

Q2 2018 Earnings Call

Company Participants

- Unidentified Speaker

Other Participants

- Blair Stewart, Analyst
- Michael Huttner, Analyst
- Per Gronborg, Analyst
- Steven Haywood, Analyst
- Unidentified Participant

Questions And Answers

A - Unidentified Speaker

(Starts Abruptly) four months ago and more rational when it comes to necessary rate changes. I think I probably already commented on the Norwegian motor there. And then finally forest fires, it's a bit early that still -- a couple of them are still raging in Sweden, but comparing to the large forest fire we had in Sweden three years ago, roughly twice the area has burned down and in that -- three years ago, we were nowhere near our reinsurance protection if that gives you any guidance.

Q - Unidentified Participant

There's been a figure mentioned in the Swedish press around SEK1 billion as kind of potential losses, do you think that's a reasonable figure for the entire market?

A - Unidentified Speaker

That would correspond well to the area comparison that I just gave, but then for individual companies, how much they will get out of this, it will vary very much because it depends on where the fires have struck.

Q - Unidentified Participant

Exactly. Just a quick follow-up on the Swedish, you said small players are struggling. Why is this?

A - Unidentified Speaker

Well, I think there are different reasons for different players, some of them have foreign parents [ph] that have not been successful recently others have -- find it difficult to invest as much in the modern technology as the big ones, for instance.

Q - Unidentified Participant

All right. Thanks.

Operator

We'll now take a next question. Caller, please go ahead. Your line is open.

Q - Unidentified Participant

Good afternoon, everyone. I've got three questions, please. First one is, ready to go back on the -- on your exposure to the forest fires. I think is it fair to say that your market share in forest insurance is significantly lower than the overall market share in Sweden? And -- that's the first question.

Secondly, I just wanted to know if you could remind us of where inflation is trucking in your various markets and whether you're concerned at all that the weak Swedish kronor might lead to some important inflation? Thank you.

A - Unidentified Speaker

Our market share in forest insurance is very low depending on exactly we're in the country we're talking, but it's certainly less than 10% probably less than half that. Then inflation was -- the Swedish krone has not exactly been strong for the past two years So we haven't seen inflation picking up from that the Swedish Riksbank is hoping for that to happen, but claims inflation is low in all our markets. It varies a bit. It is a little bit higher in motor in Norway, but we're talking 2% to 3% overall.

Q - Unidentified Participant

Okay. All right. Thank you very much.

Operator

We will now take our next question from Per Gronborg from SEB. Your line is open. Please go ahead.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes. Thank you. Per Gronborg from SEB. Two questions from my side. First on more being a clarification, there were questions on capital and If P&C, is it fair to assume that your dividend down towards the waiting [ph] basic requirement and have a modest margin above that level going forward.

A - Unidentified Speaker

Yes, that's what we normally do and we have been even below that level. And as you can see, we have close to EUR600 million of buffers already and we normally take the dividend in December.

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Q - Per Gronborg {BIO 15910340 <GO>}

Yeah. Okay. And my second session is on your bond portfolio, you stated bond yields 2.5% to 2.7% before currency hedges. Can you share with us new investments done during the last quarters, what returns have they been done at, preferably of course including the currency hedges, which I guess is taking down to return on euro-dollar denominated investments build in If P&C and in Mandatum?

A - Unidentified Speaker

I think many of the investments have been between -- yielding between 0% to 1%, but our average yields are stated in our quarterly report. So it's 1.5 for If and 2.5 something for Mandatum. And if you take away the currency hedges, I would say that they're both close to 1.5. So that's the number you can use.

Q - Per Gronborg {BIO 15910340 <GO>}

That's -- your new investments are at the level of 1.5% excluding currency hedges in the last quarter (inaudible).

A - Unidentified Speaker

The new investments, as we have not really changed our duration, the new investments have been very low to very cash oriented. So I would say 0% to 1% for the new investments, but there has not been that much maturing that it would affect the total running rate. So after currency hedges, you can use a number of 1.5 for both companies.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you.

Operator

We'll now take our next question Michael Huttner from J.P. Morgan. Please go ahead. Your line is open.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you. It's the second opportunity for me. So the first one is the change in management. You'll have a new Group CFO starting in January. And to me, it sounds like the whole team of management team of Sampo is now about to renew, just wondered if you can give us a bit of a flavor of how you see it as the -- I guess would be asking the currency, what's -- how you see that situation developing? What is the difference in kind of style or how would you judge [ph] it, you might say it's not important, but I just see as they do matter, they matter huge and you've been very successful. So it's important to us as well.

And then the other question that was, I think a comment on large losses in private lines. And I don't associate private lines with large losses, I was intrigued by that. I just wondered if you could give a little bit more color on granularity on this? Thank you.

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A - Unidentified Speaker

Okay. On change of management, Peter is sitting in front of me here in this room and I don't want to insult him, but when he leaves, the whole management team is not changing. It's only one still man. I see only one man in front of me. Even if he is super competent and longer time, much appreciated colleague. Now, seriously speaking, this is a people's business and I think that for every successful company, it's very important that we have a good succession planning.

And actually we have. So every candidate, including myself, we have nominated success or if something happens and we try to improve it, so that the newcomers are even better than those who believe, not underestimating Peter or myself, but I think that life goes on and why would we change to something if the new ones are not much better. So they -- we raised the bar for them. So they have to deliver better numbers than we do. And Knut Arne of course is a person whom we all know very well, because he is part of the team already. And actually all our positions, I have a succession plan with internal candidates. I think we are pretty unique in that when I have served on other boards of listed entities as well. So our bench strength is really strong. And we think this is a people's business. So you will just see at every time we change people, the team just getting stronger and younger.

How can I possibly follow this with something about large losses. So large losses private lines Norway. We are not talking huge numbers here, but remember that 1% combined ratio for the group in one quarter is EUR10 million. And have you seen Norwegian -- Norwegian villas along the coastline, if you have a couple of those burning in one quarter, you get the variation in the large loss frequency, and that's what we've seen in Q2.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. And may I ask a very quick follow-up question, I discussed with Anniina earlier and I'm not so -- so I appreciate Sampo as the company, which is extremely disciplined in terms of costs. One of the numbers -- it is the number at the bottom of the table on page six, I think it is, shows the average number of FTEs rising by about 200 from 6,000 and a bit to 6,000 and a bit of 200, which is a phenomenal company would not be much but for companies disciplined Sampo surprised me a little bit. So I just wondered if you could comment on that increase please?

A - Unidentified Speaker

I think -- yes, this is the seasonal variation we always have more people in the summer because of a number of factors we keep taking summer -- summer workers, et cetera.

Q - Michael Huttner {BIO 1556863 <GO>}

(Multiple Speakers) .

A - Unidentified Speaker

When we do grow this much, we also have to hire some more people. So that's a factor as well, both [ph] in private lines.

We are of course extremely disciplined on cost. So there is no reason to doubt that would change in any way.

And I think that's I looked up the other day that we have been able to bring down the cost ratio now for a decade in a row, every year. So we focus on that rather than the exact number of employees, of course.

I didn't ask for you to ask this question, but it gives me the opportunity to say that the cost ratio and expense ratio were best everywhere in If.

Q - Michael Huttner {BIO 1556863 <GO>}

Excellent. Thank you very much.

Operator

We will now take our next question from Steven Haywood from HSBC. Please go ahead. Your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Hello. Thank you very much. And I wonder if you can give a few comments about consolidation within the Nordic P&C markets. We've already seen some of your competitors look to bulk up in Denmark and in Norway as well. Obviously, there is some pressure on some of your peers as you say in Norway and potentially Sweden as well. So I wonder if you can talk about Sampo or If willingness to takeover portfolios, businesses, increase its market share and whether it's willing to pay out for these businesses or whether it's willing to just maybe cut prices to take over others portfolios? Thank you.

A - Unidentified Speaker

Well, maybe I start, we probably have a little bit of a different angle with Torbjorn. On consolidation, we have the critical size to have scale benefits and therefore our cost and expense ratios are going down year-after-year. And Topdanmark is of course for us an obvious target for consolidation. However, we have very clearly communicated that at these levels of evaluation, we are not a buyer. So we develop the company, but it's a consolidated -- if something unexpected happened and the valuation would be different, we would of course be interested in that company, but not at these valuations. Other acquisition targets are not on my table, I don't know if you are Torbjorn and have any on your table.

I think I'd rather answer that by saying that we are always asked to participate in processes. As you mentioned that now and then there's a portfolio available in the market and typically our benchmark is, of course, if we can grow organically at a cheaper rate than buying a portfolio, it is -- the portfolios for sale are often not in optimal shape.

We are a proxy for you on M&A. So anything that moves in the Nordics is shown to us because people know that we are quick decision makers and we have the capital. So we

will not miss any deal which is accretive [ph] or where we can create shareholder value.

Q - Steven Haywood {BIO 15743259 <GO>}

Excellent. Okay. If I can just follow-up on your first comment about Topdanmark and you say that you're developing based on Topdanmark in Denmark. I believe you mentioned this earlier this year as well. If you could provide some further comments on how you're developing the relationship and how you're working together maybe in partnership or across different P&C segments? And what you're doing in this business?

A - Unidentified Speaker

We are actually not working with that modus operandi at all we have allocated three of our top management resources, i.e., Torbjorn Magnusson and CEO of If, Ricard Wennerklint, Deputy CEO; and Petri Niemisvirta, the CEO of our Life Company to the board. So it's a public released entity and we work fully transparently. As an owner, we are of course one of the decision makers on board composition and we allocate the resources I described and then we take it forward to that with transparent governance.

Q - Steven Haywood {BIO 15743259 <GO>}

Thanks very much.

Operator

(Operator Instructions) We'll take our next question from Blair Stewart from Bank of America. Please go ahead. Your line is open.

Q - Blair Stewart {BIO 4191309 <GO>}

Good afternoon. It is (inaudible) and apologies I missed the start of the call. I have two questions. Torbjorn thank you for the color on the loss ratio development. You talked about high one-off gains in the Swedish motors and ppl [ph] book, I just wondered what was driving that if at all possible, was it individual cases or was it something else?

And secondly, just looking at the underlying result in the Life business. It was a little below those of recent quarters. And I'm just really looking for a reason for that? Was it because of the strong top line that came through or was it something else? Thank you.

A - Unidentified Speaker

If I start with the Life company, there was slow real need to show higher result and we cannot foresee influence that by choosing how much of the fair value reserve we realized or the hidden [ph] values in our equity portfolio. So this was an adequate result for us.

We've burdened the result by lowering the discount rate from 2.75% to 2.5% for 2021 and that costs EUR7 million.

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And motor third-party, I'm afraid we're not different from anyone else. So we see fewer and fewer fatalities on the roads. We have performed a review of the reserves that led to a release and that is no different from any other company suite.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay, great. Thank you.

Operator

We'll take our next question from Michael Huttner from J.P. Morgan. Please go ahead. Your line is open.

Q - Michael Huttner {BIO 1556863 <GO>}

Sorry, this is (inaudible) and since you have compared with other groups, I follow you have a high ratio of debt to equity although your actual interest cost is slow as I've seen. Can you give us a feel for how you look at leverage and -- certainly for some of your peers, it's the number one objective to reduce leverage some of these peers (inaudible) acquisitions recently and I'm just wondering where you see the kind of the optimum point to how you judge it? Thank you.

A - Unidentified Speaker

But if you look at our leverage, we're actually right now approaching an average level of debt, debt to equity in Sampo group. So, historically we've had very little leverage.

I think also that we communicated maybe a year ago that we would like to increase the leverage in the parent. And why was that? Because we said that we don't really know where to invest and then when we discarded all the areas where we don't want to invest, we were left only with the equities and as it was difficult to know where to invest and you end up with equities. Then on the other hand, you knew one thing that you felt that this is the moment to issue debt and our financing cost at this moment, on average is --

Roughly 80 basis points.

Yeah. So -- if our cost of debt is roughly 80 basis points, we felt that if we invest in equities in general, that's not what we want to do when we leverage the group, but we want to invest in the area of our specialty i.e., Nordic financials and then we had the opportunity to locate a few attractive investments during half year period, and now we have deployed roughly 900 or not deployed the value of the investment at this moment is roughly 900 million.

So in that sense, that was deliberate decision to increase the leverage. You must remember that we're still over capitalized. So our excess capital is roughly 3 billion. So if there were more attractive opportunities, we could participate in something interesting. But we haven't found anything which meet the very strict criteria that we have.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. That's very helpful. Thank you.

Operator

It appears there are no further questions at this time, I would like to turn the conference back to you for any additional or closing remarks.

A - Unidentified Speaker

Thank you, operator. And I think we'll thank you all for your attention and wish you a very good evening. Thank you.

Operator

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

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