Q1 2019 Earnings Call

Company Participants

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

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Other Participants

- Blair Stewart, Analyst
- Jan Erik Gjerland, Analyst
- Johan Strom, Analyst
- Jonny Urwin, Analyst
- Kevin Ryan, Analyst
- Youdish Chicooree, Analyst

Presentation

Operator

Good day and welcome to Gjensidige Q1 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. Good morning, everyone and welcome to the 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 go through the numbers in more detail. And we have plenty of time for Q&A after the session. Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra. Good morning and welcome everyone. The first quarter in 2019 was characterized by more favorable weather conditions in Norway compared to the first quarter 2018, as well as the strong financial markets driving a significant improvement in results.

Starting with a few comments on our first quarter results on Page 2. We generated a profit before tax of just above NOK3 billion. This is including the gain of the sale of Gjensidige Bank of NOK1.6 billion. The Group's underwriting result for the quarter amounted to

NOK798 million corresponding to a combined ratio of 86.6%, significantly better than the same quarter last year.

The improvements was mainly due to more favorable weather conditions in Norway compared with the harsh first quarter last year. Our operations outside Norway saw the mixed picture with progress in underlying results in Denmark and Sweden while the Baltics were impacted by demanding weather conditions in the first quarter.

And our cost, strong cost discipline resulting in a decline in the cost ratio. The strong development in the capital markets during the quarter drove returns of NOK682 million on our investment portfolio. Annualized return on equity at 49.6% was significantly impacted by the gain on the sale of the bank. Adjusted for the transaction, the return was 21.6%. Jostein will afterwards 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 will start with our motor insurance line in Norway. We have increased prices to counter increased claims inflation as discussed earlier. And we believe the other players face similar claims inflation and will continue to act accordingly. Our disciplined and focused efforts have proven effective. With yet another promising quarter behind us, we now see that we have reached the turning point for profitability and we expect to see lower underlying loss ratio for this insurance line from the second quarter.

We aim at gradually improving further from what's already a good profitability level, although we don't expect to return to historical peak levels. We are not surprised to see lower new sales coupled with slightly higher churn. This is a natural consequence of our significant price increases and the expected initial impact from the announced termination of the NITO partner agreement effective from the 1st of January.

We had been prepared for this as we have had a clear priority to improve profitability. Most of the customers we lose are the least attractive ones, meaning the overall portfolio quality is gradually improving. Our retention numbers for the private segment, although slightly down from the last quarter are still at very high levels. The upcoming payment or customer dividend from the Gjensidige foundation will continue to serve as a strong retention tool and we are convinced that our attractive product offering will continue to secure our strong position in the Norwegian market. We have a superior brand with the highest brand recognition among the insurance companies in Norway.

Thanks to effective adjustments of terms, including the bonus program, we see a somewhat lower increase in risk premium currently expected at 45% going forward. Competition is fierce and we need to take that into account in our action, ensuring an optimal balance between profitability improvements and volume. We will continue with differentiated and analytical price increases beyond expected claims inflation.

We are very encouraged by the development for our commercial lines in Norway too, where we have put through significant price increases and seen solid renewals proving our strong position. We have a high quality portfolio with the majority consisting of SME customers, where the reactions -- relations are driven through direct channels.

Our operations outside Norway are progressing according to plan and we are confident in our ambition of an underwriting result of NOK750 million, ex run-off from these operations in 2022. We will continue implementing profit enhancing measures, improving our cost structure and increasing efficiency. We need to strengthen our position in these markets and increase customer loyalty. And we are getting ready to take part in the market growth, both organically and through acquisitions, given the right targets at the right price.

Then, turning to Page 4. We have now completed the sale of Gjensidige Bank to Nordea laying the ground for enhanced focus on our core operations and with proceeds of NOK5.6 billion providing us with increased financial flexibility. We have kicked off collaboration with Nordea targeting a broad customer base in Norway. With limited customer overlap, we see a significant sales potential for both parties.

We are very encouraged by the strong start to this partnership based on two strong brands and compatible cultures. Together, we will strengthen our presence in key customer processes and approach our customers with relevant, broad and attractive product offerings. Both Nordea and we have strong digital ambitions and we will work towards providing seamless integrated digital solutions for our customers. Our organizations have prepared well for this journey. The mandates are clear, ensuring effective execution. We have clear referral procedures and we are also in the process of implementing co-locations at selected sites.

Then turning to Page 5, a few words on our operational targets, which we announced late last year. Customer satisfaction is core to our business and we are very pleased to be at such a high level. This is also reflected in our strong retention figures in Norway and several measures shall lift our retention numbers outside Norway overtime.

We are also focusing on enhancing sales effectiveness. Much of this is related to increasing digital interaction with our customers. It is all about simplification. As an example, we have recently launched a digital sale solution for pension plans for commercial customers enabling both offering and signing on our digital platform. Automation of tariffs is an important catalyst for improved efficiency and profitability. Our aim is full automation of all relevant tariffs by 2022. Initially, we have focused on high frequency products such as health insurance and we are now working on motor.

We stand at around 3% currently, and we'll continue to include more product lines going forward. We strive to continuously improve our tools and introduce features, which will motivate our customers to use the digital solutions for claims reporting as well. So far, 64% of claims in Norway are reported online. We have recently broadened our solutions to includes children's insurance, accident and disability, completing the range of personal line insurances.

Our ambitions don't stop at the reporting process, but rather extend into straight-through claims processing. So far we have reached almost 14% of all claims in Norway. Efforts are underway to increase automation further. We are working to reduce claims cost, in short through use of technology in combination with analytical insight. We will be reporting on this on an annual basis.

And we have an ambition to reduce our own and claims related carbon intensity. We are in the process of finalizing the method for establishing zero point for CO2 emissions and we'll report status on an annual basis. And we are very encouraged by once again ranking number one in the financial sector in Norway in the sustainable brand index study.

So with that, I will leave the words to Jostein to present the first quarter results in more detail.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge. And good morning everybody. I will start on Page 7. We delivered a profit before tax of NOK3 billion in the first quarter. This result includes the gain on the sale of Gjensidige Bank of NOK1.6 billion. But even adjusted for this, our results are considerably higher than in Q1 last year, driven by both our underwriting business and investment activities.

The underwriting result improved due to a decline in underlying frequency loss ratio and lower large losses, and more favorable weather conditions in Norway being the main driver for this. I'm particularly satisfied with the development in the commercial segment, proving our strong position and pricing power in Norway. Results from the investment activities reflected the rebound in the capital markets. Our pension business saw yet another strong quarter with a significant increase in earnings compared with Q1 '18.

Turning to Page 8. Earned premiums were up 1.2% or 1.3% if you adjust for currency effects. We continued putting through significant price increases in Norway, in particular for motor and property and larger accounts in the commercial segment. The latter is evident in the 8.6% premium increase for the commercial segment while increase from the private insurance portfolio was, as Helge mentioned, somewhat dampened by lower new sales and higher churn.

We have significant ambitions for operations outside of Norway. The development in premiums for Denmark, Sweden and the Baltics reflect the considerable pricing measures we are putting through in these markets to improve the portfolio quality. In addition, in Sweden, one large and profitable account was terminated, and still [ph] for 2.4 percentage points of the fall in premium volume. Our efforts are proving effective enabling a gradual shift in our focus towards growth in particular for the Baltics.

Now turning over to Page 9. The loss ratio decreased by 6 percentage points to 71.7, primarily due to the improvement in the underlying frequency loss ratio and lower large losses. The harsh weather conditions in Norway in Q1 last year drove up losses for motor and property. With more favorable weather this year, we saw losses coming down. Underlying profitability for motor in Norway, adjusted for weather effects, was lower year-on-year, reflecting the deteriorating trend seen throughout 2018.

As Helge mentioned, we reached a turning point for the 12-month rolling underlying loss ratio in Q1. Having reached this point, we expect profitability for this insurance line to gradually improve from the second quarter.

Underlying profitability for private property in Norway, adjusted for weather effects in 2018, was also lower year-on-year. We also recorded lower frequency loss ratios in Denmark and Sweden. Less favorable weather conditions drove underlying frequency loss ratio up in the Baltics.

Now, let's turn to Page 10. We recorded NOK882 million in operating expenses in the quarter, corresponding to cost ratio of 14.9% and 14.1%, excluding the Baltics. Both were down 0.4 percentage points from Q1 last year. The improvement is a result of continued cost discipline across the whole group and our focus on simplification of processes, automation of internal operations and further digitization.

We started the process of developing and configuring the new core IT system this quarter, starting with Denmark. As mentioned earlier, the investment is expected to be handled within the current cost ratio rate target and will be made step-by-step, starting with Denmark, then Sweden and finally Norway.

A few comments on our pension operation on Slide 11. The strong momentum for our pension business continued into the first quarter. The pretax profit came in -- came to NOK53 million and annualized return on equity rose to 20.6%. The rise in profit from Q1 last year reflects growth in our customer base, strong operational performance and an increase in assets under management. Results are positively impacted by gains from divestments of loan receivables. Assets under management amounted to NOK34 billion at the end of the quarter. Prior [ph] and last year as much as 70% of the customers in our pension business were general insurance customers as well.

Moving on to the investment portfolio on Page 12. The investment portfolio yielded a return of 1.2% in the quarter, reflecting the significant rebound in the capital markets. The total investment portfolio amounted to NOK60 billion at the end of the quarter, including proceeds from the sale of Gjensidige Bank, which were added to the free portfolio during the quarter. The Match portfolio yielded a positive return of 0.7% on a portfolio of NOK33.8 billion. A large part of the Match portfolio consists of bonds at amortized cost, which yielded a return of 0.9%. The running yield in this portfolio was 3.7% at the end of the quarter and the average reinvestment rate for the quarter was close to 3.6%. Unrealized excess value amounted to approximately NOK0.9 billion.

The free portfolio, which amounts to NOK26 billion yielded a return of 2.1% in the quarter. The strong development in the equity markets and lower interest rates and credit spreads were the main drivers of the positive returns. The proceeds from the sale of Gjensidige Bank is in our free portfolio. As a reminder, please note the payment of dividends in April and taxes during the current quarter, all else equal, reducing the size of the investment portfolio by approximately NOK4.5 billion.

Looking at our capital position on Page 13. Our capital position is very strong. The approved internal model gives a solvency margin of 248%, up from 169% last quarter, while our own partial internal model gives a solvency margin of 295%. The increase in the solvency margins are mainly the result of the sale of Gjensidige Bank. Retained earnings also contributed positively. Market risk is up from the last quarter following the investment of proceeds from the sale of the bank. Capital requirement for life insurance is also slightly up as a result of growth in the unit-linked portfolio. There have been only minor changes in the capital requirement from the life and health underwriting risk.

The solvency margins are all well above our target range of 135% to 200%. As announced earlier, we will give ourselves some time to explore different M&A opportunities. Hence, we do not plan for any -- paying out any special dividends during 2019. We are firmly committed to deliver attractive returns to our shareholders.

I'll then hand over back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Jostein. Then to sum up on Page 14. The first quarter of 2019 was characterized by more favorable weather conditions in Norway and strong financial markets, resulting in a significant improvements in our results. The sale of Gjensidige Bank generated significant proceeds as well as gain of NOK1.6 billion booked in the quarter. We continued to put through significant price increases across all segments, which, together with reunderwriting and efficiency measures are intended to improve underlying profitability. We are particularly pleased with the development in the commercial segment, reflecting a significantly harder market.

We are very pleased to see that profitability adjusted for weather effects of the motor insurance line in Norway reached a turning point during the quarter, paving the way for a lower underwriting loss ratio for this insurance line from the second quarter. Our collaboration with Nordea is off to a strong start and we look forward to continue this partner to secure strong customer retention and drive further growth. We are strongly committed to increase profits from our operations outside Norway expecting the results to become increasingly evident towards 2022 as we implement measures targeting both the top lines and operational efficiency.

And finally, with the proceeds from the bank on our books, we are well-positioned to act upon potential attractive growth opportunities.

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

Mitra Hagen Negard {BIO 3974076 <GO>}

Operator, can you open the line for questions, please?

Questions And Answers

Operator

Thank you. (Operator Instructions) We'll now take our first question from Jonny Urwin of UBS. Please go ahead. Your line is open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning, thanks for taking my questions. Just two for me, please. So firstly, should we interpret that the ongoing portfolio actions in Sweden and Denmark in particular are to set you on track for the underwriting profit target of NOK750 million ex Norway? Or will M&A be needed? I guess, just optically, it's quite a significant premium reduction in Sweden on what is already a small business. So I'm just wondering, how you're thinking about the NOK750 million, and how you get there organically?

And secondly, at the Investor Day, I think automated tariffs were presented as one of the main mechanisms to price more dynamically and to ensure that you stay ahead of claims inflation with pricing. Now the disclosure today shows 2.7% of tariffs are automated. But I guess it's a bit lower than we had expected to see. So I just wonder what's the timeline from here. And so you've got those automated tariffs, are you confident you can stay ahead of claims inflation trends with prices? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Thank you, Jonny. On the NOK750 million, what we are seeing the effects of in Sweden especially, but also to a certain degree in Denmark, are re-pricing that we are doing to improve the portfolio quality. That means, we do see some churn, and as I specifically mentioned, there is one contract in Sweden, which was terminated by us. We need to get the profitability level up and then catch up with the market growth and the NOK750 million in 2022 should be reached without any M&A activities.

Secondly, on the automated tariffs, we are working with a much larger base of tariffs than the 2.7 that is -- that's what's already, kind of, finished. So this will -- the amount of tariffs that are being through this full automated process will increase quite fast as we go through. What's the main purpose or the main benefit of having automated tariffs is that you are able to react quicker and that you are freeing up analyst time to work on their qualitative side, so we kind of reduce the time spent on later payment [ph] and so on. We are able to capture inflation dynamics in the -- on the claim side already. It's just that we kind of get more efficient when we have these automated tariffs in place.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you very much.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah.

Operator

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

Q - Blair Stewart {BIO 4191309 <GO>}

Hi, good morning. Thank you very much. Just a couple of questions from me. You talked earlier, I think, Helge, about not expecting to return to peak underwriting profit levels in Norway. Could you just expand on that? My impression was that you were getting price increases above the rate of inflation. So just wonder what you meant by that comment.

Secondly, why is it that you're seeing churn in the private segment, but not in commercial? Is that just a reflection of being a hard market in commercial and somewhat less harder or maybe even a softer market in private? And then just coming back to the Nordic region. You're talking about improving profitability, improving customer retention and growing the top line. These things are seldom done in conjunction with each other, you tend to get one or the other. So I just wonder again, how you're going to expand and how you expect to achieve all of that in the Nordic region?

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

Yeah. Thank you, Blair. Jostein will give some further comments on the Nordic situation. As you know, we presented the target of year end 2022 just before Christmas and we will come back with more detail regarding the journey towards 2022. What we said in connection with the new targets, it will be back-end-loaded. So -- but Jostein will comment that, and also the situation in commercial versus private.

When it comes to my comments during my presentation regarding not reaching the peak levels, we have to remind ourselves that we have had very benign winters. So what we expect, when we're talking about not coming back to that type of peak levels is more normalized situation regarding weather going forward. If we have winters like '14, '15 it could be different. But when I commented that it's more on taking into consideration that we will have more normal winter conditions going forward.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Yeah, that's clear. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

On the second one, the churn in private versus commercial or the difference in churn. Starting on the positive side, and for ones on the commercial side. I think you're right, it's a hardening market there. We have seen competitors struggling more with profitability than we have done in the commercial market for some time, including the one that's already reported and this profitability issues paved the way for rate increases. We've been extremely disciplined in the 1/1 [ph] renewal, which is extremely important in the commercial market, something like 40% of the portfolio actually renews January 1st and have been able to book [ph] just announced price increases, but also get them through into our earned premiums and that really started with the contracts that renewed in the fourth quarter of last year. So it's this effect -- its a hard market and we have been extremely disciplined in putting that through and the market has allowed us to do that without any increase in churn, actually without any, in fact, a better churn situation than last year.

On the private side, as you see, the situation is slightly different for us and we have lost both number of cars and houses at the insurance. And this is, as we've been clear on for a long time, has been a clear priority for us. We are prioritizing profits ahead of volume. And -- but added to that a couple of comments on the large partner organization of NITO (inaudible) organization, which we lost in 2018 with effect from January 1st this year. There was one part of that portfolio, which we have previously announced, which were a qualitative agreement, which kind of went in one bank at January 1st. And then, of course, Tryg, which won the contract have started setting as hard as they can on the lowest hanging fruits of that membership list. And they have been somewhat successful there, but not anything more than we had expected from beginning. So I think that's the main reason behind the development within the -- for the private churn.

On the third question, top line versus profitability in Nordics. No it's hard -- it's hard to grow top line and improve on the profitability measures at the same time. And we are now raising prices, moving towards a more lean cost side, and doing that first before we do the growth side, that's what you see in the figures. And going back to the previous question from UBS, it's -- we are going to deliver NOK750 million in 2022 without any M&A activities and such. We have done number of measures in place to improve profitability outside of Norway, and then Sweden and Denmark specifically, including a new core system, which we have talked about earlier.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you very much.

Operator

We'll now take our next question from Johan Strom of Carnegie. Please go ahead.

Q - Johan Strom {BIO 17541253 <GO>}

Yes. Two questions from me as well. Just, I'd like to follow-up on the comments on the private segment. Can you quantify the effects from the loss of the NITO contract? For example, the volume last year, you had a few comments there. But some more further detail will be interesting. And then also, how do you expect the growth in this segment to develop during the rest of the year if you balance out the effects of price increases in churn? That was my first question.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. I will quantify. But the one qualitative agreement that we are talking about is NOK120 million. And the rest is Tryg now being the insurance partner of NITO going -- and with the access to their kind of membership list [ph] [00:29:44] being able to sell to each and every member and these are all customers that have typically been with Gjensidige for a long time and are on average extremely satisfied with their relationship with Gjensidige. So they need to do the hard work and sell to each and every customer. I won't really predict on what's going to happen during the year, but this -- the one-time effect of NOK120 million is kind of behind us. And then it's the gradual selling from Tryg on these members.

And can you please, repeat the second part of the question, Johan?

Q - Johan Strom {BIO 17541253 <GO>}

Yeah, for the rest of the year, can you guide us a little bit on your expectations on the premiums growth for the private segment, when you balance out the effects of price increases there and the expected churn? I mean, the 1% is significantly lower than what we saw in Q4 and we had the NITO effects, but for the full year, what can we expect from the private segment?

A - Jostein Amdal {BIO 19939645 <GO>}

I don't think I'll want to be precise on that, but I will say that price measures that we have in place, include pricing on average above the claims expectations, both for private cars and property.

Q - Johan Strom {BIO 17541253 <GO>}

Okay, thank you. And then finally on the year-over-year improvement of the underwriting result in motor and property, where are we now in terms of repricing? How far away are you from say, getting close to the full effect of the portfolio repricing? And when can we expect that to happen? Is it two years from the beginning of 2018? And are we 50% through? Or have you done more now?

A - Jostein Amdal {BIO 19939645 <GO>}

I don't think I will give you a precise percentage. But as you say, it's -- correctly, it's -- we started the kind of repricing according to what was (inaudible) [00:31:41] claims expectation of 5% to 6% in the beginning of 2018. In 2017, we had a slightly lower claims inflation expectation or risk premium increase expectation and we now reduced that somewhat again to 4% to 5%. And it takes kind of 24 months from the first price increase is announced to everything is repriced in the accounts. And we're now 15 months into that period, so we're lot more than halfway. If that was fair enough.

Q - Johan Strom {BIO 17541253 <GO>}

Okay. Thank you.

Operator

We will now take our next question from Kevin Ryan of Bloomberg Intelligence. Please go ahead, your line is open.

Q - Kevin Ryan {BIO 1814771 <GO>}

Many thanks. It's Kevin Ryan of Bloomberg Intelligence. I just have one quick question. It strikes me that you have some historically very good returns at Group level. And I was just curious as to how this colors your view, when you're on the acquisition trail, which you now are. It seems to me that anything you buy, you're going to have to work pretty hard to be accretive. So a little more background on your thoughts on your targets would be very gratefully received. Just to understand a little bit more about your approach. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Okay. We are looking for new business within our defined markets, Scandinavian, Baltic non-life insurance, primarily within private and SME commercial lines of business. As you were seeing, almost all our acquisitions so far, we're looking at kind of a cost of equity at 7.5% after tax. That's kind of as an after total and then we need to create value above that cost of equity hurdle. In addition, we are trying to integrate new business over a certain time period to get to kind of into the Gjensidige way of doing things into our brand preferably, if we can. And yeah, so it's -- and bear in mind also it's kind of flip [ph] back all our positions outside of Norway is actually a result of acquisition, so we wouldn't have anything if it weren't for these previous acquisitions done.

Q - Kevin Ryan {BIO 1814771 <GO>}

Great. Thank you. So you're looking at a hurdle of at least 7.5% for any deal, is that right?

A - Jostein Amdal {BIO 19939645 <GO>}

That's what we regard as the cost of equity that we needed [ph].

Q - Kevin Ryan {BIO 1814771 <GO>}

Yeah. Great, thank you. That's clear. Thank you.

Operator

We will now take our next question from Jan Erik of ABG. Please go ahead. Your line is open.

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

Jan Erik Gjerland from ABG. I have a couple of questions. The first one is on the A, B, C, D clients. Could you elaborate on how many of those A, B, C and D clients is sort of losing both private and commercial might look like you have a very strong hurdle rate in the commercial side. So I just wonder how you're looking at the different kind of A, B, C, D clients in both private and commercial? And how it -- your client loss and gain has been at least so far?

A - Jostein Amdal {BIO 19939645 <GO>}

This is mainly a topic for the private side this -- the one we show on the page -- I don't quite remember, three, in the presentation. And this -- these customer scores are based on the perceived profitability and size of these customers and where customers having a lower score receive potentially a higher price increase, because they're kind of hurt less of losing and that's where you'll also see that we managed to keep those which are rated higher by us. And this works. Churn is much higher among the ones we perceive as less profitable. Not [ph] quite know-how specific I can be in your question Jan Erik more than that.

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

Okay. On the commercial side then, if you saw that you have been able to reprice both the best clients and the weak clients equally high or is it so that you have taken the weaker clients even higher? Or could you just give a flavor on the commercial side as well, please?

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

Yes. On the commercial side, as Jostein said, we have increased prices for all kind of customers. We had better churn situation this first quarter compared to last year, and I haven't been in a situation like this for, I would say, more than 10 years. So it's a completely different situation compared to the last few years. I think it's a combination of very benign winters also affecting the commercial businesses. It has been softer market for some years. And now we are in a complete different situation actually. So we are really satisfied.

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

Okay, very good. On the profitability terms, when it comes to year-on-year growth on the underlying side on motor and housing, you write in your report that it still was down year-on-year. Is it so that we should then -- is your comment on turning point being in the second quarter is also about we should then expect the year-on-year to be higher or is it just that we have flattened out in Q2? Just to get a flavor on what you're seeing.

A - Jostein Amdal {BIO 19939645 <GO>}

And first, of course, as we write in the report, when we say, it's low risk because we take out the weather effects from last year without doing adjustments to this year's numbers, we think that's the kind of the fair basis to measure a turning point. In absolute numbers, it's of course, better than last year anyhow. That said, when we internally and I internally look at what's the turning point, we take up seasonal effects or look at 12-month rolling figures, and say that during Q1 that turned 12-month rolling underlying loss ratios, excluding weather effects, and that turned down in Q1. That's kind of the basis for calling it a turning point. And then, of course, these are slow-moving methods, so you won't see a dramatic downshift in the underlying 12-month rolling loss ratio from one quarter to the next, but the trend is now downwards from here. Not necessarily fast or much by quarter-by-quarter, but it would be downwards.

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

Okay, perfect. And then on the weather, as you touched upon, is it possible to sort of, isolate the underlying weather versus what you saw in your total underlying combined ratio or claims ratio here, how much did weather -- was it much better, whether it's benign this year than last year so to speak in your calculation.

A - Jostein Amdal {BIO 19939645 <GO>}

Measuring the weather effect, it's as we talked about in the first and second quarter last year, isn't in precise size, it's not. It's based on estimates, it's not like a one single large claim or one single natural perils [ph] event, which you kind of have a very defined event and you can see the loss. But based on our estimates, we called NOK250 million to NOK300 million last -- first quarter of last year in extraordinary weather effects.

Q1 '19 is, I'd regard a fairly normal winter, average type. Actually the precipitation, the amount of downpour were actually higher in first quarter of 2019 and first quarter of 2018, somewhat 30% higher, but it came more as rain than a snow, so didn't get this snow damage, the snow -- the rate of snow taking down roofs and so on. So it's in a way, a more benign type of precipitation this year than last year. So on an average, it's kind of, zero weather effects this year because it's fairly normal. I don't have an estimate. Last year we talked about NOK250 million to NOK300 million above a normal winter. And I'd add, I think we gave a range because these are imprecise estimates.

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

Okay. Just finally then on the Nordea, you were -- yeah, sorry.

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

Just to comment on Jostein said, the rainfall and snow 30% higher this year compared to last year, we have also seen that the Northern part of Norway, Western part of Norway have been hitted harder this year compared to last year, and as you know, our strong part historically is Eastern and Central part of Norway. So it's some geographical differences from one year to another also Jan Erik.

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

Perfect. Last one on the Nordea. Is it so that we should expect you to sort of have start to sell to your -- the Nordea clients? Or you already have some kind of premiums inside your Q1 numbers? Or is it so that you just started the promises, so we should expect it to come from the second quarter?

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

We started in first quarter and -- when in first quarter?

A - Jostein Amdal {BIO 19939645 <GO>}

March 1st -- sorry -- March 3rd, really, oh my god.

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

Yeah. 3rd of March. So it's, yeah, one third of the quarter.

A - Jostein Amdal {BIO 19939645 <GO>}

We don't see much earned premium, that's yet [ph].

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

No.

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

No, no, of course not. But then we should expect some improvement from that.

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

Absolutely.

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

Okay, excellent. Thanks for answering my questions.

Operator

We will now take our next question from Youdish Chicooree of Autonomous Research. Please go ahead, your line is open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good morning, everyone. I've got three questions, please. The first one is really on your motor profitability. I think you sound very confident of a turnaround starting next quarter. So I was wondering whether that -- I mean, we should expect an improvement in the underlying loss ratio for the entire Group as well, adjusting for the exceptional weather from last year.

And secondly, on your solvency, I think your coverage is very strong under your own partial internal model at 295. I was wondering whether you're still in discussion with the regulator and when do you expect to resubmit that model for approval. And finally, just more like a clarification, I think in your opening comments, you mentioned that we should not expect special dividends for the year 2019. Is that correct?

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

Regarding dividend, we have just the same communication as we had last quarter. So as you -- you can see our comments very precisely in the report. The two first questions, Jostein, turning point was in Q1 and profitability or -- for the Group. And then this process with FSA.

A - Jostein Amdal {BIO 19939645 <GO>}

Yeah, the turning point and what we talked about is motor -- private motor in Norway just to be specific. We didn't talk about the motor book across all the geographies. It's Norway and private. And we saw the turning point in Q1. So you should expect an improvement as -- and as I answered on the previous question, it won't be dramatic, it won't be extremely fast, but it will be in the right direction.

On the second part, we are, maybe not say, continuous, but regular -- this talks with FSA and as we talked about earlier, we got the model approved the first time. We disagree on certain important points in the calibration of the model and we will over time seek to engage with FSA further on getting more parts of our own view through with them, but that's also a fairly slow moving process.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, thank you. Just to clarify, I mean those important points, are they down to basically firstly on underwriting as you used your own data, which there are certain aspects they're are not happy with. And then also probably on the market risk side of things, is that down to just the correlation factors, you're using or is there anything else we should be aware of?

A - Jostein Amdal {BIO 19939645 <GO>}

There are a number of factors, the two most importants are correlation between the market risk and underwriting risk, and the allowance of the use of storm [ph] models, which we use commercial -- commercially available external storm models for estimating the kind of the catastrophic capital requirement. That's the two most important points.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Understood. Sorry to go back on the second question, because I didn't quite catch what you said in terms of the overall development for the Group, what your expectation was for this year on the underlying loss ratio. I mean, if you could clarify that, that will be very helpful.

A - Jostein Amdal {BIO 19939645 <GO>}

To be precise, I talked about the motor and all the turning point we talked about is actually related to the motor portfolio in Norway. So it's not the -- it doesn't include Sweden and Denmark. And I didn't give any -- I didn't say anything about the underlying loss ratio expectations for the Group as a whole. That was intentional.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, all right. That's it. Okay. All right. Thank you.

Operator

(Operator Instructions) At this time, it appears we have no further questions.

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

Thank you, operator. And thank you everyone for listening in. We will be having a few roadshows this quarter too, Oslo today, Stockholm, Geneva, Zurich next week, followed by Milan, London and Frankfurt in May. Thank you for your attention and goodbye.

Operator

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