Q3 2021 Earnings Call

Company Participants

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

Other Participants

- Alexander Evans
- Blair Stewart
- Derald Goh
- Faizan Lakhani
- Hakon Astrup
- Jan Erik Gjerland
- Thomas Svendsen
- Ulrik Ardal Zurcher
- Vegard Toverud
- Will Hardcastle

Presentation

Mitra Hagen Negard {BIO 3974076 <GO>}

Good morning, everyone. And welcome to this Third Quarter Presentation for the 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 through the numbers in further detail. And as usual, we have plenty of time for Q&A towards the end. Helge, please.

Helge Leiro Baastad {BIO 5865247 <GO>}

} Good morning, Good morning, and welcome everyone. I hope you are healthy and well. We are very happy to continue breaking records for our results, thanks to of our solid brand, efficient operations, and dedicated employees, who put strong efforts in serving our customers every day.

Let's turn to Page 2 for some comments on our very solid third-quarter results. We generated a solid before -- profit before tax or NOK2,022 million, of which NOK1,804 million in underwriting result. This is the best third quarter and writing result in our history. Earned premium rose by a healthy 8.2% or 9.1% in local currency. This (Technical Difficulty) reflects strong operations, effective pricing measures, good risk selection and stringent cost control.

We continued improving our profitability through both strong growth and very efficient operations. Our cost discipline remains strong, as you can see from the ratio of 13.6% for the quarter. We generated (Technical Difficulty) the financial result of NOK207 million, reflecting the turbulent market conditions during the quarter. And our return on equity came to a very good 26.9%. (Technical Difficulty) stand we will revert with more detailed comments on the results for the quarter.

Then turning to Page 3. As you saw from our release this morning, the Board has decided to distribute a special dividend of NOK4 per share, related to excess capital release. This is in line with our dividend policy and our practice over many years. The payment of this special dividend is pending approval from the FSA as it will bring our payout on the 2020 results above the threshold of 100%. We expect the FSA to approve this and we'll revert with the relevant key dates as soon as we get their decision.

Then turning to Page 4, a few words about our operations. Staying ahead of claims, inflation is key to maintaining good profitability and has a high priority with us. Inflation has picked up during the past months as a result of supply shortages and high demand for many products. This price increase for construction materials and spare parts for cars is so far in line with what we expected when we spoke about this in July, in connection with our second quarter earnings release.

Repair costs were not impacted during the third quarter. However, we expect this to gradually become apparent in claims inflation from the fourth quarter lasting well into 2022. And we are prepared, we expect an increase in claims inflation for private property in Norway to be around 5% to 6%, and for motor at 4% to 6%. Both driven to a larger extent by material prices, although for motor the increase is somewhat limited due to a stronger kroner and we expect labor costs to rise modestly.

In response to this, we are adjusting over tariffs accordingly and we will continue to raise prices for private property insurance in Norway well above expected claims inflation. For motor, we will continue to raise prices at least in line with claims inflation. We are comfortable that we will be able to put through the necessary price increases given over strong market position and the fact that this impacts the whole industry.

We expect claims inflation to rise in Denmark as well for the same reasons, and we will not compromise on profitability. Therefore, we will put through necessary price increases. The extent, reach and duration of the inflation pressure the world is experiencing now is uncertain. We cannot rule cannot rule out that the current rate of claims inflation will pick up or lost for a while. It can impact more than just materials. Most importantly, labor costs, and claims for personal injuries. This would impact the whole industry. And once again, thanks to our strong market position and agile capabilities, we expect to continue staying ahead of and pricing at least in line with expected claims inflation.

Sales in private Norway have been strong this quarter too. Business volumes are up and we have managed to continue to put through necessary price increases while further increase in customer retention. The commercial segment has also continued the good development through the third quarter with strong renewals adding new business and putting through necessary price increases. Retention has risen even higher to 92%. Going forward, we will continue to raise prices beyond claims inflation for certain pockets in the large corporate portfolio in the commercial segment to further improve profitability.

The market continues to be hard, so we expect to be able to put this through. The strong momentum in Denmark continues with good premium growth and higher profitability. The NEM transaction was completed earlier this month and we are very excited to commence partnership with particularly to saving banks in Denmark. And they have expanded our partnership network by entering into an agreement with Home, a leading Danish's real estate broker. This will further strengthen our position for private property insurance in Denmark.

We have moved forward with our new core IT system, which is now applied for selected areas of new sales. Migration of existing private customers has just started, and after completion will be followed by including commercial insurance lines. We are convinced about the benefits of the new system and look forward to generate efficiency gains from next year.

Profitability in Sweden is improving. As mentioned earlier, we are fully focused on transforming over Swedish business to become a more digital insurance provider. Our ambition is to deliver excellent customer experiences to digital services and high degree or automated internal processes. We look forward to speaking more about our plans and measures at our Capital Markets day in November. Results in the Baltic's are weak and far from satisfactory. We have a clear ambition to improve results there, with the particular focus on distribution, pricing and claims handling processes.

Then over to Page 5, and a few comments on our latest product development and sustainability initiatives. Starting from January, NCD will contribute to safer property transactions for home buyers, selling to real estate agents by providing new ownership change insurance in Norway. This product is adapted to new regulation, which will come into effect from January, protecting buyers to a higher extent than earlier. We expect this product to be in strong demand, catering to the seller's liability for hidden defects or deficiencies.

We are happy to announce several new sustainability measures to this quarter. Firstly, a great achievement which has been followed up by several peers. And Syria has lifted the damage threshold for condemnation of vehicles by 20% to 80% of the vehicles replacement value. This is now a new standard for the industry in Norway. With this, we introduced waste and climate footprint in claims processes. We also expect to simplify claims processes and reduce the time taken for claims settlement.

Another initiative is our People Way Project in Denmark, providing our largest suppliers with tools to improve efficiency in their claims handling. We are very happy to see that it has proven successful, with the suppliers having achieved higher customer and the employee satisfaction as well as lower repair cost.

In terms of service development, we have expanded our Helsehjelp 24/7 product with the digital physiologist therapy available for all private customers in Norway. We continuously monitor EU regulations related to sustainability. We are preparing for reporting according to the EU taxonomy from 2022 among others by amending product defined services tariffs and damage prevention initiatives.

Mental health among the youth is an important area for Gjensidige. The group has established a common project together with Gjensidigestiftelsen, the foundation, which will over the next three to five years work on implementing measures to improve live skills. Within Gjensidige, the project is initializing several initiatives, most recently added by agreement to support two Norwegian organizations, MOT and Ungt Entreprenorskap, which have a strong base in primary schools.

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

Operator

Hi, everyone. Apparently we have some problem showing you the slides as we present the results. We will take a very short break to check this up and be back with you in a very few -- in a very short time.

Jostein Amdal {BIO 19939645 <GO>}

Thank you. Sorry for the discontinuation. But we'll try to continue on Slide 7. If the slides don't show up, then I'll refer to the slide numbers.

We delivered a profit before tax of NOK2,022 million in the third quarter, which is slightly below the third quarter of last year. Our underwriting result was up NOK292 million. And the pension business also contributed within improvement. However, our financial result was significantly lower than the third quarter of last year, reflecting the somewhat turbulent markets, particularly in September. Good premium growth and improved profitability drove the strong improvement in our underwriting results.

Our Danish operations and commercial in Norway were the main contributors for the improved results, and the private in Sweden also contributed to the increase. The Baltic segment generated lower results. We estimate a COVID impact on claims to approximate NOK64 million, or 0.9 percentage points on the gross rate for the third quarter.

With these restrictions lifted in Nordics, we expect activity to return to more normal levels, and hence COVID impacts on claims are expected to gradually come down to zero. It was, of course, difficult to predict the long-term impact from the pandemic on customer behavior or the risk picture. But so far, there are no major changes to that.

Turning to Page 8. Current events are up 8.2% or 9.1% adjusted for current FX. All segments record the higher premiums in local currencies. We saw strong increase in premiums for the private segment, driven by price increases for motor, property and accident, and accidental health insurance, as well as high volumes for motor insurance. We also increased the number of customers, it maintained our strong market position and competitiveness. Demand for travel insurance is still picking up and we're already in line with pre-pandemic levels. There are some premiums in the commercial segment followed effective pricing measures, solid renewals and portfolio growth. Including one new large contract included from the first quarter.

All the main product lines in this segment recorded higher premiums. In Denmark, premiums increased for both the commercial and private segments. The premium growth in the private segment was primarily due to growth in change of ownership insurance, driven by continued strong housing markets. The premium growth in the commercial segment mainly reflects volume growth in all lines of business and price increases in the workers compensation product line. Travel insurance volumes were up year-on-year, but received below pre-pandemic levels.

Earned premium to Sweden measured in local currency increased by 0.8%, mainly due to volume growth and price increases in the commercial portfolio. This was slightly offset by volume decrease in the private portfolio. The rise in premiums in the Baltic's was mainly driven by health, motor and property insurance lines. Travel insurance volumes increased significantly compared to the same period of last year, but they were still below pre-pandemic levels.

Turning over to Page 9. The loss ratio for the third quarter improved further, down 1.9 percentage points to a very strong level of 62.4%. Large losses were flat with a normal level significantly below our expectations for a quarterly average. Run-off gains were somewhat higher than both the third quarter of last year and planned releases. The underlying frequency loss ratio improved by 1.4 percentage points with the fixed effective pricing measures and good risk selection being the main drivers.

Adjusted for the effects of COVID-19, the underlying frequency loss ratio improved by 1.6 percentage points. We continue to improve our key figures in all segments excluding the Baltic's, and are happy with both direction of development and the level of profitability. We however sometimes seen the improvements also in Sweden, and although the third quarter generally is the best quarter and the relatively scale we have in Sweden means there will be higher volatility in quarter -- quarterly results there. The profits we're reporting our quite good, and we're optimistic about the development going forward.

The Baltic's has a very clear upside potential, we'll continue to implement measures to increase growth and improve operations going forward, and look forward to speak more about this at our Capital Markets Day in November.

So, let's turn to Page 10. We recorded NOK1,024 million operating expenses in the quarter. Our cost ratio moved further down by 0.3 percentage points to 13.6%. And excluding Baltic's, the cost ratio was 13% for the quarter. The main driver of this improvement is our premium group and strong cost discipline in the group. Our low-cost ratio in Norway came further down by 0.1 percentage points, 10.9%. Denmark recorded 0.4 percentage points decrease in the cost ratio to 13.6, driven by good premium growth.

We expect the new core IT system to contribute to further cost efficiency in Denmark, when the system is fully up and running for all products and customers. The cost ratio in our Swedish business decreased by 0.4 percentage points coming to 7% for the quarter. The Cost ratio in the Baltic's increased by 0.7 percentage points, driven by provisions related to higher sales volume.

A few comments on the pension operations on Slide 11. The pre-tax profit came to NOK55 million up year-on-year, reflecting growth in the business. Assets under management continue to grow, reaching NOK48 billion in the third quarter. And less return next to us 14.3%. The sales and margin at the end of the quarter was 152.4%. So far, the introduction of individual pension account gas not let to any significant change in the market dynamics. Further, it is prudent to expect some pressure on the profitability in the short to medium term. We and all the other players in Norway are in the process of transferring policies and expected to be completed towards the end of this year.

Moving on to the Investment Portfolio on Page 12. Our Investment Portfolio generates a moderate return of 0.3% in third quarter. The March portfolio returned 0.5%, a mixed development for the different asset classes in the free portfolio resulted in zero return for this portfolio in the quarter.

Market movements during the quarter reflected moderation of expectations for economic growth and somewhat increased expectations for inflation. Returns on cyclical assets such as equities were tempered, although there are dispersion across the markets. Some increase in interest rates and somewhat lower credit margins also impacted returns. Our private equity holdings performed well, reflecting higher market valuations. Returns on the property investments were also good, reflecting the strong commercial real estate market in Norway.

Over to Page 13. Our capital position is very strong, with the solvency ratio 182% at the end of the quarter. The ratio is down 30 percentage points from the end of the second quarter, with the main drivers being especial dividend NOK4 per share and redemption of our Tier 1 loan of NOK1 billion in September. Solvency II earnings remained strong and vital result, contributed positively to the loan funds. Our capital requirements rose as a result of growth in our P&C and pension business, as well as higher market risk, holding increased exposure to convertible bonds and increased market risk (inaudible) functioning perfectly.

The Pensjonsforsikring transaction in Denmark was closed earlier this month. Together with the closing of the all company transactions, which we also expect will be carried out in the fourth quarter, these factors will bring down our solvency margin by 5 percentage points, all other things equal.

Finally, a few words on the last -- latest development of our operational targets on Slide 14. I'm very pleased with the progress on operational targets this quarter. By delivering on these operational targets, we continue to improve our competitive position and lay the ground for future profitability. Customer satisfaction continues to be at a very high level. Retention in Norway is slightly up from last quarter from the already very high level. And retention outside Norway has improved slightly in Denmark and Sweden, and is somewhat down in the Baltic's.

The third is our target on sales effectiveness based on running 12 months at 23%, compared with our base line year of 2017, driven by cost of good sales and stringent cost control. The share of automated tariffs is stable compared to the level of last quarter, and we currently stand at around 55%. Progress is good and we will continue to include more progress going forward, in addition to further defining tariffs already included.

On the claims handling side, digital claims reporting has gone slightly up this quarter and has reached the target of 80%, and the share of claims handled fully automatically has improved as well. For claims processed to be defined as fully automated, no human interaction is required. We will continue to develop these Digital Services further to the remaining of 2021 and onwards.

We have reduced claims costs further and exceeded the target even more this quarter, with procurement and insurance fraud prevention making the largest contribution to the increase. I'll then hand over back to Helge.

Helge Leiro Baastad {BIO 5865247 <GO>}

} Thank you. Yes, then to sum up on Page 15. We are very pleased with the strong results we continue to deliver. We will continue to focus on growth in our markets. Together with strong and efficient operations, this is the prerequisite to continue delivering solid results and attractive returns. We are committed to having a strong capital discipline and our solvency position is very robust, also after distribution of yet another special dividend.

The economic prospects in the -- our Nordics markets are encouraging, and the pricing environment continue to be very good. This together without strong product offering and efficient operations lay the ground for continued strong results going forward. Thus, we are confident that we will deliver on all our financial targets this year.

Let's turn then to our final page in the presentation. A quick reminder of our Capital Market Day on the 24th of November. We are looking forward to this opportunity to speak about our ambitions and plans, and we hope you will watch our webcast and participate in our Q&A sessions.

And with that, we will now open for the Q&A sessions of this presentation. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions). We will take the first question from Alexander Evans from Credit Suisse.

Q - Alexander Evans {BIO 19956412 <GO>}

Hi, Helge. Hi, Jostein. Congrats on the record result and thanks for taking my questions. Maybe just on the underlying frequency loss ratio, you mentioned that down 1.6 percentage points, adjusting for COVID. If we focus on the Norwegian portfolio, you mentioned the higher price again in property and in pockets of commercial. Is that's what's driving the improvement here?

And then are you finding it easier to put through higher rates in other lines like motor as well? Or is that just risk selection is improving? I'm just trying to understand the sense of the outlook that we should expect in the Norwegian portfolio?

And then secondly, just on the split between volumes and premiums -- volumes and price. Could you give a little bit of a split on the private commercial lines? And how do you think your market share has been developing here? And then just finally on -- sort of on the growth angle. Obviously, you got very strong organic growth. What does the NOK4 special mean for your growth ambitions outside of Norway? And you still perhaps feel a need to catch up on deals given what we've seen with Tryg and Alm. Brand? Thanks.

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

} I can maybe start some general comments and Jostein can give you some more information about underlying frequency claims to open it. In Norway, we are now very pleased with the profitability in private. Motor is at good level and when we talk about price and volume, it's a -- as we communicated of the second quarter, it's a 50/50 mix between volume and price driven growth, if you're taking market shares or not. I think that's lagging. After second quarter, I think we were stable or up maybe 0.1%. That's right?

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

It's flat compared to what we had in the second quarter.

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

} Yes. So we are in a very good position when it comes to the private profitability. As you know, we have communicated price increases above claims inflation for property for a while. And property profitability has improved and we will continue pricing up property insurance beyond the index.

Commercial, we are very pleased with the improvement in profitability and it's highly customized price initiatives and measures within our commercial business and still it's pockets, where we will price above index for commercial business in Norway.

Volume-price, I commented the mix between volume and price driven growth of cars or motor. When it comes to private property, it's a good mix between volume and price driven growth also there, but it's mainly price driven for private property.

Yes. And underlying frequency claims development, Jostein, maybe you have some comments on that.

A - Jostein Amdal {BIO 19939645 <GO>}

And I think, Alex, your question was mainly related to the commercial, if I understood you correctly, where we are seeing -- in which areas, where we see the small pieces have increased. Prices aren't -- if I understood you correctly, that in commercial, I think we have in general priced above expected claims inflation for all lines of business. So it's -- I think it's wrong to point that one specific pocket, is what we've said in the previous quarterly presentations and still continues to hold this, that we see the need more to price up in the larger end of the spectrum for larger customers rather than the SME part, reflecting the difference in profitability there.

So, I think, I'll stop there in terms of being more specific on the commercial guidance. If you look at the improvement in the underlying frequency loss, it's driven by good risk selection and the price increases that they have seen and if you see they have 1.4 percentage points improvement year-over-year on the commercial -- in the commercial area in Norway.

And you have the last question about dividends. And what that exactly feels and things in terms of ambition for growth, I would say no. We still have room, we believe for bottleneck acquisitions, given the (inaudible) we have and generating capacity that we continuously have. And if there is something big, we will, as earlier, revert to the capital markets for financing. So it's -- and our strategic agenda and M&A ambition is -- remains the same.

Q - Alexander Evans {BIO 19956412 <GO>}

Thank you very much, everyone.

Operator

We'll now take the next question from Hakon Astrup from DNB Markets.

Q - Hakon Astrup {BIO 18861149 <GO>}

} Good morning. Two questions from me. The first one on inflation. So just based on your judgment, have you so far seen any repricing activity on the back of the current inflationary pressures on materials, except either from you or from peers? That was the first question.

And the second question on run-off, just on (inaudible) if you at some point will provide some guidance to indicate levels you expect for run-offs in 2023 for instance on your Capital Markets Day next month?

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

} Good morning, Hakon. Claims inflation has been the big topic for many months now. And I think I commented that -- during my presentation that, we do not have any change in our expected claims inflation prospects going forward, compared to what we said in July. And I also commented that we do not see the surge in prices in our Q3 repair costs.

When it comes to pricing, I think -- I said that we think the market is still hard and we are moving towards end of the year and lots of renewals. So, I think this topic is the main topic for all of our peers also. And as I said, we do not -- it's claims inflation for material and of course, it's also problems and bottlenecks in the supply chain.

And with that uncertainty, we think and we had seen price increases around us. So we still see the markets hard and we expect this to be hard into 2022 as well.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. If I may fill in, I mean, this is something we are keeping on the extremely close track on a very decentralized detailed level. And we are fairly confident that our terms with the suppliers is, given our size and the work we do here, are best in Norway, although we -- and we don't have a fixed price, but I think we have the best price for our materials. And if you look at the numbers for the third quarter, there is no sign of any specific spike in inflation for our imports.

But as Helge mentioned in the -- in his presentation there just a few minutes ago, we are monitoring this very closely because we do see globally that there are signs of disturbing and we need to be ahead of that. And the first line of defense there is, of course that we do increase prices somewhat above our expectation or claims inflation.

Run-off in 2023, I can only repeat what we've said for so many quarters now. We have a planned run-off release until the end of 2022 of approximately NOK1 billion based on specific lines of business and vintage risk going back 2008-2014. And then we do reserve according to best estimate for all new claims that occur. I think that is the message.

Q - Hakon Astrup {BIO 18861149 <GO>}

So if I understood you correctly there, you will not provide any guidance with regards to the run-offs level after 2022. Is that correct?

A - Jostein Amdal {BIO 19939645 <GO>}

No. I think the only possible guidance given the accounting regime is an expectation of zero and then you will have for yourself look back at what has typically been the run-off patterns. Of course, these are -- we are talking about, say, NOK30 billion of technical reserves that are estimated based on expectations of future claims going as far ahead as 40 years and there is uncertainty around that.

And on average, I think there's been a slight degree of conservatism in how these claims have been reserved, but the accounting principle is best estimate and hence expectation of zero we will take.

Q - Hakon Astrup {BIO 18861149 <GO>}

} Thank you. That was very clear.

Operator

We'll now take the next question from Will Hardcastle from UBS.

Q - Will Hardcastle {BIO 22230376 <GO>}

Hi, guys. Thanks for taking the question. Just following up on that run-off, you said it's coming -- the surplus run-off coming to an end in 2022. Can you say anything about how the reserve -- spot reserves are now compared to where you initially announced risk level of (inaudible) per annum? Have they sort of trended exactly in line with what you've assumed? I presume so because that's what's coming through in your solvency, but just to be clear on that.

And the second one, how should we think about your solvency level now within the range? Is it fair to simply say, post the acquisition completions, you're broadly now at the midpoint of the range, and that's why you feel most comfortable. And so, we should think about distributions each year to land around this level? Is that a fair assumption? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I will -- just a slightly blurred line, Will. But if I understand you correctly, you're asking about this originally planned pool of run-off gains that we communicated, well that has changed over the course of the year. Is that correct?

Q - Will Hardcastle {BIO 22230376 <GO>}

Yes. Whiles the reserve (inaudible) is broadly -- expected when you initially set it?

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. It has been -- there has been no changes in the degree of significance in that investment of those interest rates. They have run-off as planned. And of course, on average over the last year, we actually also had a slightly positive run-off gain on top of that due to normal volatility in numbers. And as I said in my response to Hakon's questions earlier, that there is -- it's a typical tendency to be somewhat conservative reserves, but that is something we guide for. But the solvency level -- we have reported related to after these transactions, that they are -- have completed and are expected to complete in Q4. It would have been 177% at the end of the third quarter.

And then of course, you also need to remember that the formulaic coming from subtraction of 80% of the profit after tax, which is already included in the solvency calculation. We have a solvency ratio of 150 to 200. We are comfortable within that. The mid-range is a -- it's a nice enough place to stay but our dividend policy is high and stable nominal dividends on the ordinary dividend. And if that's kind of -- if underlying profits increase, we also intend to increase the regular dividend.

And then if there is kind of excess capital building up due to profits or one-time effects, then that would be considered for a special dividend, as we have done for a number of years now.

Q - Will Hardcastle {BIO 22230376 <GO>}

That's brilliant. And if I may just follow up on the solvency. Was there any model approvable within the quarter in terms of moving the models closer together?

A - Jostein Amdal {BIO 19939645 <GO>}

No.

Q - Will Hardcastle {BIO 22230376 <GO>}

No change. Thank you.

Operator

We'll now take the next question from Ulrik Zurcher from Nordea Markets. Please go ahead.

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

Yes. Thank you. I only have one question left now. You mentioned a lot of times during the presentation that you will not compromise on profitability, but little bit depending on how we calculate seasonal effects there, it looks like you're 5 to 10 percentage points too low on your combined ratio versus your target. So does this mean that you're targeting a combined ratio in the low 80s instead of the low 90s, excluded run-off claims now?

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

} I think it's fair to say, Ulrik, that we have the financial targets that we have, and if you join the Capital Markets Day in November, I guess we will elaborate around financial targets going forward. And you have to know that seasonality in the business, we are in the strong situation now and when we talk about financial targets, it's long-term financial targets, so we will come back in more detail in November on that.

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

I'll look forward to that then, Helge. Thank you.

Operator

We will now take the next question from Blair Stewart from Bank of America.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good morning. And well done on the numbers, guys. I've got three questions, I think, just on inflation. And are you seeing labor shortages in the Norwegian labor market, that's being seen in other countries? And is that a possible driver of wage inflation? Maybe just comment around that, what's going on in the Norwegian labor market?

Secondly, if you do see any impacts of inflation over and above your existing guidance, is that something that will impact the existing reserving position of the companies? Is that something that we might need to look at the existing assumptions for inflation, if you do see a spike up in inflation over and above your expectations?

And finally just focusing on that 13.8% increase in commercial premiums, could you maybe unpack that a little more? You talked about one large contract and just trying to get a handle on whether that's been driven by volume gains or price. Thank you.

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

} I'll take the first one and Jostein to second one there. We haven't seen any labor shortage in third quarter. And as I said, we haven't seen this affected us in the third quarter figures. Going forward, we have seen this internationally, but supply chain problems can create bottlenecks for spare parts. Then we are talking about motor insurance. As you know, the chips for electrical cars is a problem and this can delay repairs and increase the cost, for example, for high usage of rental cars, et cetera, et cetera. So going forward, this is strongly focused when we are working with our suppliers and with price measures going forward, but we haven't seen anything in the Norwegian markets so far. Really, it's labor --

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Just interested to know why you think that. Just Helge, why do you think the Norwegian market is not seeing labor shortages, but others are? Any thoughts?

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

} It can be lots of reasons for that. It may come. We are in the same situation as an -- other countries. But in our figures, our claims during the third quarter, we haven't seen this as a problem so far, but it may come, Blair.

A - Jostein Amdal {BIO 19939645 <GO>}

And it's also from there could be different sector hits at different times (inaudible)

In terms of your second part on the inflationary -- potential effects of an increase in inflation on the reserves. It's related to the question about wages versus material inflation because materials (inaudible) we see in the inflationary spikes in the kind of in the -- or increases so far. And that's mainly hitting short tail of business with -- meaning, fairly in a short time from it can happens to when it's speed up, so the inflationary effect is not that as big there and risk areas, of course, on the personal injuries that underlying wage inflation, which again affects the government base amount in the longer term. And then, there is an obvious risk that if there is a prolonged wage inflation, this might affect their serving level on the personal injury lines.

We reserve according to our own forecast of this going forward in the longer term, but if that is wrong forecast, then there is a risk to the reserve as well. I think having said that, we have -- we are fairly confident that we have enough reserves and have this kind of provisions for some of the increases in somewhat increased wage inflation in the long term.

Q - Blair Stewart {BIO 4191309 <GO>}

Are you able to say what your assumption for wage inflation is within your reserves or is a range of assumptions?

A - Jostein Amdal {BIO 19939645 <GO>}

That's not something we disclosed.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you. And just on that 13.8% premium increase in commercial.

A - Jostein Amdal {BIO 19939645 <GO>}

It's -- we are not disclosing the (inaudible) one contract mentioned than disclosing the exact numbers there. But then it takes that away, it's still a very large increase in earned premiums for the commercial segment. And it's spread evenly across all products really, and in segments, both small and large customers. And it's a mixture of both pricing and volume effects within commercial.

We are also winning new customers there, so, it's net. So, I think it's a combination of our -- kind of very good competitive position and also the competitors need to do something about their profitability levels because they are behind us in the repricing curve, and makes -- gives us room to do the same and we did actually see in the numbers.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks again.

Operator

We will now take the next question from Jan Erik Gjerland from ABG.

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

Yes, good morning. One question left from us as well. On the inflation side, when you talk to your suppliers, when do they hike the price during next year? And what kind of impact would that have for you? Is it sort of that you will have it early in the year, in the middle of the year, running for another three years or how should we read that on your inflation side that's sort of are now ahead on premiums growth? But maybe inflation is coming behind you, as you say, and you are preparing for it with higher prices, but how should we read into your supply chain on the different side, motor, property, health, et cetera? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I think the final part of your question there highlights the complexity in offering that because it's extremely varied between the different lines of business and what type of suppliers you're talking about. So to give a general answer to that is -- in general, I would say it's dynamic. We are typically going into the new year, a larger share of supply agreements are signed at the end -- in the beginning of the year. We do not book prices as such for a number of years going forward, but we have fixed margins on the certain types of suppliers. But this varies so much between kind of property, garages or repair shops on the car side. And what we do on the health side. So it's very hard to give a one specific answer to that, Jan Erik.

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

If you could take the largest one or (inaudible) if it's so that you typically have different agreements with the different suppliers or garages are all falling due on 1st of January or is so that you have spread evenly through the year?

A - Jostein Amdal {BIO 19939645 <GO>}

That is the larger share, now being renegotiated in the -- at -- in the fourth quarter and applying for the next year. But then and also on the motor side, there is fewer counterparties than on the property side, because there are exchanged and the larger suppliers. So it's a more the way transparent market what's going on there.

And if specific prices on -- yes, in a very detailed level of specific parts and services that they do in (inaudible).

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

Okay. Just one follow-up. Last time, you have said that you did not see any large inflation on painting, wooden floors, and concrete, et cetera. Has that changed now? Since wooden materials, et cetera have sort of -- it was not part of the -- biggest part of your repair cost.

A - Jostein Amdal {BIO 19939645 <GO>}

That's correct. And we see on average we say that, the expected future trend in fashion in -- on the property side, I think we said around 5% last quarter maybe -- I think it's maybe 5% to 6%, is kind of our estimate now. Based on where we see, after a very detailed analysis of the different parts that go into taking a typical claim. But for motor, I think we said 4% to 5% of the second quarter and today we say 4% to 6% so, and the -- our first line of defense regarding these this future is price increases above this claim inflation level. I think, that's the situation for the whole market also.

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

Absolutely. What do you see from smaller peers which sort of do not have the sort of advanced pricing ambiguity? Are they sort of trying to pick up customers these days because they have lower price than you? Or is it so that they are just afraid and just pricing up everywhere and claims come back to you?

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

} If they are afraid or not, I don't know. But when I talk to the sales reps and the distribution, they are talking about our main peers, (inaudible) Tryg, so that's the large one. The situation we had several years ago, with lots of small players, I do not hear that much about them at the moment. And we do not see them either.

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

Okay. Thank you for your answers.

Operator

We will now take the next question from Thomas Svendsen from SEB. Please go ahead.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes, good morning. Could you talk a little bit more about this new change-of-ownership market? What do you think about the potential market size there? Is it more liabilities to ensure, so it will be bigger than the old change-of-ownership market? And what do you think about your market share, and how are you going to distribute this new insurance?

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. I mean first of all, this is I would say good news for consumers and insurance companies, is in our view better regulation of these transactions since are extremely important for an ordinary person's life and also, the record increased requirements for, what you call it, surveyor reports on the houses before tax rates also very good because it takes down the risk and clearly -- and more clearly than before, states where the regulation start, we have, as you know, not been part of the change-of-ownership insurance market in Norway under the previous regime, but we will now offer our change-of-ownership product.

We have extensive experience with this in Denmark, which I think is slightly a model for the new -- to certain extent at least a model for the renovation regulation as well and we are actually leading in Denmark in this area. We -- the main distribution channel for this product will be through --

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

} Agents, real estate.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, real estate agents. So, it's impairment to have agreements with this real estate agents for the distribution. But we will not comment on the specific market share targets, something like that. But this is in a way, it's good news, it's more to be insured and it's well regulated since -- regulated product and the type of risk which we are well used to look at.

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

} The total market is also uncertain, but over time we are talking about some few billion which included in total markets for this change-of-control products. It's a good for the total market development.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. And of course, there will be an introduction of variable costs to consumers and the insurance companies need to be well acquainted with the new products and the risks that are in it, but I'm not that stressed about the risks -- it's ordinary property risk, and it also fits well into the ordinary property product because we don't have more risk information about the objects that we insure.

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

} Finally, I think it's important to really have control for -- regarding pricing, as you know, this is a five-year products and that's the main difference between this change-of-control ownership product and motor, property and other one-year risk products. So you have to really know what you're doing when you price this and as Jostein said, we had a really good and strong experience from Denmark.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay. But do you think it will be -- is it possible to say or to try to think it will be bigger than the whole market or is it fair to say, it will be smaller number than whole market just because you do a much more check of the real estate before you sell it, or is it impossible to say?

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

} On the whole market?

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes. On the whole change-of-ownership market? I think that size of the market -- yes, the size of change-of-ownership market -- yes, versus the whole potential market.

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

} NOK3 billion to NOK4 billion over some years, I think this market could be.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay. Thank you.

Operator

We'll now take the next question from Vegard Toverud from Pareto.

Q - Vegard Toverud {BIO 17129809 <GO>}

Good morning. I also have some questions about the inflation part of business and for the property products. Is it so that construction cost index is the starting point or basis for your repricing discussions?

A - Jostein Amdal {BIO 19939645 <GO>}

It's -- I would say, yes, for the average of the portfolio.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. And then --

A - Jostein Amdal {BIO 19939645 <GO>}

Yes, it's a starting point, but please remember, our -- kind of our analysis or this presentation that we gave in the second quarter in terms of how much is material and how much is wage. And then, you have the estimates on wage increase, which are still fairly moderate I would say. We're talking about maybe some 3% expected wage inflation going forward. And then, the remaining part which is say 80% -- 75%, 80% of the total (inaudible) risk wages and the remaining 15 -- 20%, 25% is material. And besides the overall mix of that, we do expect some 5% to 6% claims inflation going forward.

Q - Vegard Toverud {BIO 17129809 <GO>}

And when I take the latest numbers and use the same share for materials and labor, I get to somewhat higher number. Is the reason for your number being lower that you further divide this into even more gradual parts and your material consumption is different from that of the index?

A - Jostein Amdal {BIO 19939645 <GO>}

Definitely. It's not like the index. I think we have something like 30,000 different kind of type of cost lines in our calculations of the --

Q - Vegard Toverud {BIO 17129809 <GO>}

Excellent. But --

A - Jostein Amdal {BIO 19939645 <GO>}

-- average, but that's not to say, it will be equal to the average, at least not in the short time frame.

Q - Vegard Toverud {BIO 17129809 <GO>}

But shouldn't this set you up for a significant margin expansion then going into next year?

A - Jostein Amdal {BIO 19939645 <GO>}

I can only give you our expected claims inflation in our statement that the price on average above the expected claims inflation for property.

Q - Vegard Toverud {BIO 17129809 <GO>}

Yes. But this is the starting point for that claims inflation, is that your expected claims inflation or is it what the market expects or the CCI[ph]?

A - Jostein Amdal {BIO 19939645 <GO>}

Of course, it's our, of course.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. Thank you very much.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes.

Operator

We will now take the next question from Faizan Lakhani from HSBC.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Morning. Congratulations on a very good set of results. I have three questions. The first question is on the Swedish business. So, the improvement in the Swedish loss rate -- underlying frequency loss ratio this quarter was particularly strong, especially when you compare it to a year-to-date picture. Now I appreciate some of that is sort of volatility and seasonality, but can you just elaborate on more what drivers of this were? And just more broadly, what is the level that you'd be happy to operate out in Sweden?

And the second question is, if I remember correctly at the half year, it was mentioned that pricing in Denmark is slightly below claims inflation. However, if you look at the improvement quarter-to-quarter appears to quite robust. How should we square the two?

And the final question is on run-off. So, Danish run-off was very strong. Please provide some information on what lines of business this has come from?

And just coming back to the link between inflation reserves, are you allowing for higher levels of inflation for year 2021 accident year, relative to what you reserved in previous years? Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

I'll start with this -- the two first ones, and then I'll -- I might need to get some help from you to rephrase the third one. But in Sweden, yes, we do have a very strong quarter-over-quarter improvement, but we see this trend now also in the -- towards the end of the previous quarter that the improvement was underway in Sweden. And as I said in my presentation then, we are actually more optimistic about development in Sweden now. But third quarter is easily the best and given the size today, there is more short-term volatility in the -- also in the underlying results in the Swedish portfolio and the other businesses.

Having said that, I mean, the improvements you see now is based on improved risk selection, probably especially in the commercial portfolio and also, that we managed to get to the price increases that we were hoping to get through there. So it's the result of an ongoing effort for the last one to two years, let's say, in improving the quality of the portfolio. And at the Capital Markets Day, we will talk a bit more about the overall turnaround in the Swedish business more than I can do at this moment.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Okay. Thank you.

A - Jostein Amdal {BIO 19939645 <GO>}

Denmark, I think we are aiming to price in line with claims inflation at least there as well. And there has been some focus on the discussion, I would say, between Tryg and the Financial Services Authority or the Competition Authority, whatever it is, on the degree of -- on the possibility to get to price increases without notifying customers specifically. And the kind of (inaudible) now on pricing, and (inaudible) normal price increases for Danish private business.

Q - Faizan Lakhani {BIO 20034558 <GO>}

The improvement is still pretty strong.

A - Jostein Amdal {BIO 19939645 <GO>}

Pardon.

Q - Faizan Lakhani {BIO 20034558 <GO>}

I mean, it is in line with claim inflation -- I mean, if it's in line with claims inflation, I would have expected the improvement in underlying frequency loss ratio to be a little bit more muted than it has been. I mean, it is that just earning through higher premiums from previous years, and the improvement going forward to be more limited.

A - Jostein Amdal {BIO 19939645 <GO>}

-- 1.6% increase in the -- percentage points increase in the underlying claims inflation adjusted to veteran and COVID effects in the Danish business. Combination of price increases improve risk selection, I would say. But there've always been volatility in quarterly numbers in non-life insurance. So yes, I think you should probably look at this over a bit longer term perspective.

And please, if you could please rephrase the third question. I didn't quite catch what you were asking about there.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Yes. I mean, in fact, there are two parts. The run-off in Denmark was very strong and if you could break down where that came from by line of business? And the second part is just going back to the inflation linked to reserves. Are you allowing for higher levels of inflation in year 2021 accident year relative to your previous accident years?

A - Jostein Amdal {BIO 19939645 <GO>}

On the last part of it, I would say no. We are taking into account both obviously inflation and our claims inflation expectations when we set the reserves. So I think we are correct to our best of our knowledge.

On the first part, where the claim run-off gains in Denmark comes from, we have one part which is the -- some part from the Workers' Compensation line of business, just going okay, and then the rest is kind of evenly spread out, I think, the risk to run-off against both in motor, property, and various other small lines of businesses as well. So, it's fairly well spread out during the third quarter.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Great. Thank you very much.

Operator

We will now take the next question from Derald Goh from Citigroup. Please go ahead.

Q - Derald Goh {BIO 20775137 <GO>}

Morning, everyone. Just had a couple of questions, please. So the first one just stepping back about inflation, but could you maybe talk about what are the inflation levels that you're seeing in Denmark, maybe in the motor and property lines? And related to that, do you also have the same kind of procurement contract that you do in Norway or what are the risks do you have there?

And the second question is just on the Baltics. Could you maybe elaborate more about what is the operational focus there? Because if I look at the underlying loss ratio, it looks pretty weak. But yet, you seem to be growing volume quite strongly.

A - Jostein Amdal {BIO 19939645 <GO>}

Claims inflation in Denmark. I think looking at similar levels in Denmark and it's the same drivers as we see in Norway. So we're talking slightly lower inflation -- claims inflation in motor than we see in property. But say it's in the 4% to 6% range.

So, it's also an element in this that we see that we see this is the cost of change for the typical claim year-over-year, but they're also improvements in risk selection with improved claims frequency and so on. So there are other parts that move this picture. So, it's -- yes, if you look at motor and property together, we're talking about the range of, say, 4% to 6%.

And then, your question about the supply, is that -- now I guess it was our focus in the Baltics. Is that right? You had also question about the supply (Multiple Speakers).

Q - Derald Goh {BIO 20775137 <GO>}

Sorry. Yes. Sorry, I was just keen to hear about if you had the same kind of procurement contracts in Denmark, as you do in Norway, or if you have any other levers that you have to mitigate the inflationary pressures.

A - Jostein Amdal {BIO 19939645 <GO>}

Yes. Now the procurement contracts are of the same type. It's not the (inaudible) fixed prices as such. But we have as in Norway very professional claims handling inflation that have best possible contracts with our suppliers there. Of course, we are market leader in Norway and are the largest buyer or procurer of the large type of things in (inaudible) element for claims inflation, not so in Denmark. But I think we still have very good set of contracts with our suppliers there, because as we said repeatedly now for the every quarter, we didn't have fixed price contracts over a number of years.

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

} Regarding the Baltics, as Jostein said, we will give more insight into the Swedish and the Baltic business in November, but we have used the word transforming to a fully digital provider in Sweden. So that's in Sweden. They are working with the sort of a new type of business model, while we, in the Baltics, focus on optimizing and continuously improve what you're doing there. And we look at it and if they manage to operate in the Baltic area with sort of the same type of business model as we have. So it's about distribution, including data analytics and price optimization and it's to actually implement lots of measures as we know that if they manage to operate with the same type, as I said, business model with best probability level than we have had for a while. But we will give more insight into that all the measures we are dealing with in the Baltics in November.

Operator

We'll now take the next question from Jan Erik Gjerland from ABG. Please go ahead.

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

Thank you for taking my follow-up. Just a couple of ones. The Swedish flooding, did that have any impact to you this quarter?

Secondly, do you have any Nordic clients that have risks outside the Nordics, for instance, if there should be flooding in Germany, flooding in France, or anything particular in England, et cetera, which could hurt them? And is there any opportunities in Denmark taking either people or clients, when you see now Codan being sort of separated up into Alm. Brand?

And finally the 160 basis points underlying breakdown. Could you please break it up into what kind is price driven? What is average claims driven? And what is frequency driven?

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

} Regarding the Danish market, Jan Erik, as we have said several times, it's more fragmented compared to Sweden and Norway. So, we are hunting opportunities in the Danish market all the time. I will not go into and comment on people and customers and opportunities related to Alm. Brand. But we are hunting all kinds of opportunities and it's more fragmented market and we see lots of opportunities that are --

And in terms of the Swedish heavy rainfall in (inaudible). We were exposed to have a book to loss related to that event in our third quarter results. I don't think we've specified number. No.

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

No. As we discussed in the pre-selling period call, where you can see that this is a limited number.

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

} So most affected on Sweden, but on the group level it's nothing much. But we have not short -- extremely limited exposure to the kind of floodings that we see in predominant Europe. We don't have clients with that kind of exposure.

And then the 160 basis points, no, I don't have that breakdown for you, Jan Erik.

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

Can you tell anything about what would you see underlying there? Is it mainly pricing?

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

} For the group level 160.

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

Yes. Referring back to Thomas' questions about -- sorry, Vegard's question about profitability.

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

} I guess it's fair to say, it's more price driven than volume driven, but compared to what we had communicated for some years now, we had a very solid good balance in the private segment volume and price and we are really pleased with that good mix.

A - Jostein Amdal {BIO 19939645 <GO>}

I think the 1.6 in the underlying. I mean, given that they do price above expected claims inflation, I think it's fair to say that the larger share of that improvement is related to pricing. And as Helge said earlier, I mean, first line of defense in terms of increased claims inflation is decrease prices.

And then, of course, on the quality of tariffs is extremely important that we manage to attract the right risk -- right type of risks to our portfolio and the work we've done over a number of years in automating tariff process there. Means that we have more time to analyze and increase the quality of the tariffs here and that's I think is -- it's hard to pinpoint exactly where that pops up. But in the overall picture, I think that's also an important contributor to our improvements.

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

Thank you very much for your answers again.

Operator

There are no further questions in the queue. I would like to hand the call back over to your host for any closing remarks.

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

Thank you. Everyone, we will be participating in a number of roadshow meetings during the next -- roadshow outside Norway in (Multiple Speakers). Excuse me. All right, I'll continue. The meetings will be held with industries in Norway, U.K., Sweden, Denmark, France and the Netherlands. Please see our financial calendar on our website for more details.

And finally, a kind reminder of our Capital Markets Day on the 24th of November. We hope you all can join us in this digital event. Thank you for attention and have a lovely day.

Operator

Thank you. That would include this conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.