Y 2021 Earnings Call

Company Participants

- Lars Kufall Beck, Chief Financial Officer
- Peter Hermann, Chief Executive Officer

Other Participants

- Asbjorn Nicholas Mork, Analyst
- Jakob Brink, Analyst
- Jan Erik Gjerland, Analyst
- Martin Gregers Birk, Analyst
- Per Gronborg, Analyst
- Phil Ross, Analyst
- Tryfonas Spyrou, Analyst
- Youdish Chicooree, Analyst

Presentation

Peter Hermann {BIO 20507411 <GO>}

Good afternoon, everybody, and good morning to the USA. Thank you for joining us for this conference call. My name is Peter Hermann and I'm the Group CEO of Topdanmark and with me is our Group CFO, Lars Kufall Beck and our Head of Investor Relations, Robin Lofgren. We're hosting this conference call because earlier today we published our annual results for 2021. Now I would like to start with a few opening remarks on our results before handing over to Lars.

Slide 2, please. As you know, we pre-released our results last Friday, but let me nevertheless provide a brief overview of the quarter's results. The DKK625 million of Q4 result have outperformed consensus estimates on all major reporting lines and we delivered a combined ratio of 81.8 and the growth of the non-life of 3.7% in the quarter. Note that the growth rate was negatively have the influence by around 0.6 percentage point due to the release of provisions for unexpired risk within illness and accident in Q4 2020, so the underlying is more in line of 4.3.

Compared to full year 2020, the non-life technical result improved by DKK343 million despite headwinds from large scale claims. The improvement is driven by improving underlying trends within, for instance, house insurance and slightly higher runoff gain and quite low weather-related claims, with no large events in three or four quarters. And as you know, we have stopped reporting on the financial impact of the COVID-19 situation. In general, loss frequencies continue to appear normalized except for travel, which remains somewhat to lower normalized level.

If we adjust our combined ratio for the year of 83.7 and exclude the illness and accident risk result underwritten by our Life business, then we have a combined ratio of 80.1 in 2021, though not adjusting for the cost synergies we have by owning a Life company. Worth mentioning is also the good traction we are seeing in our partnership with Nordea. The partnership continues to deliver strong results with a reform rate twice the size of the old Danske Bank agreement. In 2021, the Nordea agreement has led to more than 60,000 referrals and are thus more than compensated for the outflow from the old Danske Bank agreement in terms of premiums and we also expect this trend to continue in 2022.

As previously addressed, we have also seen negative claims trend on house insurance towards the end of 2020, but our efforts to improve this continues and we have made good progress on risk-based price increases, procurement initiatives, claims prevention and more selective underwriting. As a result, the claims trends in house insurance has improved by around 13 percentage points in 2021 compared with 2020. We still have work to do to improve profitability within house insurance further, but we are happy to see a clear effect of our profitability enhancing measures.

The investment return was particularly strong in Q4 with the result of DKK209 million, although actually slightly lower than Q4 last year, which was characterized by a rebound after the initial impact of COVID-19 on the financial markets. In Q4 this year, we saw a unique combination of strong equity markets, rising interest rates and spread contraction on Danish mortgage bonds resulting in gains on both the liability revaluation as well as the covering assets. In our Life company, we have had a strong Q4 result of DKK132 million, driven by higher investment return due to further property revaluations, performance fees in our asset management and a continued positive cost result from higher asset under management.

Then coming to dividend and solvency. After the strong result in Q4 and 2021 in general, the Board of Directors has today approved and has proposed, sorry, a dividend for 2021 of DKK34.5 per share corresponding to a payout ratio of 145.2 and a dividend yield of 9.4. The total dividend is made up of an ordinary dividend of DKK23.5 per share, representing an ordinary payout ratio of 98.9 as well as an extra dividend of DKK11 per share due to our capital optimizing efforts during the year. Subject to the approval from the AGM, the dividend will be distributed immediately thereafter. And as promised, we also used Q4 as an opportunity to optimize the capital situation on the group. As a replacement for that tier 2 loan that was redeemed in September, we issued a new tier 2 loan of DKK1 billion loan in December. With this as well as the earnings in Q4 and subsequently proposed dividend for 2021, our solvency cover now stands at 204%.

And with that brief overview, let me turn the word over to Lars before the Q&A session starts.

Lars Kufall Beck {BIO 20841753 <GO>}

Thank you, Peter. And could we take the next slide, please. Here I wanted to briefly comment on a couple of things. First of all, I want to flag and clarify the new definition of weather related claims that we have introduced with today's report. The new definition includes all weather related events regardless of size and for us materially differs from the old definition which only included events large enough to result in total claims above DKK4.5 million over 72-hour period.

As the new definition includes all weather related events, we have removed the line called rain and frost from the claims ratio table, which included above normal claims related to heavy rainfall and severe frost. With this new definition, the new normal level of weather related claims is estimated at DKK285 million per year divided into DKK85 million in Q1, DKK45 million in Q2, DKK85 million in Q3, and DKK70 million in Q4. Please note that this only affects the claims ratio table on Page 10 in the report and nothing else, so the income statements of Topdanmark and all subsidiaries are unchanged and our profitability level is unaffected as well.

Could we take the next slide, please. Turning to the profit forecast model for 2022, we have lowered the assumed combined ratio for 2022 from between 86 to 89 to now between 85.5 and 88 still excluding runoff. This is mainly due to the improving underlying trends within house insurance. The assumed premium growth for 2022 is unchanged at 4% to 5.5% for the year as we still expect a solid business momentum to continue. The assumed pretax result for the Life division for 2022 is between DKK250 million and DKK300 million based on an increase in regular premiums of between 0% and 5%. And in conclusion that implies the post-tax profit forecast model for 2022 to be between DKK1.2 billion and DKK1.45 billion excluding runoff.

I also wanted to provide some perspectives on the method by which we state our forecasted earnings as this has changed slightly since I joined. Instead of providing a single figure or very narrow range of potential outcomes for the coming year, we now provide wider ranges on, for instance, technical result, net profit and combined ratio.

In our view, the wider range more accurately reflect the uncertainty related to forecasting future profits a year in advance, but let me also stress that this is in no way an indication that the level of uncertainty in our forecast has increased compared to previous years. I also want to stress that we approach the our profit forecast model with the same level of conservatism as we have always done. So if we turn to the next slide please, this concludes our opening remarks and we are now ready to answer your questions. Please keep your questions to one or two at a time and if you have more questions, feel free to enter the queue again for a second round.

Operator, may we have the first question please?

Questions And Answers

Operator

(Operator Instructions) Our first question is from Per Gronborg of SEB. Please go ahead. Your line is open.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you. Two questions from my side. I see investment project which it seems like you can continue to move forward. How large an outstanding investment is as we enter 2022?

A - Peter Hermann {BIO 20507411 <GO>}

You can say that what we're looking at beforehand, we said that we have the peak in 2026 that actually would result in a you can say at DKK230 million per year depreciation level and that is just been move forward to now peaking in '23 cyclical, but the level is the same, just coming in faster.

Q - Per Gronborg {BIO 15910340 <GO>}

But how much still do you have in money out for the IT project accumulated until you finalizes?

A - Peter Hermann {BIO 20507411 <GO>}

A lot.

Q - Per Gronborg {BIO 15910340 <GO>}

Can we get a bit more precise?

A - Lars Kufall Beck {BIO 20841753 <GO>}

We don't have the number yet. What we have guided is that our depreciations will peak at DKK260 million. And if you look at our accounting practices, you see that we depreciate over 10 years and you will also see that current intangible state are approximately DKK1.5 billion. So if you also have the tenure depreciations than the maximum balance sheet in top at somewhere around DKK2.6 billion theoretically.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. I will try and do my -- some math based on that. And my second -- my other question is your improvement program, you have the gross program then you have cost related to the program. The cost was DKK80 million in '21. Will that cost level differ any way in '22? Will this be something that will be added on top or this is just a DKK80 million you spend another next year, so the net improvement from the program really increased quite materially?

A - Lars Kufall Beck {BIO 20841753 <GO>}

I think you're right. We only -- first of all we only guide on the gross effects and we'll continue to do so. But the cost that we had in 2021, we now consider as part of our cost base and hence as part of our cost ratio. And what we do is that we guide a cost ratio at or around the same level in 2022 as in 2021. So I think that's what we should be focusing on, but to answer your question specifically, the cost is now part of the base.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, thank you.

A - Peter Hermann {BIO 20507411 <GO>}

Maybe to add that, it's actually you can say when we are saying that the level of cost next year will be around the same, actually we think that is still a good improvement because one thing is that we see inflation, maybe also in salaries. The other thing is that we also get, you can say, depreciations of our IT investments coming in over the next year. So that in itself with increased cost, but we still guide with we say around the same level of cost next year.

Operator

Thank you. Our next question is from Youdish Chicooree of Autonomous Research. Please go ahead.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good afternoon, everyone. I've got two questions please. The first one is on your combined ratio guidance of 85.5 to 88. I mean, that guidance is roughly 2 to 3.5 percentage points, that's in last year. The improvement reflect efficiencies you have already achieved or have you included future expected margin improvement into this guidance? So that's my first question. And second question is on capital actually. I know you don't have any formal capital target, but would you say 200 is roughly the level you want to operate or do you think you could actually afford to operate at a lower level? Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

Youdish if you look at the guidance last year, I guess last year was also affected by it. If we look into, you can say some ordinary -- extraordinary you can say investments also in the efficiency program that didn't turn out as much as we thought. Actually you can say -- and also that we have this situation with the housing problem and also affected the underlying claims trend, which was not positive at that stage. We have a lot of initiatives coming forward, but we didn't know exactly how it could -- how could we turn off. So you can say that has been -- if you look at the guidance now, yes, it's way better than last year and it's told that we have the house under control. We still need some improvements as I mentioned, but also that our efficiency program is kicking in.

This year we have DKK150 million you can say gross efficiencies. Now we guide next year that we will obtain around DKK260 million in gross efficiency gains. Also looking at the cost, last year we had a cost around 16.3. We have been quite successful in our cost optimizing as part of the efficiency program. So now we are guiding, you can say, with this level around the 15.7 as we ended this year. So a lot of things comes into this equation meaning that the combined ratio is lower looking forward, also because we see some underlying improvements in motor and content and other -- motor, content and then house asset because we -- or you can say having the procurement efforts pricing and so on. So a big improvement, yes.

The other thing is that on our capital situation, no, I would say that 204 is still a conservative level, but we have to keep in mind that over the next coming years, we will have this build up with intangibles by building our new IT system. And the way we want to do this was that we wanted to optimize capital, we want to pay out as much as we can, you could say all the fixed capital, but we also want to make sure that we are in a position where we can pay out 100% off the year's result if our Boards -- if the Board wants to do that. So it's just to say that, yes, it's a little conservative still, but keep in mind, over the next coming years, we have a build up of intangibles that would lower the solvency ratio, but we still see that as a concern to them.

A - Lars Kufall Beck {BIO 20841753 <GO>}

So I think to put it very simple, if we keep 100% payout ratio for the years to come, because of the intangible build up, you will naturally see the solvency ratio going down from the 204 that it is today.

Q - Youdish Chicooree {BIO 17430923 <GO>}

I guess you mean that you are doing actual like proper CapEx that money has returned, that's what driving on the drive, right?

A - Peter Hermann {BIO 20507411 <GO>}

Yes, exactly.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Yeah, okay, fine. Yeah, I now got it. Thank you very much.

Operator

Thank you. Our next question is from Jakob Brink of Nordea. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Thanks a lot and good afternoon. Just coming back to Per's question actually on the DKK80 million of investment versus the DKK150 million savings -- gross savings in 2021. That DKK80 million, as far as I understood, you said that will continue every year going forward. But if I look at your presentation on slide, I think, 21 or so, you split up where you're getting the DKK150 million from and that's from procurement, pricing and fraud detection. I guess, I'm just struggling to understand a bit why would it cost you DKK80 million a year going forward to having -- have increased prices in 2021 and have asked your sub suppliers to lower prices? I'm not quite sure I understand why that would be a recurring cost of DKK80 million.

A - Lars Kufall Beck {BIO 20841753 <GO>}

To answer that, I think the vast majority of the DKK80 million cost we've seen is actually then to build up competencies and resources that we didn't have beforehand. So we've built up a completely new and enlarged procurement organization as an example. Then you're absolutely right. Part of the costs that we incurred in 2021 was for recruitment. So will recruitment cost come back? No, they won't. But that is a minor part of the DKK80 million. The DKK80 million is to the largest extent software licenses and salary costs for people that maintain on our payroll to make sure that we can also deliver on the future prospects of this program.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, very clear. Just on the new DKK110 million additional gross savings in 2022, would you expect roughly the same level of IT and personnel recruitments, et cetera?

A - Peter Hermann {BIO 20507411 <GO>}

No. Actually I think that we are in a good position now. So, no, we don't expect to do, you can say, additional, you can say, recruiting and so on. Of course, we will recruit sometimes, but they are not on the same level.

Q - Jakob Brink {BIO 7556154 <GO>}

So basically what you're saying is that gross and net will be more aligned going forward?

A - Peter Hermann {BIO 20507411 <GO>}

I would say this is on top of the one -- we have 150 gross efficiency. Now we are saying that we will actually get next year DKK110 million more gross efficiency gains meaning DKK260 you can say a year. And then -- we will not guide on this basically how many of our cost will go into the efficiency program, but that will be -- but they would like splitting the warm and the cold water, so rather say we are still going for the DKK260 in gross efficiency gains and then the cost would actually just go into a normal cost base and then regarded for around the same level as today. It's too difficult to say exactly how much of our personnel works with the efficiency program.

Q - Jakob Brink {BIO 7556154 <GO>}

Yeah, I get it. But that was quite clear, so thank you. And then lastly, if I may, just on life insurance. Sorry to ask about this again, but in your sales and admin result, now your asset under management, unit linked assets grew actually quite nicely in the fourth quarter, but it's just a bit hard from an external point of view to track how much value that actually generates when the sales and admin result hardly moves. So could you maybe try and give some details on what happened sort of below that? Was it DKK7 million you booked in sales and admin in Q4?

A - Peter Hermann {BIO 20507411 <GO>}

As moving parts here, you can say that one thing is that the mentioned has gone up, meaning that the cost result will go better, but now also that when we have, you can say, that asset management company has a subsidiary under life, then you could say, what is then going into the cost -- sales and cost results, what is then going into, you can say, the investment (inaudible). So sales and cost result, what is then going into, you can say, the investment results, because asset management is now a broad array. So if we put off the pro-commissions giving from asset management to Life, then it will end up in the cost result. And if we didn't pay you would say commissions from the asset management company, then the investment results in life would be better. And we have also work (inaudible) will actually you can say that to make and the more you can say, what to call make principles -- that the commission has also gone up from asset management to a life company where we formerly actually have a little more of the earnings in the asset management company that maybe disclose the picture that -- I don't know, I can't give you the exact numbers here because on the investment result we also have other parts, right? So that's both the result as a management, but also you can say investment on capital and so on. And then the cost result is, of course, the cost we have and also you can say the premium cost and the fees and so on and you can say the commissions from that -- from the asset management company. But going forward, it will -- we still think that the cost results will increase.

Q - Jakob Brink {BIO 7556154 <GO>}

But just -- so I understand so the DKK50 million or DKK100 million that you moved from 1st of July from holding in your parent company down to life, that goes into the sales and admin result, right? Because that what you are saying it doesn't.

A - Peter Hermann {BIO 20507411 <GO>}

No, you could say that you're going to public, so you can say beforehand we have around DKK100 million a year in the asset management company. And some of that were, you can say that, that where you can say that -- we are no longer transferring that to the life. So you can say, yes, a part of it will actually end on the cost result. So we still have, you can say, we still had to return in the asset management company doubling up in the investment result. (inaudible) one to one, but it's part of the (inaudible).

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, thank you.

A - Peter Hermann {BIO 20507411 <GO>}

Welcome.

Operator

Thank you. Our next question is from Martin Birk of Carnegie. Please go ahead.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Thanks. May I just start on the efficiency program once again. So arriving at any kind of net impact, I mean, starting point is DKK260 million and then you deduct the DKK80 million, then you had DKK180, is that a right way of thinking of it? Or -- I'm not -- I am really getting confused here.

A - Lars Kufall Beck {BIO 20841753 <GO>}

I think that math clearly holds if you just refer the slides and the way that we -- the numbers and the transparency that we have now. What we have also said from the very beginning is that we do believe that there will be leakage in this. So without giving further guidance on the net impact which we will not do, you should be careful about making this too much of an excel exercise because there will be leakage as we've said before.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

And when you talk about leakage, you talk about competition, et cetera?

A - Lars Kufall Beck {BIO 20841753 <GO>}

Exactly.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

So competition, you will see the changes in buying behavior on the procurement side. And clearly what we've also said is that probably some of the initiatives on pricing would also over time we used in order to actually further gain market shares potentially. So if you said it might share, would you be closer to 180 or closer to 100?

A - Lars Kufall Beck {BIO 20841753 <GO>}

We don't guide that more in more details than what we said so far.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay. Why is it that you don't want to guide on this which is little strange?

A - Lars Kufall Beck {BIO 20841753 <GO>}

Because it's -- as I would call it, there will -- have this been a life company, it would have been part of the future management actions. We don't want to guide, for instance, upfront how much we expect to use on increasing our competition part.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay, very clear. Which we would specifically do is we start to guiding net impacts, right. Okay, all right. Very clear. And then second question on capital, a big payout you arrive at 204. I guess you have an ambition of reaching somewhere between 170 and 190. I'm not trying to get greedy here, but don't you still owe us another DKK500 million?

A - Lars Kufall Beck {BIO 20841753 <GO>}

I'm not sure I want to say we owe you DKK500 million, but what I do want to --

Q - Martin Gregers Birk {BIO 19920552 <GO>}

You are owners, not we, of course.

A - Lars Kufall Beck {BIO 20841753 <GO>}

(Multiple Speakers) what I think we can confirm which is also what I think Peter alluded to early on is that we have -- as we have also done historically, we've kept a certain level of conservatism in our capital planning here. So we want to make sure that we can stick to our promises going forward as well. So I think if I -- if we are to say more explicitly, it would be that when we look ahead and assume an intangible built up as planned and assume a 100% to payout ratio, then over time, we would not end up at the bottom of the 150% to 200% solvency ratio guidance at all into [ph] that we have previously discussed. Is that makes sense?

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Yeah. I mean, but isn't it also fair to say that if you had ended at 190 today, you would still have been overly conservative?

A - Lars Kufall Beck {BIO 20841753 <GO>}

Not overly conservative, but we would still have -- Martin Gregers Birk -- Carnegie Investment (inaudible) 150 to 170 banks over the next years. Yes, you are right.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay.

A - Peter Hermann {BIO 20507411 <GO>}

Also remember that we have -- that when we talk about the guidance for the interval solvency previously, we've also said that using, you can say, to high degree profit margin in our life company make us, you can say, go a little up in the range. But still if you then exclude all the intangibles and so on, it will still be in, you can say, I think comfort in the interval. But I think it's important to say that we are not going for the 150-160 here mentioned here that's by the use of profit margin that we do now. We will be a little higher, but yes, as I stated, the 204 at the moment, even though considering going forward with intangible build up, then yes, we're still little on the conservative side.

Q - Martin Gregers Birk {BIO 19920552 <GO>}

Okay. Appreciate it. Thanks a lot.

A - Peter Hermann {BIO 20507411 <GO>}

Thank you.

Operator

Thank you. Our next question is from Tryfonas Spyrou from Berenberg. Please go ahead.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

Good afternoon and congratulations on a very strong result. And I have two questions. The first one, I wanted to understand a bit more on how you come up with a 0.5% expected improvement in the loss ratio from housing in the new guidance versus a 2.4 run rate you have this year? And perhaps understand how conservative it could be? I guess is this reflective of the fact that the majority of the customers are now on the new tariffs and then there are not many still to come?

And second question is on slightly technical side on solvency and particularly on the market risk component of the SCR. I noticed that it's a big jump from the previous quarter, but it looks to be offset by something else. So, perhaps if you could touch on that as well, that would be great. Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

I'm going to start on the first one may be. Yes, last year -- yes, you're asking about why we said the 7.5 better (inaudible) in the combined ratio you can say compared with what we have achieved this year. You can say that this year you have also been lucky, so to speak, regarding weather related claims. We've actually only seen Q3, which had this major weather-related claim that was, of course, in Q3, but actually we have seen none of this major weather events in Q1, Q2 and Q4. And when we guide next year that is including, you can say, a normalized level of weather.

So you can say that this year we have also been lucky, you can say, with the rising interest rates, meaning also that that has also, you can say, given a better -- bettering of the combined ratio. So you can say -- so this year 2021, we have also, you can say, seen some things that we in the guidance do not take into once more. So we guided more normalized weather event claims and also last year claims and the level of the interest rate we see at the moment. And then we, of course, put into the level that we are bettering, you can say, the combined ratio proposal from the beginning year of forecast than we have done previously because you can see that the efficiency program checking in and then we have succeeded at least with the -- with getting a better underlying result in the house and the motor and content product. And some of that has been put into the new guidance which is the reason why it's lower than normally seen. But we cannot put everything we have seen in 2021 into the results because that could be -- that would be -- that will not be a good forecast. We cannot say that we look at any weather next year.

The second question, maybe -- can you maybe repeat that, sorry we didn't get that quite.

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

Yes. On your -- the market risk component of the capital requirement and I know that it's very high compared to Q3, but I think it looks to be offset by something else. I think the lowest absorbed capacity of technical provisions. So I know it's a bit technical provisions wondering what's driving that. Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

Yeah. But actually it's a change in the model because normally when we have shown, you've build up of the solvency requirements. Then, we have used what we call gross model maybe. Then we said that where it can be already in the beginning, but we saw the market risk, then we deducted, you can say, the last absorption potential because of the life company. We deducted that in the market risk and showed you a market risk net of that.

Now if you look at the whole, now we have taken, as you say, a gross view on it, so this is the true market risk. And then in the end of the table, you can see that the level of the loss absorption capacity is way higher. So this is just to show in another way, instead of keeping, taking the both potential life out of every of the single items, building up the solvency, then now it's actually you can say taken out at the end. So a small -- it was actually to show you a more maybe so simple, but it continued to show you more true the level of, you can say, the requirements coming from market risk, insurance risk and so on. And then at the end of the table, deducting what we can from the loss absorption capacity in life. Hope that gives you sense?

Q - Tryfonas Spyrou {BIO 21705826 <GO>}

Yeah, that's very clear. Thank you.

Operator

Thank you. Our next question is from Jan Erik Gjerland of ABG. Please go ahead.

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

Hey, good afternoon and thank you for taking my questions. The first one, it's around the house price increases of 9% whereas your housing improvement of 13 percentage points this year, is there any connection between those two and how should we read into 2022?

A - Peter Hermann {BIO 20507411 <GO>}

Yeah. You can say that, of course, there is some kind of connection, but it's not the only connection because I think what is very important to mention regarding house is that, you can say, we haven't sold the housing problem alone by price increases. We have implemented a lot of, you can say, very good procurement initiatives. We have also gone through -- showed our claims processes to be even more efficient in those. And we have also, you can say, changed some of our acceptance criteria in the way we take in new business. That is half of improvement as a house. And the other part is the pricing effects, which as you rightly stated, is 9% in average from around 130,000 customers. We have around 20,000 customers. We are still working with the price increases. I would not guarantee you that it will be 9% in average for those 20,000 customers, but at least we have some -- we still have some customer going forward that we will increase in price.

So, yes, there is a connection between 9% and the 30 percentage point. But you cannot take it one by -- one to one relationship because there's a lot of other things with a good processes and procurement so on going forward. So yes, we said, we still think that we can improve the profitability on house coming into 2022. I don't have a number for that, but that's included in the, you can say, the better combined ratio forecast that we have given you for '22.

A - Lars Kufall Beck {BIO 20841753 <GO>}

I think to put some more flavor to it. If you look at 20 -- Slide 21 in the investor presentation, we actually give good example of the restoration setup, all the damage control setup of how larger impact our procurement initiatives have -- can actually get. This is where we've gone from single to do sourcing and now we start to have some evidence on the actual impacts on the numbers and you will see that we are probably looking at something that is close to 30%, 50% cheaper or lower cost in that. So that's a good example of a specific initiative also impacting the house and content insurance.

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

Okay. Is it under overhang of the 9% pricing left into 2022 or overall taken us earned premiums in already in 2021?

A - Peter Hermann {BIO 20507411 <GO>}

I didn't get that, sorry, can you repeat it?

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

How much of the price increases on 9% was already taken booked as income in 2021 and how much should we expect for 2022? Or is it just the '20 -- there were the clients you remember, 20,000 clients you were mentioning?

A - Peter Hermann {BIO 20507411 <GO>}

I can't give you a specific on that, but you can say that we have done this price increase during the year. So you can say that we started out, I think actually we start out actually already in late 2020 already by doing this. So you can say during the year, we have done this. We don't have the specific dates for each of your customer cohort or something. So we did this -- this has been spread into the year, of course, for some of the customers that's been whole year effect, but some of it has been (inaudible) expect for the year. And then there are 20,000 customers which we will -- because it moved and worked with (inaudible) in the first two or three quarters in 2022.

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

Okay. Then my second question on the illness and accident, the DKK103 million just seems to have has us a run of loss in that product area. Is that something we should think about continuing going forward? Is it that you -- what's the reason behind this, any wage increases or interest rates or what's the story behind those DKK103 million negative?

A - Peter Hermann {BIO 20507411 <GO>}

Can't actually remember, the DKK103 million here --

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

No it was just the difference between what's my accounts between your two combined ratios? I guess it was DKK103 million.

A - Peter Hermann {BIO 20507411 <GO>}

I think actually it's small, but that's -- I think actually we have a higher deficit on illness and accident than this year because one thing, if we take the price increase that helped, but as we also stated in Q3, we got this big increase in inflation and we are -- you can say we are indexing, you can say, our premiums in this for the disabled people going forward with, you can say, some salary inflation and so on. So that has been booked.

So actually we have a higher negative result of DKK103 million. And yes, we also expect that it will be negative in 2022. So it will still be a reasonable big enough like I would say but, of course, we are doing what we can to stabilize getting into balance also according to what we FSA has told the whole sector to do, but we also have to look at competitive situation. So our estimate is that built into our combined ratio target is also a negative effect of the -- illustrates actually next year.

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

Okay. So that's why your runoff gains is coming off that to what's behind us?

A - Peter Hermann {BIO 20507411 <GO>}

Not quite. You can say, this run-off things is more than that, but one thing is, of course, when you have an inflation going up, then you have some run-off loses because (inaudible), then you have to put a side more to be able to meet inflation indexation, that's run-off, but you could also say that we have to model where we're also taking some changes to reserving. It could be the people who dies or get -- they can work it in. So that's also part of the one-off. And last year 2020, we have a very positive run-off and it was an expense due to the fact there was an older years -- some older years that actually had some very positive results from people getting better or people dying and that gave some good results. And this year we have seen that it hasn't been that good. There has not been that many people getting as fresh that they get last year and also we saw little inflation. So it's multiple plains coming into the run-off as well.

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

Okay, thank you.

Operator

Thank you. (Operator Instructions) Our next question is from Asbjorn Mork of Danske Bank. Please go ahead.

Q - Asbjorn Nicholas Mork {BIO 17028219 <GO>}

Thank you and good afternoon. Just one question from my side coming back to the investment program and the impacts from this. So if I understood you correctly, as you said the cost would be not maybe full 80, but they will be close to that level going forward throughout the period. And I guess if I look at the 260 for next year as a growth because some will be competed away. And I guess my question is really just a -- you need to be quite bullish, I guess, on how much of the growth that you can actually be retaining your forecast for this not to have sort of thinking of as quite fast into '23 when I am taking into consideration the increased amortization of the capitals in the period. Is that also how you see that, all things equal, you will have tailwind in '22, maybe '23 or within '24, '25 that will actually become a headwind or am I missing something here?

A - Lars Kufall Beck {BIO 20841753 <GO>}

I think you are probably right in the sense that, as Peter alluded to, in '22 we will have some headwinds from the depreciation, but we're actually guiding a cost ratio on the same level. So that means that we will actually be able to their offset, the increased depreciations. And then on top of that also assuming that our program will contribute positively to the development in the combined. But clearly as we've also said before that cost ratio, the way we look at it is that we have initiated in part this program to be able to defend and offset the increases. Now, we have accelerated the program and we are also probably a little bit more optimistic on the timing of this than what we were in Italy.

So with the 260 next year, we believe we are probably a little bit more optimistic than we were initially. And that of course means that we are ahead of the curve, but as you say, that would imply also that all thing, all else being equal and if we do not do anything else, then we would get some more headwind in '23 and '24 than what we have in '22. However, of course, we are still -- we're not sitting still and we are, of course, not satisfied by simply delivering on our promise. We also want to over deliver, but of course that's too early to talk about.

Q - Asbjorn Nicholas Mork {BIO 17028219 <GO>}

But let's say come 2025 and still have DKK78 million of cost, if I understand it correctly, then how much of the DKK500 million in gross efficiency you think you will be able to taking before those DKK78 million of cost?

A - Lars Kufall Beck {BIO 20841753 <GO>}

That long term guidance -- we implicit long-term guidance. We don't give -- and I also think from a competition point of view, I think guiding ahead that specifically on '25 would be foolish of us.

Q - Asbjorn Nicholas Mork {BIO 17028219 <GO>}

Okay, fair enough. That's all from my side. Thank you.

Operator

Thank you. Our next question is from Jakob Brink of Nordea. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you. Just two small follow-ups on Asbjorn's question on the previous one. Just depreciations, can you help us how much do you expect those to increase from '21 to '22 and to '23?

A - Lars Kufall Beck {BIO 20841753 <GO>}

We believe that, I mean, you're talking round figures here, we are probably looking at the headwind on our cost ratio from depreciation, but it's true of up to half a percentage. And then a similar number on top again in Swedish re-entry (Technical Difficulty)

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, very clear. Thank you. And then last question from my side on --

A - Lars Kufall Beck {BIO 20841753 <GO>}

Sorry, Jakob, just to be clear, that's based, of course, on the current development plan, but as we said before, we are looking and doing all we can to accelerate it and so far we've been able to accelerate wave one. Clearly if we are able to accelerate wave two, three and four, then that might change or sort of a broad part of broad figures that would be the pattern you would be looking into.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, that was clear. Thank you. And on this new financial tax, as far as I read, but maybe I'm misreading, my question is basically are you reading it also that Topdanmark will have to pay potentially a new higher tax from 2024 and how much is your estimate?

A - Peter Hermann {BIO 20507411 <GO>}

Yeah, it's -- we are reading the same, sorry to say, but at the moment, they have a suggestion that it will be 4% additional corporate tax. That is something that we know that concessions and (inaudible) is actually looking into. So we don't know yet exactly how this will be implemented. But looking now, it's -- what they have come up with, it's a 4% additional corporate tax. That is a lot. But hope -- we can hope that this will change. We are trying to influence and come up with some other suggestions, but let's see how it will be implemented. We actually don't know that yet.

Q - Jakob Brink {BIO 7556154 <GO>}

And how are you thinking about potentially passing that on to customers compared to shareholders?

A - Peter Hermann {BIO 20507411 <GO>}

Yes. Actually, yes, it's a tough question, Jakob, because again, we don't know the implementation of this, how it will be done specifically. And I think actually 4% is a large number, right. So I don't know what that will do. But we are looking into this, whether it's a combination of what it will do, but we also have, you can say, efficiency here. With that, we can then avail people, that's one thing. The other thing is, of course, if there could be passes on to the customers. We have the third thing is that what's its influence, you can say, to the investors. We don't know that yet.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay.

A - Lars Kufall Beck {BIO 20841753 <GO>}

I think it's too early to talk about this in too much detail, Jakob. Also if you look at the current proposal that we're looking at, here is that also sharp opportunities to actually do tax improvement or tax optimization to impart avoid this. So I think the current proposal is not fully full proof and hence we look forward to see the final proposal before we become more firm on this.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, makes sense. Thank you.

Operator

Thank you. Our next question is from Phil Ross of Mediobanca. Please go ahead.

Q - Phil Ross {BIO 20618440 <GO>}

Hi there, good afternoon. Just a question on inflation, please. You repeated the guidance on the long run expectation rather of 2% to 4% of inflation or claims inflation. But it sounds like maybe you're seeing a slightly higher level in the short term. Can you maybe just comment on what is the number for this in the short-term cost inflation you're saying? And then maybe, at what point you might expect this to get back towards the normal 2% to 4% level over time? Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

It is true that the inflation at the moment is way higher than the 2% to 4% actually. If you look at what is -- if you look at the prices and the energy prices and so on consumption drops in the industry and so on. So, I think that the way we've positioned with our procurement program that is the reason why we are saying that we think at the moment we're actually in a good position. So I think we can -- we think at the moment we can absorb the development we are seeing and facing at the moment still with the -- that the betterment of the combined ratio going forward next year on the forecast, but again, if it keeps up, then of course we can also need to, you can say, take the pricing tool into hand again. And that's the reason why we are saying 2% to 4% over time.

So we don't have a clear view on exactly when this will end, but if we look at our own, you can say, financial, you can say, reports and also what we are looking in the market, then the expectation would be that this will in some way have a peak year made in the Q1 or Q2 or something. And then it will go to -- and then it will come back to more normal levels during the year. But again this is just guessing together with all the other so called specialists.

A - Lars Kufall Beck {BIO 20841753 <GO>}

I think the important point is that the forecast that we have provided for 2022 takes into account the current level of inflation and the expected development of that, that is elevated I think most of us believe compared to a long term, but it is built into our guidance.

Q - Phil Ross {BIO 20618440 <GO>}

Okay. Thanks for the data.

Operator

Thank you. Our last question is from Jan Erik Gjerland of ABG. Please go ahead.

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

Yes, just some follow-ups. And the one is difference on motor or cars. I haven't seen anywhere in the report stating anything about motor or motor inflation or anything. How is the status on the motor side in Topdanmark?

A - Peter Hermann {BIO 20507411 <GO>}

You can say it's -- we haven't stated the inflation in motor. There we, of course, also see some in the inflation. But again, also due to our procurement efforts, we have also make this, I don't know what's the order (inaudible) preferred (Multiple Speakers) repair shops. We also made new arrangement with that. And also we have made some new deals, for example, if you have to change your windows in the car, then instead of the, you can say, getting a new one, we are repairing much more and that is both good for the society and the environment, but also for the pricing. So at the moment, it's -- we still see that we have, you can say, inflation under control also within that due to the, you can say, the pricing at the Switzerland, but also the procurement program, but we haven't stated the precise inflation on motor.

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

Okay. So what's your price increases of motor? Isn't so they're in line with inflation which is on having stated or is it anything else?

A - Peter Hermann {BIO 20507411 <GO>}

I will say actually if I can take both procurement efforts and the pricing into consideration, then we are actually above inflation because we have actually seen a bettering off that we saw in most of this year.

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

Okay, thank you.

A - Peter Hermann {BIO 20507411 <GO>}

Thank you.

Operator

Thank you. There are no further questions at this time, so I'll hand back over to our speakers.

A - Peter Hermann {BIO 20507411 <GO>}

Thank you for taking the time to attend the conference. And as you know, you're always welcome to reach out to Robin if you have any further questions. We wish you all a pleasant rest of the day. Thank you and bye.