing with limited churn? And maybe as well, what level of price increase is still required? And then just on the actions you're seeing competitors taking with regards to pricing private property in Norway. And yes, and if you're seeing competitors looking to take share from you over the medium term now. Thanks.

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

Yes. If your first question is price increases and of 1/1 renewals on commercial in Norway, is that right?

Q - Jonathan Denham {BIO 19972914 <GO>}

Yes.

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

As you know, we repriced both and increased prices significantly, both in the private segment and the commercial segment second-half of '18 and into '19. And we had a significant repricing into '19 without any type of churn in the commercial book. What I can say, now, it's even better into 2020. So, that means strong, it's increased prices, new customers and very strong 1st of January renewals. And as you know, 40% of the commercial book is renewed by 1st of January. When it comes to private, Jostein, maybe --

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. The private I mean it's not that relevant to speak about January 1 renewal, because renewals are evenly spread throughout the year. We talked about increases within motor being at least in line with claims inflation, which we talked about still in the 3% to 4% there, same as we said last quarter. And on the private property side, price increases are starting point is the building cost index which are -- which is around 4%, a bit changing measure. But we are now, due to our perceived need of better profitability, pricing considerably above that. But without going very much more specifically into the numbers, we have, as we said, seen no increase in customer churn or a decrease in customer satisfaction, which means that probably others are seeing similar needs, but as there is kind of not this kind of this single point of time, which is more important. And I think this is much more a dynamic effort where we adjust prices continuously.

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

I can give.

Q - Jonathan Denham {BIO 19972914 <GO>}

Thank you. And maybe --

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

Sorry.

Q - Jonathan Denham {BIO 19972914 <GO>}

Sorry, go ahead.

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

No just a comment on motor. As you know, that's a significant part of our book. When it comes to claims inflation, we expect claims inflation to remain stable at around 3% to 4% reflecting the general inflation pressure in Norway and the increase of technology advanced cars.

We also expect repair costs, isolated, are expected to rise 4% to 5% partly offset then by expected lower frequency. Thanks to our measures and easier comparable related to bonus changes. So the figure is 3% to 4%. But isolated, repair cost, we expect that 4% to 5%. And when it comes to pricing, Jostein commented that.

Q - Jonathan Denham {BIO 19972914 <GO>}

And then maybe just a quick comment on kind of market share in private property in Norway for medium term?

A - Jostein Amdal {BIO 19939645 <GO>}

I can't really guide you there. It's -- we don't have any specific expectation. Our priority is getting the profitability right and then we'll see what the market share ends up as.

Q - Jonathan Denham {BIO 19972914 <GO>}

Thank you.

Operator

Our next question comes from Jonny Urwin of UBS, please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Morning. Thanks for answering my questions. So, just stepping back a bit. Across the whole portfolio, it sounds like pricing is largely tracking claims inflation, maybe it's ahead, driven by commercial. Could you just comment on that? And then on the underlying loss ratio what should we be expecting for development? It sounds like you're guiding to more stable kind of underlying loss ratio trends from here. But given the turnaround is still ongoing and there's a bit more rate and I would have thought there would have been a bit more improvement to come, so any color there would be great? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I mean, it's hard to give comments across all these segments here. It's a very differentiated story. So but overall, I would say, yes, prices are increasing somewhat more than the expected claims inflation, but it's a mixed picture and motor will be developed into for many quarters in a row and we are at a profit level there which we are comfortable with, which means that on average we aim for price increases more or less in line with expected claims inflation. I think we already commented. Whereas in private property, we'd see the need for more price increases than the expected claims inflation.

In commercial, yes, price increases are -- that we have put through now in January 1 would be above our expected claims inflation picture. And the same goes really for Denmark and Sweden and the Baltics, as well. But I can't give you an average figure because it's an average of so much different stuff. That means that the underlying frequency claims ratio should, overtime, now still continue to drop somewhat, but in a very differentiated way across the products and segments.

Operator

We will now move to our next question from Alexander Evans of Credit Suisse, Please go ahead.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi, Alex here from Credit Suisse. So just on the deterioration of underlying frequency loss, it seems to be the main factors there at the Baltics, and Denmark's deteriorating this quarter. I think you mentioned pressure and mentioned health in the Baltics. Can you just go into a little bit of detail on what's going on in Denmark in the quarter, please?

A - Jostein Amdal {BIO 19939645 <GO>}

I think, we are actually quite pleased with the development in Denmark, if you look at the underlying frequency loss ratio, it's an improvement of 4.6 percentage points from the --

Q - Alexander Evans {BIO 19956412 <GO>}

Sorry I think it's Sweden, sorry

A - Jostein Amdal {BIO 19939645 <GO>}

Sweden? Then that's different story. Yes, Sweden and the Baltics. And then I understand what you're talking about. Yes, there is an improvement also in Sweden, but the problem there is a bit if you look at Sweden, there is improvement of a bit more than 4 percentage points on the underlying frequency loss ratio. But of course, there has been this negative growth in top line throughout 2019, but the speed of the decline has been much less in the latter part. So, as I mentioned, if you take away this one unprofitable contract, we actually have an increase in net earned premium in the fourth quarter of 2019. This is a necessary result of pruning and the reprising of the portfolio, where we lose some unprofitable contracts, we do get an underlying profitability improvement. But when measured in kind of absolute volume, of course, there will still be some differentiation due to the loss of business.

But if you look at the speed here now, we are quite confident coming into 2020, that we see that the improvement is well underway, and it will contribute towards the NOK 750 million in 2022 as we have set as a target. Baltics, I think a bit different -- and of course also the cost ratio in Sweden will suffer because of the top line issues.

The Baltics, we see a tough competition. And -- but we are kind of improving our position. We are working with what we can control on the cost side and also improve our tariffs and so on, which means that we see an improvement in loss underlying loss ratio and combined ratios for 2020. And we've seen that in the latter half of 2019; we have also seen a pickup in the gross written premium which is kind of a signal in front that the earned premium will grow in the coming periods.

Q - Alexander Evans {BIO 19956412 <GO>}

Thank you, and just on the expense ratio. It looks like Private and Sweden are driving increase higher than expectation. What's exactly going on in part of that?

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. There are -- it's easier for us to comment on the combined Norwegian to Norwegian segments in total because as you see, there's a large drop in commercial and a large increase in private. And there's some allocations of course, between the two segments that did have some changes. But otherwise we're also working on the initiatives to secure future growth in Private, which is where costs come so much more before the problem premium volume, but that's natural, also within our cost targets. As we say, we have 14.7% for the year as a whole. Each and every quarter, there will be ups and downs in that ratio.

Q - Alexander Evans {BIO 19956412 <GO>}

Okay. Thank you. And then just finally, on your solvency position, I know you talked about adding a special dividend and returning excess capital back. But your solvency position is still above your target. How should we view this at the moment? Is it for small M&A bolt-ons? Or is it for potential future special dividend? What's the likelihood at that?

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

I don't comment on the likelihood. But I mean as you said, we are very comfortable with the solvency margin. It gives us ample room for bolt-on acquisitions, a buffer against any regulatory changes and kind of short-term volatility in results. As we say, it's about what we, at current, it's about what we see as the normal solvency margin range. But this is what the board decided for this point of time, and then we'll see next year.

Q - Alexander Evans {BIO 19956412 <GO>}

Thank you very much.

Operator

(Operator Instructions). Our next question comes from Blair Stewart from Bank of America Merrill Lynch, please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. I've got a couple of questions left. Just looking at the underlying loss ratio adjusting for reserve releases and large claims, it seems to be about 0.5 point better year-on-year in Q4, which is not quite as good an improvement as we've seen in other quarters. So just wondering is that 0.5 point, the sort of level you'd expect going forward? We've talked around those issues already and perhaps you can't comment further, but I just thought I'd ask the question.

Secondly, on the customer dividend, could you just remind us how much that is as a percentage of premium? I think it's important because it helps to get price increases through if your customers are getting a nice dividend. And then on the regular payout ratio, it was 72% against your guidance of 80% or more. Just wondered if you could elaborate on the thinking there. And you've mentioned a couple of times, my final question, sorry, you've mentioned a couple of times about room for -- or having a buffer for regulatory changes on solvency. I just wonder if there was anything specifically that you like to flag? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

There is 0.9 decrease in the underlying frequency loss ratio I think. And as I said, there is a somewhat mixed picture here, but the largest improvement is within commercial, but we also see a fairly okay improvement both for Sweden and Denmark, whereas the Baltic is the only one with negative development. Whether that was better or worse than expected, I'm a bit struggling to comment on. I mean, we are driving through as I said price increases in general, which are above our expected claims inflation. But in motor, which is a very big insurance on private motor in Norway.

We are very satisfied with the current loss ratio level. So, there our expectations are for price increases more or less in line with the expected claims inflation.

The customer dividend around 14% again, which is a similar level to the last couple of years. The payout ratio of 73% is, as you mentioned above sorry, below the 80% that we have said, but this 80% is stated as over time. There'll be somewhat -- we'd allow ourselves some leeway around that. The starting point of the dividend is high and stable nominal dividends. And when the underlying profits increase, we will also increase the nominal ordinary dividend. And that's what we've done.

There are no -- this -- when we say a buffer against regulatory changes, this is a statement we have all the time. There is no specific news on that on regulatory risk or anything there, but in general of course there are potential for regulatory changes as you know, it will pass its reviews out for changes in the Solvency II regime. That might or might not come in the next couple of years. But there is no specific news from our side on the regulatory risk

Q - Blair Stewart {BIO 4191309 <GO>}

Okay, great. That's great. On the customer dividend, I would have thought it was higher than NOK 14 given that you're paying special.

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

What they have done, Blair, is to keep the special dividends to secure their flexibility to meet

Q - Blair Stewart {BIO 4191309 <GO>}

Okay.

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

Yes, new situations for the combination of Gjensidige and foundation going forward.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. So that stays in the foundation. Understood. Thank you.

Operator

Our next question comes from Johan Strm of Carnegie, please go ahead.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you. Two questions on claims, Please. First I think in the past six years, I think I can count around three quarters where, we've -- where the large claims or large losses have been at the expected levels. Is it fair to say that the past couple of years, whether has been particularly benign? Or is the general guidance now at NOK 1.2 billion just very conservative? That was the first one and then secondly, if you look at the first -- it's still very early, of course, but first three weeks of 2020, have claims come up compared to Q4,and also if you compare it to Q1, '19. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I'm not going to comment on the second question, John. Let's wait till the first quarter results. On the first one, are we conservative? I mean this is a longer-term average using our partial internal model. So it's is the same kind of -- it is actually the same -- identically same analysis that we use for our internal model. It is hard to judge whether that's conservative enough, but it's our best estimate of the long-term. Remember that this is a skewed distribution. Most of the years, the median will be better. But in some years, it might be a lot worse. That's why we have these average estimates. So most of the years, as you said, that we will have a positive -- kind of surprise then in quotation marks on the large losses.

Q - Johan Strom {BIO 17541253 <GO>}

Okay, thank you. Can I just squeeze one more? And then on in terms of the potential claims or effects from the fire at the airport in Stavanger, any comments around that? Thank you.

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

Yes, it's -- as you know, it's a garage building, a garage and a hotel. And inside the garage, it was lots of cars. The number varies up to tows and cars. We will have our share of that. We do not exactly know what kind of total claim this will be, but just to remind you, our maximum loss due to our reinsurance program, it's maximum 100. We didn't have the garage and we didn't have the hotel, and we didn't have the car that started the fire.

Operator

Thank you very much. Our next question comes from Jan Erik Gjerland of ABG, please go ahead.

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

Okay, Good morning. A couple questions from me as well. So the re-underwriting you are talking about is that part of your being more smart in your re-underwriting in on different kind of products? Or has it really helped this quarter or year-on-year or something or have you done something special this time around? Is it just that you are being smarter every day on this reunderwriting stuff?

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

Not smarter every day, but may be every year. But Jostein, come in. Reunderwriting is more related to large customers and commercial, I think.

A - Jostein Amdal {BIO 19939645 <GO>}

I mean, if you look at our commercial book. It's a large part of that is small and medium-sized enterprises and it's a market that has as much similarities to the private market as to the large corporates and its tariff driven. There we have improvements in tariff and general repricing level increases, but on the large corporate side, it's a re- underwriting and we reassessed the risks and the pricing that we need to take for each of these customers or risks that we are bidding for.

And it's a process that can sometimes work to reduce the volume, because we are too conservative or too strict on profitability targets as we've seen in Sweden and the last year also partly in Denmark. Whereas in Norway, we managed to do this to increase profits, but without having an increase in churn. So it all depends on the market situation, in the different markets that we operate in, whether we are smart or not, but it hasn't had an improved effect on the profit, at least.

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

Okay. So almost in line with last year and previous quarters then. When you look out the window, as Johan touched upon, there is no winter in Norway these times. And so let me phrase it differently. How is the frequency then affecting you positively on motor in Q4 and also on housing because we see different kind of weather this time around? So is housing and motor having an opposite effect on frequency? Or is it some of that normal winter quarter also was bad on housing or only motor? Can you comment on that?

A - Jostein Amdal {BIO 19939645 <GO>}

Without taking any specific number on it, in general, where there is kind of less of a winter, like it's been in the fourth quarter of 2019. And as we look out the window now in Oslo at least, it's generally benign for claims both in property and motor. But bear in mind as for motor, what is kind of is most kind of negative for us is there are a lot of changes in the weather where it freezes and then melts again and so on because that creates difficult driving conditions. But overall there is -- we have nothing to complain about for this winter at least.

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

You can see when it comes to winter in Scandinavia, first quarter so far, you can look at the temperature, it's very benign.

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

Okay. Great. Finally then, on your market share in the different kind of areas in the country so that you have sort of equal every bases in Norway? Or is it so that you're stronger still in the Oslo and the eastern part of Norway and Scandinavia area? Or is it so that you have sort of been catching up with the others in the different kind of other areas where you historically were at that lower point? Is there any material changes between the countries you serve?

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

Yes. Just to remind you, we are a clear market leader on the commercial side. And in total we also market leader, historically reasons, we are stronger in [ph] or the Tondheim or the Trndelag area. The Central East, we are stronger, weaker, south part of Norway, west part of Norway and North part of Norway. So typically, Kristiansand, Bergen the north area is weaker compared to the rest. But of course, we had -- we have -- we have strong positions all over. But relatively, it's weaker South, West, and North

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

Okay, thanks so much for your time.

Operator

(Operator Instructions). Our next question comes from Phil Ross of Mediobanca. Please go ahead.

Q - Philip Ross {BIO 20618440 <GO>}

Hi, good morning. Two quick questions from me, please. Firstly, on the outside Norway profit target of NOK 750 million. Just wondered, if you've seen anything in Q4 which has made you more or less confident of meeting that? And then secondly quickly on the Volkswagen partnership. I just wondered if you can elaborate on what benefit do you think that partnership will give you, Hedge, that you don't already have perhaps? Thanks.

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

Volkswagen mobility group, it's the biggest car distributor in Norway. And I think they sell around 50,000 new cars a year and we will be part of the offering to the customers. So this -- we are really pleased about that partnership. We haven't -- we can't give any exact targets regarding how many of the customers will choose Gjensidige et cetera. But this is -- strengthen our distribution position when it comes to motor insurance in Norway.

Q - Philip Ross {BIO 20618440 <GO>}

Okay.

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

The first one, Jostein.

A - Jostein Amdal {BIO 19939645 <GO>}

-- [ph] not just in the fourth quarter, but as -- at the whole of 2019, I think, within a strong positive development towards NOK750 million. As a reminder, it's excluding M&A activities, and it is excluding round of gains or losses. And not the fourth quarter in isolation, but the development in 2019 as a total, that makes us at least as confident in that target as we were before.

Q - Philip Ross {BIO 20618440 <GO>}

Okay. Thank you, sir.

Operator

And as there are no further questions in the queue, I would like to turn the call back to our speakers for any additional or closing remarks.

A - Mitra Hagen Negrd

Thank you. We will be traveling on road shows as usual. Oslo today, London tomorrow, Copenhagen and the U.S. and Canada in February. Thank you very much for your attention everyone and goodbye.