Q3 2019 Earnings Call

Company Participants

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

Other Participants

- Blair Stewart, Analyst
- Jan Erik Gjerland, Analyst
- Johan Strom, Analyst
- Jonathan Denham, Analyst
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Phil Ross, Analyst
- Steven Haywood, Analyst

Presentation

Operator

Good day and welcome to the Gjensidige Q3 2019 Results Presentation. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Mitra Hagen Negard, Head of IR. Please go ahead, ma'am.

Mitra Hagen Negard {BIO 3974076 <GO>}

Thank you very much. Good morning and welcome to this third quarter presentation of Gjensidige Forsikring. 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 give you highlights of the quarter, followed by our CFO, Jostein Amdal, who will run through the numbers in further detail. And we will have plenty of time for Q&A towards the end.

Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra. Good morning and welcome everyone. I'm very pleased to report yet another solid set of results, starting with a few comments on our third quarter results on Page 2. We generated a profit before tax of NOK1.3 billion, significantly up from the third quarter last year. Group underwriting result amounted to NOK1.1 billion, corresponding to a combined ratio of a solid 83.2%.

Our results reflect effective pricing and re-underwriting measures as well as weather conditions, more or less in line with what we should expect from a third quarter in the Nordic region. Our Norwegian operations recorded strong results and progress outside Norway was broadly in line with our plan. Large losses were lower and run-off gains were slightly higher than the expected level.

And we continue to demonstrate good cost control. Our investment portfolio delivered returns of NOK279 million or 0.5% in the quarter. Annualized return on equity year-to-date adjusted for the gain on the sale of Gjensidige Bank was 21.6%. This is well above our annual target of 20%. Jostein will revert with more detailed comments on the results.

Then turning to Page 3. I would like to elaborate on the operational status in a few key areas. I'm very pleased with our operations both in and outside Norway. We have maintained our strong position in both the private and commercial segments while carrying through necessary pricing and re-underwriting measures in a highly competitive market. Retention remains very high, a strong evidence of our strong offering to our customers.

Our pricing measures in the Private segment were somewhat offset by lower volumes in the quarter, comparing with the same quarter last year. However, with continued positive momentum in new sales and the lower impact from the termination of the NITO agreement, we have seen Private segment volume rise compared with the second quarter this year, a trend we expect will continue.

Thanks to the successful pricing measures, profitability for motor in Norway has reached a good level while we see further potential for improvement for our private property line.

We have continued our successful pricing efforts in the Commercial segment without shedding volumes. There are still pockets in this segment, which we need to address, particularly among large corporates and hence we will continue to raise prices.

We are very pleased with our cooperation with Nordea, exceeding our expectations. Our reach towards the Private segment will be further strengthened through Nordea's real estate agent chain starting later this year. Cooperation in the Commercial segment has been approved by the FSA. We are in the process of preparing relevant processes and will start up right after new year.

Our operations outside Norway are progressing according to plan, although with somewhat different progress, and as a natural consequence of the segments' different starting points.

Our efforts across the operations are the same, centering around analytics, digitalization and automation of customer interaction and processes. This will lead to improved CRM, tariffs, sales effectiveness and thus in turn more satisfied customers and improved competitiveness and a lower cost level. We are confident in our ambition of achieving an underwriting result of NOK750 million ex run-off from these operations in 2022. We expect a back-end loaded progress towards this goal as it takes time for the measures to take effect.

Then turning to Page 4. I'm very proud to present the results of this year Ipsos reputation survey released last week. Once again, we ranked number one in terms of reputation in the Norwegian finance sector, and independent of sector, Gjensidige ranks number six among over 100 companies in the survey. In Gjensidige, we firmly believe sustainable solutions are key to long-term value creation. Therefore we are very pleased to see that Norwegian customers recognize us as the most socially responsible company in the finance sector.

Our sustainability goals are focused on three areas; contributing to a safer society, reducing carbon intensity and socially responsible investments. Our most important contribution to a safer society is claims prevention for the benefit of the climate, environment and health. Gjensidige has a long tradition in claims prevention and a new action to get a better understanding of climate effects going forward is a cooperation with the acknowledged research institute Norwegian Computing Center. The purpose is to improve assessments of climate impacts inherent in our risk assessments. This will in turn improve our ability to set the right tariffs. A better understanding of climate impact will also improve our ability for proactive claims prevention, for example, related to water. We have already established SMS alerts for significant weather incidents and we will improve this service going forward.

We are also further developing claims prevention services related to personal health. Mental health problems are rising, particularly among young people. Addressing this challenge, we have launched an online service providing mental counseling for our customers within the framework of child insurance.

Our second goal is to reduce carbon intensity both to lowering our own emissions so that we will be climate neutral by 2030 and by lowering claims related emissions through claims prevention and circular claims handling solutions in close cooperation with our suppliers. On this end, we have entered into an agreement with the global ESG rating company EcoVadis who will track the performance of our largest suppliers across a range of ESG indicators and develop corrective action plans where necessary.

And last but not least, in terms of socially responsible investments, we continue to screen our investments and cooperate with our fund managers to ensure that our investments are in line with our sustainability goals.

With that, I will leave the word to Jostein to present the third quarter results in more detail.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody. I will start on Page 6. We delivered a profit before tax of NOK1.3 billion in the third quarter. This is considerably higher than the third quarter last year, driven by the significant increase in underwriting result. Our regional operations were the main contributors to the improvement, but Denmark and Sweden also delivered high results. Underwriting results year-to-date are now NOK3.1 billion and similar to the quarter, driven by improvements in Norway, Denmark and Sweden. Profit from our Pension business was slightly higher than last year whereas the investment portfolio generated a lower return.

Turning to Page 7, earned premiums were up 3.3% or 2.7% adjusted for currency effects. In the Private segment, we continued to put through price increases primarily for motor and property. This was somewhat offset by lower business volume compared with the third quarter of last year.

However, as Helge pointed out, the positive trend in new sales and churn continued in the third quarter, resulting in higher volumes compared with the second quarter of this year. Together with the successful turnaround in motor and our strong competitiveness, this continues to provide us with ample flexibility going forward.

Our pricing initiatives in the Commercial segment continued into the third quarter, resulting in a healthy 7.2% growth in 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, and measured in local currency, were broadly in line with the third quarter of last year. We have been through a period of significant repricing and re-underwriting for both the private and the commercial customers. And although we still see some areas requiring further pricing actions, we are starting to reach a point where you can expect growth in line with the rest of the market.

Our Swedish operations saw a 9.3% decline in earned premiums in local currency. Four percentage points of this was due to termination of one large and profitable contract. Our new motor tariffs have been received well by the market. However, the significant price increases have resulted in loss of volume as expected. We need to continue improving the quality of our Swedish portfolio and increase prices to reflect the inherent risk premiums. The Baltics reported a higher top line than the same quarter of last year. Competition in this market is fierce putting pressure on prices. However, we experienced good demand, particularly for health and motor products.

Turning over to Page 8, the loss ratio decreased by 5.9 percentage points to 69.1. Although this was somewhat helped by lower large losses, it was primarily due to improvement in the underlying frequency loss ratio. This was a result of the significant pricing measures we have continued to put through across all segments, in addition to somewhat better weather conditions than last year.

Run-off gains were somewhat lower than the same quarter of last year. Our planned release of excess reserves remains unchanged at NOK1 billion per year through 2022. Our loss reserves have recently been confirmed through a review carried out by a third party.

Profitability for motor in Norway remained at a good level in the third quarter. We expect claims inflation to remain stable at around 3% to 4% excluding the impact from currency movements. With the continued pricing efforts reflecting expected claims inflation, we expect profitability to remain around the current good level going forward.

Profitability for the private property line improved compared with the third quarter of last year following better weather conditions. However, we are not satisfied with the current profitability level and will continue to put through necessary measures both in terms of pricing and adjustments of terms and conditions to improve profitability in this line going forward.

And I'm very pleased with the improvement in profitability for the Commercial segment. Denmark and Sweden generated stronger underlying profitability on the back of improvements in both the private and commercial lines. And our Baltic operations showed a higher underlying frequency loss ratio.

Let's turn to Page 9. We recorded NOK888 million in operating expenses in the quarter, corresponding to a cost ratio of 14.1% and 13.3% excluding the Baltics. I'm very pleased with this level, thanks to continued cost discipline and efficiency measures across the Group. The ratios were down 1.5 and 0.2 percentage points respectively from the third quarter of last year. The decline is primarily a result of the restructuring provision of NOK80 million recorded in the corporate center during the third quarter of last year. Higher premiums also contributed to the decline. We will continue our focus on simplification of processes, automation of internal operations and further digitalization. We expect further efficiency gains from our efforts, particularly in Sweden and the Baltics.

A few comments on our Pension operations on Slide 10. The pre-tax profit came to NOK43 million, somewhat higher than the third quarter of last year. Continued growth in our customer base and an increase in assets under management resulted in a higher net operating income. This was partly offset by lower financial income driven by lower returns on property investments.

Annualized return on equity came to 16.8%. Assets under management increased to NOK35 billion at the end of the quarter, reflecting a positive market trend. The ratio of shared customers with our general insurance business is high. As of the end of the third quarter, 68% of the customers in our Pension business were general insurance customers as well.

Moving on to the investment portfolio on Page 11. The investment portfolio yielded a return of 0.5% in the quarter, reflecting the market conditions in the quarter. The total investment portfolio amounted to NOK57.5 billion at the end of the quarter. The Match portfolio yielded a positive return of 0.5% on a portfolio of NOK35 billion. A large part of the Match portfolio consists of bonds at amortized cost, which yielded a return of 1.3%. The running yield in this portfolio was 3.7% at the end of the quarter and the average reinvestment rate during the third quarter was 2.7%. Unrealized excess value amounted to approximately NOK0.9 billion. Return on the Match portfolio was negatively impacted by redemption on Danish mortgage bonds prompted by the interest rate development.

The free portfolio, which amounts to NOK23 billion, yielded a return of 0.5% in the quarter. Good returns on property investments were partly offset by the development in emerging market securities, impacting our investments in other bonds and current equity. We also had lower returns on our PE funds.

Looking at our capital position on Page 12. As you can see on this slide, we have introduced a new illustration of our solvency margin development. The purpose is to provide you with a better overview of the main drivers of our capital generation. The solvency margin, according to the approved internal model as at the end of the third quarter, was 235%. This is down 7 percentage points from the second quarter, following a slight increase in eligible funds and a relatively higher increase in capital requirement. Eligible own funds increased with the Solvency II operating earnings and the financial results from the free portfolio. This was to a large extent offset by the formulaic dividend based on an 80% payout on IFRS earnings.

The main driver of the increase in the capital requirement was changes in exposure and asset allocation in the free portfolio during the quarter. We have tightened our solvency target range to 150% to 200% in connection with our annual ORSA process. This range supports both our rating ambitions and the necessary financial flexibility for the Group. Our remaining financial targets are unchanged.

Gjensidige's capital position is strong with the solvency ratio well above our target. We have given ourselves some time to explore different M&A opportunities in our marketplace. We do not have any new communication on this. We will stay disciplined and rational and return excess to capital to our shareholders over time if good opportunities do not arise. The next point in time for our Board to address the topic of dividends is in connection with our fourth quarter earnings release.

Finally, a few words on the latest development of our operational targets on slide 13. I'm very pleased with the progress on these metrics, which support our efforts to deliver on our financial targets. We have increased customer retention outside Norway. Sales effectiveness has risen to currently up 6.8% compared with our base-down [ph] year 2017. The share of automated tariffs has risen further, thanks to the latest inclusion of tariffs on travel and content. We have also increased the level of online claims reporting and claims straight-through processing, now at 69% and 18% respectively in Norway.

I will then hand the word back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Jostein. Then, to sum up on Page 14, we delivered a strong third quarter result. We have carried out significant pricing measures in Norway, while at the same time, maintaining our superior position. This is a strong vote of confidence from our customers and confirms our attractive offering.

Our insurance portfolios outside Norway are improving according to plan, thanks to our significant pricing, re-underwriting and efficiency measures. We prioritize profitability over growth. Hence we will continue making sure our prices and terms collectively [ph] reflect risk premiums. This means that we will continue to raise prices where necessary.

We continue to implement efficiency measures across all segments. This has given strong results and we still see more to come. We have a solid financial position and we remain firmly committed to exert strong capital discipline. Sustainability is at the core of our business and we strive to have strong environmental, social, and governance standards and continuously improve as opportunities arise. This is a win-win for us and all our stakeholders.

I will now open for the Q&A session. Thank you.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) And our first question comes from the line of Matti Ahokas of Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, good morning. Couple of questions on the -- or two questions actually. First one on the investment income, the mark-to-market or the free portfolio bond return was very low, even though market was very good. Was there anything specific behind that? And then the second question is more of a general nature, even though you mentioned that you will not comment on the M&A front at the moment, but obviously one thing which has happened in the market is that interest rates have come down quite a lot, even though up slightly recently but, has in general, have you see in your markets, a more willingness of many players to sell assets because of increasing pressure coming from lower interest rates and solvency pressure caused by that? Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay, okay. On the investment income in the bond part of the free portfolio, there is reduced interest rates, which has -- is positive, but on the other hand, we also had exposure towards including net towards emerging market debt, which has not been that positive in the third quarter. So that I guess is the main explanation for and the surprise there. And on the other part M&A, rates down, I don't think that has really had a huge impact on the movements within that space.

Q - Matti Ahokas {BIO 2037723 <GO>}

But do you think that could be a trigger for increasing willingness to sell insurance assets within your region?

A - Jostein Amdal {BIO 19939645 <GO>}

Lower interest rates is mainly a negative for the life and pension companies more than for the non-life insurance companies. Although it does also hurt our earnings, but it's easy for us to compensate through higher underwriting profits. And we are, as you know, mainly interested in non-life.

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

Overall, we think compliance and technology investments and the need of scale will drive actions going forward, more than the interest level.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great, thanks a lot.

Operator

The next question comes from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there, good morning and thanks for taking my questions. Two, please. So firstly, so it sounds like this is the case, but can you confirm pricing in aggregate is in line with the claims inflation across the book. Are there any parts of the book, you'd highlight where pricing and claims inflation are running at different levels? And then secondly just, some exposure. So, obviously, premiums up 3.3%, It looks like pricing is a big driver of that, but can you just try and break out the premium increase by price and exposure and of the exposure, whereas where is most of that coming from, is it personal loans or is it commercial? Thank you.

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

I can maybe comment the claims inflation and pricing first and Jostein, maybe the second question. To take the main product areas, I commented motor and Jostein also. We expect claims inflation to remain stable at around 3% to 4% and we will at least price up in line with the expected inflation going forward and you know what we have done recently. When it comes to private property, we expect around 4% going forward when it comes to inflation and Jostein also commented private property in his presentation and we have done several adjustments to our tariff and we have also in addition to that flat 5% to 6% increase in prices behind us from October 1st, 2018 and if you look forward, we will price above the claims inflation based on what Jostein commented. So we will do adjustments to the tariff. We will price, I guess, twice above the index in the market. So we have pricing initiatives going forward. Yeah.

A - Jostein Amdal {BIO 19939645 <GO>}

On the second part of 3.3% overall growth as you've commented, 0.6% of that is due to currency movements, so it's really 2.7% if you adjust for currency movements and as I pointed out on one of the slides, it's mainly due to pricing. If you look at take segment by segment in private, we have increased prices, and as we stated, quarter-on-quarter, there is actually a negative development in the number of objects insured or customers insured but from second quarter to third quarter we see a positive trend.

In Commercial, the whole -- the volume is more or less stable. So the earnings growth we see is price-driven. Denmark we have seen that, we do need to raise prices. And we underwrite, meaning that we do lose some on the volume side but increase prices and Sweden, negative growth and of course there is an underlying negative volume growth there and then but price level increases. Baltics is under pressure, we do have some business or volume growth as well in addition to price increases.

Overall, the 2.7% for the group on the earnings growth is to a very large extent price-driven.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question comes from Erik Gjerland of ABG. Please go ahead.

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

Hey, good morning. It's Jan Erik Gjerland from ABG. Regarding your profit in the Private segment, sort of, looks to be weaker development and short of expectations. Could you share some moment on what do you think could be the underlying transaction, is that because you're not making volume growth, as you expected as price increases are in line with your expectation or is it sort of this higher claims again?

A - Jostein Amdal {BIO 19939645 <GO>}

Well, not commenting on expectations. But our results are. So...

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

It's down -- it's down from 5.84 [ph] in Q2 though, if you go with the 50% down (inaudible)

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. Quarter-by-quarter it's 1 percentage point improvement in the underlying frequency loss ratio and that's how we've already commented and the motor profitability is where we think it should be at. So it's a really good level, we do have kind of competitiveness there so we can capture the volume growth in the market going forward. And we've seen positive trends from second to third quarter. And I actually believe you already commented that in the second quarter as well, but as you saw during the second quarter that we had an underlying improvement in business volume.

Private property, as we've already mentioned a couple of times, we are not happy with the profitability level as such there, there is a slight improvement from third quarter last year, but mainly driven by weather improvements or more beneficial weather. Most of the business lines recorded kind of small improvements in the loss ratio compared to the same quarter of last year. And as already mentioned on the previous question from Jonny, there is a negative volume development from third quarter to third quarter, that has changed during the -- from the second to the third quarter.

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

Maybe just to add that -- note that although we don't have seen extreme weather in third quarter this year, we had several local heavy downpours, particularly in Eastern Norway. I think our competitors also commented that. So adjusting for the total amount quantified in third quarter ' 18 Related to frequency claims is not correct, actually, so we had some weather also in third quarter this year.

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

Okay. Just to follow-up Matti's question then, if you saw that you have ended more sort of exotic bond markets flow to get yields out there, so why is it so that you have most of your bookings in Norway and this kind of exotic bonds have been the exceptions?

A - Jostein Amdal {BIO 19939645 <GO>}

It's still most (inaudible) most of the book in Norwegian kroner and the Match portfolio matches both the currency and duration of the insurance assets, whereas in the free portfolio. We have a wider mandate to invest globally but within a fairly limited overall risk appetite, I would say. There are other asset classes there, we do have high-yield bonds that could include from time to time, or emerging market debt, for instance.

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

And finally just on the free portfolio, the yield on FX [ph] hedge of that free portfolio evolve [ph] either, (inaudible) either the bond side.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. Yes, overall, we hedge, as a general rule we do hedge within a band each asset class or each mandate on the free portfolio

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

Okay. Thank you. That's all for me.

Operator

And our next question comes from Jonathan Denham of Morgan Stanley, please go ahead.

Q - Jonathan Denham {BIO 19972914 <GO>}

Good morning. Thanks so much for taking my question. I've just got one more. And sorry to bring it back to private property. I was just wondering how claims inflation has changed in that line over time. And you said it is currently running at 4%. What is the drive for that? Thanks.

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

I think over time it has been quite stable around 4%. The building Index is type of indication for what the cost to replace claims and it's 3.1% for 2019. That's the common billing index in the market and then you have some new standards for replacing bathrooms and things like that so, I think it has been around 4% for many years actually.

Q - Jonathan Denham {BIO 19972914 <GO>}

So what's causing it to have, I guess, less than ideal profitability there, is it just a competitive market?

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

Well, I think as Jostein mentioned on the previous question, there is an increase. If you look at the longer trend on more kind of weather-related losses in property for whatever reason, be it climate change related or not. And we saw also in the third quarter some downpours. But the main problem is getting it through the kind of the necessary price increases in the shortened off time frame, really. I think that is a market problem, not (inaudible) problem

Q - Jonathan Denham {BIO 19972914 <GO>}

Perfect, thank you very much.

Operator

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

Q - Blair Stewart {BIO 4191309 <GO>}

Hello, good morning. Just a clarification on the Match portfolio again, please. There was a loss in the current bonds line. I think you mentioned the redemption of Danish mortgage bonds in your prepared remarks and then under the Q&A, you talked about emerging market and bonds being the issue, so I'm just a little bit confused as to what caused the loss there in that particular line. And secondly, in the free portfolio, you talked about an increase in capital requirements and, is that due to changes in your asset allocation. And if so, could you just talk about that a little bit more? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah. Sorry if I was unclear. The negative development on this line current bonds in the Match portfolio is related to the Danish mortgage-bond issue as you correctly state. The --

my comment on the emerging market debt as being part of the other bond's in the free portfolio. So I'm sorry if that was unclear.

So on the increase in the capital requirement for the portfolio. And within this, as I stated, a fairly limited mandate on the assets allocation and risk taking on the -- in the free portfolio, there would all the time be variation in the capital requirement because it is based on the actual allocation decisions by the investment department. This quarter there is an increase of 0.3% there and it is not dramatic, there is, I mean if you look at the market risk in the solvency GAAP requirement [ph], it's around NOK7 billion and part of that rate is the Match portfolio, part is the free portfolio, but as a percentage terms, it's like 5% to 10% maybe changed and it is maybe slightly higher than the average, but there is nothing and normal.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Okay, thanks. Thanks very much. Sounds great.

Operator

Our next question comes from Steven Haywood of HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. I just wanted to have a quick question on your cost ratio. I don't know if I missed this earlier, but it's significantly improved in the third quarter, the share, down 14.1% I think. Can you tell me whether this is a new trend or if this is just a summer lull in the expenses? Thank you.

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

I think the right answer there is that our target is to be below 15% and as we have communicated before, below 15% we will be able to invest into a completely new legacy system. We will be able to invest heavily into all kind of initiatives to develop the business on the technology side, but to manage that we have to drive the cost base further down, so it's the same type of target going forward, but I also commented that we have been quite effective and we see further potential actually.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, that's good. So you are taking out cost obviously, but you're going to reinvest in the business so we shouldn't really think about change in the 15% going forward?

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

I think over target, it's a good starting point for this.

Operator

Thank you. (Operator Instructions) Our next question comes from Jonny Urwin of UBS, please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you. Just one follow-up please. So I guess on the underlying loss ratio development, if you strip out the abnormal weather effects from the prior period, there is just over two points improvement, which I think was behind consensus. I just wonder, is that because you're using some of this kind of margin improvement to waive in loss picks [ph] a bit higher to build more conservatism into the reserve? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Our reserves are at best estimate. If you take away the communicated planned reserve releases, we still believe we are reserving at best investment at the second quarter as well as for the second and third quarter so kind of no increased conservativeness ramping [ph] in the reserves.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay, thank you.

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

And just to point out what Helge said previously that it wouldn't be correct to adjust for the full weather effects that we quantified last year because we have experienced heavy downpours this quarter impacting the private property lines.

Q - Jonny Urwin {BIO 17445508 <GO>}

Can you help us with the quantum of that, just so we can get, we have like for like improvement figure?

A - Jostein Amdal {BIO 19939645 <GO>}

We have shied away from providing a precise estimates on that. It is, of course, to a lesser extent than what we saw in 2018, much lesser extent. Whether this is the new normal, it is least within a normal volatility around what is the normal for this kind of (inaudible)

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. All right. Thank you

Operator

Thank you and our next question comes from Phil Ross of Mediobanca. Please go ahead.

Q - Phil Ross {BIO 20618440 <GO>}

Hi, good morning. Just one from me. On the start of the call, you mentioned progress outside Norway was broadly in line with plan. I just wondered if you can give us anything specific on sort of what things you're seeing that's in line with the plan or is it just that, generally speaking, that's heading in the right direction, albeit progress is back end loaded. Thanks.

A - Jostein Amdal {BIO 19939645 <GO>}

Well, if you look at the actual underwriting result excluding run-off outside Norway, yeah, it's actually quite good. When we comment, according to plan, we are looking more at this kind of measures that we plan to take to receive that 750 in 2022 and there we are progressing according to plan, there will be kind of volatility from quarter-to-quarter and this time the volatility has kind of been on the good side. Measures we're taking as you look at the cost ratio in Baltic and look at nominal cost in Sweden, the cost ratio in Sweden will suffer somewhat because of the top line and negative top timeline development, but we have new tariff in place in motor and we got these kind of measures that we're talking about, when we talk about the measures needed to reach that 750 in 2022 and they are progressing according to plan.

Q - Phil Ross {BIO 20618440 <GO>}

Okay, thank you.

Operator

Our next question comes from Johan Strom of Carnegie. Please go ahead.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you. First on the premium side. The volumes that you had to say goodbye to during the quarter, the churn, I'm just curious on how you look at kind of the quality of the retentions, retention level. I mean if we look at Q1 and Q2 in particular, I remember, you commented that the retention was on -- looks strong on the best customers is still a trend that you're seeing. And then secondly, on the capital side, we're in 150% to 200%, do you intend to be still in the higher end of that range? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

On the churn, as we have commented in previous quarters, there is -- there was an increase in churn over the first two quarters, because, we did lose a very good agreement with the NITO there is (inaudible) organization at January 1st and of course that led to an increase in churn as we started selling on that one. However, we see that the losses from that portfolio is tapering off now in the third quarter.

So, I think, we'd say, as expected. We also had in 2018, you know this -- the change in the regulation around the third-party liability insurance for motor in Norway, which led to an influx of kind of single product customers in Private Norwich, kind of where low quality -- there are less profitable customers if we have only one small policy with us. So that we also see a higher churn there but taking away those two special effects, churn is down to a very comfortable level, I would say. So, not that concerned about the churn situation really in private Norway.

On the capital side and from commercial, I already commented in earlier quarters, we did get through quite high price increases, especially at the January one renewals without any increase in churn at all. So it's very kind of happy with the competitive position we have in Norway. 150 to 200, the new solvency margin, the range, we're not repeating that in the higher end of that range, we think that is a comfortable range to be in, compared to the rating target that we have and giving us enough financial flexibility. So it's kind of within that range, not in the upper end of that range.

Q - Johan Strom {BIO 17541253 <GO>}

Yeah, thank you, Jostein.

Operator

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

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

Thank you. Thank you for the attention everyone. We will be traveling out on roadshows after this quarter too. Oslo today, London, Paris, Amsterdam, and Brussels tomorrow, followed by Stockholm (Ends Abruptly)