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Bloomberg Transcript

Q2 2020 Earnings Call

Company Participants

- Daniel Sundahl, Head of Investor Relations
- Kjetil Krokje, Head of Finance, Strategy and M&A
- Lars Aasulv Loddesol, Group Chief Financial Officer
- Odd Arild Grefstad, Group Chief Executive Officer

Other Participants

- Blair Stewart, Analyst
- Hakon Astrup, Analyst
- Jan Erik Gjerland, Analyst
- Peter Eliot, Analyst
- Thomas Svendsen, Analyst
- Vegard Toverud, Analyst

Presentation

Daniel Sundahl {BIO 20548519 <GO>}

Good morning, ladies and gentlemen. Welcome to Storebrand's Second Quarter Result Presentation. As usual, CEO, Odd Arild Grefstad will go through the key highlights before CFO, Lars Loddesol dives deeper into the numbers. At the end of the presentation, we will open up for questions and answers. In order to ask your questions, let me remind you that you have to be dialed into the conference call.

But without further ado, I give the word to CEO, Odd Arild Grefstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Daniel and warm welcome everyone. The situation in the Norwegian and Swedish society and markets following the COVID-19 pandemic has normalized a lot after the turmoil in the first quarter. Storebrand continue to experience strong growth in our core savings and insurance business. And the financial losses reported in the first quarter has partly been reversed in the second quarter.

Storebrands group profit for the second quarter is NOK808 million. The result is 40% higher than the same period last year. The operating -- the operating profit increased to NOK580 million in the quarter due to strong growth in the group income to lower costs and stabilized insurance results. We saw a growth of 23% in the Unit Linked premiums and 15% growth in the insurance premiums in this quarter. Despite high temporary unemployment levels in the peak of the pandemic, the occupational pensions proved to be very resilient business with stable premium growth. And also our retail savings into mutual funds has increased in the second quarter.

Asset under management in our asset management business grew by NOK8 to -- NOK880 billion and that is a 17% growth from last year. The Solvency ratio is 163% at the end of June. The reduction in the Solvency ratio is due to historic low interest rate levels, reduction in the volatility adjustment, as well as changes in our asset allocation. The ratio is in the middle of the 150 to 180 target rate for Solvency and the Board expects to pay a normal dividend for 2020.

Buffer capital has increased with 20% in this quarter. And if we add together the additional statutory reserves, the market value adjustment reserves and also the surplus values in bonds that amortize costs, we actually now have the record high level of 15% of buffer level. And with today's asset allocation and today's interest rate level, we are able to meet the annual interest rate guarantee with the embedded risk premiums, the next 10 years and still have two-thirds of our book or capital impact.

We continue to follow our twofold strategy. We actively manage the balance sheet and the risk in the guaranteed products that are in long-term runoff. Solvency is 163% at the end of the second quarter and our operational cost is down from second quarter last year. Storebrand has strong cost discipline and we are committed to flat nominal costs from 2018 to 2020.

In our front book, we are well positioned for capital-light growth through our leading position in occupational pension in Norway and Sweden, as well as the individual market for savings and insurance. We also recognize strong growth in asset management based also our -- on our leading position in sustainable investments.

This slide illustrates the strong double-digit growth in our core markets, the occupational pension Unit Linked markets, asset management and insurance. And after reserve strengthening in the first quarter, we are back with second quarter insurance result in line with our targets and with 15% growth in the insurance segment compared to last year.

In our Swedish Unit Linked business, we recognized strong sales, positive net transfers and small structural initiative in the form of portfolio transfers and this together leads to a 27% growth in premiums. SPP is now the fastest growing provider of non-unionized occupational pension in Sweden, with a market share of 14%. And as shown, the portfolio transfers are significantly contributing to the growth and the main reason for our success in this market is that we have moved into a modern scalable platform with low marginal costs for growth. We also have the expertise and a proven track record for successful portfolio transfers and last but not least, we leverage on our leading position within sustainable investments.

One consequence of the COVID-19 is that it accelerates our transition towards our fully digital business model. The pandemic has shown that parts of our business can shift rapidly to new ways of doing business once digital becomes the only option. Additionally, the pandemic reveals several new business opportunities that we are actively exploring. The rapid adoption of digital highlights promising opportunities both within B2B business and within the wealth management in Storebrand asset management.

COVID-19 introduces new and changing customer problems such as an increased need for safety and health related services. Many of these can be addressed through digital solutions to create new growth opportunities. During the pandemic, we saw that our most digital value chains were the least affected. Therefore, our future outlook on digital will emphasize on how to use end to end digitalization, to reduce risk and for further cost reductions.

And with that, I give the word to our CFO, Lars Loddesol.

Lars Aasulv Loddesol {BIO 3969188 <GO>}

Thank you, Odd Arild and good morning everyone. The group result for the second quarter was NOK808 million. This consist of NOK228 million in financial items and we've set aside NOK19 million for fund related expense -- fund performance related expenses. As you are familiar with, the earned performance fees in the quarter can only be booked at the end of the year. The operating profit was NOK599 million and shows resilience and satisfactory development in a quarter in which most industries and markets were severely impacted by the COVID-19 pandemic.

As a consequence of the lower interest rate level in Norway and Sweden, the solvency capital requirement has increased by NOK3.5 billion to NOK31.1 billion. Owned funds including transitional capital have grown by almost the same NOK3.3 billion, but due to the numerator over the denominator effect, the solvency margin is down. I will revert to this in a moment.

With strong equity markets and improved credit markets, customer buffers have been rebuilt to above 9% of customer funds. This gives resilience in turbulent markets and protect the customer returns, as well as shareholders equity. In fact, as Odd Arild has stated, given the current interest rate level and normal risk premiums, the buffers are sufficient to create returns in the portfolios to meet their annual interest rate guarantee over the next decade and still have more than two-thirds of the customer buffers capital intact.

High level the fall in Solvency has been caused by the COVID-19 situation and the corresponding lower interest rates, which have led to higher solvency capital requirements without corresponding improvements in own funds. Furthermore, the lower interest rate level leads to a reduction in so-called discretionary benefits. This means that when we stress the balance sheet, a smaller part of the stress will be offset -- offset by future profit split with customers.

There was a lot of turbulence in the markets at the end of the first quarter, which impacted both market values and technical factors in the solvency calculation. At the end of the second quarter, markets have stabilized and the volatility adjustment have come down significantly. In the solvency calculation, liabilities are discounted by the risk free rate of return, defined as a swap rate plus a volatility adjustment factor. In Norway, the IFRS accounting discounts -- discounts the liabilities with a guaranteed rate of return, while in Sweden, the same discounting rate is used for accounting, as well as for solvency.

As you can see from this picture, the discounting rate illustrated here as a combination of the 10-year swap rate and the volatility factor in both countries fell sharply in the first half this year. The Norwegian 10-year swap rate fell from 2.07% to 0.9%. In Sweden, the 10-year swap rate fell from 0.69% to 0.29%. In the first quarter, the increase in volatility adjustment partly made up for the fall in interest rates in both countries, while in the second quarter, interest rates fell further combined with the fall in the volatility adjustment.

In fact in Sweden the discounting factor was almost unchanged in the first quarter, but fell significantly in the second quarter as illustrated. In order to explain the movement in Solvency, I want to concentrate on the first half movement. This makes the changes easier to understand. The solvency margin without transitional capital was 174% at the end of last year. We continue to refine the models and our assumptions, this gives a positive contribution of 1 percentage point.

The ultimate forward rate is down by 15 basis points, causing a 3 percentage point reduction. Despite the significant increased credit spreads, the VA, which are volatility adjustment which is meant to reduce volatility in the solvency margin has gone down in Norway as illustrated on the previous page.

This has been caused by reduced interest rate differential between the Norwegian kroner and the Euro. The effect is negative 2 percentage points. Reduced equity stress has a positive impact of 5 percentage points. These three regulatory factors therefore give a net contribution of zero. The unprecedented fall in interest rates described on the previous slide reduces the solvency margin by 23 percentage points.

What is here labeled asset return can be split evenly between higher credit spreads and the fall in equity values. Higher credit spreads lead to mark-to-market losses, but also higher running yield in the portfolios. The equity values fall led to a reduction in unrealized equity gains. We reduced our equity exposure in March and have not been able to fully recuperate the values during the second quarter.

Following the turbulence in the market, we have looked for investment opportunities. We have found some long dated bonds with strong liquidity premium and also strong ratings that we have acquired and added to the bonds at amortized cost portfolio. The bonds give duration and expected returns, but do require additional capital under Solvency II. Net-net, this reduced solvency margin were 2 percentage points.

With holding the dividend for 2019, improved the solvency by 5 percentage points and a small sub debt issue and the results created in the first half this year, I didn't know the 5 percentage points which have been set aside for dividends for 2020. The transitional rules gives an additional 26 percentage points in capital leaving us with a pretty solid 163%

in regulatory solvency, despite having been through the most volatile six months in the financial markets since the financial crisis in 2008.

Looking at the second quarter movement standalone, you can see that the significant fall in regulatory volatility adjustment without a corresponding fall in credit spreads is the main cause of the weaker solvency. The asset returns in equities and credit are positive, but not enough to make up for lower volatility adjustment. Interest rates fell further in the second quarter. A reallocation of investments into equities and loan credit bonds have reduced the solvency, whilst good operating results and our issuance of NOK500 million in sub debt have contributed positively. In this picture, we illustrate the sensitivities to future shifts in rates, equities and spreads. As our Unit Linked books -- book of business grows as a percentage of the total, the sensitivities are down from last quarter and will continue to be reduced over time. The sensitivities will never be a perfect prediction of future -- of the future as there are many moving parts. The sensitivity table here shows the impact of one factor at the time.

The fee and administration income is up 8% year-to-date and 4% when adjusted for a stronger Swedish kroner. The insurance results are back to above SEK250 million per quarter and the expenses are under control. Financial items are strong due to the rebound in financial markets. A tax of 231 million gives a tax rate of 34% in the quarter. You may recall that we had a tax gain from currency hedges in the first quarter and as the Norwegian kroner has strengthened in the second quarter, part of this gain has been reversed. The underlying tax cost remains at around 20%.

It is satisfying to see that the result improvements come in the front book and primarily from the savings area. The insurance area is back after a weak first quarter and the reserve strengthening done following the outbreak of the COVID-19 pandemic. Guaranteed pension is hit by a reduction in the volatility adjustment for Sweden, which has led to an increase in deferred capital contribution. The strong result in the other segment is due to a rebound in credit markets generating strong returns in company capital portfolios.

The Savings area shows good progress in the quarter and year-to-date. Unit Linked Norway showed strong profit growth from both higher assets under management, stable margins as well as lower costs. Unit Linked Sweden has lower margins than last year with strengthened profits from higher assets under management. The asset management business showed strong asset management -- assets under management growth and a significant improvement from last year. At the same time there is a delay in certain transaction fees as business activity has slowed due to COVID-19 and which we expect to come back later.

In retail banking, the profits are down due to lower interest rates and the fact that we accelerated interest rate cuts to our mortgage customers to ease economic pain in March and April when a lot of Norwegian workers were furloughed. It is satisfactory to see the underlying business as illustrated with Unit Linked premiums growing even in the aftermath of the COVID-19 situation.

Furthermore, reserves are strongly up after the market rebound, as well as good sales, especially in Sweden. The total assets under management continues to grow strongly, even though the Norwegian kroner strengthened in the quarter. The retail banking margin is hurt by both low rates and our accelerated rate cut in April and May. The insurance area shows normalization after two weak quarters. P&C & Individual life profit is hurt by some large fire claims. Health & Group life benefits from strong results in health insurance and pension related disability is pretty much on an expected level.

The combined ratio is now back at a targeted level of 90% to 92%. It is very satisfying to see the strong double-digit premium growth in all business lines. The premium growth is a result of both price increases and volume growth. The investments done in our own organization and improvements done on distribution are paying off as planned.

The Defined benefit portfolio is in long-term run-off. In the quarter, the profit is hurt by weak risk results, although within normal variations. Paid-up policies continued to generate just short of SEK100 million per quarter on average. The Guaranteed products in Sweden are hurt by lower volatility adjustment, which gives a lower discount rate for long-term liabilities, which have resulted in a SEK291 million increase in deferred capital contribution in the quarter.

Going forward, the lower volatility adjustment also means that it will be easier to generate a return that meets or exceeds the liability discount rate in Sweden. Because of the equity markets rebound and the lower rates in the quarter, buffers have been rebuilt and are at a strongest level ever. This enable us -- enables us to meet short and medium-term market volatility and stay solid even if we should experience low rates for years to come.

Guaranteed reserves as a percentage of total reserves continue to fall. In the other segment, we see the effects of credit spread contraction on company portfolios, which have performed well. As I mentioned during our first quarter presentation, the mark-to-market loss we experienced in this first quarter will be reversed when credit spreads contract and through higher yield in the investment portfolios as long as there are no defaults. We have no reason to believe the credit risk in the portfolios has deteriorated. Overall, a good quarter when it comes to the P&L and the underlying business, but hit by a lower discount rate on future liabilities on the balance sheet. Good cost control and strong buffers ensures future profitability.

You want to say something about Capital Markets Day?

Daniel Sundahl {BIO 20548519 <GO>}

Thank you, Lars Aa. Loddesol. Yes the postponed Capital Markets Day that was originally scheduled for the second quarter has now been scheduled for the 10th of December. So please save the date. And with that we will move over to Q&A. And again, let me remind you to ask a question, you will have to be dialed into the conference call. And with that, I give the word to the operator.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Peter Eliot calling from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. So my first question I guess is on the Solvency ratio. And if we just assume the Capital Markets day as they are today, I'm just wondering if you can update us or remind us on how you think the 26 points of transitional benefit will develop overtime, and in particular I'm just wondering how much the unit business has to grow for you to lose the interest rate transitionals or how much interest rates have to recover before that there is -- that is the first question if you could just elaborate on that, that would be great.

And the second thing was about your asset allocation. I mean, I know you have the policy of reducing equity exposure markets fall and increasing it again when they recover. But I have to may given the sort of the solvency position and interest rate outlook, I thought you might have been a bit more cautious on this occasion. I'm just wondering if you can shed bit more light on how you think of that and whether you might sort of pull any management levers in the future or whether you just leave the policies to run its course.

And finally, third question on P&C & individual life, if I may. If you ignore the Q1 which is obviously very elevated in terms of combined ratio, then the combined ratio of 93 points percentage this quarter was about 10 points higher than it has been in any other recent quarters. So I'm just wondering if you can elaborate a little bit on the dynamics there, is that sort of COVID-19 impact or how should we think about that? Thank you very much.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

All right. Thank you, Peter. I will start-off on the -- on the transition rules. The transition rules last 16 years from 2016 until 2032 and they will be linearly reduced from 16 to 32. So in that sense, you will have a linear reduction to start-off with from this time and until 2032. And then there will be some technicalities depending on how the Unit Linked portfolio grows, that can add a cap on the transitional rules, but that is quite -- it's quite hard to make a general rule for how that will play into it.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

You are quite --

Q - Peter Eliot {BIO 7556214 <GO>}

Can I follow-up very quickly on that just, I mean we -- can we assume that we sort of quite saw from the Unit Linked growth impacting, I'm just thinking if we do see strong growth in quarters -- in the future quarters, is there a chance that 26 points could reduce in the short-term or are we thinking you can anticipate very long way before if any short-term impacts?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

You can see small impact on the transitional rules from Unit Linked growing, but it's not going to be large impacts on the solvency transitional rules from that in the short term as I can judge it.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

With respect to --

Q - Peter Eliot {BIO 7556214 <GO>}

Great, Thank you.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Asset allocation and turbulent markets, Peter, we have the so-called CPPI strategy that we use quite correctly. So where we have -- where we have customer buffers we take more risk in order to create more expected return and when our risk bearing capacity is reduced, we also reduce the equity exposure. That said, a minimal amount of equities from a diversification point of view is optimal for long-term returns. So we are approximately at those levels now where we want to maintain a certain -- a minimum level of around 6% equities in order to have an optimal long-term -- long-term investment portfolio.

And with respect to your last question on P&C & Individual life, I mentioned the already when -- in my presentation that we did have some large fires in the first quarter that weakened the result somewhat in the P&C business. I should also say that the strong growth is we have -- we pay sales provision to a sales partner on the growth in P&C, which also has a short-term negative impact on cost or but as you can see the cost level is still very much under control. But if we were to reduce the growth, we would also benefit from lower cost from those sales provisions.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

There is no -- actually no deferred acquisition cost in our portfolios in Norway when it comes to the growth -- strong double-digit growth.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great, thank you very much.

Operator

Your next question comes in from the line of Hakon Astrup calling from DNB Markets. Please go ahead.

Q - Hakon Astrup {BIO 18861149 <GO>}

Thank you. Good morning. So two questions from me, the first on Solvency, so can you remind us of what management actions have they built to improve the solvency ratio from the current level and should we expect to implement some of these measures during the second half of this year, that was the first question. And the second question on dividends, so we are quite clear that we don't have the intention to paying dividend for 2020, at the same time we know that the Norwegian regulator currently is quite negative towards dividend payments some based on your dialogue with the regulator, what conditions to be met before you need to pay a dividend for 2020. Thank you.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Okay. With respect to management actions on the solvency, we are continuously looking to strengthen the solvency. We want to come back into a position where we can return excess capital to shareholders as soon as possible. But with the solvency we have now after there is a very significant fall in interest rates. That's something we cannot control which have negatively impacted solvency short-term, but still with the solvency of 163% we are still within the target area of where we want to be for ordinary dividends. And the extraordinary dividends with this interest rate they will be first out in time, but it's not like it's going to go away, the guaranteed liabilities are being reduced over time and will release capital in due course. So in due course that capital will be released, but there will be likely a delay with a interest rate level we see today.

In terms of management actions as I said, we are constantly looking for a way to optimize solvency creation going forward versus short term solvency today.

And very simply in a simplistic example if we sell all the equities we have today, we improve solvency right away, but we reduce the expected return in the portfolio over time and therefore expected capital generation over time. So we have to balance these things and optimize these things on an ongoing basis.

With respect to dividends, I'll leave the word to Arild.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Yeah, well, there is a very clear dividend policy in Storebrand. Our Board confirmed the dividend policy. We have now solvency ratio that are in the middle of the range from 150 to 180 to pay a normal dividend. So based on that and that of course guiding has been in the market for a long time. And we feel confident and the Board feel confident to be able to pay a dividend on the -- based on the result in 2020 in 2021.

Q - Hakon Astrup {BIO 18861149 <GO>}

Okay. Thank you.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

I believe also that you mentioned the regulator, the regulator has been quite explicit on trying to stop dividends for 2019 to be paid in 2020. And as you know, the Board has recommended and the General Assembly has already accepted this for Storebrand.

A - Kjetil Krokje {BIO 20060140 <GO>}

And this is of course a general rulings for all life insurance companies -- insurance companies and banks in the Norwegian market and also in Europe.

Q - Hakon Astrup {BIO 18861149 <GO>}

Okay.

Operator

Your next question comes from the line of Blair Stewart calling from Bank of America. Blair, Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. My questions have mainly been answered really, just maybe two straight questions really, just on the credit side you talked I think largely your concluding comments about Norwegian credit and credit risk in the portfolio has changed. Have you seen any material downgrades within the book? And just maybe add a bit of color around that comment that you're very comfortable with the amount of credit risk.

And secondly just coming back to the Solvency ratio and the -- kind of the emphasis between the underlying and the headline solvency, I know that you guys tend to focus on the headline. I just wonder if the regulator has the same view, presumably, the answer is yes. When are you planning to meet the regulator to discuss dividend policy as one of your competitors suggested they were meeting the regulator after summer.

And may be an awkward question at this time, but are you still -- do you still have a -- an inclination or a desire to repay that full year '19 dividend that you didn't pay, I think you previously said that you would like to make good to that payment, but how does that -- how does that view stand at the moment given where we are today. Thank you.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Okay. On the credit risk, we don't see any significant downgrades in the portfolio. And in the previous quarter we also showed some sensitivities to rating migration in the portfolio, which was probably lower than in many other -- for many other competitors. But as I said, no significant downgrades and no deterioration in the credit portfolio as we see it right now.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

And the average trading all the portfolios are still AA minus for credit. When it comes --

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Yeah, when it comes to dialog with the regulator, we have of course an ongoing discussion and in contact with the regulator. In Norway, we have a normal meeting based on our second quarter results after the summer and we'll meet with them then. But it's not -- it's a normal conversation based on the result we have on the say first half that we have every year after the summer. When it comes to the dividend payments as I said in the first quarter, we are focusing on 2020 dividend capacity to be paid in 2021. Of course, if the markets really turns into a extremely good situation I think for us, then you need to see growth in the interest rate levels at the end of the year that might open up an opportunity, but our plan A is to pay the dividend for 2020 in 2021.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Great, thanks very much. Enjoy your holidays.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Thanks.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Thanks.

Operator

The next question comes in from the line of Jan Erik Gjerland calling from ABG. Please go ahead.

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

Yeah, good morning. Jan Erik Gjerland from ABG. You have said that you're managing your back book very well and you have continued to be able to buffer at this stage. And so how should we read this deferred capital contribution increase in Sweden, is that something that should return if volatility adjustment go the other way around. And how should we review it in terms of the buffer levels or is that something you would like to keep on the book for rate any day. That's my first question.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Jan Erik, when the return is insufficient in a quarter, we have to inject deferred capital contribution in the Swedish portfolios. Then the next quarter, if the return is sufficient to take that back, we take it back. So this is a mechanism in Sweden, which makes it possible to have more long-term investment decisions in Sweden than we can have in Norway where we have this annual guarantee. So the deferred capital contribution or latent capital to the (inaudible) as it is called in Swedish is a mechanism that allows us to have more long-term investment strategy. And we will and then we will get that back when if returns are more -- are back the next quarter.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

And I think also Lars said in his presentation, the reduction in the volatility adjustment now reduces the hurdle rate for liabilities means that is it's easier to get a return on the assets that is above the discount rate of the liabilities. So that is a positive effect that will be shown in the results going forward.

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

So that might come back as actually a profit sharing in the quarters to come as you have 107 for some consolidation ratio, I could see?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Yes, we are just on the edge there on the level with 107. So it's very much dependent on the development now in the third quarter.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

And in general, we can say that we have roughly 70 basis points spread between the expected return of the assets and the expected return on the liabilities in the Swedish business.

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

On the cost side was very possibility -- was it kind of sort of COVID-19 lack of cost or lack of activity or in the industry sort of is a non-recurring saving in the quarter which is you think they can come back in the quarters ahead or is this the new level this 975?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Well, there are certain elements that are related to the COVID situation and lower activity in the market. So for example there has been lot much less travel and much less marketing in the quarter. That said, we have implemented cost programs over time in order to meet the objectives that Odd Arild was addressing earlier in his presentation to make sure that the 2020 cost level is below the 2018 cost level. And these -- these measures will take effect throughout the year and we expect to continue to have a cost level which is therefore very much on the control in the coming quarters.

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

Okay. Can you at least update us on the one pension account, is it coming from the 1st of January as the plan was or is it sort of coming during 2021? And obviously and update us on the one pension accounts in Norway?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

In Storebrand, we are planning that for coming in the first quarter of 2021 and we are following our schedule and we'll be ready to meet that time frame. We know there is some discussion in the market around some delay, so it might be some delay, maybe three to six months, but our plan is at this stage to be clear and be in the market with the product in the first quarter 2021.

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

Okay. Thank you. Just finally on the solvency, what did you say, I missed the answer on how you look at these transition rules versus non-transitional rules and on the regulator, if they're looking at the -- with or without or both when they look at the dividend proposal and what is the Board looking at?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

I think we look at the full set of cost numbers here, but when you look at the total solvency number of 163, there is a lot of elements in there, it's volatility adjustment, it's transitional rules and this will vary from time-to-time. So we look at the total solvency number and the development in that number and that is also what we of course discuss with our Board and all the movements within it and we report all these numbers also of course to the regulator.

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

Okay, thank you for your answers. Have a good summer.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Good summer.

Operator

Your final question in the queue comes in from the line of Thomas Svendsen calling from Nordea Markets. Thomas, please go ahead.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes, good morning, a question on the Norway Defined Benefit. The results there has been much lower the first two quarters in 2020 compared to what used to in 2019. I know it's logical, it's declining, but could you give some sort of guidance or do you see as a normal results there going forward maybe in relation to the 287 million you booked for the full-year 2019?

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Yes, the Defined Benefit in Norway, we -- the large -- the last large client we had on Defined Benefit in Norway converted to defined contribution scheme on January 1st. So that's the main reason why premiums have fallen significantly and also AUM has fallen in that portfolio. So you should expect that to continue to go down in the coming quarters and years ahead. That said, also the risk results in the Defined Benefit portfolio was weak in the first quarter partly due to these disability effects coming from COVID-19 and also we see somewhat weaker disability results in that portfolio in the second quarter, but that's within normal variation. So the first quarter was a weak quarter. The second quarter is more of a normalized quarter going forward. Although the credit -- now the risk results may come in a little better in the coming quarters.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay, thank you. Second question on the non-life side, the insurance, last quarter you increased the reserves to cope with this increased visibility. How close have you looked into the reserves in Q2 and have you seen any trend shifts or how confident are you that you will not come back in Q3 or Q4 with an other strengthening all the reserves given what you see right now?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

We did our thorough run through of the portfolio in the first quarter. And of course what you see in the market and layoffs in the market that has really been reduced a lot during the second quarter. So the market turnaround when it comes to unemployment and so on has been more positive than we thought when we looked at these numbers at the first quarter. But we don't do any changes in the reservations based on that. We of course are looking at what is happening in the market and what is going to happen with the pandemic going forward as well. And you know there is also time lags between being laid off and to get into disability situation. So there is nothing changed based on the data we have seen during the second quarter and we of course feel confident on the reservation we have in place.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay, thank you.

Operator

We do have some questions coming through. The next question comes in from the line of Vegard Toverud calling from Pareto Securities. Please go ahead.

Q - Vegard Toverud {BIO 17129809 <GO>}

Hello. I also have some questions here on solvency. I wondered if you could give us some more details on the 6 percentage point impact from asset allocation. And how potentially you see that developing into the next quarter. That's the first. I have a couple of follow-up questions as well.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Yeah. If you go into the -- in the appendix of the quarterly presentation, you can see that in the end of the first quarter, we had a quite strong increase in money market and cash, that was a result of the turbulence in the market, our sell down in equities and the need to have money for margin calls in different portfolios. So that has been rebalanced to a more long-term allocation now and an increase in whole maturity bonds, long-term credit bonds with good credit ratings as I mentioned in my presentation, as well as somewhat higher equity allocation. So those two elements increase the solvency -- or reduce the solvency in this quarter by 6 percentage point as you point out. In terms of going forward, we will try to ongoing basis optimize our investment portfolios and you should not see that large an impact in the next quarter, but I'm not going to predict exactly how it's going to play out for -- in the next quarter. We're pretty happy with the asset allocation we have now.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay, thank you very, very clear. And you have discussed the difference between the transitional arrangement and underlying solvency, you are looking at it, the Board has presented and discussing it and I believe if you guess previously as I say also has also looked at both numbers in addition to a lot of the numbers of course. When these discussions have been had on the number of transitional arrangements, has there been any anchoring towards any specific numbers such as 100% or 135% [ph] or has there not been any such anchoring?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

This is the discussion we have had in our Board and as you see from our capital framework, we have put forward normal dividends between 150 to 180. There is some reduction in the dividend down to 130 and that is the capital management we have put forward and that has not been discussed in detail with the regulator, but it's the guiding that has been there and is still the guiding we give for dividends.

Q - Vegard Toverud {BIO 17129809 <GO>}

I understand that and I believe also that the number with the transition is the most important number here. But still as you told those yourself earlier that the number also without transitional arrangements are being discussed. When you are discussing it, are you looking at any specific numbers or any thresholds for the number without transitional arrangement as well?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

No, but the only thing I have said is that when we discuss the level of our capitalization as we did actually when we look just five, six months back in time and discuss the level of 180% to start doing share buybacks, of course, then you don't have to have a too large discrepancy between the total solvency number and the one without transitional rules, but that just comes with the Board's view of being overcapitalized, that's the only discussion I had around these two numbers.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay, thank you very much. And then just lastly, could you give us some update on estimates now on what the solvency built will be going forward per annum preferably with or without business?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Well, if you give me the numbers of the market development, I can of course give you that. So, but you know what we have said is that 10% to 12% creation of solvency capital on annual basis, half of that approximately will be given into dividend, that is normalized market. Of course, what you have seen in the last quarter is that you have had very positive markets and then the downturn in the markets. So it's up to you actually if you believe in normalization from this point of or if you believe that you will have like rebound in markets and rates and so on, of course, then you will have a much faster a buildup of solvency.

It is also fair to say that the guiding on the 10% to 12% and the 5%, 6% is based on today's portfolio and today's run-off phase of the guaranteed book of business, that will be increased over time. So we expect to have a higher release on capital from the back book over time compared to what you see just now.

Q - Vegard Toverud {BIO 17129809 <GO>}

And okay, so but to give you a number, if you are saying that you are building 10 and you're using five for normal dividend and you are using then maybe two to three to account for the lower impact from the transitional arrangements, that would mean that you're building 2 percentage points to 3 percentage points on solvency capital going forward per annum given that the market stayed the same.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

I'm not sure I understood that transitional rule discussion both.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

Yeah, I think, no, I think got what you're trying to -- the calculation you were doing, Vegard, but I think -- I think I'm going to leave it up to you to make that projection as a part of your analysis as we haven't guided kind of specifically on that movement going forward.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

And I think the most important is that --

Q - Vegard Toverud {BIO 17129809 <GO>}

Thank you very much.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Okay.

Q - Vegard Toverud {BIO 17129809 <GO>}

Have a nice summer.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Have a nice summer.

Operator

We have another question coming through from the line of Blair Stewart calling from Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah, just sort of come back on a couple. Just what level of yield were you able to acquire was a -- the bonds amortized cost in Q2, so it would be interesting please. Secondly, how do you assess the risk of a second lock down as we go into the winter, let's hope it doesn't happen, but is there something you've looked at with an eye through the disability book, things have normalized quite quickly in Norway, but just wonder how you assess in your contingency planning risk of a second lockdown.

And finally just sorry to come back to dividend again, but it seems from the conversation we had that with interest rate levels where they are, it's maybe not possible or maybe not prudent to come back and pay that or repay that so your '19 dividend maybe canceling that dividend was the right thing to do. I just wonder what circumstances would need to be in place for it to be the right thing to do not to pay the full year '20 dividend. Thank you.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

If I start with the yield question, we were able to -- in the beginning of the COVID-19 situation to find ill-liquid bonds where we could invest in good credit bonds at around 3% yield. We are not able to find those kind of investments anymore, but as we did a fair chunk of -- we front loaded our reinvestments in bonds at amortized cost in the beginning of this crisis in March and April at which time we were able to find bonds on average around 3% yield. So that's the answer to that.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

When it comes to the COVID-19 situation, well, things seems to be in very good control in Norway these days. I think last time I looked at this, we have six or seven people altogether in hospital based on the pandemic. And of course we have again say plans to meet a situation, I think also that both the government and the society altogether have learned a lot of from the first lockdown. So we will not in my view see a similar lockdown even if you have an increase in the pandemic, it will be much more targeted. And we have shown during this pandemic that we are able to have fully operation and fully effect our business also in lockdown. So we feel confident even if there will be some set down operationally in the business.

When it comes to the dividend, while the Board was very clear when they gave the statement from 2019 result that the ratios are in place to pay our normal dividend. It's based on the strong guidings from both EIOPA and the Norwegian FSA that they postponed the dividend -- they canceled the dividend. We don't expect that to happen for 2020. So when we see this solvency numbers in the middle of our guidings, we feel confident and the Board feel confident about dividend payments for 2020 into 2021.

A - Lars Aasulv Loddesol {BIO 3969188 <GO>}

I think, Blair, if I understood you right, you said what kind of circumstance would happen for us to actually pay a dividend for 2019? And the 2019 dividend has gone. But if we were to get more than 100%, 180% solvency at the end of this year, you could see share buybacks as a part of excess of returning excess capital. That is not very likely at this stage and you should see the 2019 dividend has gone and focus being now on 2020 dividends and on getting back into returning capital or a level of solvency which will allow us to return excess capital to shareholders.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay, very clear. Thank you.

Operator

We have no further questions in the queue. (Operator Instructions)

A - Daniel Sundahl {BIO 20548519 <GO>}

So, I don't believe there are any further questions. We have reached the end of this presentation. Thank you very much for listening in and I wish you all a very nice summer. Bye-bye.

Operator

Thank you for joining today's call. You may now disconnect your handsets.