

Q1 2022 Earnings Call

Company Participants

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

Other Participants

- Alexander Evans
- Blair Stewart
- Faizan Lakhani
- Hakon Astrup
- Jan Erik Gjerland
- Thomas Svendsen
- Tryfonas Spyrou
- Ulrik Ardal Zurcher

Presentation

Operator

Good day, and welcome to the Gjensidige Q1 2022 Results Presentation Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Ms. Mitra Hagen Negard, Head of IR. Please go ahead.

Mitra Hagen Negard {BIO 3974076 <GO>}

Thank you. 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 give you the highlights of the quarter, followed by our CFO, Jostein Amdal, who will go into the numbers in further detail. And we have, of course, a lot of time for Q&A after that. Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Mitra. Good morning and welcome everyone. The world has indeed changed with Russia's invasion of Ukraine, geopolitical uncertainty has risen to the highest level in decades. It's shocking and frightening to witness an unprovoked attack on a sovereign democracy country, in Europe in 2022. Gjensidige is not directly impacted by the conflict.

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We have no direct risk exposure in Russia or Ukraine. Our investments in these markets are marginal, but the volatility in the global markets has, of course, impacted our returns this quarter.

The conflict has added further fuel within inflationary pressure that has been building up, which will also reach our markets. However, as I will comment on shortly, we are prepared and we are confident that we will manage this well. Cyber risk has risen in the wake of the war. We have high readiness to manage this too. Our employees in the Baltics are closer to the war in many ways. We have established an emergency team in Lithuania, closely monitoring the situation. We can only hope that this meaningless conflict will come to an end soon. And the meantime, we will continue to focus on taking care of our employees and customers and contribute to society at large.

Let's turn to Page 2 for some comments on our first quarter results. We generated a profit before tax of NOK1,506 million. The underwriting result was the solid NOK1,025 million reflecting strong underlying results. Large losses this quarter were significantly higher than the unusually low levels we have had for many years, among others driven by the many storms hitting on the market. Both the number and the size of the large claims are well within what we should expect to occur from time to time. And they are in line with our risk appetite.

Earned premiums rose by a healthy 8.6% or 9.9% in local currency. I'm very pleased to see that the continued improving of underlying profitability through both continued strong growth and very efficient operations. The underlying frequency loss rate improved with 1.9 percentage points. On a combined ratio for the quarter was 86.5% impacted by the large losses as mentioned. Our cost discipline remains strong, with the cost ratio of 13.9% for the quarter. We have a good start to the year to deliver on our target of below 14%. The heavy turmoils in the financial markets resulted in the negative return on our investments of NOK285 million this quarter. The results were also impacted by the remaining NOK800 million in gain on the Oslo Areal transaction. Our return on equity came to a very good 22%. Jostein will revert with more detailed comments on our results for the quarter.

Then turning to Page 3, a few words about our operations. I will start with the inflation. High demand, storing energy pricing and supply disruptions have sparked global inflation, as the consequence, overall claims inflation in our markets is rising. However, we do not currently see any areas of significant concern. Claims inflation so far has been in line with our previous expectations as witnessed by our continued strong underlying profitability numbers. Furthermore, we have not had any challenges related to supply raw materials or manners [ph].

We continuously monitor the development in close cooperation with our partners and we are well prepared. As we have said so many times before, this is simply ordinary course of business first. We are confident of our ability to stay ahead of the inflation curve based on our strong competitiveness, and supplier agreements in Norway with the best terms and conditions.

But, of course, the extent reach and duration of the inflationary pressure is uncertain. Based on our latest analysis, we expect claims inflation for private property in Norway to be in the range of 7% to 9%. For motor in Norway, we expect claims inflation to remain in the range of 4% to 6% moving towards the upper end at the end of this year. We are all prepared to handle this and ensure that we are ahead of the inflation curve. Hence, we will raise prices at least in line with claims inflation for all products.

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The strong momentum for our Norwegian operations continued in the first quarter. Premium growth in the private remained high despite tough competition. We have managed to continue to put through necessary price increases while maintaining a very high customer retention. This is a result of a strong offering and very strong brand. We have recently strengthened our brand profile. Our new tagline no one knows the day better, emphasize our leading position in Norway. And with deep analytical insights, which enable us to continue developing safety solutions for our customers.

Premiums continue to grow strongly in our commercial segments as well. Volumes are up and we have successfully put through necessary price increases in a very competitive market. At the same time, the retention has risen further from over the high level. Going forward, we will continue to raise prices to reflect high expected claims inflation and beyond expected claims inflation for certain pockets in the large corporate portfolio. We expect to be able to put this through.

We had a good underlying performance in Denmark this quarter, adjusting for the high large losses and absence of COVID impact this year. Premium growth remains high and operations are strong, we continue to move forward within new core IT system. The private products are being migrated over to the new platform and the system is providing, increasing support for our distribution activities. We are also very pleased with progress in the ongoing efficiency program for claims handling.

Further, I'm very pleased to see that our turnaround, its efforts in Sweden are starting to show results. Operations are becoming increasingly efficient, our portfolios are healthy, and we are growing profitability. We are in the initial planning phase for implementation of the new core system in Sweden. This will be a game changer for our Swedish business too, and the crucial part of the foundation to succeed with our digital transformation. We are convinced that investments will pay off in the long run, although, sales in the short-term could be somewhat impacted.

We have carried out a thorough assessment of our operations in the Baltics, which I will dwell further into on Page 4. We have started an accelerated transformation program with the clear focus on three main areas, pricing and underwriting, claims handling, and organizational efficiency. First, we will implement pricing measures on unprofitable products on top of the price increases, we have to do during the past six months. Second, we will look into pruning our commercial portfolio with particular focus on our health and motor products. Third, we will improve our claims handling by some gain evaluation of estimates from workshops and improved steering towards preferred partners.

We will also leverage analytics to reduce leakage and we expect to see results from new fraud systems. And finally, we will step up standardizing and digitalization of processes. The latter with particular focus on distribution, contributing to organization and efficiency. We had strong expectations from these actions despite the tough competition and high inflationary pressure also in the Baltics. Our combined ratio shall reach a run rate below 100% in the fourth quarter of this year and continue improving after that. And we will bring down our operating expenses significantly from 2023.

We have a significant growth ambition for the medium-term, both for the private and SME customers. Organic growth supported by good customer experiences and customer friendly and efficient digital solutions, shall be complemented by a broader reach in this commercial sector through brokers. And we will continue to seek attractive M&A opportunities.

Then over to Page 5. We continue to make progress on sustainability. We have a number of initiatives as you can see on this slide taking important steps towards delivering on our ambitious target. With the EU taxonomy reporting moving closer, I'm very happy to announce that we have our first insurance product to fully comply with the taxonomy criteria namely commercial building insurance. We will continue to transform the rest of it eligible products going forward.

Then over to Page 6. A few words about a pilot we will be launching very shortly to complement our home seller insurance launched back in January this year. We recognize our customers need to maximize the value of their home before selling. Maksimer is a fixed price package offering ensuring that certified craftsman's carry out all necessary first refurbishment in accordance with the real estate agents advise. We solve our customers problems and at the same time contribute to damage prevention. Our market share for home selling insurance is around 10% as we speak with distribution to a selected group of real estate agents. We see a very interesting opportunity in this market and we'll widen our presence gradually as we gain more experience in this new field.

And with that, I will leave the word to Jostein to present the fourth quarter results in more detail.

Jostein Amdal {BIO 19939645 <GO>}

Thank you, Helge, and good morning, everybody. I'll start on Page 8. We delivered a profit before tax of NOK1,506 million in the first quarter slightly below last year. Premium growth and the improved underlying frequency loss ratio and the lower cost ratio improved the underwriting results, but this was more than offset by the -- our above-average large losses. With the COVID restrictions being lifted, we do not see any COVID impacts on our claims this quarter.

We see solid growth in all segments and improvements in the underlying profitability in all segments with the Baltics. Also if you adjust for COVID and weather effects last year. The Baltic results are weak. As Helge explained, we are focused on turning around the situation there and have set ambitious yet realistic targets which we will actually. Our

investment portfolio generated negative returns this quarter reflecting the market conditions. Our pension business generated a high results. I'll revert on both of these in a moment. The remaining gain of NOK800 million from the sale of Oslo Areal was recorded in the quarter underlying other items.

Turning to Page 9. The strong development in premiums continued in the first quarter, with all segments showing good growth. Total earned payments are up 8.6% or 9.9% adjusted for currency effects. We saw strong increase in premiums for the private segment driven by price increases for motor, property and accident and health insurance as well as higher volumes for motor insurance, despite the decline in new and second-hand car sales. We also increased the number of customers. We maintained our strong market position and competitiveness. The rise in premiums in the commercial segment follow effective pricing measures, solid renewals and volume growth for the motor and accident and health insurance products.

Cross-selling of pension products is picking up. We are expanding our sales force in response to this and to further strengthening our position in the SME market. Premiums in Denmark increased by 11.3%, measured in local currency. This strong development was driven by volume growth and price increases in the commercial segment. The latter in particular for workers' compensation, higher premiums of specialty travel insurance, and the NIM business also contributed to growth. Premiums in the private segment, excluding them were somewhat lower than the same quarter of last year due to competitive pressure.

Earned premiums in Sweden measured in local currency increased by 7.7%, mainly driven by volume growth in the commercial portfolio. Termination of a partner agreement in the private portfolio in the third quarter last year, resulted in a decline in earned premiums in the private portfolio. You are happy to see the results of our efforts to increase customer satisfaction with our sales, service, and claims processes.

Customer retention rose more than 3 percentage points this quarter to just below 80% [ph]. Double-digit rise in premiums in the Baltics was driven by growth in most times, particularly, motor and health insurance. Travel insurance volumes also increased significantly, although, they are still below pre-pandemic levels. Customer retention in the Baltics increased by 1.8 percentage points to 69.6%.

Turning over to Page 10. Underlying frequency loss ratio improved by 1.9 percentage points compared to the same quarter in 2021. Adjusted for the positive COVID-19 impact on claims and the effect on claims, of the extraordinary cold winter in Norway, the first -- in the first quarter of 2021, the underlying frequency loss ratio improved 0.7 percentage points. This strong development was driven by effective pricing measures, solid renewals and good risk selection. Large losses were significantly higher than the levels we've seen for a while and our estimated quarterly average. (inaudible) is in itself not an expected and it's not a sign of any deterioration in underwriting quality or changing risk appetite.

To give it over enough gains, this brought the loss rate for the quarter up to 72.5%. We continue to improve our underlying results in Norway and Denmark from already strong

levels, and we are very pleased to see that their efforts have started to show results in Sweden. Although, we cannot rule out some volatility going public. We are convinced that the measures we have already implemented and our ongoing efforts will continue to improve results for this segment. The Baltics still have a further way to go and we are disappointed about the results there. But we're confident in our plans to change the course of the segment towards an acceptable profitability, and that we will see the results of this already during 2022.

Let's turn to Page 11 level. We recorded -- NOK1,067 million in operating expenses in the quarter. Our cost ratio move further down by 0.6 percentage points to 13.9%. And if exclude the Baltics, the cost ratio up 13.3% for the quarter. The main driver of this improvement is premium growth and strong cost discipline in the group. Our low cost ratio in Norway can fell down by 0.8 percentage points. Denmark recorded a 0.5 percentage point decrease in the cost ratio driven by good premium growth. The cost ratio in our Swedish business improved by 1.6 percentage points, and the cost ratio in the Baltics improved by 0.7 percentage points, driven by higher premiums. You see we have strong potential to enhance cost efficiency in this segment.

A few comments on the pension operation on Slide 12. The pre-tax profit came to NOK54 million up year-on-year, reflecting growth in the business and good returns on the real estate investments. Assets under management was broadly in line with what we had at the year end last year reflecting development in financial markets. Annualized return on equity was 15.3%. The solvency ratio at end of the quarter was 169%. So far the introduction of individual pension account has not let any significant change in the market dynamics. It is prudent to expect some pressure on our profitability, in the short to medium-term.

Moving on to the investment portfolio on Page 13. Our investment portfolio generated a return of minus 0.5% in the first quarter reflecting the significant market term in the wake of the war in Ukraine and general macroeconomic uncertainty. The match portfolio return 0.1% negative and the free portfolio return minus 1%. The results for the quarter was negatively impacted by higher interest rates, the decline in equity markets and higher credit spreads. Private equity and commodities contributed positively to the performance.

We have reduced risk on our portfolio in response to the market conditions. We are prepared for further market turbulence for quite some time. Although, we cannot avoid the impact, we have a balanced portfolio and solid fixed income investments with the large majority having investment grade rating. Our investment strategy remains firm with risk exposure within the range is set by our Board. The proceeds from Oslo Areal transaction have been invested in fixed income instruments. We will continue to consider attractive investment opportunities within our risk appetite, including real estate.

Over to Page 14. Our capital position is very strong with a solvency ratio of 188% at the end of the quarter. The ratio is down 2 percentage points from year end. Remember that we have at the year end, estimated a solvency margin of approximately 180% adjusted and announced, but not finalized sale of Oslo Areal and the acquisition of Falck. Eligible own funds came down by NOK2.3 billion driven by a positive contributions from solvency operating earnings offset primarily by the loss of the free portfolio and acquisition of

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formulaic as well as the formulaic dividend. Our capital requirement decreased primarily due to lower market risk following the sale of Oslo Areal and lower exposure to equities and high yield bonds.

A few words about IFRS 17 on Page 15. We are well prepared for the new accounting standard, which will become effective from next year. Overall, we expect a limited impact for our general insurance accounts. We will be using the simplified method. And our preliminary calculations indicate an insignificant effect on our underwriting results. We expect a significant impact on our pension business opening balance. We're working through the numbers and we'll discuss this in further detail together with further insights into the impacts on our general insurance business in the webinar in November this year.

Finally, a few words on the latest development of our operational targets on Slide 16. We launched a set of new operational targets at our Capital Markets Day in November last year. These are important in supporting delivery on our strategic priorities, and financial targets towards 2035. Customer satisfaction continues to be at a very high level, retention in Norway is slightly up for the fourth quarter from an already very high level. And retention in outside Norway has improved in Sweden and the Baltics and remained broadly unchanged in Denmark.

Digitalization automation are our key measures to secure efficiency. Digitalization index, we have established (inaudible) progress in our digital sales and service interaction with our customers is a combined index which we enter a race by 10% annually or next years. They are up 7% this quarter a progress I'm very satisfied with. On the claims funding side, digital claims reporting has been stable this quarter at 76% for the group. Automation of the whole claims settlement process is an area with significant savings potential. We introduced a new KPI on automated claims and the share of the claims processed automatically in Norway has improved with a 1 percentage point during the quarter currently standing at 56%. We'll continue to develop these digital services further going forward.

I then hand over back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

Thank you, Jostein. To sum up on Page 17, we are very pleased with the solid results we continue to deliver. We have set ambitious targets for the next four years, and we are confident to deliver on that. We will continue to focus on profitable growth together with strong and efficient operations of our strong product offering and good economic prospects in our markets, this should bode well for continued solid results and attractive returns.

And finally on Page 18, an announcement on an upcoming webinar on the 9th of June, where we will be discussing our plans within the mobility space with Falck road assistance and the toll road companies Ferde and Vegamot in the group. We will send out and release with further details shortly. But in the meantime, please save this date.

And with that, we will now open the Q&A section of this presentation.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We will take our first question from Blair Stewart from Bank of America. Your line is open. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much, and good morning, gents. I've got three questions, they're somewhat detail orientated, so nothing major. The first one is just on Sweden with a new system that you're implementing. Can you talk a little bit about what impact that will have, you did so and in a bit cautious about the short-term, talking about perhaps an impact on customer volumes? Just wonder what that meant? And I think longer-term, what the benefits will bring? And you talked about being transformational, a game changer?

And then secondly, just on the private equity performance in the quarter. Am I right in thinking that still done on a one quarter lag. So would it be reasonable to expect a much weaker performance in Q2 as you report it?

And thirdly on IFRS 17, I think you've talked about -- you talked about significant impact. Does that mean lower opening balance for the PC business and the pensions business. I think you talked in the past about having on the one hand, the benefit from discounting the reserves but then that's offset by a higher risk premium. I just wonder how your thoughts have evolved there given the interest rates have moved up a little, thought the discounting impact would have been a bit more, a bit larger. So therefore the net effect may be a bit smaller. So just any additional thoughts on the IFRS 17 impact? I appreciate it's still early days. Thanks very much.

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

Good morning, Blair. Its Helge. The core system, as you know, the background for this present core system in Norway and also it's a sister system, we have had in Sweden and Denmark, it's like 27 years old or something like. So all the players in the Nordics have to move into more modern systems. And what we will see in Denmark first and they are planning currently planning for Sweden. This will enhance our competitive advantage enable to sorter time to market, competitive pricing, and operational efficiency. We expect to see the impact over time. In the short-term though, we receive benefits from facing out all systems and we will make room for investments in the new system. So it's about agility, speed, our ability to take into the whole payment process and the whole core system process partners. So it's lots of flexibility speed and, of course, also cost per quality.

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I can say that in private Denmark, it's very successful and really strong feedback from the front people dealing with the system now and for all practical reasons, we have the whole private business into the system in Denmark. So it's really successful. Sweden, we are planning and I guess '23, '24 is the years for Sweden.

Q - Blair Stewart {BIO 4191309 <GO>}

And sorry, I have to -- why do you say that short-term, the sales could be impacted negatively in Sweden?

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

No, I'm not saying we will benefit from facing out the old system and the system in Denmark and No -- and Sweden, if you compare that to Norway, the cost per policy has been rather high. So we will see reduction in cost per policy short and long-term. And long-term we will see that, I would say, that more strategic effects by -- these have the much more agile system as I said, shorter time to market, ability to change prices continuously, take on board partners et cetera. That's a more long-term -- we will see long-term effects. Short-term, we will see reduction in cost per policy.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Understood. So much messages. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

On the private equity question, you're absolutely right. It's in general a lag from one quarter, we need to get the reported net asset values from the underlying funds that we -- the investment in the portfolio. When that will imply a negative drop in Q2, is a bit earlier to tell so far and we will not guide on that, because I mean these are not the overall market. This is significant -- specific investments in each and every fund that will determine how this development goes. Some of the exposure here is, of course, oil services related, which some had quite a run during the first quarter in the listed market. So this is a bit early to say.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Understood.

A - Jostein Amdal {BIO 19939645 <GO>}

Thirdly, IFRS 17, yes, I mean, you're right. At the year end, we say that there would be a negative effect on overall, the (inaudible) few major effects on the insurance side, it's a discounting affect the reserves. There's a new risk margin, and then there's mark-to-market on the health and authority bonds, which are have a positive over value in the accounts today.

Net-net we said, it was a negative effect at the end of 2021 with interest rates moving up. This might have changed some of now, we haven't done the calculation as of the first quarter yet, but we'll update you when we get to the webinar.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Understood.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes.

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

Are you finished, Jostein?

A - Jostein Amdal {BIO 19939645 <GO>}

Yes.

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

If I may add just a comment on the core system, I'm kindly remind by Mitra here that short-term, we will may be see some sales reduction, because when you implement a system like this, you will have focus on implementation instead of the ordinary course of business selling products. We have seen that as a minor problem in Denmark. And as you know, I'm very focused on the cost side, and I'm also very pleased that we started to report on the 13 figures on cost ratio and also. So I was on the cost side, when I commented the new core system maybe some sales destruction in the implementation phase.

Q - Blair Stewart {BIO 4191309 <GO>}

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

Operator

We will take our next question from Tryfonas Spyrou from Berenberg. Your line is open. Please go ahead.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

Oh, hi. Good morning. I have one question. I was wondering, can perhaps comment on where do you see claims inflation across the different parts of your book, for example, motor housing and obviously in different sort of geography, so, Norway versus Denmark. And I guess following up on from that, how do you see competition in these markets? Do you still see competition being rational, when it comes to price increases? Or do you see players taking different approaches? Thank you.

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

Yes. We got the claims inflation. I would start to stress and comment once again, that this is simply a ordinary course of business for us. In first quarter, we have not seen any inflation other than what we communicated one quarter ago. So claims inflation so far has

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been in line with our previous expectations. If you look forward and we always have to look forward when we are talking about claims inflation.

Its property in Norway with highest claims inflation driven by both materials and wages. We expect that to be in the range between 7% and 9%, if you are looking 12 months ahead. And for motor, it's between 4% and 6% and that's driven by wages, materials, hypo [ph] claims and frequency and we will see higher percentage in the end of the year, between 4% and 6%.

And as you know, all of our over personal risk are related to wage increases and so called G factor in Norway and that's between 4% and 5%. The G factor in 2021 was just below 5%. In Denmark, it's lower and in Sweden, it's lower but we have seen an inflation in -- picked up both in Denmark and Sweden too. But as I said, these levels are somewhat lower than in Norway.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

And I guess on -- just a comment on that, are you sort of (Multiple Speakers) based on that sort of 12-month view of 7% to 9% in the quarterly percent, does that in line with the sort of -- yes.

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

We have demonstrated since 2018 that we have enormous pricing power. As you remember, we had this back on track related to motor insurance, we then operated with price increases for above 10%. What we are talking about now, it's that we have to and will and have ability to price in line with expected claims inflation. And what we see from our competitors is that they experience just the same as we do. And we both hear from calls and we see from market operations that this is well understood and all of our competitors see the same landscape I think. So -- but we have ability to price in line with claims inflation, we will do that. And we just comment the balance between volume and price in motor in the first quarter when we priced in line with claims inflation is a nice balance between volume and price increased growth. So we are really confident that we will handle this in a good manner.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

Very clear. Thank you.

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

We do not see any special softening market trends within and its segment. It's highly competitive market, as you know and it has been for many years, but I think the market see this inflationary development and they have to increase prices to maintain their profitability as we do.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

That's very clear. Thank you very much.

Operator

We will take our next question from Ulrik Zurcher. Your line is open. Please go ahead.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Thank you. Two questions. Firstly, I was just wondering if given the material inflation and supply chain issues that they accelerated in March now and that many corporates are re-priced in January. You see any short-term risk to your claims ratio there?

Second question, I agree that motor looks strong, but I was wondering, how you see the competition in private property in Norway and that's -- if it's a risk that even given your repricing that we might not see nominal premium growth for that product this year?

A - Jostein Amdal {BIO 19939645 <GO>}

I'll start on them. I mean, it's true that we upped our future actually, say inflation expectations on private -- on both property assets somewhat from the previous quarter approximately a percentage points in each end of the intro. We said at that time that we will increase pricing ahead of claims inflation, but the aim to do that and we are doing that, which means that we are pricing -- our pricing -- price increases contain, no new higher claims inflation estimate. Any unexpected increase in the inflation is short-term negative and we need to capture that on next repricing opportunity.

Yes. On property -- private property, I mean we do guide for kind of premium volumes in most specific business line going forward. But given the fairly high, I mean we price in line with this new expected, higher claims inflation and that there should be a reduction in volume to more than contract. And this is -- it's highly unlikely, I will not go any further than that in guiding, but it's -- you should expect premium growth, normal premium growth going forward as well.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Okay. Thank you.

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

I think also -- I also think that our first quarter currency adjusted 9.9% growth is a strong evidence that we have disability.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Yes, but have any different. Sorry, it was just a follow-up then on the property, because any difference between private property and corporate property on how much is the churn versus re-pricing?

A - Jostein Amdal {BIO 19939645 <GO>}

Well, and if you look at the Norwegian portfolio, the churn is actually on the -- in the segment as such we measured churn at the customer level. The journey is actually quite

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similar between private and commercial, which is maybe surprisingly from a more international perspective but the churn is typically is higher in the new commercial I think. But given our main focus being on SME customers in the commercial part, which have a very longstanding relationship with us.

We have the same kind of business relationship with them as business private persons in around and they are loyal. Our pricing power and competitive position, our overall offering is very good to be a bit cautious in Norway. I wouldn't say superb but it's really very good. And so this is not the concern in the self I would say. And I said, Helge said in the previous question, this is kind of the overall input price increase for every company in this market. We probably see it more than the others because we have the -- better than the others because we have the other largest player but this is the same picture hitting everyone.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Thank you.

Operator

We will take our next question from Hakon Astrup from DNB markets. Your line is open. Please go ahead.

Q - Hakon Astrup {BIO 18861149 <GO>}

Good morning. Thank you for taking the questions. Two questions from me. First, can you give some color on how the current inflationary environment is impacting your reserves (inaudible) look at how 1% high percentage points higher inflation over the next three years will impact run-offs and your reserves?

And the second question on the procurement, in this current environment, is it more difficult for you now to renew agreements with suppliers? And are there any interesting changes in terms of terms et cetera?

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. I'll start on the first one on the reserve impact from inflation. The major part of the reserves are related to long tail lines of business and then it's the long-term assumptions about especially wage and inflation, because it's a person -- personally a new injury related products that are considered the largest part of the reserves. And our long-term estimates for inflation on wage or time changed significantly. And they are in line with what we see that the central bank and the statistical Census Bureau are mitigating, which is a return to more normal levels within two years. The short-term research related to property, motor, health all are less exposed to inflationary. They are generally handled within six months inflation doesn't quite that quickly. So it's -- there is some minor negative effect there, but that's the -- well handled within the current preserving.

Q - Hakon Astrup {BIO 18861149 <GO>}

Thanks. Just to say that, say wage inflation, for instance, they are just end up 1% above your estimates over the next five years. How will that impact the total reserves? And can you give us some number sensitivity here just as far as to do the calculations ourselves?

A - Jostein Amdal {BIO 19939645 <GO>}

I don't think, we'll go into that detail. It is numbers that we have done and used for measuring around with position but not haven't made public earlier. But if you take five years, and then a larger part of reserves is actually affected. But as Helge mentioned, we are at 4%, 5% on this derivative G amount, which is one that running or influencing that the payout in the future. But the overall sale is I think is around eight years for the workers' compensation products, for instance, which is I mean it's a long part -- large part of the reserves, actually, even further out there. So I won't give you on the numbers sorry, but of course there is a sensitivity.

Q - Hakon Astrup {BIO 18861149 <GO>}

Thanks for the color.

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

Yes. We are -- we have a large claims organization with good agreements and we have continuous dialogue with our suppliers on changes in prices, but 90% of repairs in Norway and Denmark and managed through contracted suppliers and we had best market terms in Norway. And 75% of the costs are related to labor with fixed rates and annual indexation. So, of course, the discussions and negotiations with the suppliers when you come to the year-end, I guess they use more time now compared to one year ago and two years ago. But I do not have any reports to me that we have problems in that type of dialogue. So it's a ordinary business as well.

Q - Hakon Astrup {BIO 18861149 <GO>}

Thank you so much.

Operator

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

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

Thank you for taking my questions as well. I have two. Firstly, inflation question a little bit different. This is so that you think there is unlimited price increases, you can get onto your clients and that they will actually accept it, since they have no place to hide, but what do you think about the volumes. Do you think they will negotiate on their tariffs? And do some other changes to this, so they can sort of -- so you will get the lower price or volume for going forward. Is that something -- is something you can think of here is, that's unthinkable so to speak.

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

It's seldom, and I say that the question are wrong, actually, but we are not talking about unlimited ability Jan Erik. And I think it's important to start with the fact that the main driver for claims inflation is wage increases. And the G amount now is just around below 5%, but if you look at the estimates from Sweden, Denmark, and Norway for government is below 4% going forward. So we are not talking about limited with our perspective as we speak now.

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But you know, this is non-life insurance, it's the best for the next 12 months. The business is that we have to have estimate for claims inflation. That's also the same type of estimates and bets that our main competitors have to do. And in the environment we have no, we are very confident that we have strong ability to pass through the claims inflation in price increases, but we are not talked about -- we haven't talked about unlimited. So that's a scenario we do not look into at the moment.

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

Okay. Thank you. And you now have a new product in the housing or the re-selling stuff you talked about. How should you think about that this is a premium that people pay before they sell their house to -- so you can -- they can do some more preparation on before they selling or how is the pricing premiums and claims on that kind of product with?

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

It's a service, and it's not the risk premium. So this is a service concept if you are talking about this, yes.

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

Yes.

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

Maksimer. I think --

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

Maksimer.

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

Yes. And I think, what we are [ph] into pilots, Jan Erik, is that the average cost for preparations before selling is between NOK25,000 and NOK30,000. So this is the service beside the insurance premiums that we offer to our suppliers together with our suppliers for our customers to prepare for selling. And doing this, we take more care of our customers. We solve bigger problems and we position of home seller insurance in a good way.

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

Okay. So it's not a -- if it's not a premiums actually, what is probably would cost them to do. So, it's --

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

It's not the premium. It's a service product

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

Okay. Perfect. No, I understand it. Thank you. That's all my questions.

Operator

Our next question comes from Thomas Svendsen from SEB. Your line is open, please go ahead.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes, good morning. A question to the large claims, if you look at the large claims, I look away from whether effects. Is it possible to say anything about how much it's sort of as cyclical component, that these larger claims are increasing and the column is doing well. And how much is sort of unlock? And if you should be prepared for maybe more large claims in the next couple of years than what has seen in the last couple of years?

A - Jostein Amdal {BIO 19939645 <GO>}

We do not expect that, Thomas. I'm going to see that there is any kind of cyclicity in the -- word absurd. I mean, in general, we do not make public, so the actual losses or the simple each and every loss, but if we did send out the press release related to the (inaudible) which is a building under construction that too far. We don't see anything specific about the (inaudible) that we've had in a non-vendor related, lots of stuff we've had in the first quarter. I would subtract these two pure randomness.

Q - Thomas Svendsen {BIO 6070863 <GO>}

I don't know the question to private Norway. Given that the households or your customers disposal income is reduced by electricity price, in general, increases interest rate, increases on mobile so sharp insurance premiums increases. Should we still expect that sort of the underlying volumes if not sensitive to sort of households income or should expect that the amount -- sort of the total amount of insurance to go down that the households are doing something, because their disposable income is sharply the great thing?

A - Jostein Amdal {BIO 19939645 <GO>}

Of the certain extent, at least in Scandinavia, these are basic products that you buy them and it's the house on the car that you have, and more or less everyone actually ensures that whether someone has a reaction to price increases, which is actually more coverage on their car might be, but we've seen in the previous downturns that it doesn't typically happen. Baltics was a bit different story, we saw during the pandemic that people more --

they more tempted to cancel their policies short-term at least. But in Scandinavia, this is not been a typical behavior. I mean, there are -- the number of new apartments, houses still increasing, same goes for the car sales, so they were quite slow in the first quarter of 2022. So, as the underlying assets increase in volume, the insurance volumes should also increase.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay. Thank you.

Operator

We will take our next question from Alexander Evans from Credit Suisse. Your line is open. Please go ahead.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi everyone. Thanks for taking my questions. Mainly just firstly on the Baltics maybe, thanks for laying out that plan. I just wondered sort of, on the confidence level that you have given, the combined ratio that you reported in 1Q is 113%. And also I noticed that you're talking about seeking inorganic growth opportunities in the Baltics. So, just keen to understand how that would fit into the sort of restructuring there. And then also maybe just on the home sellers market. I think you said about 10% market share, please could you sort of remind us on what sort of market size you see there? And what sort of contribution that is to sort of private lines?

And then maybe just on sort of new car and new and used car sales, that's been down in the first quarter. I was just wondering how that plays into to (inaudible). So do you expect sort of lower new business growth, but also does that mean sort of higher attention as more people probably stay with you. Just sort of want to understand that sort of dynamic? Thanks.

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

Yes. I commented the Baltics and we have used time together also with an external partner and it's not dramatic measures actually, is quite well known measures, we are implementing in the Baltic organization. It's about pricing, re-pricing, risk selection, it's about cost production, significantly cost reduction and it's also our focus to be more focused going forward.

As I said, we will move towards and below 100% in combined ratio of this year. And further we will move down towards 90% and demonstrate improvements quarter-by-quarter. And as I have said before, we will continue to look for value creating solutions in the Baltic, it's not so close to Norway and Sweden, and it's not Scandinavia but we will also look for inorganic growth opportunities. So if it could increase our position and secure our position in this profitability journey, we have started now, we will also look into that. So we are quite optimistic actually both buying and finding different kind of solutions in parallel with implementing the efficiency program we have started to implement now.

So 100% -- below 100% this year towards 90% for the next couple of years. And in parallel, all kind of strategic opportunities will be evaluated.

A - Jostein Amdal {BIO 19939645 <GO>}

The second question on the home seller insurance market, which was kind of open up with this new product from January 1 this year. I think we commented on the expected golden standard, which is kind of rough estimates, at over time this should develop towards NOK2 billion to NOK3 billion. But I mean it has started very strongly, because the new requirements for tax -- for assessments, processors is higher so that is actually the turnover in the -- of new houses or sort of in the housing market has been over I think in the first quarter due to this.

And when we're saving 10% market is maybe kind of still got five large pockets of distribution tool that we have secured for our product. I mean, the number is also NOK2 billion to NOK3 billion or a few years and then we'll see how this develops. This is, of course, develops on the price level that we did in the over time period established itself in that market.

Third one, new car sales, yes, it over means new kind of new business from us from new sales. But remember that our market share is higher in the second-hand transaction market when the new submit cars into the second-hand here. And our -- the market share there be it fossil or electric, whatever is much higher in that mode. So, as I commented on the previous question here, the number of new cars is still actually increasing, mostly number of cars just in Norway is increasing, which means our potential business volume is also increasing.

Q - Alexander Evans {BIO 19956412 <GO>}

Okay. Perfect. Thank you.

Operator

We will take our next question from Faizan Lakhani from HSBC. Your line is open. Please go ahead.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Thank you for taking my question. I just had a follow-up question on Norway property. Your PASA [ph] (inaudible) said that they were able to put a NOK0.05 rate increases up in private property. I just want to understand, is the market able to put through 7% to 9% there or is that just yourself right now?

And the second question is on the private Norway segment as a whole, the underlying loss ratio development was very favorable in the first quarter. I just want to understand, is that a fair run rate for the rest of the year? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll talk to the easy in a way, we -- although it might not be easy in fact. But we are able to push through price increases that are at least in line with claims inflation. We've demonstrated that over the increasing claims inflation period that we have behind us and we will manage that also going forward. This is clearly doable. It is because we have a very strong comparative position.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Just wanted to understand, are the rest of the market able to put through that level of rate increase as well?

A - Jostein Amdal {BIO 19939645 <GO>}

I don't think I'll talk about the rest of the market.

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

Talking about the competitors, we don't do. Remember that we have also a very strong customer dividend model in our way and that's quite unique. And also we have to look into all kind of aspects when you are discussing, pricing power ability to drive through price increases, but we mainly focus on ourselves.

A - Jostein Amdal {BIO 19939645 <GO>}

Private Norway, I think we don't guide on kind of what will be the loss ratio or under IFRS 7 [ph] to be going forward. But if you kind of look at the underlying frequency loss ratio, that is kind of nothing -- there is no kind of specific volatility or specific events that make it so good. This is the -- just the accumulated effects of work on everything with you on both claims handling, efficient pricing, and cost reductions. That is manifest itself in this level. It's been very high profitability elements for a number of quarters, so that I won't say anything about kind of what will be the run rate over the next few quarter, I would say, there's nothing specific about this quarter that is kind of should hindrance from continuing.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Perfect. Thank you very much.

Operator

We'll take our next question from Jan Erik from ABG. Your line is open. Please go ahead.

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

Thank you. Just one follow-up on the run of gains. The level of 3.7% is, of course, in line with last quarter but lower than last year. Is this sort of in the prediction, we should expect that it should continue to lower into 2023?

A - Jostein Amdal {BIO 19939645 <GO>}

Well, I think, I might have mentioned it in our previous quarterly call, that there is a NOK1 billion run of gain that we have -- it's a last year of this year that they have this planned reserve list from the vintages 2008 to 2014, mainly related to workers' comp in Norway, personal accident cars, and on the workers' comp in Denmark.

We talked a bit about this on the CMD also in November, whereas if you look at historically, there has been positive run of gains, I mean, one to two percentage points of previous, but this is a -- this was history, our kind of guidance here is that we do not have any planned reserve releases going forward.

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

So if you look into the -- on Slide 27, you show it very nicely, so obviously on the NOK1 billion you would just have had NOK34 million run of gains in this quarter.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. That's great.

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

Perfect. Thanks a lot.

A - Jostein Amdal {BIO 19939645 <GO>}

that.

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

Operator, are there any further questions?

Operator

It appears there are no further questions at this time. Thank you.

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

All right. Thank you. Thank you for all your good questions everyone. We will be participating in a number of roadshow meetings and conferences this quarter too. We're happy that the majority will be in person this time after two years of almost fully digital meetings. The meetings will be held in Oslo, London, Copenhagen, Frankfurt and Rome. Please see our financial calendar and our website for more details. Thank you for your attention and have a great day. Bye.

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