Q2 2017 Earnings Call

Company Participants

- Helge Leiro Baastad, Chief Executive Officer
- Janne Merethe Flessum, Head of Investor Relations, M&A and Capital Management
- Jostein Amdal, Chief Financial Officer and Executive Vice President for Finance

Other Participants

- Iain Pearce, Analyst
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Paul De'Ath, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Gjensidige Second Quarter 2017 Results Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Janne Flessum, Head of IR. Please go ahead.

Janne Merethe Flessum {BIO 19368607 <GO>}

Good morning and welcome to this second quarter presentation for Gjensidige. My name is Janne Flessum and I'm the Head of Investor Relations, M&A and Capital Management. As always, we'll start by our CEO, Helge Leiro Baastad, running through the highlights for the quarter before our CFO, Jostein Amdal, runs you through the numbers in more detail. And of course, we will have plenty of time for Q&A at the end.

So, Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Good morning and welcome from me as well. Once again, we delivered solid results. We are very satisfied with our overall competitiveness and profitability level in Norway. While we still have some way to go in other markets, we are confident that we have the right measures in place to generate gradual improvement according to plan.

The profit before tax expense in the second quarter amounted to NOK 1.5 billion and the underwriting result was NOK 972 million, corresponding to a combined ratio of 83.3%. Premium growth was 5.2%. The loss ratio was 68%, positively affected by lower large losses than normally expected, and run-off gains in line with expectations.

The underlying frequency claims level was still very good in Norway, while the profitability level outside Norway continues to be subdued. Overall, the claims level was satisfactory in the quarter. We had continued good cost control, which is reflected in the cost ratio of 15.3%. The financial result was NOK 470 million, corresponding to a satisfactory return on financial assets of 0.9%. The annualized return on equity was 21.1%. Jostein will come back with more details on the figures afterwards.

Then turning to page 3 in the presentation. Operational excellence is key priority, and we prioritize profitability ahead of growth. In Norway, we continued to enjoy a combination of strong competitiveness and strong profitability. The Private segment saw premium growth of 3.7% in the quarter combined with continued strong profitability. As we have communicated before, we are increasing prices in motor insurance to compensate a higher expected claims inflation. So far, the development has been as expected but we monitor this on a daily basis.

On the right-hand side, you can see a few facts about the Norwegian private motor market. The share of privately-owned electric and hybrid cars is growing rapidly. At the end of 2016, 7% of cars in Norway were electric or hybrid. And so far this year, more than 50% of new registered cars are hybrid or electric. There was a shift in the claims pattern last year related to severe accidents and personal injuries which, in combination with increased inflation in material damages, reaffirms our belief in claims inflation of 3% to 4% in the short term. In the longer term, we still believe that inflation will decrease as cars and roads become safer.

Some interesting observation in our claims data are that we see up to 20% higher claims frequency for electric cars probably due to the fact that these cars are typically used to commute to and from cities during rush hours. We also see up to 20% higher average claims for such cars and hybrid cars.

Then moving to the Commercial segment. Premium development was flat in the Commercial segment in second quarter. Profitability was very good. This is very satisfactory given that the competition in the Commercial segment is still challenging. Together with the Pension company, the Bank continues to serve its strategic purpose and support the Norwegian general insurance customers.

The Bank delivered record strong growth in car financing this quarter, and is now the fifth largest player only four years after its launch. Car finance lending now represents NOK 4.9 billion of the lending book and has passed the consumer finance book as the second largest gross collect (05:27) by wide margin.

Growth in the Nordic segment was 19.5%. Underlying growth adjusted for currency and acquisitions was 4.6%, mainly driven by the Swedish portfolio. The underlying premium development in Denmark was slightly positive. In Denmark, insurance players have experienced the negative frequency claims development in the last quarters.

We have pricing measures in place to compensate for this, which we gradually feed into the P&L. We also see positive effects from new initiatives and partner agreements both in motor and property, but we experienced record high sales in the second quarter. Sweden and the Baltic both showed good premium growth and are on track to reach profitability according to plan.

We believe that ongoing digital development, we see around us will require changes in insurance companies IT system over time. It's our belief that insurance industry will operate on different platforms 5 years to 10 years from now and we want to be ahead of that development. We are currently evaluating our IT core system in order to be prepared.

We need to ensure that we are positioned to maintain our competitiveness and improve internal efficiency in the long run. We are aiming for HR (07:11) system that will enable us to quickly adapt to new technology and changes in products, markets and completely new ecosystems. We will conclude during first half-year in 2018 as regards both when and how we will invest, but we are confident that any investment will be within the limits of the financial targets.

Retain customers; it is important for us to focus on and further improve customer experiences. So if you move to page 4, we will provide important examples of initiatives that are driving customer loyalty in Gjensidige.

Retention level overall continued to be high. In the Private segment in Norway, 86% of the premiums come from loyalty or affinity customers and the retention is high. 92% in this group. Long-term partnership agreements are valuable for us as the individual members of the organizations normally have more products with us on average and stay for longer due to attractive customer offerings.

We have recently renewed our agreement with the Norwegian Hunting and Fishing Association which have 113,000 members. We have also signed a new agreement with the Norwegian Sea Rescue Society representing 120,000 members. These agreements enable us to contribute to damage and accident prevention, and ensure that our consumers are safe at sea. As such, it fits well with our corporate social responsibility efforts. Altogether, our partners in Norway represent as much as 1.4 million members.

Then moving to claims handling. Our travel claims handling process is now the fastest in the world. We are currently applying for the world record in Guinness World Records for handling a claim in only 1.6 seconds via our app. This is measured as the time from the claim is sent to us via our app until the consumer has been informed that the claim is settled and the compensation has been sent for payment.

In the background, several algorithms and modes (09:51) are run in milliseconds, for example, to check that the customer is covered by insurance, the probability of fraud, calculation of the amount, et cetera. In some, hundreds of parameters check and perform the claims handling both quickly and correctly. We know that the time it takes to settle a claim is the main driver of customer satisfaction when filing a claim and we are working to continuously improve all claims handling processes.

And finally, this year again, our general insurance customers in Norway received a customer dividend from the Gjensidige Foundation. The Foundation has distributed its part of the dividend to its members, our customers, for eight years in a row. NOK 2.1 billion has been distributed this year, corresponding to 14% of premiums paid in 2016. We know that 9 out of 10 customers are aware of this unique model and that 7 out of 10 customers say that (11:03) part of the reason for staying with us, which illustrates power it has as a retention tool. 40% of non-customers say that they are considering becoming customers because of this model.

And with that, I give the word to Jostein for more granular information on the figures.

Jostein Amdal {BIO 19939645 <GO>}

Overall, we delivered strong results in our Norwegian operations, while our international operations as a whole are loss-making. Measures are in place to gradually improve this and we are on track and in line with previous communication. We report a good underwriting result of NOK 972 million, a reduction of NOK 100 million from the second quarter last year.

The Retail Bank shows continued good development. Together with the Pension company, they contributed a total of NOK 145 million in the quarter. The investment portfolio contributed NOK 470 million compared to NOK 570 million in the second quarter 2016. The profit before tax thereby amounted to NOK 1.5 billion, down from NOK 1.7 billion last year. In the first half-year, the profit before tax was NOK 2.9 billion, down from NOK 3.3 billion. However, remember that there was a one-off of NOK 477 million in the first half of last year. Adjusted for this, the result for the year to date is on par with the result for the corresponding period last year.

Looking more closely at the development of the underwriting result on page 7. The left-hand chart illustrates the development of the underwriting result from the second quarter last year, which was very strong. Large losses were lower than in the second quarter of 2016 and below what is normally expected. However, due to one large fire affecting the Commercial segment, a reinstatement premium of NOK 55 million was recognized in the Corporate Center. This is included in the underwriting claims of NOK 173 million and not in large losses. Adjusted for the reinstatement, the underwriting claims was NOK 118 million.

The right-hand chart shows a positive development in Private Norway and in the Baltics, while the Commercial and Nordic segments contributed negatively to the development when they compare to the same quarter last year. Overall, the underwriting result in the quarter was solid.

Turn to page 8. We had premium growth of 5.2% in the quarter. Helge has already commented on the growth in a different segment. The negative development in the Corporate Center line is mainly due to the reinstatement premium and the Vardia reinsurance program, which has gradually been phased out over 12 months since takeover.

Turning to page 9. The loss ratio was 68%. The reported level is 3 percentage points higher than the corresponding quarter last year. Adjusted for changes in run-off, large losses and the reinstatement premium, the underlying loss ratio was 3.5 percentage points higher.

In Private Norway, motor and property insurance showed an increase in loss ratios, but the rest stayed at attractive levels. Leisure and accident and health showed a positive development in loss ratios. In the Commercial segment, accident and health insurance, marine/cargo insurance and motor insurance, in particular, show an increase in underlying loss ratios. That said, the profitability in the Commercial segment is still good for most products. And overall, profitability is very strong for our Norwegian general insurance operations.

The high loss ratio in the Nordic segment was mainly due to our continued less favorable underlying frequency claims development in the Commercial portfolio in Denmark. As previously commented, measures are in place to compensate for higher expected claims inflation in Denmark, given that better tariffs are in place and will continue to be implemented step by step. We are already seeing an improvement compared to Q1.

Sweden is on track to reach profitability according to plan, meaning that they expect to break even at the end of 2017 and be profitable for the full-year 2018. In the Baltics, the underlying frequency claims development improved, and the segment is on track to break even in 2017 and be profitable in 2018 as well.

On page 10, you can see that large losses amounted to NOK 143 million, which corresponds to 2.5 percentage points on the combined ratio. The level was lower than expected and in line with the corresponding quarter in 2016 when including the reinstatement premium. There were no weather-related large losses or events in the quarter.

Page 11 shows the run-off gains of NOK 246 million in the quarter, resulting in a positive effect of 4.2 percentage points on the combined ratio. This is about the same level as in the corresponding quarter last year and close to the communicated expected level. It's as before mainly related to motor TPL and workers' comp in Norway.

Looking at page 12. The cost ratio of 15.3% reflecting continued good cost control. The cost ratio excluding the Baltics was 14.4% in the quarter. The increase in nominal cost in Nordic segment is driven by acquired businesses. We are working on reducing the underlying costs to create room for strategic investments and keep overall costs at a low level. As Helge said earlier, we are evaluating our core IT system. Any investments in this are expected to be within the limits of our current cost ratio target. We'll come back with more information during the first half of 2018 when they have concluded our evaluation.

Turning to page 13. The investment portfolio of NOK 53 billion yielded a satisfactory return of 0.9% in the quarter. The match portfolio continues to make a stable contribution to the financial results with a return of 0.8%, which is slightly above the last few quarters. The portfolio amounted to NOK 35 billion. A large part of the match portfolio is the portfolio at amortized costs, which yielded a return of 1%. The running yield in this portfolio was 4.2% at the end of the quarter, and the average reinvestment rate so far this year has been 2.8%. Unrealized excess value amounted to approximately NOK 1.3 billion.

The free portfolio, which amounts to NOK 18 billion, yielded a return of 1% in the quarter. The positive result was mainly driven by good returns on convertible bonds, equities and property. This was partly offset by negative returns some tactical allocations. There has been some focus from the market on potential effects if we should see a jump (17:48) in the interest rates. In the appendix, we show (17:51) the sensitivities on the solvency margins which are limited.

Immediate effects on the P&L will be close to zero, at least to the current asset portfolio. There will be a negative effect from the reduced rally (18:03) of fixed-income instruments mark-to-market. This will be more or less balanced out by the positive effect from the net pension liability for own employees.

The longer-term effect on the investment returns and results in the Pension company are, of course, positive. And then competitive dynamics will determine how an interest rate increase really influence combined ratios going forward.

Page 14 shows some highlights from the Bank and Pension operations which are important retention tools in relation to our Norwegian general insurance customers. Gross lending in the Bank increased by 13.6% to NOK 44.3 billion. For the quarter, seasonal isolation, the increase was 3.2% or NOK 1.4 billion.

76% of the Bank's customers are shared customers with insurance measured by the lending volume. The lending volumes very strategically important to mortgage and car finance products are now close to NOK 36 billion and NOK 5 billion, respectively. While the lending volume in the non-strategic consumer finance portfolio is NOK 3.7 billion.

In car finance, the Bank has reported record strong growth in the quarter, as Helge has already mentioned. The Bank reported a pre-tax profit of NOK 122 million in the second quarter. Increase was driven by business growth and the increased net interest margin, which was partly offset by higher write-downs and losses, and lower gains on financial instruments. The annualized return on equity was 11.1%

The Pension company recorded a profit before tax expense of NOK 23 million, which is in line with the corresponding quarter last year. Assets under management in the Pension operations amounted to NOK 26.2 billion, reflecting growth of NOK 1.3 billion in the second quarter. And the annualized return on equity was 12%.

Last but not the least, looking at our capital position on page 15. The rating model is still the most binding perspective, with a capital surplus of NOK 1.4 billion at the end of the quarter, down from NOK 1.6 billion last quarter. Eligible capital changes as a result of several effects this quarter. Most importantly, retained earnings increased eligible capital, whereas, the purchase of Mølholm and growth in the Bank decreased it in the S&P perspective.

In the internal model and standard formula perspective, in addition, capital increases as a result of updated premium provisions. The capital requirement increases somewhat as a result of increased credit risk in the portfolio. It increases more in the internal model and standard formula perspective, due to the increased capital requirements of the Bank. And the capital requirements of the Bank increases due to growth and an increased Pillar 2 requirement, up from 1.0% to 1.5% of the risk-weighted assets.

The rating perspective, results in a solvency margin of 110%, and as mentioned, a strategic buffer of NOK 1.4 billion. This is a comfortable level for the strategy buffer given the purpose it is intended to serve. The solvency margin is 144% based on the standard formula and 171% based on the internal model. Both perspectives are adjusted for a formulaic dividend payout ratio of 70% of net profit.

To sum up, we have a solid capital position in all perspectives. We will continue to balance our capital structure in a disciplined way in order to support the target to return on equity while at the same time allowing us some leeway for further bolt-on acquisitions and stabilization of dividend.

And with that, I give the word back to Helge for some concluding remarks.

Helge Leiro Baastad {BIO 5865247 <GO>}

Okay. Then to sum up. Once again, we delivered a solid result, and our competitive position remains strong. We continue to prioritize profitability before growth. Solid measures are in place to improve profitability in Denmark, and in Nordic motor markets are monitored (22:06) particularly closely on a daily basis.

Sweden and the Baltics are on track to reach profitability according to the plan. We continue to invest in the future both regards to better customer offerings and efficiency in operations. We have a strong capital position, and we are committed to our financial targets going forward.

And with that, we open for the Q&A session. Thank you.

Janne Merethe Flessum {BIO 19368607 <GO>}

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

Q&A

Operator

Thank you. And now, we'll take our first question from Matti Ahokas from Danske Bank. Please go ahead. Your line is now open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good morning. One quick question. Can you confirm that you've increased motor prices in Denmark starting July? And how much would you say is the average increase that you have made?

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

Yeah. Regarding the prices, just to give you the comment on the profitability situation in the Nordic segment, so it's mainly driven by weaker development in Denmark. We have seen less favorable frequency claims development. And this is especially related to commercial property in Denmark. So, we have – just to take that first, we have pricing measures introduced regarding property, and we have also introduced more advanced tariffs.

When it comes to motor, we have also increased prices during second quarter. And we have also more sophisticated tariffs coming into the market during 2017. It's new tariffs on motor in – it's index-related increases with individual adjustments, and the index in 2017 was 1.8%, and we had increased prices more than that. And we have new renewal processes with intelligent price adjustments for customers as in Norway, and that's coming from 1st of May, so it's in the mid of second quarter.

The average price increases, I don't think we should give that number, but as you hear, it's indexed and additional price increases and more advanced tariffs from 1st of May 2017.

Q - Matti Ahokas {BIO 2037723 <GO>}

Very clear. Thanks a lot.

Operator

Thank you. And now, we'll take our next question from Paul De'Ath from RBC. Please go ahead. Your line is now open.

Q - Paul De'Ath

Yeah, hi. And thanks for this. And not very many questions from me. Firstly, just looking at the premium growth, I know your focus is on profitability rather than growth but the underlying premium growth is still quite strong in the quarter and pretty interested in what your thoughts would be on how that develops going forward?

And also related to that, I don't know if there's any sort of link to the last question actually. How much of the premium growth that you're seeing is increased due to pricing versus actually volume growth? Thanks.

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

Thank you, Paul. Our underlying claims in premium, if we were to take away currency effects and acquisitions, this is 1.4%. And I think that is not very high growth. What we see is very differentiated between the different segments and markets, and where we see that we have had actually a positive premium development mainly related to prices in Sweden especially on the Private side. We have also a very small underlying premium growth in Denmark. And then the Baltics we have a 4% underlying premium growth mainly also related to prices.

So, to sum up, I think 1.4% is not an untypical level and in the Scandinavian markets, the growth is mainly related to prices.

Q - Paul De'Ath

Okay. Thanks.

A - Operator

Just to add, going forward, I think the growth you will see from Gjensidige, besides maybe Sweden and the Baltics, will be related to price increases. And we had significant price increases in force in the other markets.

Thank you. And now, we'll take our next question from Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hello. Good morning. Thanks for taking my questions. Just a couple. So, firstly, I mean, on the claims inflation, pricing dynamic and I guess also the planned improvement and profitability in the international regions; I mean, when would you expect all of this to sort of combine and for us to see underlying loss ratio improvement? That would be my first question.

And secondly, could you update us on the competitive environment in Norway? We heard some interesting comments from Tryg earlier this week, suggesting churn in the market was about 19%. Do you agree with that and where would you put Gjensidige's churn? I guess, it's much lower than the market given you've got the customer dividends. I'll leave it there. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah, I'll start with the question about the improved loss ratios. As we stated, the loss ratios are at very good levels for the Norwegian than the insurance operations and the – whereas it's much less than what we want – the loss ratio is much higher than we want to be outside of Norway. We do expect improvements in the loss ratios going forward outside of Norway and really continuously going forward, but we do not expect to reach breakeven until the end of 2017 for Sweden and the Baltics. But I see mean, positive underwriting result or a combined ratio below 100%. And then for the whole of 2018, both those markets will have a combined ratio of under 100% through a combination of loss ratio and cost ratio improvements.

Where as in Norway, we are pricing now in line with the expected claims inflation for the big product, which means that we don't guide for any specific improvement in the loss ratio in the Norwegian market.

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

Maybe some word regarding competition in Norway and as I understood, you also asked some questions about churn in the market. Just to give you a comment on the Private segment in general first from Norway, the main competitors is actually the old one, is Tryg, (30:40) and it's also (30:40) . We do actually do – we do not see the small ones as that aggressive as we have communicated over some years, especially not DNB (30:54).

On the Commercial side, it's also the same; (31:01) again. On the municipality side, of course, it's KP (31:05) and Protector, and also regarding to life risk product, it's DNB and Protector.

It's generally fierce competition. As I commented, we have strong competitiveness and we have seen over time, an increased competition, especially within the Commercial segment in Norway. I think also that was commented by our competitor last week. The churn in the Norwegian market is stated to be 19% in – I think this source is from Tryg was (31:44) up from 14% over time. But I think – we are listening to that, and new questions are asked in this survey, and we do not think it's comparable. Our churn is 11%, and it's 8% for loyalty affinity customers, as I commented during my presentation, and it's stable. And you have to also take into consideration that we have 25% of the market. So, we have good statistics.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. That's great. Thank you.

Operator

Thank you. We will take our next question in the queue from Vinit Malhotra from Mediobanca. Please go ahead. Your line is now open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good morning. So, just two very quick ones, hopefully. The first one is on the motor inflation and the whole dynamic of electric cars. First of all, is it – I mean, this comment is new on this slide which usually has that explanation for frequency. Is it that you have a greater proportion of electric cars than other players in Norway? Would you think that is the case? And do you expect this to revert in the second half of the year because – I'm asking because by maintaining the guidance, there is sort of an implicit understanding that it was rather a very temporary quarterly blip, but I'm not very sure whether that is your expectation as well.

To that, a quick one on motor. On – I'm sorry – and a very quick one on the private equity; I thought this was linked to oil, and oil's had a disastrous run last few months. You've still made a gain. Could you comment a bit on that? Thank you.

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

I would take the first and maybe Jostein can comment the second one. No, in Norway, we have a special situation. It's packed incentives related to hybrid cars and electric cars. So, that's a special situation for Norway. So, we have relatively high penetration and that's total market figures. As I said, at the end of 2016, it was 7% hybrid and electrical cars and so far this year, as much as 50% of all new cars sold in the market is electric and hybrid.

We have our proportion of it, maybe less because we didn't price that aggressively; Tesla when it came into the market. Therefore we see, as we have commented, we see dynamics from 1% up to 3% to 4% claims inflation based on the fact that the last year saw severe motor TPL claims have slowed down in the positive development in combination with higher frequent related claims for small tickets. So that's the reason for our expectation of 3% to 4% claims inflation going forward. It's also based on 25% of the market.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, can I just ask, if there is – more than half of market new cars are electric or hybrid as per your slide.

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

Yeah.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Then is it fair that your proportion of the new cars of electric hybrid is similar to your market share or is it greater? That's my question really of your insurance...

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

Okay.

Q - Vinit Malhotra {BIO 16184491 <GO>}

...not the market.

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

My best guess is that our market share.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Is the market share?

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

That is my best guess.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Thank you.

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

And remember that the lifetime of a car in Norway is as much as 12 years I think and – 11 years. So, this takes time, but we actually see a combination, as I said, of a slowdown in TPL claims as from last year in combination with this upward trend. So, we think you should actually all the competitors also should see the same figures afterwards – after some time.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. Well, the second part of the question about our private equity investments. Just remember that the accounting principles there is that they use the net asset value as reported by the private equity funds, and there you see a lag in quarter and then they test the values in the balance sheet against kind of known mark-to-market events like the Oslo Stock Exchange and the MSCI World and so on. And – so that's the basis.

There were no such indicators that there were any troubles with the private equity portfolio in the second quarter. And also, remember, that our private equity's portion is kind of – is roughly it's half is the exports directly to (36:47) the oil sector and the other half is other, more non-oil sector related private equity investments. And these, the private equity funds that invest in the oil sector are, of course, not usually nothing oil, but the end (37:02) oil services and technology companies that are suppliers to the oil sector. So there is possible lag effect from oil price reaction to their results.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

Operator

Thank you. And now, we'll take a follow-up question from Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, sir. Thanks. Just a quick one on the IT systems. So, thanks for those comments. I know that you can't obviously give us too much in terms of the financials at this stage. It's too early. But I just wondered if you could explain a bit about your current IT spend and how – if you could quantify that?

And also if you could split out between how much of that is sort of maintenance i.e., keeping the lights on and how much is R&D? Thank you.

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

The run rate...

A - Jostein Amdal {BIO 19939645 <GO>}

Can I give investments on the – (38:04) IT investments but it's the current IT spend that's actually we don't have here, but I'll – we can provide that later, I think...

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay.

A - Jostein Amdal {BIO 19939645 <GO>}

... but we don't have the IT spend total. The current IT investments run at approximately NOK 200 million a year, approximately. This varies, of course, from year-to-year. And distributed between the – the improvements within claims management distribution and the internal processes, which we have shown the examples of today in various occasions over the last few quarters. That's the spend, Helge, would you like to...

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

Yeah. As I said, I think it's too early to be very concrete, but it's a combination of reasons for us looking into this. One is, of course, that we see lots of changes and more rapid changes. We expect maybe also related to both motor insurance and other policies that you will see more ecosystems and partnerships going forward. So, to actually secure that, we can be competitive on the Nordic basis with agile and very dynamic system. That's one reason. But of course, when we have looked into this, we see also after the investment period that we didn't have the ability to reduce the run rate of the IT costs as such going forward. So, but we are in the middle of the process now. So, and it's too early to be very concrete. We are expected to be done with – and it's important to once again say that we expect to be done within the financial target. So, this had no impact on the cost ratios and the financial targets if we go into investment periods.

Q - Jonny Urwin {BIO 17445508 <GO>}

But I guess you will capitalize a lot of it potentially on the balance sheet instead of charge it to the P&L?

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

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

Yeah.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thank you.

Operator

Thank you. And now, we'll take our next question from Iain Pierce from Berenberg. Please go ahead. Your line is now open.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, morning, everyone. Just a couple of quick questions on the Nordic segment. On the negative run-off gains that you've seen there, can you talk to us a bit where you've seen that negative development and if any of that related to some strengthening of the reserves in relation to the acquired body of portfolio? And also the body of portfolio contributing to the work loss ratio in that segment. Can you maybe give a bit detail on what the loss ratio was in that acquired segment so we can sort of have an idea of how much that's worsened and what the plans are in terms of any re-underwriting that's going on in that acquisition? Thanks.

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

Yeah. It is correct that the losses in the Nordic segment have been related to – at least partly or more than half to the acquired portfolio of Vardia. And we don't provide any specific numbers on the loss ratios of that portfolio or the Sweden as such. But on the commercial property side in Sweden, substantial re-underwriting has been going on and will continue to take place during 2017. And also pricing measures including improvements in tariffs and general price level have also been increased in Sweden. So, yeah, profitability is better in – much better in Denmark than in Sweden in that way.

Q - Iain Pearce {BIO 19522835 <GO>}

Okay. Perfect. Thank you.

Operator

Thank you. And we have no further questions over the telephone at this time.

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

Okay. Then we round it all up. Just reminding you of the road shows we are doing after summer. We're going to Stockholm, Amsterdam, Milan, Paris, Zurich, Geneva, Stavanger, and Bergen. And with that, have a real great summer. Thank you for participating.

Operator

Thank you. So, ladies and gentlemen, that will conclude the Gjensidige's second quarter 2017 results conference call. Thank you for your participation. You may now disconnect.