Q1 2018 Earnings Call

Company Participants

- Lars Thykier, Chief Financial Officer & CFO of Topdanmark Forsikring
- Peter Hermann, Chief Executive Officer

Other Participants

- Asbjørn Nicholas Mørk, Analyst
- Ida Melvold Gjøsund, Analyst
- Jonny Urwin, Analyst
- Mads Thinggaard, Analyst
- Phil Ross, Analyst
- Steven Haywood, Analyst
- Vinit Malhotra, Analyst
- Wajahat Rizvi, Analyst
- Youdish Chicooree, Analyst

MANAGEMENT DISCUSSION SECTION

Peter Hermann {BIO 20507411 <GO>}

Good afternoon, everybody and good morning to the U.S.A. And thank you for joining us at this conference call. I am Peter Hermann, and with me is Lars Thykier, CFO, and Steffen Heegaard, Head of Investor Relations & Group Communications. We're holding this conference, because earlier today we published our interim report for the first quarter here of 2018.

We are now ready to answer your questions. Please ask them one at a time. And, operator, may we have the first question?

Q&A

Operator

Yes, of course. The first question is over the line of Asbjørn Nicholas Mørk at Danske Bank. Please go ahead. Your line is now open.

Q - Asbjørn Nicholas Mørk

Yes. Good afternoon. Couple of questions from my side. I'll take them one at a time. In terms of the claims trends and the revised model guidance for 2018, I was just wondering if you see any signs of deterioration in any products in terms of claims trends that would justify you turning back to sort of your assumed claims level for Q2 to Q4 2018.

A - Peter Hermann {BIO 20507411 <GO>}

Again, as we discussed last year, it is a question of whether we are in the middle of the probability distribution (01:17) or not. So I would say that in most products, it's a possibility. But if we look at where we had performed worse this quarter than we did last year, accident has been worse and travel insurance has been worse. The development on the third-party liability and theft has been very good, but we know from experience that this theft level, it goes up and it goes down over some years. So that might be worse as well.

Q - Asbjørn Nicholas Mørk

But if I remember back on your annual report, you had a slide showing basically five years statistics of continuous decline to burglaries, for instance, or theft. So I'm just wondering it doesn't seem that there's anything in the short-term outlook that should justify the deterioration. Is that correctly understood?

A - Peter Hermann {BIO 20507411 <GO>}

Yes, it is correctly understood. But still, if we just accept the current level as the level for the future, we might make a mistake. We might have had some kind of luck in Q1, as we had last year.

Q - Asbjørn Nicholas Mørk

Okay. Then maybe a little bit on the same topic, but relating to motor. If we look at the sector statistics, it indicates 6%, 7% increase in the number of casualties in January/February. And I was just wondering – or claims, sorry. I was just wondering because you mentioned in the report that motor is one of the areas where you still see very benign claims trend. So could you elaborate a bit on how you're seeing this? Also taking into consideration the underlying, let me say, claims cost inflation that some of your peers are addressing when it comes to repairing motor damages.

A - Peter Hermann {BIO 20507411 <GO>}

As I said, it is the third-party liability in the personal injuries that makes a difference. We don't see a steep increase in expenses on casco (03:24), but we see an increase.

Q - Asbjørn Nicholas Mørk

Okay. Thanks. Then on your growth outlook, 3.4% corporate growth and, I guess, somewhat above 2.2% on the underlying for the private. You're also mentioning that you still have been quite selective in the customer base that you've targeted at the last couple of years. Should we expect this growth to come up now that you sort of are going through or ending this cycle of being selective? Thanks.

A - Peter Hermann {BIO 20507411 <GO>}

Of course, it helps that we don't have this portfolio of big unprofitable customers that we are having to fight every time we discussed premiums. But I think we have been – we have had a very good run in Q1 and we will probably not see quite as good run through the rest of the year.

Q - Asbjørn Nicholas Mørk

You've been very good at selecting the businesses where you want to grow. Is there any areas where you're seeing increasing competition at the moment?

A - Peter Hermann {BIO 20507411 <GO>}

Still had a substantial problem on the illness and accident, where we make the money on the asset management side, while the combined ratio is increasing and increasing for everybody. We have one of the lowest combined ratios and still we are talking 5 of 100 (04:46).

Concerning the growth, we expected to lose both Nykredit and Sydbank as the distribution channel on the life side at the beginning of the year. But it had been postponed a quarter with Nykredit. So Nykredit figures are included in Q1, but will not be included in the growth figures for the last three quarters of the year.

Q - Asbjørn Nicholas Mørk

Okay. Could you quantify that impact?

A - Lars Thykier {BIO 16427122 <GO>}

Just that for the whole year these two agreements combined would be around 0.6 percentage points.

A - Peter Hermann {BIO 20507411 <GO>}

So that is say 0.1 on the full year.

Q - Asbjørn Nicholas Mørk

All right. Okay. That's very helpful. And then on the expense ratio, you also mentioned in the report the continued investments in the digitalization. If you look the next couple of years, should we expect sort of a net impact from this or net positive impact from this or would you expect this level to sort of continue and be the normalized investment level looking ahead?

A - Peter Hermann {BIO 20507411 <GO>}

I don't really dare to do anything but that. We have saved really a lot of money during the last few years. We have reduced the number of FTEs by around – or more than 10% in the non-life company, but we are investing a lot of this money, and at least in 2018 and the first half of 2019, I don't really see any changes.

Q - Asbjørn Nicholas Mørk

All right. Thanks a lot.

Operator

Okay. We're now over to the line of Ida Melvold Gjøsund at Carnegie. Please go ahead. Your line is now open.

Q - Ida Melvold Gjøsund

Hi. It's Ida from Carnegie. I have a few questions, please. I'll take them one at a time. If we start with the solvency ratio, what is driving the capital requirement up by 5% since the end of Q4?

A - Peter Hermann {BIO 20507411 <GO>}

In general, we have a cycle in the solvency capital required for operational risk. The reserves are biggest end of Q1 and that means that operational risk, which is proportional to reserves, is biggest after Q1, and it's bigger than it is in Q4 where it's the lowest. Then we have had the – some slightly negative investment results in life. And since we have to ascribe the customers, the owners all the time, the loss absorption capacity in life has decreased, and that means that the solvency capital requirement increases.

Q - Ida Melvold Gjøsund

Okay. Thank you. And then on your guidance, you have upgraded it on the technical result by DKK 150 million. If you exclude run-off gains, you upgrade by DKK 90 million. So do you assume improvements in the rest of the year, or is this only due to the performance in Q1? It would be great with some color on the drivers of this upgrade, please.

A - Peter Hermann {BIO 20507411 <GO>}

The DKK 60 million, that was run-off, but we had DKK 50 million on weather as well. So it's a slight impairment that we show here. And much of this is actually driven by reduction in the claims handling risk – or claims handling expenses.

Q - Ida Melvold Gjøsund

Okay, perfect. So if I can do a follow-up on that. I was wondering if you could help us on how we should see this going forward, the reduction in claims handling costs from your efficiency improvement program.

A - Peter Hermann {BIO 20507411 <GO>}

I didn't get that.

Q - Ida Melvold Gjøsund

You have mentioned that some of the improved claims trend is due to a reduction of the claims handling costs from the efficiency improvement program.

A - Peter Hermann {BIO 20507411 <GO>}

Yeah, that's right.

Q - Ida Melvold Gjøsund

So, I was just wondering if you could help us on how we should see this going forward.

A - Peter Hermann {BIO 20507411 <GO>}

This is a very long strike that we are going through, where we are improving our efficiency and we are automating a larger part of our business and we are outsourcing some part of it. And I don't really know how the pace is in the year – quarters going forward. That's why we have made this between 1.5 percentage point in extra costs to the efficiency program. But until now, we have been able to keep the extra costs at bay by the automation or the proprietary (09:50) savings we have made. I can't promise you exactly how this balance will be in the quarters to come.

Q - Ida Melvold Gjøsund

Okay. Thank you.

Operator

Okay. We're now over the line of Mads Thinggaard. Please go ahead. Your line is now open.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yes. Thank you. This is Mads from ABG. I have a question on – I mean, looking into the life business, it seems – I mean, the result is not that high this quarter, the DKK 44 million, and I think you were kind of – you came with improved guidance for the life business here last quarter, DKK 240 million to DKK 270 million pre-tax profit. But then looking into the – I mean, all of the segments, then you – all the underlying lines you have, you were talking about sales and administration you had made some improvements there that you kind of help getting a higher result on an ongoing or forward going basis. And it looks it's still at WACC of (10:52) DKK 10 million. Can you put a bit of flavor on what is holding you back here and if you should expect improvements here in 2018 and when?

A - Peter Hermann {BIO 20507411 <GO>}

We're still keeping our estimate of the DKK 240 million to DKK 270 million on the life business, as we had also did in the beginning of the year. The reason why you don't see any improvements here in the first quarter is also that we have a lot of growth in the life business, meaning that we also have some more cost for acquisition costs. And the other thing is that we are still using a lot of resources and actually have added resources on our big project, where we are going to change the whole IT system. So going through the year, we'll also spend some money there, actually, to be sure to go live in 2019.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Are you experiencing...

A - Lars Thykier {BIO 16427122 <GO>}

We have kept our forecast for 2018, but actually with these changes Peter is talking about, we are closer to the lower end of the (11:56) than we were later or early on.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Okay. So we are closer to the DKK 240 million now.

A - Lars Thykier {BIO 16427122 <GO>}

Than we were.

A - Peter Hermann {BIO 20507411 <GO>}

But we keep the interval.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Are you experiencing any problems with the IT system or difficulties?

A - Peter Hermann {BIO 20507411 <GO>}

No. But this is a big project. It has been all the way through. We are right now at the beginning of actually testing soon. We are closing some of the scope, the development, and then we are going into the stabilization phase and our UAT phase. But this is a big program, has been all the way. But we are still comfortable that we could go live with the system in the beginning of 2019.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Then you're expecting improvements in the upcoming quarters in the life business?

A - Peter Hermann {BIO 20507411 <GO>}

Yes. We will on the longer run. It will not be in the first quarters after go live. But we expect that we also take some efficiencies when going live with the new system. That's the intention. But it will be in the later part of 2019 and probably in 2020.

Q - Mads Thinggaard {BIO 15369662 <GO>}

And do you – is there any specific reason that the premiums in – or the outlook for premiums in the life business is improved now compared to last quarter?

A - Peter Hermann {BIO 20507411 <GO>}

The last quarter, we saw that we were losing the Sydbank and Nykredit, as mentioned. And that gave us an estimate that we thought the running premiums would fall actually. But we have actually managed to get a lot of new business in and also keeping some of the old credit (13:26) customers and other parts. So right now we think that we will have a small positive running premium for this year. So this is new business coming in from other parts.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. And just to get the – thanks a lot for that. Just to get – a follow-up question, I mean, the guidance you have for the life business in 2018, do you perceive that as a sustainable level moving into 2019 and 2020?

A - Lars Thykier {BIO 16427122 <GO>}

It's a little hard to answer, because what we have now is a very old IT system with huge expenses, but, on the other hand, it is paid for. When our new live system is put into place, we will have to depreciate the investment we have made in this system. We will have savings with a new system, substantial savings. But in the first 10 years, these savings will probably be somewhat smaller than the depreciation.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. Thanks a lot.

Operator

We are now over to the line of Jonny Urwin at UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Thanks for taking my questions. Just one actually. I mean, just thinking about how the attritional loss ratio is going to develop from here, obviously, you've done a good job there. We've seen a good level of improvement for several quarters now. But I'm just wondering is that improvement sustainable. Will it continue to improve from here? Because my understanding is you're not pricing sort of strategically above claims inflation, but you have been putting through some restructuring and some portfolio cleansing, et cetera, and improvement in claims handling. So it feels like that should level off over the medium term. But any color you could provide there would be great. Thanks.

A - Peter Hermann {BIO 20507411 <GO>}

We don't see any reason for this trend to disappear as it is right now. But it is largely on markets that if you are very profitable for a long time, then competition will increase. And that means that we think that the market will, in the longer run, go for a higher combined ratio than we see now, including Topdanmark. Lower prices for the customers.

What you can say is that we all have the same toolbox. We are all investing in being more efficient. So we will all make some efficiency gains in the future, but this means that – we expect that these gains will be completed away, but with a time lag. And how long this time lag will be, we don't know.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. Okay. So just I'm thinking more about the loss ratio than the expense ratio. But, I mean, if there's no reason to assume that that trend should disappear, does that mean you are putting up prices by more than claims inflation at the moment? And if you are, is that just because claims inflation is below trend or are you actively trying to price ahead of claims inflation?

A - Peter Hermann {BIO 20507411 <GO>}

We are trying to adjust our pricing to the risk development we see. We have been behind the curve for couple of years, especially on the third-party liability. But I think we are pretty close now. What we don't know is whether somebody breaks out and start campaign with lower prices, and that will change the market.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay, great. So you're more in line with claims inflation going forward as you see it then at the moment?

A - Peter Hermann {BIO 20507411 <GO>}

Yes.

A - Lars Thykier {BIO 16427122 <GO>}

Yes.

Q - Jonny Urwin {BIO 17445508 <GO>}

Brilliant. Thanks, guys.

Operator

We're now over to the line of Youdish Chicooree at Autonomous. Please go ahead. Your line is now open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good afternoon, everyone. I've got two questions, please. The first one is really just thinking about the trajectory of the underlying loss ratio again, but more specifically on staff costs. I think in your presentation, you say FTEs were down 11% since 2016. But your staff cost only fell 4% in 2017. So I'm wondering whether there is a time lag to recognize the full benefit and whether this is going to happen in 2018 or whether that just reflects the fact that you have actually outsourced more services, so the staff costs is not going to come down by 10%, 11%. That's my first question.

The second one is really around some of the stats you gave us on digitalization. You mentioned 60% of claims are reported digitally and 18% processed automatically in full or partly. So I was just wondering what are your ambitions there. What levels are you targeting?

A - Peter Hermann {BIO 20507411 <GO>}

You just could – what slide are you referring to in your first question?

Q - Youdish Chicooree {BIO 17430923 <GO>}

Right. So on slide 7, I think it's on the roadshow pack. You mentioned 11% decline in full time employees. And I think from your annual report, I can see the staff costs went down only 4% in 2017.

A - Lars Thykier {BIO 16427122 <GO>}

And that is because we've made all these investments. We have used more consultants and we have spent more money on external provisions.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. So the staff costs are not going to come down by the same amount of the FTEs then?

A - Lars Thykier {BIO 16427122 <GO>}

No.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. All right.

A - Peter Hermann {BIO 20507411 <GO>}

And it never will, because the fact that the FTEs that we reduced are cheaper than the FTEs that remains with us and the new FTEs we hire. So it will not be the same, but that's not the important part of it. The important part of it is all the money we spent on development.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Understood.

Operator

Okay. Our next question is over the line of Wajahat Rizvi of Deutsche Bank. Please go ahead. Your line is now open. If you could take your phone off mute. Okay. As you're still on mute, we're going to go over to next line, which is Steven Haywood at HSBC. Please go ahead, Steven. Your line is now open.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Couple of questions, please. I'll take them one at a time, I think. Just a follow-up on the 10 years, you mentioned that the new IT system that you're putting into life won't actually cover the cost or the authorization (20:31) of the cost of this system for about 10 years. What is your expectation of the lifetime of this new IT system?

A - Lars Thykier {BIO 16427122 <GO>}

The IT system we have now was launched in 1974. So I think we will probably not have the same lifetime, but definitely more than 10 years. And then I would like just to state that when we chose to make the new life system, we had an expectation that we would be able to generate savings around the same size as the depreciation of the system. But we have had such a tremendous growth during the last couple of years, so we'll rather spend some of these savings on development in the business instead.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. And, I guess, the new IT system will be easier to upgrade in the future as well?

A - Lars Thykier {BIO 16427122 <GO>}

Very much so.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. And then on your run-off profits, how much visibility do you have on the future run-off profits of, say, for a year or even five years?

A - Peter Hermann {BIO 20507411 <GO>}

Not very much. I think it's a basic of run-offs that if we know exactly what they are, then we'll have to book them right away. But we have this principle that we think that we should make best estimate reserves, but on the other hand we prefer to be a little on the safe side. So we are going for around – or between 1.5% and 2% of premiums as extra reservations. That is looking forward.

When we look backwards, we can see that we have actually made reservations that has been much bigger, and that's why we have had this higher level of run-offs for many years, especially from the workmen's compensation reform in from 2004 to 2006 there was a huge over-reservation in the industry. And from the later years, we have had – or we've reserved far too much all of us (22:34) on third-party liability. The risk development has been very fast and very benign.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. That's helpful. And, I guess, when you see the results developing, you will release them straight them away or as soon as you see, you won't hold on to any for a caution of other risks that may arise?

A - Peter Hermann {BIO 20507411 <GO>}

Could you repeat your question? Sorry.

Q - Steven Haywood {BIO 15743259 <GO>}

I mean, some of your competitors have stated that they expect reserves to be released over years, even though they know that they have the excess in their reserves already. But for you, will you release the reserves as you see them coming rather than sort of holding them back in your book?

A - Peter Hermann {BIO 20507411 <GO>}

I mean, we have seen that some of our peers, they express themselves a little bit different from what we do. But releasing reserves, that is being more or less conservative from time to time and we would not necessarily release everything in 2018.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. I understand. Thanks very much.

Operator

Okay. We're now over the line of Vinit Malhotra of Mediobanca. Please go ahead. Your line is now open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Thank you very much for this opportunity. So three quick questions, please. One is on the large losses, which in the past you have sort of alluded to the run rate DKK 100 million to DKK 120 million (24:16) that range, but now we've been getting quite a few quarters of very low numbers on that. Is that do you think linked between these low numbers and that you have been cancelling the large risk business? And if that is so, then will you be changing that guidance?

And linked to that question is that in the improvements of the sort of underlying in the SME segment, is there a noticeable effect or just a fact that some large unprofitable book has been cancelled? So if you want, I can go to the next question now or we can take this first.

A - Peter Hermann {BIO 20507411 <GO>}

Concerning your question about large scale things, you are right that we – our exposure in big industrial customers and unprofitable (25:19) customers have decreased. But so far, we have chosen to keep our guidance for normalized large scale claims at around DKK 100 million for a year, which means DKK 25 million per quarter and we'll keep that until we actually see evidence that the level will be lower, and we would like some more historical evidence before we change our assumptions.

We think that the level of fires we had in 2017 and the first quarter of 2018 were unusually low.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. Okay. So is there any numerical impact you could say that, hey, because of this book change, the loss ratio improved by X point...

A - Lars Thykier {BIO 16427122 <GO>}

Actually, it's very big risks (26:17) process, especially large claims, because that was handled by our reinsurance. We have this proportion on reinsurance, and that means that even though the customer is very big, then we are only hit proportionally. A very big customer that has claim of DKK 100 million, if the AML (26:39) is DKK 2 billion, we'll only have 20th of this ourselves. That is DKK 5 million in this case.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. No, what I meant is we hold SME segments by...

A - Lars Thykier {BIO 16427122 <GO>}

So this is not necessary reason for a big change in large scale claims.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thanks. No, but what I meant is that in the underlying claims ratio for SME segment, you say it improved 1.5 - I don't know - 1.3 points underlying basis this quarter. Is there some bit of that driven by book change or does it not vary in this 1Q?

A - Lars Thykier {BIO 16427122 <GO>}

Yes. That is several different impacts. That is the impairment of claims handling that is the change in book and it is locked.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Of course. And just can I ask about the customer satisfaction metrics. So here I'm on the slide back which is the bigger one and just there seems to have - I'm on slide 13, there seems to be a really big uplift between March and February in your ambassadors. I mean, it's quite a phenomenal change. Is there something that is noticeable or worth mentioning here you think? I'm on slide 13 of the slide pack which has 46 slides.

A - Peter Hermann {BIO 20507411 <GO>}

Actually to be honest, I don't rely on this as anything that is predicting the future. I think that we see some statistical coincidence or error or something that is...

To be totally honest, the level in 2017 was around 48%. It was a bit lower in January and February, but in March it is back to 48%. So this figure is a bit wrong.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. And just last quick point is that in the life insurance segment in the insurance risk, there seems to be a loss in 1Q. Is there anything we should note or is it just a one-off, some model changes or...

A - Peter Hermann {BIO 20507411 <GO>}

This is a business line with very few and very expensive claims. So if somebody get disabled, the claim might be - or it will be in millions, DKK 10 million, for instance. So just a very few extra claims can make a big difference.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay.

A - Peter Hermann {BIO 20507411 <GO>}

Due to they are (29:17) volatile.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. All right. Thank you very much.

Operator

Okay. I can see a final question and that's over the line of Phil Ross from Berenberg. Please go ahead. Your line is now open.

Q - Phil Ross {BIO 20618440 <GO>}

Hi there. Thanks for taking my questions. Just going back to premium growth in the life business segment, obviously, in Q1 growth was above 18% in the unit-linked single premium business. How long should we think about growth being at those levels for us (30:06), particularly in sort of 2019 and 2020 further out from this year?

A - Lars Thykier {BIO 16427122 <GO>}

That's a good question that is difficult to answer. I think that in the last recent years, we have had good traction in our life business and growing the company to more than double the size of it for the last four years. I don't expect to have two digits growth every year. But we're still continuing strong here in the first quarter, but don't expect to have growth on 18% end of the year. But we are saying that we think that the running premium would be around a little more positive, and then we don't estimate the total number of single premiums, because that's very volatile. So I cannot answer whether that will be the basis of 2019 and 2020 right now.

Q - Phil Ross {BIO 20618440 <GO>}

Okay. Thank you.

Operator

Okay. We're now going back to the line of Wajahat Rizvi at Deutsche Bank. Please go ahead. Your line is open.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Hello. Good afternoon, everyone. I just have a quick question on Solvency II actually. So, I understand that there was quite a big impact from the UFR change and also the VA under your solvency ratio. And your answer, I think, it was either before you did not pick those elements as a reason of lower solvency ratio. So I was just wondering if you could provide us a bit more color of how much your solvency actually benefits from Ultimate Forward Rate and what the impact of this change was on the 1st of January, 2018. Thank you.

A - Lars Thykier {BIO 16427122 <GO>}

When we are talking solvency ratio, it is almost - or it is quite marginal. We are talking a few million in the non-life business and I think it is DKK 80 million life, something like this. But some (32:01) on top of this, so it doesn't impact that much.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Okay. So are you able to provide a bit more color on why effectively all of your capital generation in 1Q was offset by these model changes or whatever and we do not see any sort of increase in capital ratio in 1Q?

A - Peter Hermann {BIO 20507411 <GO>}

(32:23).

Q - Wajahat Rizvi {BIO 19928187 <GO>}

So I think quarter-on-quarter your solvency ratio was kind of flat and you have one quarter's worth of net profits coming in. So just wondering what are the other elements in solvency ratio which is increasing your SCR by so much more.

A - Lars Thykier {BIO 16427122 <GO>}

That wasn't the model changes. That was the return on assets compared to the return on – the customers' return on our life businesses. We did have losses in the life company on the asset portfolio in Q1 due to lower equity prices especially.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Okay. Then but what I'm trying to say is overall, your net income was positive and that should add to your solvency ratio.

A - Lars Thykier {BIO 16427122 <GO>}

That's true. But as I said before, we have an increase in the operational risk, and we have a decrease in the collective bonus potentials. This decrease in collective bonus potentials reduces the loss absorption capacity. And that makes the solvency cover lower.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Okay.

A - Lars Thykier {BIO 16427122 <GO>}

So in spite of this profit we have had, there's been something else working the other way.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Okay. And this thing you mentioned about collective bonus, is it kind of a one-off thing in first quarter and what was the precise impact from that?

A - Lars Thykier {BIO 16427122 <GO>}

That depends simply on whether the income the customers are ascribed is bigger or lower than the income we make under the asset side. When the asset side is returning more than customers get, then the collective bonus potential will increase and vice versa.

Q - Wajahat Rizvi {BIO 19928187 <GO>}

Okay. Okay. Thank you.

Operator

Okay. That seems to be the final question in today's call. So may I please pass it back to you for any closing comments?

A - Peter Hermann {BIO 20507411 <GO>}

Yes. Thank you for taking the time to attend our conference. As you know, you're always welcome to call one of us if you have any further questions, and then we'll be happy to answer them or at least try to answer them. So have a good day.

Operator

This now concludes today's call. Thank you all very much for attending.