Y 2021 Earnings Call

Company Participants

- Knut Arne Alsaker, Group Chief Financial Officer
- Morten Thorsrud, Chief Executive Officer
- Sami Taipalus, Head, Investor Relations
- Toby van der Meer, CEO, Hastings
- Torbjorn Magnusson, Group Chief Executive Officer and President

Other Participants

- Blair Stewart, Analyst
- Faizan Lakhani, Analyst
- Jakob Brink, Analyst
- Jan Erik Gjerland, Analyst
- Marcus Rivaldi, Analyst
- Michele Ballatore, Analyst
- Per Gronborg, Analyst
- Unidentified Participant
- Will Hardcastle, Analyst

Presentation

Sami Taipalus {BIO 17452234 <GO>}

Good afternoon, everyone, and welcome to the Sampo Group 2021 Results Conference Call. My name is Sami Taipalus and I am Head of Investor Relations at Sampo Group. I'm joined on the call by Group CEO and President, Torbjorn Magnusson; Group CFO, Knut Arne Alsaker; CEO of If, Morten Thorsrud; and CEO of Hastings, Toby van der Meer. The call will feature a short presentation from Torbjorn followed by Q&A. A recording of the call will later be available on sampo.com/results.

With that, I hand over to Torbjorn. Please go ahead.

Torbjorn Magnusson {BIO 1863476 <GO>}

Thank you, Sami. Please move on to page 3. There we are, thank you. Good afternoon, everyone, and I'm very pleased to be able to present yet another set of solid numbers and developments for our group. Maybe the first page here speaks for itself, but let me give you a brief commentary anyway. Our underwriting culture together with customer focus have been our trademarks for decades -- two decades. Few insurance companies have been able to show that consistency that we have also in our own well-structured region. Thus, I think -- this I think has been particularly true for the past few years where our digital advantages have supported the underwriting culture of the group. And a combined ratio of 81.4% for non-life through pricing more than EUR7 billion in premiums compares quite favorably to peers. And as usual, volatility in our numbers is really low.

In addition to our own development, the markets have stayed rather unconsolidated. The one-one renewals in the Nordics we had more than 40% of the commercial and industrial businesses renewed, was one of the most successful in the past decade for If P&C with good growth and adequate rates. Furthermore, renewal rates were very satisfactory and still increasing for all -- from already high levels in If P&C. Renewal rates reflect our success in offering customers value for money. They support keeping down on mid admin costs for us and they certainly also reflect rational markets.

We have come to learn that every year is a new year for investment returns and the uncertainty for the future in those returns is high and that has been the case for a long time. 2021 anyway supplied high returns. We don't rely on or calculate with higher nominal interests when we price the insurance business going forward that more do we cry wolf about claims inflation in the present, still very moderate situation.

Then further down on this page, on strategic actions and their capital consequences, reducing our Nordea stake has been a rapid process and produced good proceeds in time [ph] when Nordea's own strategic strong progress. And secondly, achieving full ownership of Hastings happened already this year clearly ahead of expectations. The Board then has today proposed a dividend of EUR4.10 including the extraordinary EUR2 management had already indicated in the autumn as well as the EUR1.70 insurance dividend.

Next slide please, Sami. So starting from the right-hand side of this slide, 81.4%, already mentioned, group combined ratio and together with the positive trend for If P&C. 1% and a bit better attritional combined ratio in the last year that is the combined ratio adjusted for all volatile items like large losses, COVID, weather, prior year results, in other words slightly more than 1% better rate. Combining this with growth, we had 19% higher underwriting profit study year before adjusting for Hasting's ownership and COVID.

Next slide please. I'll leave the detailed volume comments to Morten later on in the call probably, but just say that given the geographical mix we have, we will probably see marginally increased market shares when the statistics come out. We are a bit dependent on car sales and in the last two quarters only Norwegians have had the money, nor the chance to buy cars apparently, but all in all very satisfactory development of number of customers and market shares. It is worth mentioning also that we have achieved adequate rate levels also in our commercial book some time ago and consequently volume development also there is now good with an increasing number of customers.

Next slide. And this we will save for the call I think, so next slide. Turning to Hastings, we are, of course, in the U.K. in the middle of a period of change in the market with Hastings, really well prepared for a less affected by the GIPP reform than many others. The market reaction to this is something we monitor day by day, so talking about 2021 feels somewhat late now. However, summarizing then 2021, Hastings did really well, continuing to build on their technological advantages, increasing the customer count, but being cautious to avoid competing with price in the COVID over stimulated market. Excellent operating ratio and continued rapid growth in home insurance completes the picture. Next slide. In terms of the synergy process, let me now say and then point out that we have started reducing the proportion of ceded business keeping more of the book on our own account just as planned.

Next slide. Finally then let me just show a slide depicting the total capital distribution broken down between buybacks, extra dividend from Nordea proceeds, insurance dividend and the rest. I'm really pleased to be able to report on the rapid progress for the group simplification programs launched a year ago together with the usual Sampo excellence in underwriting. And all of this wrapped up together in the handsome capital distribution.

And with that, over to you Sami.

Sami Taipalus {BIO 17452234 <GO>}

Thank you, Torbjorn. That concludes the presentation. Operator, we're now ready for Q&A.

Questions And Answers

Operator

Thank you, (Operator Instructions) Our first question comes from Jakob Brink with Nordea. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you and good afternoon. First question on Hastings, please. So on 80% combined ratio for 2021 at a whole and 84% in the second half of the year, relatively limited premium growth or revenue growth for the full year, could you maybe give us some more clarity on how should we look at margins compared to growth going forward? Also taking into consideration what you have already seen with the new pricing reform in the U.K., anything to add maybe, anything would be helpful. Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Toby, that's yours.

A - Toby van der Meer {BIO 16628969 <GO>}

Yes, hi, good afternoon, everybody. Toby van der Meer here. So to give you a bit of color on the dynamics, firstly, just to remind you that across the U.K. market, we've seen a range of premium declines across the second half of 2020 and in particular the first-half for 2021, but also continuing in the second half of 2021. And a lot of that, of course, driven by particularly in the early period COVID benefits, some claims frequencies being reflected in lower prices by us and the number of other insurers around the country. And the effects that had [ph] is in some ways a tale of two hubs for the 2021 financial year. In the earlier part of the year, the customers we booked with those COVID discounts embedded in them in the pricing, would have been driven a lot less than normal because of the lockdown and then, of course, return to more normal driving behavior in the second half of the year and so the tale of two hubs is really one where we've had the earn through of lower premiums in the second half of the year with driving behavior returning to normal whereas we saw both the frequency benefits or premiums in the first half of the year.

Now those COVID discounts have then been unwound by us, so we've been applying rate increases throughout the second half of 2021 and into 2022 and so that's to cover the unwinding of the COVID frequency benefits as well as general claims inflation. And I suppose what that means overall is that our competitiveness has been stable. We've been pricing ahead of the market. Normally that would take your policy count backwards, but because of a range of good initiatives, we've managed to grow the policy count a little bit and premiums are now going back up. And our pricing throughout all of that, whether we're talking about the policy we wrote at the back end of 2020 or the early part of 2021 or the policies we're writing now, we're confident they are in line with our target loss ratio or better.

Q - Jakob Brink {BIO 7556154 <GO>}

And how about the (Multiple Speakers). I am sorry.

A - Toby van der Meer {BIO 16628969 <GO>}

But I was just to complete the picture, I just think what we've seen across the market in January post the FCA pricing reforms is some turnaround in market conditions with premiums starting to go back up. So we've been doing that throughout 2021 and January, but we'll see more of the market to do that in January as well, albeit still a mixed picture with a number of players being quite aggressive and a number of other players pricing up quite significantly.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you. And just to round that up maybe. So if we also add in the inflation bid which you write about in the report that inflation on motor repair cost is going up, could you maybe -- so what level of combined ratios should we be looking at given the growth you're seeing now, are we above last year or we getting closer to the 88% or we still materially below?

A - Toby van der Meer {BIO 16628969 <GO>}

Yeah, I think it's too early in the year to provide too much guidance on that. What I can say is, firstly, policy count growth we regarded an output of our pricing, not a target in its underwrite. And so we're confident that our pricing is consistent with or better than our target loss ratio and therefore consistent with or better than our combined operating ratio as well. We've seen muted policy count growth with some -- the back end of last year and you can assume that sort of momentum will continue until we feel like the pricing environment in the market is such that faster growth is warranted. And obviously there is a long way to play out this year to see where all of that normalizes post the initial few noisy weeks of the New Year post GIPP.

So stable policy count growth until market conditions improve, pricing consistent or better within our target loss ratio. And as we're already into that, we have seen premium growth come back because although our policy count growth is stable, we've been applying rate increases and unwinding COVID discounts throughout the year, so that top line growth is something we would expect to see continue.

Q - Jakob Brink {BIO 7556154 <GO>}

Great, thanks a lot. Then over to a question on, well, firstly buying more of Hastings back in December and apparently also the fact that you have bought more shares in Topdanmark during November. I don't know Torbjorn, maybe you can give us some clarity on what is the rationale especially for the Topdanmark 1.5 million more shares and also how do you look at this buying more Hastings versus buying own shares versus buying Topdanmark, et cetera?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

There is not that much to say that where books [ph] available in the market on Topdanmark and at the market price that was not difficult for us. And Hastings, that was an opportunity that arose out of the other owner's situation in the rest of their business and as far as we can tell a strategic review of their own business on situation, so that we didn't drive, but it arose in the autumn and we had a good dialog with them since before. There you are.

Q - Jakob Brink {BIO 7556154 <GO>}

Yes, if I can just follow-up, just I guess you can make many adjustments on your own share price for excess capital at Topdanmark as well and also acquisition price of the last 30% of Hastings, but I think it's fair to say that the PE, if we look at consensus on the three companies of Sampo, it's up. And Hastings, the PE that you acquired, the last 30% of Hastings at, is not that different from what you could buy the rest of TOP at. And also you could even argue that Sampo adjusted for capital is cheaper on consensus earnings. So again but --

A - Toby van der Meer {BIO 16628969 <GO>}

I'm listening very carefully to your analysis, but you don't -- I don't think you expect me to say much more, do you?

Q - Jakob Brink {BIO 7556154 <GO>}

It would be nice. But, okay, fair enough. Okay, then just a small last question to Knut I guess on Nordea and the last bit of Nordea, how is it again that we should expect it to account for that? Let's say you sold the last bit of Nordea in Q1, will you then reverse the $464 million difference in the valuation through the panel [ph]?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Good afternoon, Jakob. That would -- the profit recognition would obviously depend on which price we sell at, but any price above EUR8.90 [ph] will be recorded as a profit. Yes, we've done the reversal of impairments, so that is a profit in our P&L if we sell at the price above EUR8.90. And at the current share price, the number of around EUR460 million is about twice.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, thanks a lot.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

And if I should just add -- sorry Jakob, just to the best of the detail since you asked about accounting in Nordea since many are listening and updating more. Listen, in terms of any potential dividend we received from Nordea, if we still hold share at the ex-dividend date, that will be recorded the best profit as well.

Q - Jakob Brink {BIO 7556154 <GO>}

Clear. Thank you.

Operator

Our next question comes from Will Hardcastle with UBS. Please go ahead.

Q - Will Hardcastle {BIO 22230376 <GO>}

Well, hi, there. It's Will Hardcastle from UBS. First of all, thanks for the color on U.K. pricing. I guess, I'd like to ask the question at what level of industry pricing change year-on-year? Would we expect to see Hastings back to significant growth in excess of the market? And then second, is it fair to say that leverage is the binding constraint from here for further capital distributions if the Nordea -- if there is more Nordea stake sell downs and how rigid are you with the view of the 25% to 30%? And perhaps an extension of that is just thinking about that potential for the target range to be lowered from 170% to 190%? Any more clarity or so on that since the last update? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

So, Toby, the first one and Knut the second. And just for the listeners, we are a little bit more -- there is little bit more difficult to coordinate our answers as we are spread out in several places due to, in my own case, COVID protocol. But, Toby?

A - Toby van der Meer {BIO 16628969 <GO>}

Yes, on growth outlook for Hastings, I guess, there's not a specific number I can give you in terms of at what point -- at what level of market price increases would we start to grow more. The way we build our models as we try and predict and we have a good track record of accurately predicting future claims costs, we then try to make sure that we price at a level where we hit our target loss ratio or better, those are the prices we put out onto the market to the extent that makes us in any period more competitive, will write more business to the extent that others have a different approach, a different view on claims or are prepared to take more risk than they might write more business and it's the balance of that equation.

And after two years of COVID frequency benefits, I guess we're faced with a number of other players who are potentially using the reserves built up during COVID to fund more aggressive new business pricing. And whilst that dynamic continues, I wouldn't have thought it can continue for very long in the face of those reserves running dry on claims inflation, but to the extent, that it does continue and sometimes it does take longer than you think and we're quite happy to take our current approach -- pricing approach and see less policy count growth. Although as I've already said, we are seeing top line growth in premiums now because of the pricing actions we've taken coupled with our initiatives.

Q - Will Hardcastle {BIO 22230376 <GO>}

Toby, just one more follow-up on that if possible. I guess, because different competitors are doing different things right now, it's probably very tough to sort of decide for exactly what the average industry level is doing. I guess in that sense, do you think in this current environment, is pricing at least inflate -- is pricing at least capturing inflation in this level from your perspective? And if you're pricing inflation to maintain the margin, are we picking up any market share at these levels?

A - Toby van der Meer {BIO 16628969 <GO>}

Yeah, good question. So premiums continue to fall for the market throughout the second half of 2021. As already said, we put our prices up. The data is only a few weeks, but I'd directionally say that new business prices in the market up mid-single digits since the start of January, so falling prices in 2021, mid-single digit increase during January and early February. I guess, you can make up your own mind about whether that's consistent with claims inflation, but we would say that that feels tight to us to cover the impact of GIPP and claims inflation and the unwinding of COVID discounts. So we're comfortable we've priced for those things, but -- so it's tough to say with certainty that the market could have done so given the average dynamics that I just talked about. Having said that, worth recognizing that a few of the players that we would traditionally describe as being more disciplined in their underwriting have done -- follow the similar pricing strategy to ours. So there's a number of other players in the market who are still very aggressive.

Q - Will Hardcastle {BIO 22230376 <GO>}

That's really helpful. Thanks.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Good afternoon, Will. It's Knut here reverting to -- your two other questions. Your first loss on leverage, whether or not leverage is a constrain to potential payout additional dividend or capital distribution if we generate excess capital above our capital management framework and it's not a constraint. We are committed to being below 30% target. There will be need to do further deleveraging if we sell all of Nordea. But as we illustrated, I think it was in the second or third quarters or may, we already have liquidity to deal with that leverage and we would consider that as being dealt with in terms of our target if we generate excess capital from selling further Nordea. In other words, we would be fine this this. There is a certain difference in time between an actual reported leverage and when we actually do something with the senior that we have on our books, with the liquidity that we have already put aside. Was that clear?

Q - Will Hardcastle {BIO 22230376 <GO>}

Yeah, very clear. Thank you.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Perfect. Solvency, we also committed to our solvency ratio of between 170% and 190%. We haven't changed that targets. Rest assure that we will be working on making our capital stack and balance sheet efficient also going forward and we will revert to you when we are taking decisions to continue the path to increase our return on the capital, we consume to run our business.

Operator

Thanks. Our next question comes from Faizan Lakhani with HSBC. Please go ahead.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Hi, it's Faizan Lakhani from HSBC. Thanks for taking my questions. First is on January renewals. It's good to hear that they are going very well. Could you just provide a bit of color in terms of net of claims inflation, what sort of rates are you achieving, the renewals. Second question is coming back to the Topdanmark state. Given that you purchased 1.5 million Topdanmark shares and in part you said that it has to make financial sense, can we assume from this that you still feel Topdanmark is undervalued?

And my final question is on Hastings. Toby, can you help us disaggregate how much of the 2021 performance was down to COVID related frequency benefit? And given that the pricing in the market is quite mixed on motor, but could you give some color on household in terms of what price increases you're seeing there? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Morten, do you want to give some color on the January renewals first?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah, I can do that. Yeah, it's been very good January renewal for us in all business segments. And, of course, not getting out an exact number on sort of the net effect, but I think I could put it in terms of order of magnitude and say that in the Industrial segment, the net effect is, I would say, well above expected inflation. In the Commercial segment, I would say that the net effect is above inflation and in Private, I would say, somewhat above. So it's clearly a favorable renewal in all business segments. And for If, as a total, we are pricing somewhat above than expected inflation. So I think favourable start of the New Year.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Great, thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And Knut, do you want to have a go at whether Topdanmark is undervalued or not?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

First of all, the price that we bought TOP at in November, it's a little bit different than today. It's that at least we made mainly on that investment if you like. I don't think we have an exact number on what the right value of TOP is, but I wouldn't say that we consider it to be undervalued.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Okay. And then just as a standalone view there rather than -- with synergies for example, though. So standalone it feels fair, but in synergies, you could possibly justify higher valuation. Is that a fair way thinking about it?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

It's absolutely fair to think that in a hypothetical merger between Topdanmark and the remaining part of our Nordic insurance operation, there would be synergies.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And the fact that Topdanmark is not -- doesn't have unusual multiples compared to other Nordic insurers is also obvious to everyone. And then back to Toby on Hastings.

A - Toby van der Meer {BIO 16628969 <GO>}

Yeah, I would say in short, no material COVID frequency benefits remaining in the 2021 financials. And the color on that is, of course, there was a biggish benefit in 2020, but as the COVID dynamics got reflected in market pricing and in our own pricing, then actual behavior was only slightly better than reflected in our models. We got our pricing models right and a small benefit on top of that, but COVID has also had a negative impact on some of our retail income streams just from customers not undertaking as much insurance activity as they would normally do, changing their cars, changing their vehicles, changing address that sort of thing. And so that dampening is largely offset any underwriting benefits. So I think the numbers you can largely read is normalized now.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Okay. So, if we strip out the acquisition accounting, it's the end of normalized result?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yeah.

Q - Faizan Lakhani {BIO 20034558 <GO>}

(Multiple Speakers) towards pricing once again, if you cover that as well.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Hub insurance pricing, let's say, not much happened to materiality during 2021, but post chip, we have seen a more significant increase than the mid single digit, so I talked about for car insurance increases in prices. And so we regard that -- given that we don't need to apply the sorts of increases in home, we regard home as they continue good growth opportunity for us.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Great, thank you very much.

Operator

Our next question comes from Blair Stewart with Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Hi, guys. It's Blair here from BoA. Just on the Hastings aspect, on the motor -- sorry, on the home side, I just wonder sort of how the brand name is translating into the home market since you have some nice early success obviously from a low base, but just wonder what's the strategy was from here in terms of plugging away at that market just using the same distribution channels, et cetera, and particularly just how the brand is resonating would be interesting.

Second question, Torbjorn, you made an interesting comment about pricing in the Nordics and not crying wolf on inflation, which I thought was quite amusing. So I guess I wonder what difference you're seeing in inflation that perhaps others are seeing or not? And I guess an extension of that, as interest rates go up, what impact do you see that having on pricing, if any? And then maybe just a couple comebacks, really, I don't know you I think you said the 170% to 190% reflecting the balance sheet with Nordea clearly a very different balance sheet without Nordea, so I'm hoping that you will revisit that 170% to 190%. And Torbjorn, I might have this wrong, but I think the transcript to the Q3 says that your shareholders, I don't see value in TOP. I guess the difference between buying TOP in the market and doing something else is that if you do something else you have to pay a premium, so I guess that's the missing link, right. Is that somebody just start paying your premium, it doesn't make much sense. Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And Toby?

A - Toby van der Meer {BIO 16628969 <GO>}

So the Hastings brand is working well in Hub insurance. So because of the distribution channel, we favor price comparison websites, it's mainly about price product features, those sorts of things. And -- but the brand is helpful. And so what we're focused on is all the boring but ultimately fascinating for us at work to build pricing sophistication, build claims sophistication, build our data assets, build our internal teams and then doing so build a larger and very profitable home book over the next, say, three to five years. And so we're very pleased with progress with the capability builds going well for good momentum. Market conditions look like they might be favorable as a result of chip [ph]. So we're feeling good about the long-term opportunity to build that sort of business.

Q - Blair Stewart {BIO 4191309 <GO>}

And Toby, so are you able to leverage any of that expertise from your colleagues at Sampo?

A - Toby van der Meer {BIO 16628969 <GO>}

Yes, we've got great capabilities in our U.K. car insurance business that we can, of course, leverage, but we haven't done much home in the past. And the If team, in particular, of course have been doing home insurance at very large scale, lots of experience with flooding homes, with freezing homes, with pipes, claims management and pricing. And so we are working as part of our collaboration efforts to understand which bits of that are transferable in both directions, but I suppose for Hub insurance mainly, If expertise that we might be able to take advantage of.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And then on claims inflation in the Nordics, Blair, just to put things in perspective, it is, for instance, much lower now than in 2018-2019. Average claims inflation now is three-point low figure. And motor is a bit higher than property because property -- the spike in property claims inflation in the summer faded quite quickly. So as pointed out many times, claims inflation is a very different animal than consumer price inflation. Having said that, it is one of the most important parameters to follow, so we do just that.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

And Blair on your final -- I don't know if it was a question actually or just a wish, but I think it's important to return frequently to two important questions or comments. Regarding our solvency framework, rest assure that we are working on and we'll continue to work, to make our capital consumption as sufficient as possible. Now, when we talk about the ratios and ratios in the range, capital management framework, that's one thing. The other thing that is possible to work on is, of course, the nominal SCR requirement as such and an example of being able to work and that could be that we over time could take benefit of some of the internal models, which we already have in the group, which is not the part of our capital management framework currently on a consolidated basis.

Then we will, also I am sure, revisit the stresses we use on a lower SCR consumption and see if the ratio as such, given those stresses and that makes sense at any point in time.

Right now, they make sense and the day after we have sold the rest of our Nordea shares, it will always also makes sense, but we will continue to work on the capital efficiency to increase the return on capital very hard as the non-life group going forward.

Q - Blair Stewart {BIO 4191309 <GO>}

Super. Thank you.

Operator

Our next question comes from Jan Erik Gjerland with ABG. Please go ahead.

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

Hey, good afternoon and thank you for taking my questions. The first one is on solvency. Could you just remind us about how Nordea is not treated the entire 185% solvency ratio? Is it sort of what that level [ph] is included and what is not included as of today?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Hello, Jan Erik. If I understand your question, it's more of the technical treatment or is it how much we own in terms of some risk exposure, but it's a technical treatment. It's an equity investment in our solvency framework and we own 6.24% on Nordea or so. It's increasing a bit because of their share buyback shy of 250 million share. So you basically take whatever market price you have from Nordea from time to time, you multiply by our number of shares, you get to an equity exposure, you multiply that by 39% adjusted for the symmetric adjustment and then your posted into our standard model and take correlations on that.

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

Okay, so it's in that respect. When it comes to TOP, when would you need to sort of bit for the whole company when the threshold is above 50% for capital or voting rights or what kind of mandatory offer? When do you really need to do a mandatory offer and at what price would that be recognized?

A - Morten Thorsrud {BIO 16111627 <GO>}

Should I take that Torbjorn or --

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Go ahead.

A - Morten Thorsrud {BIO 16111627 <GO>}

We have -- I mean, it's a long time, I know, but we actually have made a bid for Topdanmark, a mandatory bid through sort of in 2017. So that's done meaning that there are no requirements in terms of us placing a bid at any level of ownership in TOP going forward.

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

So it means that you can go one actually buying markets in the market every month and then on TOP only 100% without buying it at premium sort to speak?

A - Morten Thorsrud {BIO 16111627 <GO>}

That's a hypothetical question, but the answer is yes.

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

Then on the Hastings level, could you give any insight to the quota share which you have started the year with in Hastings?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

In what way (inaudible) it was a quota share of 50 points before and --

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

75% [ph] in the past.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Sorry I missed that.

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

We understood it was around 75% in the past. We understand that it come off, the quota share agreement with the reinsurance companies.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

It's down from 50% to 35% and it's no big changes to the panel, no drama, no gradual change.

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

Okay. Finally, then is the IT system in Topdanmark equal to what you have today in If P&C or is it totally different? I mean, what is the renewal of the IT system in TOP is not really being renewed? If you talk the difference on what you have in If today.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yeah, I guess, in the IT system in any insurance company is different as such. Of course, when it comes to the things that you have to build for the future, in particular, digital solutions, of course, there you could have similarities, but digital solutions, of course, there you could have similarities, but the system is as such, of course, they are different.

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

Okay. So there will be certain synergies done looking that TOP's IT system (inaudible) and apply your If P&C model.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

There could be synergies between in various IT systems between If P&C and TOP certainly.

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

Okay. That's all from my side today. Thank you.

Operator

(Operator Instructions) Our next question comes from Per Gronborg with SEB. Please go ahead.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you and good afternoon. A couple of questions from my side. First on Hastings, can you give us a number of what your net cost was for reinsurance in '21 and how biggest this insurance program is insourced in '22?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

It's -- I mean, Toby, you can think about what you want to say, but it was a quota share Per, so 50% of premiums, 50% of claims for 50% quota share and then there is a commission that we wouldn't reveal.

Q - Per Gronborg {BIO 15910340 <GO>}

And what we could basically get when Hastings was independent list is lifted from their numbers, this could give us a pretty good impression of what the upside is from (inaudible) and potentially could -- I guess, there is no reason, for example, to buy any reinsurance at all for carving and diversify their multiple.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

You are an optimist as always Per. The commission varies year-on-year, so -- but we'll be as helpful as we can as always.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. My second question Mandatum --

A - Toby van der Meer {BIO 16628969 <GO>}

And if I may just add there -- sorry, Per, to interrupt you, but in one of the slides in the investor deck and also one of the slides that all going to had initially, we talk about the benefit of reducing that quota share from 50% to 35%. This debt we know we're taking which is a minimum EUR6. And the reason why we say a minimum, it depends a bit of course. It can be more depending on the profitability of the book, which otherwise would have been ceded and growth in the business going forward, but the step we took now 1st of January already gives us a minimum of EUR6 in benefit.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, perfect. And there was something I had missed. On Mandatum, you now provision for T plus 5. Previously, you only provisioned of T plus 3, what should we expect to do going forward or will this still be at the heart that you provision when you basically have that modified? I was talking about the low interest rates.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Knut, do you have a good answer for this?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Yeah. Now, you're correct. We sort of extend the time period if you like. Not sure I thought about it like that. It's more that I want to do even more discount rate reserves. And the reason for that to be blunt is that we have now positioned Mandatum well in terms of neutralizing equity effect translating into IFRS 17. So with the strong increase of EUR130 million in discount rate reserve during 2021, Mandatum is well prepared for the new accounting regime next year. Obviously, depending on interest rate development during this year, but based on how the world looks at the end of '21?

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Finally, I will address Topdanmark, now let's see whether you want to question or to answer my impressive question. If I look at your positioning in Topdanmark five-six years ago, I was talking about considering that the Topdanmark share was too expensive. When we looked at it from the outside, the market basically paid materially more for your P&C earnings than they did for the P&C earnings of Topdanmark. Now it's the other way around and you have started to buy Topdanmark shares. What am I missing in this picture, if anything? It's always more fun to buy (Multiple Speakers) fewer than myself than buying some that is more expensive than myself.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

First of all, the difference isn't that much and you have to be really careful when you calculate things. And secondly, that was sometime ago that were other deliberations at this stage, I don't think that's going to be helpful to try to go back with those? And I don't have any further comments to it. We think that Topdanmark is priced in parallel with the rest of the Nordic and P&C markets. We were able to increase our holding a little bit -- a tiny bit at market prices so that make sense to us. When you saying more or less, I mean it's actually -- it's roughly the same.

A - Toby van der Meer {BIO 16628969 <GO>}

And also just to add Torbjorn if I may. Of course, these blocks we bought, they were supply base, they were offered to our assets at what we can say there was an ACR price, we didn't run around looking for them.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, thank you for the perspective. That's all from my side.

Operator

Our next question comes from (inaudible) with Bloomberg. Please go ahead. If your mute -- phone is on mute, please unmute. You may ask your question.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

What is the next question, operator?

Operator

We move on to Marcus Rivaldi with Jefferies. Please go ahead.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Good afternoon, everybody. Thanks for taking my question. I've got a very debt specific question for you please. So just going back to slide 12 of your deck, you update us on the progress you've made with capital synergy benefit so far through reinsurance. There is a EUR9 million gap to go. And very neatly, the cost of the Hastings debt outstanding would fill that EUR9 million gap. Just trying to understand why you're not looking to harvest that synergy benefit immediately? Unfortunately, the maturity to the bond life beyond the sort of period that you set yourself to harvest all of those synergies, when I look at the group, you've got no major debt maturities in '22, that would be a diversion for liquidity. It would appear yes as an upfront cost to take that out, but then immediately you can start generating synergies through the lower interest cost going forward. So could you just help me understand exactly your thinking around that and your time about when you might look to I'd say harvest those synergies?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Knut?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Good afternoon, Marcus. We're well aware on some of the numbers you initially mentioned and it is, of course, meaningful to think about the Hastings debt as a part of our capital management synergies from Hastings absolutely. But we monitor the cost of debt management activities across the different balance sheets and outstanding bonds we have all the time. And if opportunities should arise, where we find that attractive to exercise such opportunities, we will do in line with also the question I answered earlier where we have set aside the liquidity to do so, to make sure we are below 30% leverage when we sort of have no Nordea on our balance sheet. And Hastings, that Hastings says as a senior debt, there is some scope of the bonds we are continuously monitoring and looking at.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

I appreciate that. But as I say, it's just -- I sort of had an alternative route to you finding EUR9 million of capital management synergies from Hastings as you sort of described on that slide 12. And just wondering what would change to make you decide now is the time to take that debt out?

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Yeah, I mean, it's always interesting to see how debt trade some -- how -- higher interest rates -- how interest rate moves. Obviously, when rates go higher, the ability to do liability management exercises could be even more attractive, right. So it's an assessment of how we see certain factors -- relevant factors developing going forward.

Q - Marcus Rivaldi {BIO 5739374 <GO>}

Understood. I guess it's just (inaudible) of your own success. I think investors look at you as a very, very safe heaven place to be part and investing with and -- but as you say, you never say never. Let's see, I guess, how markets develop from here, but thanks for your time.

Operator

Next, we have a follow-up question from Jan Erik Gjerland with ABG. Please go ahead.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

You are on the line Jan Erik?

Operator

Jan Erik if your phone is on mute, please unmute. You may ask your question.

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

Hello. Can you read me?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

We can hear you now Jan Erik.

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

Okay, very good. Sorry, I was probably muted. On the dividend side, you -- last autumn you sort of said you should be patient to see dividends from selling Nordea coming through as an ordinary dividend than the special one. Would you consider adding special dividend prior to the AGM in 2023 them? Or should we await another sort of a year before we see special dividend coming through as your buyback mandates? I'm not allowing you to sort of distribute capital fast enough, I would say, versus the amount of Nordea would create? How should we think about this special dividend opportunities once more?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

That's greedy Jan Erik asking. I guess, we've just announced that we will prolong the buyback program. We want to have a balance between buybacks. So our owners have indicated that they want to balance between buybacks and dividends and we normally have a dividend -- an annual dividend. And that's all normally and that's around arguments. And that we'll see how the world plays out. All the time, we have first sold down Nordea, received the money and then talked about what to do with it.

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

Absolutely. I agree. Thank you for that.

Operator

Next, we have a follow-up question from Jakob Brink with Nordea. Please go ahead.

Q - Jakob Brink {BIO 7556154 <GO>}

Thank you. Just a question on If underlying combined ratio if we can go back to that. So, Morten, you mentioned before that you were pricing above inflation in all the segments, I believe, but still the Q4 underlying combined ratio and by underlying, I mean with what we can adjust for and what you give us on large claims, run-off gains, COVID and the weather. And it was still an extremely low level compared to the prior two years Q4. How would you say of having all the numbers? Is this a normalized run rate at where we are currently or is it even more to go down next year given the above inflation pricing or is this too good to extrapolate?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Morten, of course.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah. No, of course, you're right, it's a very strong sort of underlying performance in the business and it's a strong performance in all the segments and all countries. Of course, you need to sort of -- as you pointed out yourself, sort of you need to factor in all of their elements that are changing obviously with COVID sort of being one element that is now, I guess, we all would say hopefully disappearing. And then of course it's a quite a bit of uncertainty about what's the new normal that we return to them, sort of our comparison figures now are already quite old. But indeed, there is a strong underlying profitability in the business I think that's there and we think to conclude from that.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, fair enough. Thank you.

A - Sami Taipalus {BIO 17452234 <GO>}

And of course, Jakob, this is the core of our business, a very big chunk of our business and we're back to the situation that we are in the situation that we have benefited from the full year where there is no segment where we're not able to increase rates in tandem with the claims inflation and we're actually growing on the back of digitalization in general and more rational markets. So yes, this is -- this question is the core of what we're doing at the moment.

Q - Jakob Brink {BIO 7556154 <GO>}

Would you say maybe even that all this M&A we have seen in the Nordics have made it even easier to improve profitability? I mean, I guess it's easier to take clients away from the one space with integrating M&A or hasn't that happened yet?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

That remains to be seen how our competitors peers behave. But in theory, you're absolutely right. And, in theory, it is of course a market now dominated by relatively few rational actuaries rather than a large number of small players trying to find new distribution channels.

Q - Jakob Brink {BIO 7556154 <GO>}

Okay, thanks a lot.

Operator

Our next question comes from (inaudible) with Berenberg. Please go ahead.

Q - Unidentified Participant

Hi, can you hear me?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

We can hear you.

Q - Unidentified Participant

Yes, hi, I just want to ask how -- what is the process and how long would it take to get approval for a group partial internal model presumably given the If already has been in place, deposits won't be so time consuming. And I was just wondering if the process is already underway. Thank you.

A - Toby van der Meer {BIO 16628969 <GO>}

Good afternoon. To be clear, we have not applied for a group internal model in terms of considering how to use the internal models also on a group-wide basis that is, of course, something we naturally are thinking about as a part of our considerations around capital management, but no formal process have been initiated. And if we apply for internal model or go into any pre-approval process on the group wide basis, I would need to revert to a timetable that is difficult to sort of pick from the shell, if I say it takes exactly this loan. But it's -- you shouldn't expect it to be a very short process despite the fact that we have internal models within the group. But, of course, given the fact that it is very different to apply for an internal model that has been used for five years compared to what it was in 2016 when no internal models had ever been used. There could potentially also be possibilities to not make this as very long process. But we're a big group. Our internal models consists of enormous amount of documentation which needs to be reviewed, et cetera. So we have to be respectful for the fact that that is good and hypothetic and take some time.

Q - Unidentified Participant

Very clear. Thank you.

Operator

Our next question comes from Michele Ballatore with KBW. Please go ahead.

Q - Michele Ballatore {BIO 17318680 <GO>}

Yes, thank you. Two questions from me. So first on the Baltics, obviously, I mean we're observing strong growth there. So if you can give us an update of what is going on, I mean, what is the outlook, what is driving this growth? And the second question if it's possible to have an update on that portfolio of small investment you have like Nordax Bank, Saxo Bank, et cetera? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Morten, Baltic rim and digitalization.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah, I'll start with the Baltics. It's a very strong performance for us indeed in the Baltics both when it comes to profitability. But, of course, as you point that indeed when it also come to growth. It's both price driven and increase in number of customers, I think reflecting an extremely strong operating model that we have, a very modern operating model and more than distribution platform that we have in the Baltics, which means that we have been gaining market shares throughout the Baltics in 2021. So absolutely good development and it really in all three markets for us in the Baltics.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And then on the PE portfolio, we don't normally -- we don't run it or sales to individual companies, so we don't normally comment that much, but Knut this time we have both the dividends and accounting effects, maybe you would like to touch on those.

A - Knut Arne Alsaker {BIO 18730318 <GO>}

Sure, I can do that. In terms of Nordax, I'm sure many of you are aware that Nordax closed the acquisition of Bank Norwegian in Q4, that gave us an accounting profit of EUR84 million which is included in our holding segment in the fourth quarter. Then there is also what we call an extraordinary item, but it's still, of course, is a positive in terms of the valuation on Nordax. We didn't participate in Nordax funding. We didn't put in additional capital in Nordax to fund their Bank Norwegian acquisitions, but we got new co-investors, additional co-investors in Nordax and they came in to Nordax at higher valuation than our book value and we were diluted, but that gave us a positive dilution effect because of this valuation difference also on EUR84 million, but it's not the same number. So, in total, we have made in the fourth quarter EUR168 million, which actually is a part of our fourth quarter reported profit. Saxo, but you wanted me to talk about dividend, we -- Saxo is returning cash to its investors as dividend. It's a smaller part, of course, compared to the good value of Saxo, but it's contributed in 2021 to a part of the holding segment profitability and we received dividend of somewhat about EUR20 million.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

So good progress for all these assets. And -- yeah, that's it.

Q - Michele Ballatore {BIO 17318680 <GO>}

Thank you. Thank you very much.

Operator

Next we have a follow-up question from Blair Stewart with Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks, guys. Two quick ones. I mean, we didn't quite get to the -- get around to answering one of my questions last time. Just on the potential impact of higher interest rates on underwriting, do you expect that weaken underwriting resolving in anyway. I know we're still at very low levels, but if rates continue to pick up. And secondly, Torbjorn, you talked earlier about when Jan Erik was being greedy, you talked about extending the buyback. Sorry, basic question, just remind us where we are with the buyback. I think you've done a bit EUR530 million without thinking about possible future proceeds, et cetera, is that buyback going to run to about EUR750 million, is that -- am I right in thinking that or is - of if I got these numbers wrong? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

The answer to the second question is yes. And forgive me for missing your first question, you're right, we didn't -- I didn't get to answering that potentially impact of increasing interest rates. Yeah, it's a very hypothetical question. We're all expecting interest rates to go up one day or another. And if that was significant, I think that the most of the large companies in the Nordics have ROE targets or something similar underpinning their behavior. Otherwise, I would be saying that for instance we would soon be aiming for an ROE of in excess of 40% and I'm not saying that. We are not -- we will not price for that.

So significantly increased interest rates may well affect the combined ratios, but that's not where we are at all. And I said -- and that's why I said in my introduction that we are not counting on increased interest rates in ROE rate setting at all at the moment, that doesn't enter into it. Let's see what happens in the world and we've been waiting for this for a long time and speculated about it before.

A - Morten Thorsrud {BIO 16111627 <GO>}

And just to add on to that, of course, an increased interest rate would, of course, give us an accounting -- positive accounting effect on the underwriting side than the discount on reserves just as the reduction in interest rate has given us negative effects over the last few years. So, of course, that comes automatically.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And maybe finally we -- on the investment side we probably -- we have a shorter duration than most of our peers which in relative terms would benefit us.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much.

Operator

At this time, we have no further questions. I will now hand back to our speakers for a final remark.

A - Sami Taipalus {BIO 17452234 <GO>}

Thank you, operator. This concludes our call for today. Thank you all for participating and we look forward to speaking more with you in the near future.