Q3 2015 Earnings Call

Company Participants

- Jarmo Salonen, Head-Investor Relations & Group Communications
- Kari Henrik Stadigh, President & Group Chief Executive Officer
- Peter Kristian Johansson, Chief Financial Officer
- Ricard Wennerklint, Deputy Managing Director, If P&C Insurance Holding Ltd

Other Participants

- Blair Stewart, Analyst
- Christian Hede, Analyst
- Jakob Brink, Analyst
- Matti Ahokas, Analyst
- Mika Koskinen, Analyst
- Niccolo C. Dalla Palma, Analyst

MANAGEMENT DISCUSSION SECTION

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this conference call on Sampo Group's Third Quarter 2015 Results. I am Jarmo Salonen, Head of Investor Relations. And with me here in the studio I have our Group CEO and President, Kari Stadigh; Group CFO, Peter Johansson; and Deputy Head of P&C Insurance, Ricard Wennerklint.

As always, Kari will start with highlights of the third quarter. But before handing over to Kari, let me remind you that you can follow this transmission live on our website, sampo.com/results, where a recorded version will later be available.

And that's all for me. I hand over to Kari. Kari, please.

Kari Henrik Stadigh {BIO 1504152 <GO>}

Welcome to the conference call on my behalf as well. Given the difficult investment environment in Q3, I am happy to report a strong result for the first nine months of the year. As usual, I would like to start with my best ever list.

So, let's start with our P&C business. If nine-months pre-tax profit at €756 million is the best ever result as is the combined ratio at 86.1% for the first nine months even excluding the positive one-offs. Also, the Q3 stand-alone combined ratio at 83.3% is the lowest ever Q3 result. So all in all, it continues to perform strongly and as planned.

Nordea and its peers fair value result, i.e., the trading part was soft. However, Nordea's strong capital accumulation continues, and the core Tier 1 ratio at 16.3% is an all-time-high number. Given the good performance, especially in the beginning of the year, Nordea's operating profit for the first nine months at €3.7 billion is also the best-ever number, as is the cost income ratio at 46.4%.

There is clearly more regulatory uncertainty as the new Nordea CEO has communicated during his first days in office. However, I see increasing regulatory uncertainty more as a one-off in nature, and not something that would limit my bullishness on the value-creation part that Nordea is following.

Nordea is not a growth story except in wealth management, but regardless of this, it will be able to create a growing cash flow and a strong capital buildup, as well as significant cost efficiency through simplification and in IT investments. Only this morning, Sampo board received an investor presentation from Casper von Koskull, the new CEO. I like what I saw and heard very much. It's a very good start.

Mandatum Life contributed also to my best-ever list. Unit-linked premiums at €690 million for the first nine months is a best ever result as is the expense result of €20 million. The volatility in the investment markets offered Mandatum Life also a good opportunity for some selective investing, and deploying the significant cash resources it has.

We now have less than 10% in money market investments, which is a situation we have not seen for the last 10 years. We have been able to deploy the cash very efficiently. After the first nine months, our mark-to-market return was 3.7%. And now, at the end of October, it would roughly be closer to 6.5%, so significantly higher than at the end of September. The fact that we could invest almost €1 billion in yielding fixed income has increased our running yield from the half year position of 2.9%, first to 3.2% at nine months, and today probably closer to 3.3%.

As you all know, Sampo is a dividend stock and will continue to be one going forward as well. Given the fact that our dividends paid last spring was paid or collected through internal dividend streams and the internal dividend streams were €140 million higher than the dividend paid out, I feel very confident that even if the dividends stayed as they are, we have the means to propose to our board an increasing dividend going forward.

This, I state, without taking into account the possibility to issue hybrids in our subsidiaries or leveraging the parent given our strong capital position. So, relax. We are a dividend stock and will stay that way.

Jarmo Salonen {BIO 1860650 <GO>}

Thank you, Kari. And, operator, we are now ready for questions.

Q&A

Operator

Thank you. Your first question comes Christian Hede from Nordea. Please go ahead with the question.

Q - Christian Hede {BIO 18642300 <GO>}

Yes. Good afternoon. This is Christian from Nordea Copenhagen. Following up on the dividend talk, Kari, can you spare a bit about your thinking about the level of the If dividends? Because, as you said, If's earnings are the highest ever, and, I guess, you are paying out the same as last year's if you just go through that. And also, if you could say what the timeframe, or expected timeframe, is now for the Solvency II approval for If? I'm aware that it's not very important, but still, you've said now that it's not going to happen before New Year. And lastly, if you could talk a bit about Denmark and the negative premium growth you've had for a couple of quarters; whether you expect that to continue, or when you see that changing. Thank you very much.

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

Okay. On the Sampo's dividends talk, I think that If will pay dividends in December as usual and it's going to be SEK5.5 billion, roughly. And so, if we look at this year – last year, If paid SEK597 million of dividends to the parent, then Mandatum paid SEK100 million, and Nordea SEK533 million. So, altogether, we got more than SEK1.2 billion of internal dividends, and we paid out less than SEK1.1 billion. So, the difference was SEK138 million. If we would make the same calculation and use the consensus estimate on Nordea dividends, then it will increase further. But if I use these numbers, then we have room to raise our dividend next spring even with the historical numbers. And this is no guidance or anything like that, but this is a pure mathematical example.

On the internal model approval, the process has been quite long. And unfortunately, actually started in 2011 and it was headed by the Swedish regulator. But then they passed over the model approval to Finland. And when the Finnish regulator took over in 2014, process actually started in a sense again. And now, also unfortunately some of the key management in the regulatory side in Finland, they left the regulator. So, basically we have a new team in place that we're working right now starting after summer holidays. So, it's very hard to predict on that.

A - Ricard Wennerklint

On the premium growth in March, let's start out by saying that we have the positive growth in business area, Private, the retail business. It's good to see we have negative growth in Commercial and Industrial, which is more on the volatile nature. So, the loss of business is Commercial and Industrial based on pricing pressure partly based on the individual large account.

Q - Christian Hede {BIO 18642300 <GO>}

Great. Thank you very much. If I may just follow up on the dividend question, not to talk too much about it, but I guess we all agree that you could have decided to pay out more from If. Do you see an advantage of keeping the capital in it rather than putting it into

Sampo plc? I'm aware there's nothing to do with the level of capacity while you can pay out, but is there an advantage in keeping the money in If?

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

I think, actually, the SEK5.5 billion that we will receive or Sampo plc will receive from If is coming from If holding company. So, it's actually the dividends that If Sweden and If Finland, and a small amount also If Baltic paid to the If Holding Company last spring. So, yes, we could've taken more, but we left, I think, north of SEK1.5 billion cash into the If Holding Company.

Q - Christian Hede {BIO 18642300 <GO>}

Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Matti Ahokas from Danske Bank. Please go ahead with the question.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. It's Matti Ahokas here from Danske. Just one question and clarification on the dividend. Kari, you said that even if for some reason, I guess, Nordea would not be able to increase their dividend in 2015 compared to 2014, Sampo could still increase the dividend and would have the capacity to do so. But based on what you know now, would you also have the willingness to increase the dividend in Sampo Group compared to 2014?

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

I think that – I didn't say – we didn't talk about Nordea dividend. So, I spoke about if all our dividend stream are the same. So, you can't interpret even from that anything, but we are as a management, and you should all be aware of it, fully committed to propose an increasing dividend every year.

Q - Matti Ahokas {BIO 2037723 <GO>}

Very clear. Thanks.

Operator

Our next question comes from the line of Jakob Brink from ABG. Please go ahead with the question.

Q - Jakob Brink {BIO 7556154 <GO>}

Yes, please. Basically, two questions on non-life. First of all, I'm noticing also that the expense ratio is 22.0 which, I guess, is also the best ever. Could you maybe add some flavor on this? It's down 20 basis points year on year, the same in Q1 this year; I guess, Q2 was a bit destroyed by the one-off, but still it seems like the cost expense ratio is slightly drifting downwards. What should we expect here going forward?

And then secondly, also on non-life, looking at the premium growth, especially in Sweden, it seems like growth in the third quarter is somewhat slowing down, if I tried to adjust the currency impacts. And actually, it looks like in all of your countries, adjusted for currency impacts in Q3, growth is quite close to zero. Could you maybe talk a bit more about Sweden? I think last time we discussed that it seems like Swedish growth or your price increases were leveling off. Is that what we are seeing now?

And then the third question on capital. Have you got any news regarding your treatment of Nordea? I see you're still using Basel I transition rules, but have you got any news on that, please? Thank you.

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

It is close to a scandal if I have missed one best ever. Ricard, go ahead.

A - Ricard Wennerklint

Expenses is down roughly 20 basis points. It's the level we have guided for the last many years. It's the same guidance we would give going forward that maybe 10 basis points, maybe 20 basis points, maybe one year or two, even 30 basis points down. But for that level, we expect to be at. No changes whatsoever.

When it comes to premium growth, in the first quarter in the group, we had a negative 0.5%. Second quarter was a positive 0.5%. Now, we are at roughly positive 1.5% in the third quarter. So, for the group, it's an upward trend for the Swedish business. We have told you about it before, growth is driven by car sales, some premium increases and increased sales online and through Nordea. No changes during the year in the Swedish business or the Swedish market.

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

On the question on Nordea, how we treat Nordea's capital requirement. So, the treatment will be according to the local rules where the head office is, so basically that is Sweden. And we will continue to use the transition rules, Swedish transition rule until 2018 because that's when it's supposed to change.

And then after that, the new legal minimum for the capital will be the Pillar 1 minimum capital requirement that Nordea will be treated then under the Pillar 1 rules. So we don't have to include the Pillar 2 buffers. And If I remember correctly, I think it's, for the time being, the minimum Pillar 1 for Nordea is now 13.5%.

Q - Jakob Brink {BIO 7556154 <GO>}

So, just again, that would be 13.5% times Basel III risk-weighted assets or...?

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

Yes, or whatever Basel number we then have because there seems to be. But there's some rewriting on the conglomerate directive. But I assume that the – because these conglomerates, financial conglomerate directive is a bit old one. And there's potentially being some re-writing done on it, but the question is that will there be any changes before 2018. And I would still expect that that likelihood is quite low.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thanks a lot.

Operator

Thank you. Our next question comes from the line of Blair Stewart from the Bank of America Merrill Lynch. Please go ahead with the question.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much and good afternoon, everyone. Two questions left. I think the first is just on the combined ratio outlook into next year. I think you've been very clear about the various one-off aspects, but I was wondering is it possible to quantify the favorable impact from lower claims frequency and severity over the year? And is that likely to continue, do you think?

And secondly, Peter, one for you. Just on the Solvency II ratio, I think you've given a ratio of 143%, which I think would be $155% if you use your partial internal model. I just wonder, just going back to Capital Markets Day presentation, are there any other adjustments that we could be making into the future, things like the ultimate forward rates you've talked about the last time? I'm just trying to get a feeling for where that might change as we finally nail these things down. Thank you.

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

On the combined ratio outlook, it's true. This year has been – there has been few claims events. There was some flooding in Norway in the beginning of the year, but that didn't really make a dent in the combined ratio. It's, of course, very difficult to quantify these numbers. I would give it to the 2% and 1% of combined ratio, whether this will continue or not when we're talking about low claims frequency, low claims inflation, your guess is as good as mine.

A - Peter Kristian Johansson {BIO 3902189 <GO>}

On calculations, so the main differences are that we calculate it now the solvency with a standard formula, both for If and Mandatum. And in Mandatum, we use the standard formula with transition rules. There we have also looked a bit more closely on what we in the past used to call for liability side adjustment. And actually, I didn't take into account the transition effects on the liability side when I showed the slides on the Capital Markets Day. So there's a bigger positive effect now on the actual solvency numbers.

So, if we have solvency capital of €9.5 billion on the present rules, there's actually a positive of roughly €700 million coming. One, there's some moving parts, now we have used on the asset side in Mandatum, we have used the transition rules for OECD equities. That's 22% instead of 39%. And now, it seems to be clear that in the beginning of next year, we can also use for emerging market equities and private equity. That would mean another small positive especially in Mandatum because we have fairly significant amount of private equity. But then also, there can be some other fine tunings on the negative side, so in that sense, I guess this is a fairly good proxy where we are during the first day of 2016.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thanks. Thank you, Peter. If I just follow up on the first question, one point I meant to ask actually was that we saw one of your competitors revise down their assumptions of future claims inflation quite significantly, I think, in the motor side of their business. Are you – what would your thinking be on that particular point, please?

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

We have no point of view (20:18) from competitors on the future claims inflation. But it doesn't really make an effect on how we see claims inflation going forward, to be honest. We have our own assumptions, and we will stick to them.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you. Can I ask what your claims inflation assumption is for your motor book?

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

You can, but you can't get an answer. Sorry, Blair.

Q - Blair Stewart {BIO 4191309 <GO>}

No problem. Thank you.

Operator

Thank you. Our next question comes from the line of Mika Koskinen from SEB. Please go ahead with the question.

Q - Mika Koskinen {BIO 1557965 <GO>}

Thanks. Just a small detailed question. But what should we assume about your underlying tax rate, of course, excluding Nordea going forward? I've been using 22% previously. Now when I look at your numbers so far in the year, it's actually somewhere below 20% and 21% if I get it right. But it can be distorted by the one-offs. What's the – I'd say, what would be your guidance for the underlying tax rate for 2016, 2017 and this year, of course?

A - Peter Kristian Johansson {BIO 3902189 <GO>}

That's a good question. On Nordea, of course, the tax rate is zero because the Nordea profit has already been taxed. And then it slightly depends in which of the Nordic countries If makes profits. But basically all the tax rates are pretty close to 20%. So I would say 21% is a reasonable assumption for If and 20% for Mandatum.

Then it differs if we make a profit on the parent company like we did now €5 million. That is – the tax rate will be zero because we have to have losses carried forward. So, it depends on when we make loss – if we make a loss or profit on the parent company. But that's a small one. But overall around 20%, 21% tax rate going forward.

Q - Mika Koskinen {BIO 1557965 <GO>}

Super. Perfect. Thanks very much.

Operator

Thank you. We have a follow-up question from the line of Jakob Brink from ABG. Please go ahead with the question.

Q - Jakob Brink {BIO 7556154 <GO>}

Yes, please. Sorry, but just coming back to the question before on reserve policies, actually, if I could add, it's both (22:42) last year, and now (22:46) that are using – I don't know their exact reason, but basically both of them have had a review of their reserves, internal and external, and have found themselves to be over reserved on motor third part and workers' compensation. For me, it sounds like it's some kind of inflation issue, that they've been using too high inflation assumptions. Why would If have reserved less than competitors? Shouldn't this be sort of a general thing impacting insurance companies, i.e., that inflation is somewhat lower and you haven't adjusted models yet? Basically, that's my question.

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

We reserve our business individually. We reserve our business ourselves. We do it every quarter. And if I should comment on reserve strength, I would say that it's unchanged end of this quarter compared to end of last quarter. When it comes to future claims inflation, we have not changed our view. And as I said, we have looked at what our competitors are doing, but hasn't changed our mind on future claims inflation.

A - Ricard Wennerklint

I think it's also the question of how you view the world and the reserve strength by capital. We are also overcapitalized and we have always been very proud that we have very strong reserves. So, this is also a question of over time how you want to run the business.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay. Thank you.

Operator

Thank you. And we have a question from the line of Niccolo Dalla Palma from Exane BNP Paribas. Please ask your question.

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

Hi. Thank you for taking the question. If I may follow up, Kari on your comments regarding dividends, and your past comments regarding geographically growing dividend. Just, generally speaking, would you be happy with having a dividend that is financed by close to – where you pay out close to 100% of your internal dividends? Would you ever go beyond this limit, or really, the dividend will always have to be supported by the recurring Nordic generation? Because I'm guessing we are well aware that there is good capital buffers in the business, and there is re-leverage capacity as well, but just trying to understand how you think about the recurring part of the dividend beyond the next years, so more two, three years down the line?

A - Kari Henrik Stadigh {BIO 1504152 <GO>}

All right. As you – I remind you always that the management, me included, we are not the decision-makers for dividends. So we just propose it to the board that takes it to the AGM. But for us, it has to be pleasing to the eye. So, that's our stance. And pleasing to the eye is that it grows steadily and doesn't really jump up or down too much. However, the world outside us might be bumpy or jumpy.

So, I would have no problem in distributing 100% of the internal dividends that there is no need for capital in the group as we are already capitalized. And even if there was some negative surprise temporarily for one year, I could even use leverage because, as I said in my opening remarks, we have not issued any hybrids to the subsidiaries, and we have not leveraged the parent. We have €3 billion in excess capital roughly. So, I think that pleasing to the eye could mean that if there is a huge storm, which is completely unexpected and it would limit somehow or something disruptive, we would still aim to increase the dividend gradually in a modest way.

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

Thanks very much. That's very clear. Thank you.

Operator

Thank you. Okay. There appears to be no further questions. I return the conference to you.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you, operator, and thank you all for your attention. Have a nice evening.

Operator

Thank you. This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.

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