Q1 2014 Earnings Call

Company Participants

- Catharina Elisabeth Hellerud
- Helge Leiro Baastad
- Janne Merethe Flessum

Other Participants

- Daniel A. Do-Thoi
- Gianandrea Roberti
- Jakob Brink
- Niccolo C. Dalla Palma
- Sami Taipalus
- Vinit Malhotra
- William Hardcastle

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2014 Results Presentation Conference Call. Today's conference is being recorded.

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

Janne Merethe Flessum {BIO 19368607 <GO>}

Welcome to this presentation of the first quarter results for Gjensidige. As usual, our CEO, Helge Leiro Baastad will start by commenting briefly on the highlights for the quarter before our CFO, Catharina Hellerud will comment the results in more detail. And then, we will spend most of the time for the Q&A.

Before we start, I would remind you that the presentation can be downloaded from our website gjensidige.no/ir. And Helge and Catharina will refer to the different slides as they go along.

Go ahead, Helge. Please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thanks, Janne. Then I would start with slide number three, and that's my only slide before Catharina takes over. As you have seen, we experienced a solid premium growth and a good start to 2014, and the profit before tax was almost NOK 1.2 billion. It has been a few big important events during the first quarter. In January, we had the big fires in Flatanger and in Lærdal. And that reminds us how important our work is, and the importance of scale in the business in the total value chain. We had a compensating (01:31) experience, infrastructure and capacity to be there when customer really needs us.

Secondly, the sale of the Storebrand stake in February eliminated risks relating to defined benefit pension from the balance sheet. The underwriting results came in almost at NOK 350 million, and that represented a solid 92.9% combined ratio, and a discounted 88.9%. Despite the higher proportion of large losses than normally expected, we had a good combined ratio and underwriting result in the quarter. And this is driven by good growth combined with a favorable weather situation and a good underlying frequency claims development in the quarter.

So we are very pleased that we delivered good profitability combined with good growth, and we had a stable customer development in the private segment, and good customer satisfaction. So it's a good mix actually, continuously strong and good mix. We commented in the report that we had seen somewhat increased competition, especially from established financial players that are focusing on general insurance in the market. And, of course, we also experienced our main competitors, the pure non-life players; they are also active in the market during the first quarter.

However, we experienced good competitiveness, and we have had a strong growth in premiums, 10.1% reported. If we adjust, and we have to adjust for Gouda, Solid and currency, we have a satisfactory development underlying with 4% growth, premium growth. To start with comment, the private segment, main (03:38) we have 5.4% growth in the private segment, and main focus is to improve our multi-channel distribution system, and continuously increase and improve our targeted activities to retain customers. We have a stable customer development during the quarter. The customer we lose, they have fewer products compared to the customers that are – continues to remain customers at the end of the quarter. And that's the trend we have seen for some quarters now. So that's satisfactory.

In the Commercial segment, we have a 5.1% growth, if we adjust for currency-related Swedish business, it's 4.6%. So that's a segment with good renewals and we continue with high-level activity and increased activity level as we have seen for some quarters. Good growth in both Norway and Sweden, and with deliberate reduction of municipal portfolio due to low rates and weak profitability in the segment. That's representing – that's the situation both in Sweden and Norway.

In the Nordic segment, we report 36% growth. If you adjust for Gouda, Solid and currency, it's 3.7% growth in the Nordic segment. And we had the same situation there as in Norway in the Norwegian commercial business with good renewal rates and good access to commercial customers. And we have also seen during the first quarter, as we saw second half last year, improved distribution powered through (05:27).

Shortly comment, bank and pension and savings business. In the bank, the activity level within mortgage loans is still high with focus on our loyalty and affinity customers. The interest rates for mortgages were reduced in April, and we are still among the most attractive in the marketplace. The two segments, pension and savings and bank are important for a broader customer offering in Norway and help building a more loyal customer base. And profit before tax increased with 40% (06:04), so the combined results from these two businesses are now significantly at a better level compared to previously.

Finally, the financial results, NOK 762 million represents 1.3%. Two comments here; it includes gains from Storebrand sales of NOK 150 million, and compared to first quarter last year you'd remember that it was a write-down of NOK 611 million in the Storebrand sales. And all this add up to a return on equity before tax, 17.4%. Next year, we are talking about return on equity after tax and the target as you know, 15%. So Catharina.

Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Thank you. Looking at slide five, we have had a good start to the year. The underwriting results is influenced by continued solid premium growth and a favorable frequency claims development. In addition, as Helge mentioned, the investment portfolio, that has made an acceptable contribution to profits.

The underwriting results was on par with corresponding quarter last year. But as you can see from the figures, all segments except for the Baltics delivered better results this quarter than in the corresponding quarter last year.

The underlying frequency claims development was benign, influenced by a relatively mild and dry winter. The proportional large losses whatsoever considerably higher than in the corresponding quarter in 2013. This is one of the reasons why the Corporate Center recorded a considerably weaker profit this quarter than in the corresponding quarter last year. The main reason, though, is that we have had a negative development on some large losses leading to run-off loss and some reinstatement premium that has been charged to Corporate Centre.

Furthermore, the (08:08) growth continues both in the bank and the Pension and Savings segment as commented by Helge. Together, they contribute a profit before tax of NOK 83 million in the quarter, up more than 40% from the corresponding quarter last year. The investment portfolio yielded an acceptable return in the quarter, and considerably better than in the corresponding quarter last year. The profit performance in the quarter was affected, of course, by the accounting gain of NOK 150 million after the sale of the remaining shareholding in SpareBank (08:46) while the first quarter last year, as I'm sure you'll remember, was affected by an impairment loss of NOK 611 million on the Storebrand investments.

But taking it together, this means a profit before tax of NOK 1.2 billion, corresponding to profit per share of NOK 1.85.

Turning to slide six, the combined ratio for the general insurance operations was 92.9% in the quarter. The takes on this slide is that the loss ratio in the quarter was strong, taking into account the relatively high large losses impact. The underlying frequency claims development was good affected by the mild and dry winter. So we saw lower motor claims frequency that can normally be expected in the first quarter. The same applies to property insurance with the mild winter resulted in lower proportion of water damage claims.

On the other hand, the loss ratio for property insurance was also affected negatively by the fact that there were more fires than normal in the quarter, among other things, as a result of the two big fires we had in Norway in January this year in addition to some medium-sized fires. Also, the cost ratio was down compared with the corresponding quarter in 2013. You see now that the investments that we made in solutions, in that simplifying and automating processes and a higher degree of self-service are paying off.

On slide 17 (sic) [slide seven] (10:21), Helge has already commented the premium development. As you can see the nominal expenses increased by a total of NOK 49 million in the quarter, around 7%. A substantial proportion of the nominal cost increase is related to exchange rate effects in the Nordic segment as well as [indiscernible] (10:41) from the Baltic segment, and also the acquisition, of course, of Gouda Rejseforsikring and Solid. It is also worth noting that the distribution model in Gouda results in a somewhat higher level of commissions going forward, which will then affect the cost ratio for the Nordic segment in the time ahead.

Looking at slide eight, the proportional large losses was high in the quarter, NOK 291 million, 5.9 percentage points effect on the combined ratio, and also above the expected value of NOK 266 million. And especially within the Commercial segment that we have seen large losses this quarter. In the first quarter last year, large losses amounted to NOK 146 million, 3.3 percentage points.

Turning to slide nine, run-off gain in the quarter was NOK 64 million (sic) [NOK 63 million] (11:47) corresponding to a positive effect on the combined ratio of 1.3 percentage points, compared with then 0.8% in the same quarter last year. Part of the run-off gain is been related to the same positive effects for accident and health products which we have seen for a period and also commented in the previous quarters. As I mentioned, we also had a run-off loss in the Corporate Center this quarter, mostly related to previous natural disaster claims that we have seen negative development during the first quarter.

On slide 10, we illustrate the allocation of economic capital based on the internal model. For the operational segment, the capital requirements increased by approximately NOK 300 million during the quarter. The main reason for this is due to volume increase in the business. The main or the largest change this quarter was – if you look at asset risk, which was reduced by NOK 2.3 billion in the quarter, and this is primarily due to the sale of the stake in Storebrand. So in total, the risk-based capital requirement amounted to NOK 9.5 billion at the end of the first quarter from NOK 11.4 billion at the end of last quarter, fourth quarter 2013.

Looking at slide 11, the key message is that the capital in excess of the S&P capital requirements and the technical buffer has increased by NOK 0.5 billion to NOK 2.6 billion from the end of fourth quarter. The increase is primarily due to an increase in available capital following the sale of the stake in Storebrand. As you recall, the strategic offer alone was NOK 2.1 billion at year-end. Assuming everything else equal, the strategic buffer can be somewhat lower than this level due to the sale of the stake in Storebrand. And the board will normally consider the size of the strategic buffer once a year, but I will remind you that we have no intention to build unnecessary buffers, that's important.

The 15% after tax return on equity target requires capital discipline going forward. And the work on optimizing the balance sheet will continue through 2014.

As you might have also seen, our holding in SR-Bank is for sale at the right price. However, this is an investment that contributes well to the return on the investment portfolio. And we are in no hurry to settle the stake. We have chose not to ask to be reelected to the board of directors however, which means that the shareholding will be reclassified from an associated (14:40) company to an ordinary current equity from the end of the second quarter. This will have consequences for both the – how this is treated in our accounts and also the capital requirements as it is calculated by the S&P model.

Turning to slide 12. The investment portfolio amounted to NOK 60 billion at the end of the first quarter and yielded 1.3% in the quarter. There are few key messages related to this slide. First, the match portfolio continues to make a stable contribution to the result through the return of 0.9%. That continued fall in Norwegian interest rates combined with tightening spreads make future returns challenging. The reinvestment rate for the bonds classified at amortized cost was 4% in this quarter, down from 4.2% last quarter.

Secondly, the composition of the free portfolio yielding 1.8% in the quarter has changed somewhat the associated companies and are not part of the current equities in the free portfolio. And the proportion of fixed income instruments is increased because the proceeds from the sale of Storebrand has been reinvested into bonds and money market instruments.

So the more large proportion of the assets were invested in money market instruments ahead of the distribution of dividend of NOK 6.4 billion that took place last week. In addition, the exposure to convertible bonds has been reduced somewhat as a result of what we consider attractive pricing. Thirdly, the yield from the current equities and the free portfolio included NOK 115 million in accounting gain from the sale of Storebrand in addition to NOK 59 million estimated share of profit from the SR-Bank stake.

Now, I will leave the word to Helge for a short sum-up.

Helge Leiro Baastad {BIO 5865247 <GO>}

Yeah. Then we are at slide 13. And I think I only will comment that you have seen these priorities before. We don't change much from quarter-to-quarter. Remember the Capital Markets Day in London, 25 of November. And I suggest we jump directly, actually to Q&A.

Janne Merethe Flessum {BIO 19368607 <GO>}

Operator, we are ready for Q&A.

Q&A

Operator

Okay. Thank you. We will take our first question today from Will Hardcastle from Bank of America. Please go ahead.

Q - William Hardcastle {BIO 16346311 <GO>}

I'm sorry if I missed this in your discussion. But can you just tell us again what asset class and duration the Storebrand money has been put into within your investment portfolio? And the second one is, you mentioned (18:08). I wasn't quite clear whether this had been put in large losses or run-off where I'd expect it to be. Can you just discuss this in a bit more detail on what they're specifically related to? Thanks.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

I think, I'm not quite sure if I heard both of your questions. There was something – the line was a bit blurry, but I think the first question you asked was about the proceeds from the sale of the stake in Storebrand. And it has been reinvested into mainly bond instruments without much lower capital charge than the stake as such. Second question, you asked about large losses, the large losses this quarter affecting the segments and also to some degree the Corporate Center was NOK 291 million. But in addition, there was a run-off loss in the Corporate Center which relates to some natural peril claims from 2013. The negative or the run-off loss in the Corporate Center amounted to NOK 60 million in the quarter.

Q - William Hardcastle {BIO 16346311 <GO>}

Okay. And that was just related to 2013 natural peril claims did you say.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Mainly claims from our Nordic operations, Swedish and Danish claims.

Q - William Hardcastle {BIO 16346311 <GO>}

Okay. That's great. And just are you able to say of the Storebrand funding, what the rough capital charge was that you invested in, you said it was mainly in bonds. Should I assume it's somewhere between 5% to 10%, that sort of charge?

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Yeah. It depends, as you know, on both the rating and the duration of the investments or the bonds. So yes, your presumptions are correct.

Q - William Hardcastle {BIO 16346311 <GO>}

Okay. Great. Thanks very much.

Operator

Thank you. Our next question comes from Vinit Malhotra from Goldman Sachs. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hello there. Good morning. Vinit from Goldman. Two, three things here. One is earlier you mentioned competition, and now several Nordic players last two quarters or so have mentioned competition, and particularly in Norway we heard even Sampo mention this. How will this show up? Is it just that you expect to lose bad customers? You have said Gjensidige is in a good competitive position and I presume the shareholder policy or the dividend policy also has, but how will this materialize? Is it – do you see it already? Do you expect it? If you could just comment a bit more it will help us understand the situation there, please.

And then second question is just a really simple one on the equities in the free portfolio. I was quite surprised seeing that number around NOK 150 million, given that NOK 115 million of the gain is there, plus SpareBank is still there, and equities in the first quarter were quite up. The indices in the Nordic markets were not very different from fourth quarter. So could you just explain a little bit about if there's anything there that we should note? Thank you.

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

Do you want me to take the others? Okay. I can give some comments related to the competition. As I said in the Norwegian presentation one hour ago, of course, we have seen for many quarters, for a long period of time, high level of competition. We commented increased competition in the quarterly report this time, and it's from the present, or I would say the Nordic non-life players, we have seen that they have had a different kind of top line growth compared to what we have managed to present. And of course, that affects the type of competition. We have also seen competition from new players like Vardia and, of course, also increased competition from the financial players, both saving banks and DnB.

So on a general basis, we can say the following, related to what we do to keep up with that kind of increased competition because this will continue, I think. First of all, we have a long-standing good history of accurate tariff setting. Based on the size of the customer base compared with many of our competitors, we believe that this will continue to be a competitive advantage for Gjensidige going forward. Customer dividend, of course, that's very important. The AGM in the financial foundation Gjensidige will be on the 20 of May and after that, we will see a customer dividend, I would say, in line with what we had seen last year, and that's a very strong part of our competitive, I would say, measurements continuously going forward.

It's a unique model, strengthen our distribution power. Car financing, that's important, both to secure our position within motor insurance, but also to meet increased competition from more broader financial players. We have launched the market's best solution for the sale of car financing and insurance through car dealers that we have great confidence in. It's important area in the time ahead. We have active market price optimization in light of the competition environment. We continuously improve our deliveries within the CRM area. And once again, with such a large customer base as we have, all of our customer-oriented activities see that we continuously improve our accuracy and relevance. We see great potential in this area going forward.

I commented also in the Norwegian call here that the organization market – our position within this area, we have an extensive history and experience in this area, and we work very closely with our partners. We have done that for many, many years, 56 years. Price adjustments used within insurance and bank to address the competition, considering new partnerships, and we have also seen growth through new partners as (25:38), which is two new partners in the Norwegian private division last year.

And finally, I commented also in my introduction that we have scale in the whole value chain. We are one of the – related to claims settlement, we are one of the biggest purchasers in Norway, and we have an excellent, broad network of contacts. We receive good feedback from customers on our claims settlements. We have seen that in Lærdal and Flatanger in January, and we have seen that after similar events. So we are confident, actually, but the competition, yes, it's increasingly competition from the pan-Nordic players, from also the financial institutions. This is a continuously-improvement type of business, so we are confident.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thanks. Just a follow-up. Is there any pricing pressure visible as well, or is that – the competition is still too small for you or too small to worry about?

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

Of course, it's pricing pressure in some areas and within some contracts. What I can say that our customer, we have a stable customer development. A customer that leases us in average, they have few products. It's more single customer compared to the customers staying with us. And knowing that the customer dividend – it was 15% last year. I believe it will be more or less in line with that also going for this year. That's a very strong value proposition for the broader customer. So what we have seen? We have lost customer with few products, single customer we have taken care of and still have the broader customers.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thanks. That's very clear. Thank you.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

And then the other question regarding the yield from the current equities. I think it's important to remember that if you look at allocation of the assets in the three portfolios, this is also part of the ongoing risk management of the group. If you look at the yield from the current equities, you have to also take into consideration that there will be effects due to returns on derivatives for hedging purposes, so that has to be taken into consideration if that's so.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So the hedges backfire. Okay. All right. That's very clear. So thank you very much.

Operator

Thank you. Our next question comes from Daniel Do-Thoi from JPMorgan. Please go ahead.

Q - Daniel A. Do-Thoi {BIO 17019775 <GO>}

Hi. Good morning. Just three questions from my side. The first one was on the pensions and banking business. We've delivered extremely well in cost here in the quarter. If you could just comment on the operational gearing in these businesses and, in particular, on the cost-to-income ratio within the retail banks, which at 52% this quarter is sort of starting to approach the levels that your larger banking peers are reporting.

Secondly then, on the Nordic business and the portfolio acquisitions, I understand there's been some positive developments in this portfolio since you agreed the purchase. Could you just perhaps comment at this point, what kind of retention rates you would expect in these portfolios going forward? And then lastly, Catharina, you commented earlier on the size of the strategic buffer. I just wanted to clarify what you meant with regards to the reduced size of it following the sale of Storebrand. Is that in relation to the NOK 2.6 billion at the end of the first quarter or the NOK 2.1 billion at the end of the fourth quarter? Thanks.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

I can start with the strategic buffer, and what I related it to was the NOK 2.1 billion, the size of the strategic buffer at the end of the fourth quarter. So the comment was that it could be – everything else equal, it could be a bit lower than this level due to (30:10).

Q - Daniel A. Do-Thoi {BIO 17019775 <GO>}

Okay.

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

The other one as well.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

If you look at the acquisition in the Nordics, I think there has been a good start, if you look at the premium level for Gouda and Solid. But when we take over this portfolio, of course we will work on integration and we will work with optimizing all the portfolios, and that might mean that we can see some negative effects on premium levels going forward. So it's a bit too early to comment on the retention level as such. But we expect at least that it could have some negative effects on premiums.

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

And also the operational leverage in the bank.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Yeah. The operation in the bank is of course due to the business model of the bank. This is a retail bank. It's an online bank. So it's a very cost efficient bank. So I think if you compare it to larger banks, you have to take into consideration that it is the retail portfolio and online bank. And so (31:17) to be very cost efficient products for our customers within the private and commercial business, also in the private general insurance business in Norway.

Q - Daniel A. Do-Thoi {BIO 17019775 <GO>}

Okay. So, just all else equal, assuming continued increase in the lending portfolio, you would expect the cost-to-income ratio to gradually notch down over time.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

At least I will say that we will have a continued focus on costs going forward. Yeah.

Q - Daniel A. Do-Thoi {BIO 17019775 <GO>}

Okay. And just on your first line on the strategic buffer, can you perhaps give us some indication of the – well, can you just help us try to quantify what you mean by a slightly reduced size of the strategic buffer, because from my understanding, the strategic buffer was initially put in place just with the dividend to finance small acquisitions and for regulatory uncertainties. So could you just help us think about what portion of it was allocated to volatility and Storebrand, or the balance sheet risk from Storebrand? Thank you.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

First, if you look at the regulatory uncertainty, of course, we do not have any exposure towards the fund benefit schemes in Norway. That has been taking off our balance sheet. And, of course, we'll take a look at available capital. The volatility of available capital is, of course, reduced due to the stake of being sold off. But again, the size of the strategic buffer is something that the board will consider normally once a year.

Q - Daniel A. Do-Thoi {BIO 17019775 <GO>}

Okay. Great. Thank you.

Operator

Thank you. Our next question comes from Sami Taipalus from Berenberg. Please go ahead.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yes. Hi. Thanks for taking my questions. Just two things in capital really. Christina (sic) [Catharina] (33:20), you mentioned the reduction in the capital requirement for asset risk in the internal model, but actually the capital requirement for asset risk in the S&P model appears to have increased in the quarter. Could you just tell us a little bit about what the differences are there? Then second, some of your non-life peers in Europe have mentioned that S&P are a little bit moving away from using their own model to looking more of company's internal models. Is that something you recognize as well, and would you consider moving away from the S&P model at some point? Thank you.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Yeah. I can comment on the difference between the internal model's perspective and the S&P perspective. Of course, there are different ways of how you calculate asset risk and also how you treat the (34:10) of companies in these two models. But the main changes, if you look at the asset risk reduction in the internal model, it's due to the Storebrand stake. But if you look at the S&P model, the Storebrand stake was not part of the asset risk, because the associate companies and the capital requirements for the associate companies is actually 27% of the fair value of the stake that has been reduced from available capital. So they're two very different ways of how you calculate capital requirements. So there's so much larger effect in the internal model than in the S&P model.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Thank you. And on...

Operator

Sorry. Go ahead.

Q - Sami Taipalus {BIO 17452234 <GO>}

I asked also about the potential of moving away from the S&P model.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

I think it's not moving away from the S&P model, I think. That is the discussion. It's more about if S&P can use part of it, or more or less part of – or implemented as part of their – how they look at the capital requirement and more or less embedded some of these into their models. I think that's how we feel that the discussion with S&P is, at the time being.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. I guess it's just that the difference is now quite big in terms of capital requirement between the internal and the S&P model. So sorry, that's what I was...

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Of course. Interesting (35:53).

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question today comes from Jakob Brink from ABG. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah. It's Jakob from ABG. Just three questions please. And the first one is regarding the SR-Bank stake. It's correctly understood that's what's going to happen now to the capital charges, basically that it will be increased from a 27% to around 49% capital charge.

The second question is regarding the bank. I just look in this quarter where I guess it's becoming more and more normalized earnings in the bank, it's still just 5% of your profit, but around 20% of your capital allocation in your internal model. So I guess it's quite capital-consuming to what you actually gained from it. Could you maybe add some comments on that, please?

And then finally, you just said before, Catharina, that the dividends are something the board typically decides on once a year, but I did notice that they did ask for a permission to do extraordinary dividends mid-year. Could you maybe also give some comments on that, please? Thank you.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Yeah. If I start with your first question, I can just verify that it is correct, that it will now be a 49% charge or part of the asset risk, (37:18) 49% charge. That's correct. If you look at the bank, I think it's important to understand the strategic rationale behind the bank. It's not a standalone bank. It's a bank for our private customers. And it's very important for us to be able – and then also to meet the increasing provision (37:37) from all the financial players so that we have a broader product offering to our customers. It's important to be able to offer both insurance and lending when the customers are paying new houses and also buying new cars.

But it's an important strategic rationale behind the increasing loyalty and have a broader and better products, offering for our private customers in Norway. And you also asked about the capital in the bank, and it's correct that it's (38:17) economic capital that we allocate to the operational segments versus the return. I'll just also remind you of – also you might have seen the press release from the bank that it is considering now to use up to NOK 250 million in Q2 capital to actually fund the growth in 2014 and also the increased capital requirements as from the 1st of July this year.

And then you have the final question regarding the strategic buffer. And the board is considering the size of it. What I said was the size of the strategic buffer, not the size of the dividend. That number will be considered by the board once a year. And it's correct that we also have, as you said, for an authorization to pay out interim dividend. But this is the flexibility that has long been introduced into the Norwegian legislation, and that we saw that it was interesting for us to use, and it can be used if the board finds that the company – the buffers, the capital (39:40) requirement and the technical buffer exceeds the capital requirement. So it's a flexibility that has been introduced in the legislation that we found interesting to use in Gjensidige as well.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Just a follow-up on the second one, the NOK 250 million you said to capital, that would be issued by the bank, so I guess that will not affect your S&P calculation. Is that correct?

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

That is something that will be – it's considered to be issued in the bank, so it's a consideration that is somewhere in the space.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thank you.

Operator

Thank you. We'll now take our next question from Gianandrea Roberti from Carnegie. Please go ahead.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good morning from me as well. I have a couple of questions just to bring you back on the business really. I was reading in the outlook statement and also in your introduction, Helge, about competition products heating up a bit especially from some of the established player, but I cannot help but look at the premiums growth in your private lines in Norway. I think it's 5.4%, which seems very, very healthy and show once again that – I mean, you probably don't like it the way I put it down, but you seem to be getting away pretty easily with quite decent price hikes year-after-year, while we are seeing in some other Nordic markets that this is not the situation anymore. So I mean, when I look at that number, isolated, it just seems somewhat different from competition heating up, at least, I guess that's how I see it.

And secondly also, I'd like to ask you again your attitude towards aggregators. I mean, I can understand in your home market, you're shying (41:33) away from them, but some of my sources are sort of hinting to the possibility that you work more and more closely with them in the other Nordic markets, and that seems to me somewhat dangerous to me. So I just would like to hear your view on these two topics. Thanks.

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

Yeah. Thank you, Gianandrea. First of all, it's not that easy. It's hard competition every day. Strong competition is partly increasing from established players as we commented in the report, they increased their efforts into Germany and France. But as you've said and as you have seen, we perceive our competitiveness as good. The number of customers, relatively stable, and I commented also the mix of the customers, for all the customers staying with us. I think increasingly, it's a combination of tariff development, strong brand and I think also the customer dividend model is very, very important factor that explains our position. But it's increasing competition. I do not – it's not dramatic, but it has been increasing. And I think it's a combination of some of the players as you commented that want to secure the top line growth going forward and new players increasing efforts into our area.

Aggregators, yes, it's as you know, in Sweden, it's completely different markets related to aggregators. Still, it's a small proportion of the Swedish market. But we will have some different kind of – mainly due to the difference between Sweden, Denmark and Norway related to aggregators. And, of course, due to the very, very different position we have in these three markets. We are looking more into – in what way aggregators could be part of our distribution, call it, setup or system or effort, into the Swedish market. I do not think we have the same type of initiatives in Denmark and prefer we do not have that in Norway and Norway, the aggregator market in Norway is almost not there.

So talking about aggregators in the long-term, I do not think that will be a very important part of the Scandinavian market at all. As we have commented before, this is mainly due to the fact that it's very well-known players, it's integrated value chains, strong brand names. I think it's rather easy for the consumers to find the best offering without going through the traditional aggregators.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thanks a lot, Helge. I appreciate that.

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

Thank you.

Operator

Thank you. Our next question today comes from Niccolo Dalla Palma from Exane. Please go ahead.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Yes. Good morning from me as well. I have three questions. The first one is on tax rate, if you could help us give us a bit of guidance both for this year given the 20% tax rate in Q1, but also for the next few years, how we should think about the development here.

The second question is to come back about the – once a year decision on strategic capital buffer. Is there a specific time of the year when this is done, i.e. is it full-year results, is it the October-November period, and maybe before the Capital Markets Day? So how should we think of that also in the light of the interim dividend authorization, just to know if a decision could come earlier than in full year? And the last question, and sorry to be a bit early on this one, but I thought I'll give it a try anyway. For the Capital Markets Day, what do you expect the key topics to be in terms of discussion there? Thank you.

A - Catharina Elisabeth Hellerud {BIO 17276650 <GO>}

Okay. I can tackle the tax rate. As you know, the corporate tax rate in Norway is 27%, so that's the starting point, if you try to estimate the tax rate. And then there are gains and losses on equities that are not taxed, and it's not part of the tax calculation in Norway. So the effective tax rate to a large degree depends on the losses and gains on the equities in the investment portfolio actually. So if you look at the effective tax rate the first quarter last year, it was above 14% due to the impairment of the stake in Storebrand. This quarter, it's around 20% due to gains on the equities. And as I said, we normally will consider strategic buffer once a year and that's how specific we will comment on to that question. Niccolo, you asked about the Capital Markets Day, we have, of course, not still concluded on the agenda there. But in November, it will be four years since we were listed. We haven't been in the market with any full update yet. And we'll definitely focus on an operational update to the market.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Okay. Thank you very much.

Operator

Thank you. There are no further questions in the queue at this time.

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

Okay. Thank you then for participating. And we hope to see many of you in our lunch in London on Friday, not tomorrow, on Friday. Thank you very much for participating. Bye.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.