Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Alexander Evans
- Blair Thomson Stewart
- Daniel Kloud
- Hakon Hansen
- Jan Erik Gjerland
- Johan Strom
- Jonathan Denham
- Matti Ahokas

Presentation

Operator

Good day, and welcome to the Gjensidige Q1 2020 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.

Mitra Hagen Negard {BIO 3974076 <GO>}

Thank you very much. Good morning, everyone, and welcome to this first 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, 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 a Q&A at the end.

Helge, please?

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you very much, Mitra. Good morning, and welcome everyone. I hope you are healthy and well. These are extraordinary times for all of us with the world facing unprecedented challenges in the wake of COVID-19 pandemic. The situation is evolving rapidly, and although we have seen positive signs in some countries the true scale of the crisis is uncertain, and it is very difficult to predict when and how the world will pull through.

Our business has been impacted by the situation, although it is manageable. In this trying time, our top priority at the Gjensidige is the health and safety of our employees, customers, business partners and our other stakeholders.

We have implemented multiple precautionary measures, including transition to remote work from the majority of our employees, and highly stringent travel restrictions. We speed up our digital transformation enabling us to maintain high customer service levels, and we have maintained all critical business functions. I will return to status on our operations shortly, but first some comments on our first quarter results on Page 2.

We delivered a solid underwriting result offset by effects from the financial market turmoil. We generated a loss before tax income of NOK497 million. The loss was driven by the significant negative return of NOK1.5 billion on our investment portfolio. The COVID-19 pandemic caused a dramatic downturn in the financial markets towards the end of the first quarter with a broad based decline for most asset classes. The pandemic situation had a limited impact on the group's underwriting result for the first quarter, which came to a solid NOK1,058 million.

Premiums increased by 10.7%, reflecting strong renewals and effective pricing measures. The combined ratio was a healthy 83.9%. This is a very good level for a first quarter, primarily reflecting the strong premium development and favorable weather conditions.

The pandemic situation drove a significant increase in travel insurance claims, but this was offset by reinsurance coverages and lower motor claims during the lockdown. Large losses came in somewhat lower than expected and runoff gains were slightly higher than the planned releases. And our cost discipline remains strong. Jostein will revert with more detailed comments on the results for the quarter.

Then turning to Page 3, and a few comments on the latest update on our dividend. Our board has decided to withdraw our dividend proposal for 2019 in compliance with the regulatory stance clearly communicated in meetings with the FSA. This comes despite our very strong capital position. It is important to emphasize that our dividend policy remains unchanged, and the board's intention is to distribute dividends to shareholders as soon as the situation will allow for it. In-line with previous years practice, the board will seek authorization to distribute dividends late this year, giving us flexibility to address the question as soon as possible.

The Annual General Meeting is now scheduled for May 25, and will be organized in-line with necessary safety measures to safeguard health and contain the virus spread. Instead of physical presence our shareholders will be able to participate via our live webcast. Questions can be sent to us beforehand and we encourage our shareholders to use the possibility to vote before the meeting. The notice with all relevant details will be published and sent to shareholders shortly.

Then turning to Page 4. And a few words about how we see our role in supporting our societies in these trying times. For more than 200 years, Gjensidige has sought to create a sense of security for our customers by safeguarding life, health and assets in a sustainable way. We recognize our important role in the situation we are all facing.

Many of our customers have had their lives turned upside down, the pandemic has forced them to change the way of life and needs, at least for now. We recognize the need for flexibility and good advice. In order to meet these new circumstances we have stepped up our advisory role in the dialogue with our customers helping them assess and adjust coverages to the new situation.

The situation has changed customer's digital behavior with a significant increase in online reporting of travel claims in motors and search in the use of online doctor and vet services. We have extended our online vet service to include our agriculture customers contributing to better livestock, health as well as providing a practical solution to the limitations caused by the ongoing virus pandemic.

Catering to this important sector, we recently invested in the tech company MIMIRO, which develops a digital ecosystem for the agricultural sector. This will improve our understanding of risks and sharing of data among farmers with the aim of improving the efficiency and sustainability of food-production in the Norwegian agricultural sector. As market leader, it's important for Gjensidige to continuously develop even more relevant production -- products to support damage prevention.

Digital interaction requires precautionary measures too. We have recently entered into agreement with KeepItSafe, which complements our cyber insurance offering to customers by providing backup solutions. We know many people experience a sustainable pressure these days, both mentally and financially. To help them in the situation, we have established a service in the cooperation with SOS International, offering psychosocial counseling from trained nurses. This service also provides advice on available government support to all our private customers.

And we are in the process of establishing a project to help people in need. In particular we will look closer at how we can help adolescents in a situation where social isolation reinforces loneliness and challenges related to mental health. Gjensidige has granted NOK25 million to the project, and we are in dialogue with a potential partner to join in and promote this important contribution to our society together with us.

Turning then to Page 5. I would like to elaborate on our solid operations. As mentioned, we had put in action an effective response to the situation. The majority of our employees across the group are now working from home. Thanks to our employees' strong dedication and capability of a solid IT infrastructure, and a collective effort to accelerate the digitalization. We have managed a smooth transition to a highly digital business in a very short time. We have secured all critical functions and been there for our customers with full capacity through these difficult times.

Accessibility has been high, enabling handling of a large number of customers inquires with a low response time. We have had almost 50% higher daily chat volumes How? With the same good accessibility as normal, and 95% of all customers calling us have got a response with 60 seconds, despite a high share of our customers' handlers working from home.

As mentioned earlier, the COVID-19 situation has so far had a limited impact on our non-life business. We have seen higher travel insurance claims related to cancellations and helping customers abroad. This has to some extent been offset by somewhat lower motor claims. We expect to see further impact on claims as the year proceeds although, we expect this to be manageable. However, a long-lasting or comprehensive development of the pandemic situation can have a significant negative effect on economic growth and in turn impact insurance volumes.

Turning back to the quarter, I'm very pleased, that we have managed to maintain our solid market position in Norway. We have put through necessary price increases both in the private and commercial segments. Volumes in the private segment has stabilized at a good level. And the fact that our retention rate in the private segment has remained at a high level is a strong vote of confidence from our customers.

The strong development in our commercial segment contributed in the first quarter with strong renewals and portfolio growth. The retention rate remained at a solid 92%. We see further need for price increases and we will continue to address the relevant segments particularly large corporates.

Our operations outside Norway continue to progress. The pandemic can have an impact on premium growth outside Norway as well. However, we believe we have a strengthened base to meet this, and we will continue to focus on cost efficiency and improving customer experiences and loyalty.

And with that, I will leave the word to Jostein to present the Q1 results in more detail. Thank you.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody.

I'll start on Page 7. We delivered a loss before tax of NOK497 million in the first quarter. The solid underwriting result just north of NOK1 billion is significantly up from the same quarter of last year. The Private, Commercial and Danish segments drove this improvement, thanks to the effective pricing measures, as well as very strong renewals and portfolio growth for the two latter segments.

As Helge mentioned, the COVID-19 pandemic has had a limited impact on the group's underwriting result. Claims related to travel insurance increased significantly, but reinsurance coverage limited net claims incurred to NOK91 million, of which NOK60 million is recognized in the corporate center. Lower motor claims, due to the favorable weather conditions and less driving during the latter part of the quarter, had a positive impact on claims in the private segment.

The Swedish and Baltic segments delivered higher results than last year, when excluding runoffs. Profit from our pension business was lower than last year, driven by lower financial income due to the financial turmoil and higher operating expenses. Our investment portfolio was significantly hit by the financial turmoil in the wake of the pandemic. We had negative result of NOK1.5 billion.

Turning to Page 8. Earned premiums were up 10.7% or 8.8% adjusted for currency effects. In the private segment earned premiums rose by almost 7% mainly due to price increases for motor and property insurance. The increase was 6.5% when adjusting for the transfer of a product insurance portfolio to the Danish segment. Our competitiveness remained strong through the quarter.

Earned premiums for the commercial segment rose almost 9%. Thanks to effective pricing measures, solid renewals and portfolio growth. All the main product lines recorded higher earned premiums. We will continue the price increases to at least reflect expected claims inflation but in a differentiated way, so that for some customers and segments, the price increases will be higher.

Earned premiums in Denmark were up 12.5% in local currency. Adjusted for the discontinuation of a quota share reinsurance contract as well as a product portfolio moved from Private to the Danish segment, the underlying growth in local currency was 7.9%. The strong development came as a result of a very strong January renewal in addition to new business. Going forward, we expect growth in-line with the rest of the market.

Earned premiums for our Swedish operation were up 1.7% in local currency. Reflecting effective price increases in the commercial portfolio, partly offset by a decrease in the private portfolio. We will continue increasing prices in Sweden too, particularly in the commercial space.

For the Baltics, we report a premium increase of 3.5% in local currency. Reflect the volume growth in the motor and accident and health insurance lines. This was offset by somewhat lower prices as a result of fierce competition, particularly for motor. Our long-lasting or comprehensive development of the pandemic situation can have a significant negative impact -- effect on economic growth and in turn impact the insurance volumes. However, we do not expect any substantial impact on claims in such a scenario.

Turning over to Page 9. We generated a loss ratio at 68.9% for the first quarter, down 2.8 percentage points compared with the first quarter of 2019. The underlying frequency loss ratio improved by a solid 6.4%, primarily driven by higher premiums following strong renewals and effective pricing measures across the group.

I'm particularly pleased with the development in Norway and Denmark, with a very promising January renewal process and growth in the commercial portfolios. The Private segment in Norway also performed very well, implementing necessary pricing measures particularly for motor and property segments without shedding volumes. Motor claims in private developed favorably during the quarter, due to more favorable weather conditions in Norway and less driving during the latter part of the quarter.

The underlying frequency loss ratio in Sweden was somewhat higher in the first quarter, driven by the private portfolio. Partly offset by effective pricing measures for motor and property in the commercial portfolio. The underlying frequency in loss ratio in the Baltics improved, mainly due to favorable weather conditions compared to the first quarter of last year. The COVID-19 related travel insurance claims of NOK91 million is regarded as a one event and included in large losses, which although lower than expected, were in total somewhat higher than the same quarter of last year. Runoff gains were somewhat lower than last year, although a tad higher than the planned release.

Let's turn to Page 10. We recorded NOK989 million in operating expenses in the quarter, corresponding to cost ratio of 15%, and 14.3% excluding the Baltics. The cost ratio of our combined Norwegian operations was broadly in-line with the same quarter of last year, reflecting continued cost discipline as well as necessary measures to enhance future profitability. The developments outside Norway moves more in leaps and bounds as a consequence of ongoing efficiency measures and the size of the portfolios.

Denmark reported a relatively stable cost ratio. However, in nominal terms, the operating expenses were up. The main drivers were the depreciation of Norwegian Krone, lower commissions under discontinued quota share reinsurance program and impairment of receivables.

Sweden and the Baltics reported lower expense ratios compared with the first quarter of 2019 and also lower costs when measured in local currency. We'll continue our focus on simplification of processes, automation of internal operations and further digitization. And we expect further efficiency gains from our efforts, particularly in Sweden and the Baltics.

In general, we expect that the lessons we've drawn off from adapting to the pandemic situation will increase the speed of change towards more digitization and automation to the benefit of our customers and our business.

A few comments on our Pension operation on Slide 11. The pretax profit came to NOK36 million, down from the same quarter last year, due to lower net financial income and higher operating expenses. Annualized return on equity came to 11.7%. The decline was due to lower financial returns following the market turbulence, non-recurring gains from divestments last year and higher operating expenses. And other management income rose year-on-year, the growth was somewhat subdued due to a decrease in assets under management towards the end of the quarter.

Operating expenses increased due to a shortened depreciation time frame for IT investments and higher head counts in response to the growth in business volume. Our pension operations managed NOK33.5 billion in assets at the end of the quarter, this was down approximately NOK4 billion from year-end 2019, due to the loss of one large account and a negative development in the financial markets. The ratio of shared customers with our general insurance business is high. As of the end of the first quarter, 68% of the customers in our Pension business were general insurance customers as well.

Moving on to the investment portfolio on Page 12. The COVID-19 pandemic caused a significant downturn in the financial markets towards the end of the first quarter, with a broad-based decline for most asset classes. Leading stock indices had a sharp decline, and interest rates declined while credit spreads widened significantly. Despite significant portfolio de-risking our investments took a hit with a negative result of NOK1.5 billion or minus 2.5% for the quarter. At the end of the quarter, the total investment portfolio amounted to NOK61.9 billion.

The match portfolio yield a return of minus 1% on the portfolio of NOK36 billion. Bonds at amortized cost performed relatively well, with positive return of 1%. This portfolio is running yield at the end of the quarter, and the investment grade for the quarter was 3.5%. Unrealized excess values amounted to approximately NOK0.5 billion.

The free portfolio yielded a negative return of 4.6% in the quarter, driven by weak equity markets and credit spread widening. At the end of the quarter, the portfolio amounted to approximately NOK26 billion. All asset classes, except for property and money market were down during the quarter.

We are prepared for further market turbulence for quite some time, and although we cannot avoid the impact, we have as mentioned made significant changes to our portfolio during the quarter to mitigate the effects from the market turmoil. We have a solid fixed income portfolio with a large majority having an investment grade rating, and we have a good share of property investments mainly in CBD offices.

Looking at the capital position on Page 13. Our capital position is extremely strong, with a solvency ratio of 269% at the end of the quarter. This is far above the upper end of our target range of 150% to 200%, which is what we deem necessary to run the business with a sufficient buffer for volatility above the regulatory capital requirement. This combined with the result year-to-date in price that we don't expect to meet our above 20% target on the return on equity for 2020.

As you can see from the chart here, if we had maintained a dividend proposal of NOK7.25 per share the solvency margin would have been 233%. And if we have maintained the initial dividend proposal made by the board back in January, the margin as of now would have been at 207%. As Helge said, our dividend policy remains unchanged, and it is our boards' intention to distribute dividends to shareholders as soon as the situation will allow for it.

Turning to Page 14, the increase in solvency margin from the end of 2019 is mainly driven by changes in the proposed dividend for 2019. If you adjusted for the changes in dividend, the solvency margin is flat from last quarter. This results from a combination of negative investment results and de-risking the asset side during the quarter. The solvency margin based on our own partial internal model was 331%.

Solvency II earnings and return in the free portfolio generated a loss of NOK1.3 billion, which is less than the accounting loss of NOK0.5 billion. The difference is mainly driven by lower interest rates, which results in higher technical operations both for general insurance and life insurance business.

In addition, the planned runoff results had a positive effect in accounting figures but no effect on the Solvency II earnings. The capital requirement decreased from the last quarter. This is mainly driven by the de risking of the investment portfolio, which reduced the market risk significantly. Although it is partly counteracted by underwriting risk, which increased as a result of growth and changes in currency rate. Note that the solvency margin for the life company Gjensidige Pensjonsforsikring also is very satisfactory with a solvency margin of 152%. This is up from 140% at the year-end 2019. Lower interest rates and lower market value for the unit linked portfolio contributed negatively, while the reinsurance agreement for lapse risk contributed positively.

Finally, a few words on the latest development of our operational targets on Slide 15. We can report good progress despite the majority of our employees working from home now-a-days. We are proud to say that our customers are well taken care of, and that our critical systems have been fully functional during the extraordinary circumstances we have witnessed the past weeks.

Customer satisfaction remains very high, and we have moved up a percentage point in customer retention in Norway, after a very strong January renewal across the group. Sales effectiveness has risen further this quarter, currently at 8.9% compared with our baseline year 2017, mainly driven by higher sales in Norway. The share of automated tariffs continues to increase, thanks to the latest inclusion of tariffs on dogs, cabins and commercial cars. We stand at around 45% currently and we'll continue to include more product lines going forward.

On the claims handling side, we saw an increase in both digital claims reporting and in the share of claims handled fully automatically. As an example, I would like to mention that 96% of reported travel claims in March were made digitally. We continue to develop these digital services further and we're well on track to deliver on both targets. We have also reduced claims cost further and are half way through to reaching our target of reducing it by NOK500 million in 2022. And in terms of our CO2 intensity, we established a starting point for measuring CO2 equivalents in 2019 based on our model for estimating consumption of materials in motor and property claims.

Our carbon intensity was 1.7 tons CO2 equivalents per million NOK in the earned premiums. The biggest climate footprint in our claims process is driven by motor insurance. We will continue to develop our models from consumption materials and use these climate accounts to continue working on selecting materials that help to reduce the carbon footprint of our claims processes.

I will then hand the word back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Yes. To sum up on Page 16, we have delivered strong underwriting results in a challenging environment. Our investments are naturally prone to market fluctuations. However, with the measures we have taken and the high quality of our assets, we are on a strong footing to meet any future turmoil.

The pandemic is far from over, and we will have to learn to live with it for a while. Perhaps it will change the way the world does business for good. Our organization has proved capable to deal with the uncertainty and turn around quickly. We will make sure to take the key learnings with us. The fast-track digitalization and our collective efforts to find solutions in a challenging environment will continue post COVID.

Our operational platform is solid and together with our very solid capital position, I'm convinced that we are in a very good position to cope with the future. We remain firmly committed to exert strong capital discipline and will address the question on dividends as soon as the possible arises. Our financial targets remain unchanged. Given the negative return on the investment portfolio for the first quarter of 2020, and the solvency ratio being significantly above what is needed to support our business. The Group's return on equity target is not expected to be achieved for 2020 fiscal year. We remain committed to supporting our employees, customers, partners and society at large during this uncertain and challenging time.

We will now have a short break before we open up for Q&A session. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you, sir. (Operator Instructions) We will now take our first question from Jonathan Denham from Morgan Stanley. Please go ahead.

Q - Jonathan Denham {BIO 19972914 <GO>}

Good morning. Thank you very much for taking my question. I missed some of the presentation as the phone connection is quite bad. So, I apologies if you've already addressed this. And first just wondering what the magnitude of the reduction in motor claims in Norway was for say in the last week of March? And then just wondering what your expectation is for future net travel claims? So what's happening in 2Q and so maybe you could tell me on how your reinsurance is structured there? Thank you.

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

The combination of a benign weather situation and the reduced activity due to the measures to contain the pandemic together has of course reduced the motor claims. I don't have a specific number for how much is related to each of these, and it's a bit hard actually to come up with that. Going forward, we do see that the motor traffic is of course reduced and this will help us to affect on the claims situation for motor since most people are working from home. I don't have a specific number for that.

We do expect that travel claims will increase, that we have seen less than half of the travel claims related to the situation, but without giving a specific number of that. The reinsurance is constructed so that within a certain time period there is a retention that will -- everything about that, the retention level is taken care of by the re insurers. And as you talked about in the first quarter. The last two weeks of March were way above this retention levels, so we had a positive -- quite substantial positive effect of reinsurance in the first quarter.

Q - Jonathan Denham {BIO 19972914 <GO>}

Thank you.

Operator

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

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good morning. It's Matti Ahokas from Danske Bank. Three questions, please. Firstly, always the line was pretty bad, but I -- if you can confirm, Helge that you mentioned that you intend or you are still looking to pay the 2019 dividend late this year, if I heard you correctly. The second question is if you could a bit elaborate more on the Danish situation, obviously helped by currencies, but extremely kind of strong results and a kind of step-up even with some of the kind of intangible write downs. So is this the kind of level we should be looking forward, going forward? Or is there something special on this front?

And then a technical question, if the solvency margin was too benign now, how much was the kind of comparable solvency margin at the end of the year, so in Q4? I didn't have time to do the math, but that would be very helpful to know how much was the impact of the market turmoil on the solvency margin? Thanks.

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

Good morning, Matti. Jostein will handle question two and three. When it comes to dividend, I think, I said, something like this that we in line with previous years' practice. The Board will seek authorization to distribute dividends later this year. And it's important to emphasize that our dividend policy remains unchanged, and it's absolutely Board's intention to distribute dividend to shareholders as soon as possible and later this year. So yes, first question.

A - Jostein Amdal {BIO 19939645 <GO>}

For the question regarding Denmark, I think we obviously had a very good renewal at this January 1st, which is a large renewal date also in the Danish market. And leading to, I would say, an above expected growth in the portfolio. So going forward, we do expect to grow in line with the market. This also points back to the profitability situation is now quite okay and in line with kind of where we expected that it should be. So you couldn't -- you can't extrapolate the growth but you could approximately extrapolate the profitability situation. Solvency at the year-end, if we had taken out the dividend, so it comparable to the 269% would have been 265%, so a slight increase due to a lower -- yes, so that's in a way fairly flat.

Q - Matti Ahokas {BIO 2037723 <GO>}

And what was the reason for the solvency margin increase the equity stress? Or how come it was up?

A - Jostein Amdal {BIO 19939645 <GO>}

Since it's the margin, it depends on the movements both in the denominator and the numerator and the -- so it's -- for practical purposes, it's flat. If we've taken out the NOK12.25 per share as we initially proposed it would have been 207% at both points in time. So it's about how the denominator moves as well there.

As we said the development in solvency capital is two-fold. One is of course that we have a solvency to earnings loss, mainly due to the -- or only due to the investment side. And but on the other hand, a reduction in the capital requirement mainly from the de risking of the asset side. Those two factors are the main drivers for the movements. But the net effect is a fairly flat development in solvency margin.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks, Jostein.

Operator

We will now take our next question from Blair Stewart from Bank of America. Please go ahead.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

Thank you. Good morning. I've got three questions. Helge, could you perhaps comment based on your discussions with the regulator of what conditions need to be in place for the dividend to be paid later in the year? What are we looking at? Is it financial market? Is it social conditions? or what is it?

Secondly, you said that you can't quantify or you don't have a specific number for the reduction in motor frequency, but I'm assuming it's significant, and that will also go into Q2. Would you consider giving some of that back to the policy holders as we're starting to see some other companies giving premium rebates, so as not to profit from this situation. And thirdly, and could you perhaps give me and apologies if you've given this, but could you give the gross and net travel costs? So we can try and assess the impact of the reinsurance. Thank you.

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

Good morning, Blair. Yes, it's right. We had -- we have had discussions with regulator. And in that discussions, they have been -- it has been during the period until now. They have been -- they think this is early. It's uncertain times and they can see different kind of scenarios going forward. And they refer to EIOPA and themselves. And it's important for them that all financial institutions are following this signal to postpone the dividend. But of course, they see our strong position, solvency position, and of course, they also see that we are in a completely different situation compared to banks.

But I think for them it has been important that all the financial institutions and in Norway, Gjensidige is a major financial institutions are following the signals, both from Europe and local FSA at the moment. But they also said that this doesn't mean that it would be possible to payout dividend later this year. So, they are in line with what we have been communicating today actually, but I think it's too early, and they are -- they really stressed the point that they expect all the financial institutions to follow at the moment.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

Can I just ask before we go into the other question, Helge? Do you think that stance is damaging to the industry, given that you've got a strong solvency and I think there was 10 years of work went into the solvency II regime, your ratio is sitting 2 or even 3 times higher than the minimum level what relevance does that have if as soon as something bad happens, I don't wish to trivialize the conditions, the regulator step in and just tell everyone they can't pay a dividend. Is that damaging?

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

Let me comment that in this way. We -- from a company point of view, we really think we are in a very strong position. And if it's isolated from the Gjensidige point of view, it would have been absolutely right to payout dividend now. But as you know and you have seen both European regulator and national regulators all over Europe, they have more or less have the same attitude to when it comes to dividends. More strongly communicated when it's about regarding banks, but also when it comes to non-life and life. So and as you know we are a very large institution in Norway. So we think it's smart and right to follow that stance from the regulator. But I don't think I will -- it's a unique situation actually. So I think I will say that this is a unique situation. We have seen the same attitude from regulators all over Europe, and we will follow that as a large institution and large brand name in Norway.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

Understood. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. And the second question about -- as already answered, we're not disclosing the exact effect of the motor claims and it would actually be much of a theoretical exercise to distinguish the effects from various quarters, including the good weather situation and the low winter-related claims in the first quarter from other effects. And as already mentioned, we do believe that there will be a positive effect on the claims development going forward on the private cars, but we're not disclosing any specific numbers on that one.

There hasn't been a debate in Norway regarding whether this would lead to premium rebates, but we do in our conversations with the customers, advise them to both the possibility of reducing the mileage that they pay for, which is a possibility which is of course will reduce premiums going forward, but nothing backdated so that they would get premiums back from what has actually already happened.

The gross travel claims, sorry, we don't disclose single events or claims like that. You will get an indication from the income statement survey on a total level disclosed reinsurers' share of the claims in the accounts, if you look at the income statement for the parent company.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

Okay. Thank you very much.

Operator

We will now take our next question from Johan Strom from Carnegie. Please go ahead.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you. Quick question on the interruption situation. Do you have any business interruption coverage? Is this a standalone product that you're offering? I think in general, is this something that could drive up future claims? And if you have this, what are the dynamics that could trade good claims for this? That is my first question.

And secondly, going back to the comments on the solvency ratio and the increase of the capital position. If I look at Slide number 14, did I understand this correct that the de-risking of the investment portfolio reduced SCR by about NOK1 billion? And if that was the case, when did you start to de-risk the portfolio? Thank you.

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

We do not have any business interruption coverage covering this situation Johan. So that's not the issue actually.

A - Jostein Amdal {BIO 19939645 <GO>}

Business interruption claims are related to physical damage, not pandemics. So it could be an increase in the cost of the business interruption, if it somehow delays fixing the situation, but it needs to be triggered by a physical event.

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

Like a fire or something.

Q - Johan Strom {BIO 17541253 <GO>}

Okay. But there is nothing that -- Okay. Thank you. But there is nothing that covers the losses of income from a business disrupted by the pandemic, right?

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

No.

Q - Johan Strom {BIO 17541253 <GO>}

And on the SCR, I think NOK1 billion lower from derisking of the portfolio.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll try to find the figure, as we talk, I think we have it in the appendix of the presentation. There is -- if you look at the capital requirement per risk fact in the appendix, I think it's -- yes, 35. You see that the capital charge -- I don't have this comparison with the last quarter. But it is somewhat less than NOK1 billion, if I remember correctly from -- market risk has gone down, but there are, of course combination effect. The balance sheet is somewhat larger, and then the de-risked move from equities and credit towards more of a fixed income with low credit charges in the portfolio. We did the de risking during the quarter, without being more specific than that.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you, Jostein, and Helge Leiro.

Operator

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

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

Good Morning. Jan Gjerland from ABG. I have some couple of questions. The first one relate to the private portfolio. You said, you moved some portfolio from Norway to Denmark. Could you elaborate on how that has moved to the profitability between those two portfolios or divisions during the quarter? And have you restated your previously numbers? Or is it just these numbers that we should look at?

Secondly, the dividend postponement. Does that hit your customer dividend? Or is the Gjensidige just prepared to pay-out the 12% to 14% premium discount to the customers is bringing us normal? And finally, you say this is a physical event that need to be triggered, but this is (inaudible) is physical, but they secure and their employees or the customers and what of course the buildings and equipment. So is it so that its only equipments and buildings that is sort of insured and not the thought of a business interruptions? Just to understand that a little bit better? Thank you.

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

I can start with the dividend question, and then Jostein will follow-up. The postpone of the ordinary dividend, I would say it in this way. The Gjensidige Foundation is as eager as we are to payout customer dividend. So ordinary dividend will then contribute and give customer dividend, and really hope that we can pay this dividend later this year. And the foundation is as eager as we are.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. Then --

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

So they don't have cash to support it so to speak, so you didn't mean the dividend, the NOK 7 dividend to payout this -- back to the customers?

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

No. As you know, it's fully distributed, ordinary dividend is fully distributed to the customers in Norway. So when we -- when the Board decides to payout ordinary dividends, the Foundation will then payout that dividend to their customer -- to their members which is customer dividends. So it's --

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

Okay. Should they need to wait for the ordinary dividends.

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

Yeah, Jan Erik, they will do that.

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

Okay. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. The bit technical question on the movement of our portfolio, it's a rather small portfolio of product related insurance which we're handling one agreement in Norway, although it was partly Danish business and partly Norwegian business. Last year we split that so the Danish part of it is now recorded in the Danish segment. And the comparable figures are not changed, so it's just that this year's figures are changed that's why we need to give an explanation of how the growth would have been if it had been like this last year as well, it had an effect of 0.4%. I think it was on the private growth.

It is a special situation was that due to adjustment premiums that small portfolio had a negative premium in the first quarter of 2019. So it has a bit an obvious effect on the growth figures. I'm sure it's very technical.

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

So negative growth in '19 and then positive now in '20?

A - Jostein Amdal {BIO 19939645 <GO>}

Negative premium in '19, the adjustment premiums, that's why the growth figure is a bit strange.

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

Okay.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

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

Could you then explain very strong profitability growth in Denmark than relative more since this portfolio continue to have that kind of magnitude?

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. I think, we -- if you look at the local currency growth figures, I think they were around 12%, 12.5%. But if you take out the main reason is of course that discontinuation of a quota share reinsurance agreement. A quota share reinsurance typically carries with it a reinsurance premium provision, which is a negative cost to us. And when that quota share reinsurance agreement is terminated, it was there in 2019, but not this year, then the costs go up. So that's the main reason. And if you also adjust for the small portfolio we talked about, it's 7.9% underlying growth in Denmark, which is still quite good.

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

So the closed quota share in Denmark has been taken down, because you're now more certain about the risks. So how should we treat it going into 2020 and so this has done an impact on the whole of 2020 for Denmark?

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

It was discontinued in the second half of 2019. So, it will not have the full-year effect.

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

Okay.

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

Yeah. But it will have still some effect.

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

Okay. So just first half.

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

Yeah. Then you had a question about business interruption.

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

The fact it's physical or even though it's a (inaudible) human beings have not been sort of -- and it stays on for a while on the physical participants as well. So could you be sued in court not to give any interruption insurance because it does not interrupt any physical events, but it has, to some extent.

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

I guess we could be sued for anything but our interpretation of our terms is crystal clear. Pandemics is specifically excluded from a business interruption coverage in Norway. So it's has to be that there is a fire which leads to a business interruption loss. And the only effect of the pandemic would then be that the length of the -- of getting operations started again somehow were affected by the pandemic situation, but there will be no business interruption of directly related to the pandemic.

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

So it just continue for year that just said it was per year. We just talk, how large part of that would be in your business? It was just be for commercials and it was just be a portion of the commercial business that will be affected on this claims?

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

I would say that added Jan Erik that also our business interruption policies are usually dated, so it's not forever.

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

Okay.

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

There is a specific time period and after that it's not covered.

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

Thank you very much for your answers.

Operator

We will take our next question from Hakon Hansen from DNB Markets. Please go ahead.

Q - Hakon Hansen {BIO 20643844 <GO>}

Hi, good morning. One question from me as well on dividend. So do you need an official all clear from the FSA in order to payout the dividend for 2019, or just given, for instance, that the situation improves but the stance from FSA is does not change can it be a possible for you to challenge that decision? Or do you think you've some more to challenge FSA's current stance?

A - Jostein Amdal {BIO 19939645 <GO>}

I think, as Helge mentioned, I mean, this is the decision to withdraw the dividend at this point of time is purely related to kind of overall societal issues and discussions with the regulator, they're not regulator. There is nothing in our business or forecast or anything that should pose any threat to the dividend. Usually, so that if you pay less than 100% of the annual results as dividends, there is no need to apply to the FSA. But the FSA has always the opportunity to go in and somehow overthrow the dividend decision afterwards. But there needs to be some reason -- specific reason for it. Yeah. I think I'll stop there.

Q - Hakon Hansen {BIO 20643844 <GO>}

Perfect. Thank you. And just a quick follow-up question. So in the past, you all have a very meaningful capital to pursue M&A opportunities. Given the current say uncertain situation with financial turmoil et cetera, could it be more interesting for you to have a big M&A buffer now as well because interesting opportunities may arise, et cetera?

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

No, Hakon. I think I said that earlier when we were together, the strategy is unchanged. The dividend policy is unchanged, our M&A appetite is unchanged. So we are in a unique situation now. So we are not planning for more, I would say, M&A appetite versus last year, something can arise. Of course, in the marketplace, it could be some stressful situations and we have been very strong previously and we are strong now and we can act upon of the possibilities. But we do not discuss M&A and fire power in connection with our discussions these days. We want to pay out dividend according to our dividend policy as soon as possible and we will do that.

Q - Hakon Hansen {BIO 20643844 <GO>}

Thank you. Very clear.

Operator

We will now take our next question from Daniel Kloud from Citi. Please go ahead.

Q - Daniel Kloud

Good morning, everyone. Just going back to the dividends. I mean, hypothetically assuming that the withdrawn dividend today is postponed completely for this year. Is there still a possibility for it to be paid out next year along with the 2020 dividend or are there any constraints there?

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

I'm still hope to pay it out and intend to pay it out this year, but if that somehow were prohibited which I guess would have to be something related to the regulatory authorities and not our own business. Then of course next year's dividend decision will be based on the capital situation and the regulatory stance next year. I don't know if I can be more precise than that. As I've already mentioned there is regulation that if you pay out more than annual result, then that needs to be applied for, but the criteria term to evaluate that application against would be still the solvency situation now and going forward.

Q - Daniel Kloud

Okay. Thank you. And my next question is just on the coronavirus impact, so I think there was a few discussion around the motor claims today, but could you maybe give a bit of color in terms of what you're seeing in other key lines, so maybe perhaps in like property and accident? I mean, I appreciate that you don't go into the numbers, but maybe some flavor of what you're seeing there?

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

Yeah. I think, there is a very limited effect on other -- of the business lines, and small positive effect in accident and health, but that's not to a large extent. It's related to that operations might be postponed on some because of kind of reserving capacity in the health system for COVID related diseases, but otherwise, you don't see any not a large -- not a significant effect, even, I would say on other lines of business.

A - Jostein Amdal {BIO 19939645 <GO>}

I think, in general, this situation started mid-March and we are still in the situation with partly lockdown of the society both in Norway and Denmark. And lockdown and partly lockdown and as long as we are under a regime with national advice from the national authorities, it will affect the speed, dynamic and claims frequency in the society in one way or another. It'll be limited related to property, more related to motor and personal lines.

Q - Daniel Kloud

And could you maybe also talk a bit about the business interruption coverage that you have in Denmark and Sweden?

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

Yeah. Denmark has same situation as in Norway. It's -- and Sweden is -- I mean our portfolio is really very small there. So it's not much -- it's a similar situation as in Norway really. Yes. I don't (Multiple Speakers)

Q - Daniel Kloud

Thank you. Just one last question, please. So it seems that key element of the growth we've seen today, is the pricing measures that you have implemented across the region especially in commercial lines. So I'm just keen to get your thoughts on pushing through with the same intensity of price increases in the face of recession. I would imagine there'll be some kind of resistance or perhaps change in the attitudes of acceptance which maybe share a few thoughts on that. Thank you.

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

So I think, I mean, in the commercial side, more or less 40% of the book had their annual renewal in January 1st. So that's kind of behind us. Next kind of above average renewal is July 1st. We tend to price on average, I guess, in line with expected claims inflation. So if the situation reduces expected claims inflation, that will also probably affect our pricing as well. And the second factor is of course the competitive situation where somehow someone will use this opportunity. If you can call that to reduce prices, to increase market share, I don't have -- we haven't seen any signals that that could happen, but there's always the possibility.

Q - Daniel Kloud

Okay. Thank you very much.

Operator

We will now take our next question from Alexander Evans from Credit Suisse. Please go ahead.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi, Helge. Hi, Jostein. Thanks for taking my question. Just a follow-up and apologies if you've already covered this, but I missed a little bit, just on your profitability in private property lines, are you still seeing any need to sort of increase prices there or is the claims inflation level quite stable, and you're quite comfortable with your profitability there now? And then also maybe just a flavor on how you think about your profitability in private property in relative to that of motor at the moment?

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

Can you repeat the latter, please, the profitability --

Q - Alexander Evans {BIO 19956412 <GO>}

Yes. Just about -- yes, say the profitability in private property relative -- yes relative to that of motor?

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

Yeah. Okay. Thank you. Just to start with the first quarter, it's -- I would say it's limited affected by the COVID-19 situation that came mid-March. But the first quarter, we are really proud actually because we have strong growth now both in private and commercial in Norway. And to start with the private business, we are really back on track on motor insurance. And we do not believe that the total market is back on track. So this has been as you know a journey in the last one-and-a-half, two years.

So we are really pleased with the profitability level. We have strong competitive position, the retention level is strong, and we will price in line with claims inflation for motor insurance going forward. We will price somewhat above claims inflation for private property, because we need to strengthen the profitability for private property a bit going forward. But the situation we are in and if you look away from the COVID-19 situation, it's a very strong position in the private business in Norway.

When it comes to commercial business, we will -- we have to price and I said that during my presentation, we have to increase prices for some large corporates. We still have pockets and segments. But we are really proud also the strength, the retention, the growth in the commercial line. So we are in a very good position compared to the last two, three years actually. So --

Q - Alexander Evans {BIO 19956412 <GO>}

Thanks. And then also maybe just on -- sorry, go ahead.

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

Yes, come on, please.

Q - Alexander Evans {BIO 19956412 <GO>}

Sweden as well, what were the issues that you're seeing there?

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

Well, what did you say, did you say Sweden?

Q - Alexander Evans {BIO 19956412 <GO>}

Yes.

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

The issues are -- I mean, we do see an underlying or if we look at kind of excluding runoffs since on improvement, but the issue is a bit the same. We haven't reached the profitability level that we think is where it should be in Sweden. So we still need to price above expected claims inflation there and reduce costs further at this

kind of -- the medicine we are pattering for the Swedish segment, and although, we could kind of combined of 94th of this quarters, is this a bit flattening because there are runoff effects there. So yes, more need of a prices increase in the commercial lines in Sweden than in the private lines. I think that's the sense of it.

Q - Alexander Evans {BIO 19956412 <GO>}

Okay. Thank you.

Operator

We will now take a follow-up question from Jan Erik Gjerland from ABG. Please go ahead.

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

Thank you. Just following up on Alex's last questions here about the competition situation. You mentioned that you have been happy with the Norwegian private situation, especially on motor. How do you see the competitive environment around the needs to clients from your -- - changed this space? And which kind of lines in the commercial side or large corporate do you need to price up? If you could be a little bit more specific when it comes to lack of profitability? Thank you.

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

Yes. When it comes to lack of profitability, it's some pockets related to motor, large fleets, and it's also related to some property portfolios. That's first and foremost. These 2 areas where we had some pocket, some customers, some large customers, and we have to increase prices to meet profitability levels. But as you can see Jan Erik, the overall situation is quite strong actually.

The first question was related to Tryg and Vito, yes, we still see that Tryg takes when we look at the competitive environment, it's Tryg, it's -- if it's not Fremtind that much. I think they have much to do internally maybe and we still see that Tryg takes some customers under the NITO agreement. But it's manageable. So the situation now is that when we look at the private segment first quarter it's first and foremost price driven, the volume is stable, and we can see that our competitiveness during the quarter is increasing day-after-day. And when it comes to the commercial business, it's both price and volume driven. So we are in a good situation also looking forward actually for both segments.

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

Okay. Thank you very much.

Operator

There appears to be no further questions. I'd like to turn the conference back to the host for any addition or closing remarks.

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

Thank you. Everyone, unfortunately there seems to have been some sound problems with the conference call line, while the webcast was working fine as far as we know. The recording of the conference call -- sorry, the recording of the webcast and the replay of the conference call will be available at our website gjensidige.no/ir in about one hour.

We will be participating in a number of road show meetings over the next weeks, although naturally in this time over the phone instead of physical presence due to the COVID-19 situation. The meetings will be held with Norwegian investors today, UK and U.S. based investors tomorrow, and later on in May and June, we will be speaking with investors based in Switzerland, Germany, Sweden, Italy and France.

So with that, thank you for your attention everyone. Stay healthy and goodbye.