

S1 2021 Earnings Call

Company Participants

- Lars Thykier, Chief Financial Officer & Member of the Executive Board
- Peter Hermann, Chief Executive Officer
- Robin Hjelgaard Lofgren, Head of Investor Relations

Other Participants

- Asbjorn Nicholas Mork, Analyst
- Derald Goh, Analyst
- Jakob Brink, Analyst
- Mads Thinggaard, Analyst
- Per Gronborg, Analyst
- Youdish Chicooree, Analyst

Presentation

Peter Hermann {BIO 20507411 <GO>}

Good afternoon, everybody, and good morning to the USA. Thank you for joining us with this conference call. My name is Peter Herman. I'm the CEO of Topdanmark. With me is the Group CFO, Lars Thykier; and Head of Investor Relations, Robin Lofgren. We're hosting this conference call because earlier today, we published our report for the first half year. I would like to start with a few opening remarks on our results.

The DKK522 million post tax Q2 result outperformed consensus estimates across the board, both in premium growth and technical result in non-life as well as the result in the life company and on the investment return. We delivered a combined ratio of 81.2 and the growth in non-life of 4.7 in the quarter. Compared to the first half of 2020, the non-life technical result improved by DKK132 million despite headwinds on rain and frost, large scale claims, discounting and risk margin. The improvement is driven by the absence of weather related claims, a marginally higher run-off gain, and also positive impact on COVID-19 on, for instance, travel and motor.

However, loss frequencies have normalized during second quarter across all products excluding travel with a total number of claims on par with the level we saw in Q2 2019. As a result of this as well as the high uncertainty in the assessment of the impacts, going forward, we will no longer be reporting on the financial impact on the COVID-19 situation. Want mentioning is also the good traction we are seeing in our partnership with Nordea. The partnership continues to deliver strong results with a referral rate twice the size of the old Danske Bank agreement.

In the first half of 2021, the Nordea agreement more than compensated for the outflow from both Danske Bank agreement in terms of premiums. And as a result of that, we now expect that throughout 2021, Nordea agreement will more than compensate for the terminated Danske Bank agreement in terms of premiums.

As previously addressed, we have now seen a negative claims trend on house insurance towards the end of 2020. And our efforts to improve this continues and we have made good progress on risk-based pricing increases, procurement initiatives, claims prevention and more selective underwriting. We still continue to expect these efforts to improve the combined ratio by between 0.5 and 0.7 percentage point in 2021, giving a full impact also in 2022.

Providing additional comfort is the fact that we have seen positive run off on house in the first half of 2021. So even though we have not fully resolved the situation with house, at least it was not as bad as we feared during the fall of 2020. In our life company, we have also had a fine Q2 result with DKK68 million, mainly due to investment return and also better cost result due to higher asset under management.

Let me briefly just comment on our efficiency program. Our efforts to become more efficient are progressing according to plan and the program is still expected to generate annual gross efficiency gains of DKK500 million in 2025. However, we see the gross expected gains from our ongoing efficiency program materializing a bit faster than anticipated. And as a result, we left the estimated net impact in 2021 by DKK50 million to now DKK17 million.

Looking at 2021, we have improved the assume combined ratio from between 87 to 88 to now between 85 and 86, excluding potential run off in the second half of 2021. This is among other things due to the absence of weather related claims as well as a run-off of -- run-off gain of DKK60 million in the second quarter, but also because of the mentioned higher estimated net impact from our ongoing efficiency program. In addition, we forecast lower risk premium on certain business line.

We have also improved the assumed premium growth for 2021 as a result of good momentum in new sales and churn rate, including our pricing initiatives on the Topdanmark brand to now between 4% to 5% for the year. We've improved the assumed pre-tax result for the life division for 2021 from between DKK250 million and DKK300 million to now between DKK320 million and DKK370 million due to the higher investment return in Q2 as well as life's acquisition of Topdanmark's asset management company. Consequently, the forecast result in the parent company is reduced by DKK50 million.

In conclusion, the post-tax profit forecast level for 2021 has been improved from between DKK1.45 billion and DKK1.55 billion to now between DKK1.65 billion and DKK1.75 billion, excluding run-off in the second half of '21. In addition to the already mentioned effects, this is also driven by the higher investment return in non-life in second quarter. Our solvency cover now stands at 246%, slightly higher than in Q1. This is based on a solvency cover of 361 in life, up from 317 at the end of Q1 and the solvency cover is positively affected by the quarterly result as well as the increase in profit margin in life due to the acquisition of Topdanmark's asset management company. This is partly offset by the deduction of the DKK850 million through two installment that we should take hold as at 11th of September 2021.

As mentioned before, we have been working on optimizing our solvency and capital situation including profit margin and Tier 2 loan. And as part of this work, we have also reduced our investment risk exposure on the assets held for the shareholders account in life. This -- the result of this action is a lower expected investment result and return on shareholders equity going forward.

Maybe as a final remark here, I want to bid Lars Thykier a proper farewell. This was Lars' final quarterly report as Group CEO -- CFO of Topdanmark and I would like to thank him very much for his hard work and dedication for more than 35 years and for the good relationship I have had with Lars through the last five years. On the 10th of August, he had -- he will be replaced by as Group CFO by Lars Kufall Beck. I look forward to welcoming Lars Kufall Beck on board and for you all to get the chance to meet him in connection with the Q3 report.

And this concludes my opening remarks. We are now ready to answer your questions. Please keep your questions to one or two at a time. And if you have more questions, feel free to enter the queue again for a second round. So, operator, may we have the first question. Thank you.

Questions And Answers

Operator

The first question comes from the line of Asbjorn Mork from Danske Bank. Please go ahead.

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

Yeah, hi, good afternoon and thanks for taking my question. Basically relating to your guidance, Peter, you mentioned the life insurance as DKK320 million to DKK370 million in new guidance for this year. If I take the DKK259 million that you make -- made in the first half of the year and add the DKK50 million from the asset management business, I get to DKK309 million basically indicating that your guidance seems to expect rather soft second half of the year. I heard your comments about the low risk, so just wondering whether that is the reason for it or whether you're being conservative here or whether you've seen something in the beginning of Q3 that we should be aware of? And I guess the same goes to the guidance on the investment income, the DKK391 million in the first half of the year. I think your guidance (inaudible) so have you had a fast start to July here? Thanks.

A - Peter Hermann {BIO 20507411 <GO>}

And regards to the first question, thank you, Asbjorn. Yes, there will be, looking forward, the investment return from the shareholder equity in life will be lower. Actually, it will be around DKK30 million lower for a yearly basis. So that's one part of it. And then we also have some accruals of some cost, but there -- so it's not just being conservative, this is actually due to the fact with the investment return. And with the investment income last, I didn't get that actually. What was the question Asbjorn?

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

Basically the guidance that you have on investment income, the DKK380 million to DKK430 million for the full year and you have DKK391 million for the first half, so you're indicating either despite loss or a very little gain for the rest of the year, just wondering why that is?

A - Lars Thykier {BIO 16427122 <GO>}

That is the course the return on the management committee, was part of the investment return for. Now it's a part of the life return.

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

All right. Okay, fair enough. That makes sense of course. Yeah. Okay, same question point that would be on claims inflation, you mentioned the procurement contracts that you've made and the effects that you've seen is rather limited so far. And was just wondering, especially on the building materials you see that the fixed prices for this year, whether would there be sort of a negative headwind going into 2022 or that we should be aware of that maybe this year we will look good, but then, all of sudden '22, you see some repricing there that will have an impact on your claims and also relating to your -- the water pipe claims, the DKK20 million negative you mentioned in the first half of the year? And that was DKK70 million in Q1 if I am correct. So it seems like water pipe claims have come down a lot. Is that only run-off gain changes or is there a true improvement here? Basically what I am trying to ask is, if the 70 basis point underlying improvement is that is sort of the level we should expect going forward or whether there'll be a negative into 2022?

A - Robin Hjelgaard Lofgren {BIO 20328709 <GO>}

Hey, Asbjorn, it's Robin here. So on the question on the procurement side, no doubt that we have stated that we have a good contract on the building material side, which has fixed prices for the first 12 months, meaning this year. And then we doubt [ph] that that serves as a good -- a good safeguard on the short term here. It's clear to everyone that if inflation, and I think that's a big if, if inflation continues to be as large as it is today, then this could become a headwind into next year. But on the other hand, of course, we are very capable of doing price changes quite rapidly if that is -- if that would be the case. And naturally you have a natural date on 1st of January where you

renew your contracts in the SME segment and you do that on a more recurring basis in the private segment.

So we can adjust the pricing rather rapidly if that would be required so to speak. But I think right now, it's fair to argue that inflation has come quite rapidly and let's see if it goes away again in the coming quarters.

A - Lars Thykier {BIO 16427122 <GO>}

May I ask that this should be -- or it should be regarded on what kind of size are we talking about here and I don't spend much more than just DKK200 million in building materials a year.

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

Okay, fair enough. There was helpful. That's all [ph] from my side. So I just want to say farewell to Lars. Thanks for all the help throughout the year. So, thanks for that.

A - Lars Thykier {BIO 16427122 <GO>}

Thank you.

Operator

And the next question comes from the line of Jakob Brink from Nordea. Please go ahead.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you. And good bye to you as well, Lars, from my side. But just on the question that Asbjorn had on investment income in non-life, I'm actually not sure I understand the answer. So what is the - what are the components of the expected return going forward in non-life investment income?

A - Lars Thykier {BIO 16427122 <GO>}

Okay. Maybe I think I mentioned (inaudible). Was that non-life only or was it the group investment income we're talking about?

Q - Jakob Brink {BIO 20303720 <GO>}

I guess Asbjorn should answer that, but my question is non-life at least?

A - Lars Thykier {BIO 16427122 <GO>}

Yes, the expectation for the coming quarters are pretty low. We have negative interest rates. And our financial exposure is not very high there, so we can't expect much of it on the investment return. We have had a high investment return nonetheless, but that will not repeat itself in our forecast.

Q - Jakob Brink {BIO 20303720 <GO>}

But still then I -- I mean, if you do the calculation from the first half year less your guidance for the full year, you have DKK14 million left for the second half of the year and DKK20 million of investment assets, that still sounds pretty low.

A - Lars Thykier {BIO 16427122 <GO>}

Yeah, the later part of DKK20 million is a negative return, but you may be right that I've been a little cautious here.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay, fair enough. And then on -- my second question is on the life insurance and your DKK332 million additional own fund. What kind of calculation is behind this? I'm just thinking if you're moving DKK75 million, if I understand correctly, and that's the discounted value of future earnings from the life business of around DKK75 million, that gives you DKK332 million, I mean that's the very low P/E. So is this the same assumptions as you used back in April when you lifted the unit linked profit margin and what kind of lapse rates are you using to get to this fairly low number?

A - Lars Thykier {BIO 16427122 <GO>}

Maybe I should just begin by saying that obviously the flexibility when we are talking kind of cautious in this year is very big. We had a profit margin of not more than just DKK300 [ph] million a year ago and that was accepted by the auditors. We tried to change this to what we regard as small market standard in April. But actually, the actuaries came back during Q2 and let me know that they would like to make some changes to the model, they would like to change the keys used for future expense allocation and they would like to cut the tale to 20 years. And this means that we have reduced the profit margin to some extent to contact to the principles we used in April.

We are happy we have moved the management company to life. And as I said in April, that would basically be around DKK500 million extra minus tax effect. And this too in combination has led to the increase of the DKK371 [ph] millions. So we're even more cautious now, but we have increased the base for calculating the value of future income.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay, fair enough. Thank you very much.

Operator

And the next question comes from the line of Derald Goh from Citigroup. Please go ahead.

Q - Derald Goh {BIO 20775137 <GO>}

Hi. Afternoon, everyone. My first question is relating to the growth, so quite healthy 5% at H1 income. You upgraded the outlook for the full year. So I'm keen to understand, what's the split between price and volume from your growth at H1 and where is the growth going to come from H2 as well? And maybe also a bit around the new sales platform for SME, like what product are you telling them, what uplift are you expecting to get from that? Thanks.

A - Peter Hermann {BIO 20507411 <GO>}

If you look at the growth actually achieved also here in H1 and also maybe for the year, then it's -- a big part of it is also the indexation we use. Well, we have 70% of the portfolio within private we can do indexation on. And also, as you know, we do indexation on our workers' compensation, which is quite high this year, actually was around 14% -- well, 12%.

So that's one part of the growth. If you look at the rest of the growth, you can say then actually a big part of that is actually products warnings and price notifications. And the last part is actually the smallest part of the three of them is actually new customers. And looking for the second year, I will say that will be some of the same picture we look into.

We have actually now a positive -- as I mentioned, they have a positive ratio between what we earn on getting in from Nordea deal and what we have in churn on the old Danske Bank agreement. So that's -- so I would say it will be just some of the same ratio looking forward into the second half year. I would say that the new things we have done, it will not mean a lot on the growth on online for the SMEs, will not mean a lot on the growth for this half year. We are starting that up now. So -- but we expect over time that maybe 25% of all the small customers will actually buy their insurance through this business channel. But that will not put into a very much details in the growth that we've taken for this half year. Hope that answers the question.

Q - Derald Goh {BIO 20775137 <GO>}

Yeah, great. And just my second question is around the efficiency program that you mentioned materializing a bit quicker than expected. Could you give a bit more details around which specific elements that is driving that uplift for you? Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

Yes, as you also know from our previous material, we have like three corridors, the automation and digitalization that should give around DKK125 million in 2025. Then we have the procurement costs efficiency curtail and we have the risk and pricing. And as we said, it's -- the DKK500 million will be DKK125 million for the first column, DKK250 million for the procurement part and cost, and risk and pricing DKK125 million. I would say that looking at the efficiency program now where we sit and net effect on DKK20 million for the year, then we have great, that's DKK70 million plus DKK50 million. And I would say that if you look at the -- you can see the gains we've had, it actually is in the same ratio as the targets we have for 2025. Meaning that it's -- we have had good traction on the procurement and costs. And -- so that will be the biggest part of the uplift and then it is the risk and pricing. The second and the smallest part of the DKK50 million plus is on the automation and digitalization.

And then it's also fair to say that, yes, we have achieved some of the gains here in the first half year, but as you also know from our material, maybe if you read it, is that some are procurement deals, for example, and some of the initiatives we have been launching this half year, meaning that they will have a bigger effect in the second half year. So there will be higher effect of the efficiency program in the second half year than we have achieved, but it will be a net of DKK70 million is our best estimate at the moment.

Q - Derald Goh {BIO 20775137 <GO>}

Yes. And just a quick follow-up is maintenance. That also mean that in terms of the perspective net gains from the efficiency program, it might actually be higher now than what you had anticipated before?

A - Peter Hermann {BIO 20507411 <GO>}

No, actually we will say that it's small and accrual effects that we have just started out fast and some of the initiatives are actually came quickly into force. So at the moment, we still expect the DKK500 million, so this is a more accrual effect from our perspective at the moment.

Q - Derald Goh {BIO 20775137 <GO>}

All right. Got it. Thank you very much, Peter.

Operator

And the next question comes from the line of Youdish Chicooree from Autonomous. Please go ahead.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good afternoon, everyone. Thank you for taking my questions. My first question is on run-off. I mean, in your presentation, you make the point that decline in run-off has been largely driven by lower risk premium in motor. And you mentioned that going -- looking ahead, you expect a more stable development in the risk premium for motor. Should that -- does that not mean actually you're expecting run-off to stabilize at the current level of around 2.5? That's my first question.

And then secondly on -- just on frequency, you mentioned that you've seen a normalization of frequency already in the second quarter, especially in motor and content. But looking ahead, would

it be fair to expect further benefit in travel given that there is still some restriction that remain in place. So those are my two questions. Thank you.

A - Lars Thykier {BIO 16427122 <GO>}

If I start with -- probably with the last one. Do we expect more benefits on trial? Yes, we do. We have accounted in DKK10 million [ph] in H2 and that is traveling. The content part, I think that the savings we have had of content has to a certain degree being driven by COVID-19. But on the other hand, I don't think that normalizing the Danish society in a few months from now will lead to lead content I think again. I think that the content level were below than (inaudible) nonetheless that society has owned again. So that's where we see -- where we see that the low rated premiums coming up somewhat down.

A - Peter Hermann {BIO 20507411 <GO>}

Regarding maybe run-off, yes, we've said that previously we've seen a lot of part of the run-off was the most third-party liability. And we have seen that that there is this more steady state on which premium on this part, meaning that we don't expect the same level of run-off for that product line going forward. Then, of course, there is other product line and this half year, we also had some run-off from actually -- from workers compensation and also from house and building. And also mentioned, actually we have quite a big -- quite a good return on a run-off from the building and house due to -- that is not seen as worse as we sold the house situation in the fall.

But it's -- but looking forward, I will not commit on a level on the run-off, we never do that. But it's true that this year has been around 2.3. But the reason why we said is that we don't expect the level to be these 3%, 4%, 5% that we saw historically going forward. But what the level will be, that time will show I think.

Q - Youdish Chicooree {BIO 17430923 <GO>}

All right, thank you very much. And can I also thank Lars for his cooperation and wish him good luck in his future endeavors. Thank you.

A - Lars Thykier {BIO 16427122 <GO>}

Thank you very much.

Operator

And the next question comes from the line of Mads Thinggaard from ABG. Please go ahead.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yeah, hi, I am (inaudible). Thanks for taking my questions. The first one is coming back to the efficiency gains. I don't know if you could be just a little bit more helpful on how much of the DKK70 million for 2021 is in the first half versus the second half? And also if you could put a bit of more light on how much to expect in 2022 and '23, I think that would be quite helpful.

A - Peter Hermann {BIO 20507411 <GO>}

I'm pretty sure that will be helpful, but sorry to disappoint. And maybe -- I think that what I mentioned before is that we have no gains in the second half year due to some of the businesses we've done that have just first started here in the first half year. So, yeah, that's the -- a bigger part of the DKK70 million is in the second half year, okay. I wouldn't come back closer actually, but actually -- and we haven't put on details yet on the efficiency program going forward. We will do that when we have the -- when we do the prognosis for the year. Actually, I think it will be first in January. But we also expect because we have -- as we've said, we think that when going towards the DKK500 million, we expect it to be more, you can say, have -- it will not be -- that all of it will

come in 2025. We expect actually a lot of the improvement will come in '22, '23 you can say and then may be less than the last years. That's maybe as close I can get to it now. Hope that's well.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. So it is clearly going up next year.

A - Peter Hermann {BIO 20507411 <GO>}

That's expectation, yes, we had to (Multiple Speakers)

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yes. And then also perhaps coming back to and now as a cross-effect, do you -- I mean should we expect the -- all the efficiency gains to hit the technical result as it is now or will it kind of be eaten by investments or competition or other stuff and how should we see that?

A - Peter Hermann {BIO 20507411 <GO>}

Yeah, that's another good question. If -- in the beginning of the year, we also said we had some initial cost there and some investments to do. And then we have explained about the net effect on the DKK20 million, now DKK70 million, I would say just reach more than DKK120 million, but I don't expect that we're (inaudible) as much as we fit in the beginning of the year, but the net effect is still DKK70 million.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay. So DKK70 million for the technical results?

A - Peter Hermann {BIO 20507411 <GO>}

That's for this year, but it's just to say that when you're asking how much will be, will come on the technical result going forward. We, of course, hope and we also can improve the technical result, but still results are the net of the competition situation going forward. So that's the reason why they are communicated in gross efficiency gains because we actually don't know how the competitive situation will be. But as I've also said, we expect to improve you can say the profitability going forward.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay, that's great. And then my second question on the life company, now you made perhaps this move a bit earlier than one would expect and moving to asset management company into July. How -- on what level do you see the life company will at this point, I mean, the structural growth in the life company?

A - Peter Hermann {BIO 20507411 <GO>}

(Multiple Speakers) It's little bit pending. You can say that, just maybe one comment to return on equity. We're not steering on life company to achieve the best return on equity you can say to show for the market because when we have some surplus capital that we need to have in the Group, then it's better for us to place it in the life company because in that way we can use the surplus capital both in life and non-life in the Group as such.

If we take all of the -- if we retrieve all the, you can say, excess capital in the non-life, you cannot use it in life, meaning that you will probably show, you can say, a capital situation where we have optimize on return on equity on life because that will be -- that's for the strategic use of capital in the group. But, as we have said, I think that we can run the life business with our own equity actually around one point -- a little more than DKK1 billion, DKK1.3 billion maybe at the moment. And then the rest will be profit margin and loan -- responsible loan.

So you can say that -- so if we have a very, very strong, you can say, capital situation at the moment, also -- very strong, I would say. But just to say that we are not optimizing on return on equity, so I think it's important for you to know that we will not just put all the additional capital from the life company up in the non-life because then we cannot use it on a group level, so just to make sure that will not be least understood.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Sure. But I mean on the necessary capital for providing the life duration, are we looking at a ROE at 20% or 25% or where do we see it?

A - Lars Thykier {BIO 16427122 <GO>}

I think if you make that calculation yourself, I don't say that as it is now. I think that it seems we have intangibles of more than DKK600 million in life, then we will need more equity capital than we will in the longer run. So I think it could be around DKK1.3 billion at the most equity capital, leading to -- How much is that? That is between 15 and 20. And then I think that in a few years, we have brought down the intangibles to below one -- or to DKK300 million, DKK200 million. And at that point of time, it would actually be possible to run it at around DKK1 billion with solvency ratio around DKK200 million.

Of course, you will have to do some different efforts to make this work. You would have to issue a lot of Tier 2 debt and that you have to issue some Tier 1 debt as well. And you have to use the profit margin and you will have to protect the project with the profit margin by a reasonable number of derivatives.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Yeah, it sounds a bit like the life business is really a key on that profitability you kind of indicate here, how do you see that life continue as a part of Topdanmark or what kind of view do you have here?

A - Lars Thykier {BIO 16427122 <GO>}

The (inaudible) sales on Topdanmark is for for sale and we get a problem to offer a license for sale. But we think that we may not be the absolute best owner in the world of the life company. But we are very good owner and we have 50 years of experience with generating synergies between between life and non-life.

Q - Mads Thinggaard {BIO 15369662 <GO>}

Okay, thank you for that, Lars, and thank you for all your notes over the years and good luck ahead.

A - Lars Thykier {BIO 16427122 <GO>}

Thank you very much.

Operator

And the next question comes from the line of Per Gronborg from SEB. Please go ahead.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you. First of all, Lars, thanks for a lot of good discussion over the decades. Hope you get ahead a happy life after Topdanmark. To my questions, the first one is on house insurance. You talked about beef pricing 150,000 reissuances by approximately 9% on average. What are we talking about DKK60 million, DKK80 million in total price increases, is that a fair assumption?

A - Peter Hermann {BIO 20507411 <GO>}

One thing is that, yes, we have some until now, but we have used 9% average. But, of course, we're also looking at the momentum of the rest of the business because it's also generating a churn that is higher than we normally see, that's we knew that. But -- so I will not guarantee that we'll use 9% an average going forward, that's one thing. And then the COVID will also depend on the churn better.

A - Lars Thykier {BIO 16427122 <GO>}

I think it's a reasonable guess [ph].

A - Peter Hermann {BIO 20507411 <GO>}

But it's -- yeah, I would say it's probably a good guess.

Q - Per Gronborg {BIO 15910340 <GO>}

But this might imply that 5% to 7% combined ratio improvement in '21, that's the impact when these price hikes are fully in face and therefore the impact on '21 was below than the 0.5% to 0.7%, is that also a fair assumption?

A - Lars Thykier {BIO 16427122 <GO>}

We're too far, Per.

Q - Per Gronborg {BIO 15910340 <GO>}

If we say that the premium increases DKK60 billion to DKK80 billion, divided by your total premium income of slightly above the DKK10 billion, this implies that the upside to your combined ratio assuming nothing happens on the claim, is takes us somewhere the 60 to 80 basis points.

A - Lars Thykier {BIO 16427122 <GO>}

I will follow on that.

Q - Per Gronborg {BIO 15910340 <GO>}

Then, I'm just referring that to you 0.5 to 0.7 percentage points improvement on the combined ratio. When I read the slide, it sounded like that was the impact on '21. When I do the numbers, it looks more like that is the full impact in '22.

A - Lars Thykier {BIO 16427122 <GO>}

That sounds reasonable.

A - Peter Hermann {BIO 20507411 <GO>}

Yeah, that's reasonable.

Q - Per Gronborg {BIO 15910340 <GO>}

That's sounds reasonable. Okay, perfect. Then just a single question on the investment income, I noticed that you're right in your guidance that the DKK93 million is DKK70 million above the no other assumed run rate after Q2. This must imply that the forward-looking guidance is at the level of approximately DKK23 million per quarter. Is that somewhere hitting within the target not too far away?

A - Robin Hjelgaard Lofgren {BIO 20328709 <GO>}

Per, if I could ask you to repeat that? I'm sorry.

Q - Per Gronborg {BIO 15910340 <GO>}

The investment income in Q2 was DKK93 million. You're right in your guidance change that your investment income in Q2 was DKK70 million above what you had guided in the Q1 we talked.

A - Lars Thykier {BIO 16427122 <GO>}

Yes.

Q - Per Gronborg {BIO 15910340 <GO>}

This must simply imply that your guided one way for investment income is DKK23 million per quarter. So that makes sense?

A - Lars Thykier {BIO 16427122 <GO>}

Yeah.

Q - Per Gronborg {BIO 15910340 <GO>}

Not a straight yet, but yeah.

A - Lars Thykier {BIO 16427122 <GO>}

Actually I am still in doubt about what we -- are we talking about the non-life or are we talking about the Group?

A - Robin Hjelgaard Lofgren {BIO 20328709 <GO>}

I think it's non-life as mentioned.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, we are talking about non-life only.

A - Lars Thykier {BIO 16427122 <GO>}

Non-life, yes, good. There may be some changes to this, but yeah --

Q - Per Gronborg {BIO 15910340 <GO>}

I am talking about whether this is DKK28 million or it's DKK18 million or we're talking about DKK23 million. If these are the numbers, then, of course, it's -- yeah, this is assumptions as you are always have been saying.

A - Lars Thykier {BIO 16427122 <GO>}

I think I have an expectation of something like -- something like -- it didn't less than something like [ph] quarter.

Q - Per Gronborg {BIO 15910340 <GO>}

Yeah, okay, got it. But then we are at approximately the same playing we supposed to have what I wanted to check. Have a great day. Thank you.

A - Lars Thykier {BIO 16427122 <GO>}

Thank you. And thank you for the nice words, Per.

Q - Per Gronborg {BIO 15910340 <GO>}

You're welcome (Multiple Speakers)

Operator

We have another question from Jakob Brink from Nordea. Please go ahead.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you. Just on the solvency ratio, 246% even after having reduced or redeemed the DKK850 million, what are you going to use all that capital for and are you planning on reissuing Tier 2 going forward with only 15% of SCR covered right now?

A - Peter Hermann {BIO 20507411 <GO>}

Hi. It's also a question for the both, but yes we are also considering looking into new Tier 2 now because there is good room in the market for taking up cheap loans. So that's one aspect we have to consider and then it is for the Board to decide what to do with the spare capital with the -- in management, we think we are well capitalized. We also have --

A - Lars Thykier {BIO 16427122 <GO>}

But I think that as the important points to mention here, we have advanced our development of the new IT system for non-life. That means that the intangibles in the Group that grow faster than I've told you before. I've told you before that we probably peak around '25, but actually we will change (inaudible) peak in '23. And that means that we'll have a steep increase in the intangibles in the next three years. So that is what we're going to spend some of the money on. But, of course, when we have the steep increase in intangibles and then we run incentives down again, that is just a short while we'll have this extra need of solvency catch up. So it would be, it would be very appropriate to have to issue some new Tier 2 and have some -- and look at the dividend capacity. But as Peter says, this is for the board to decide. This is not for me.

Q - Jakob Brink {BIO 20303720 <GO>}

What's the delta from now to '23 of non-life IT capitalizations? How much more?

A - Lars Thykier {BIO 16427122 <GO>}

I don't remember non-life specifically, but the -- but the total is -- will increase by about DKK1.1 billion.

Q - Jakob Brink {BIO 20303720 <GO>}

Only DKK1.1 billion on a group level from this quarter to in '23?

A - Lars Thykier {BIO 16427122 <GO>}

Yeah.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay.

A - Lars Thykier {BIO 16427122 <GO>}

And that is helped by the write-downs of (inaudible)

Q - Jakob Brink {BIO 20303720 <GO>}

So what is -- so in that we just see, so that's 8. So basically you're spending around -- one second, so you're spending only around 20 percentage points on the solvency from this capitalization, but then you're down at DKK225 million plus DKK25 million from new debt, then you're back at DKK250 million?

A - Lars Thykier {BIO 16427122 <GO>}

I say rather I spent 30 points. We're little above 3, so 30-ish. And then, of course, if we issue new Tier 2 debt, then we will be direct well capitalized. And that's why I think that my successor has to think about the dividend capacity.

Q - Jakob Brink {BIO 20303720 <GO>}

Fair enough. Okay, thanks a lot for the help.

Operator

And we have just one follow-up question from Derald Goh from Citigroup. Please go ahead.

Q - Derald Goh {BIO 20775137 <GO>}

Hi, thanks for the opportunity. Just a quick follow-up please. It's just on the group level SCR. So I'm keen to understand what's driving the increase in life underwriting risk quarter-on-quarter as well as the reduction in the loss of solving capacity of technical provision? I mean is there lesser to the (inaudible) interest rate. Does it to some of the assumption changes that you had mentioned earlier? Thank you.

A - Peter Hermann {BIO 20507411 <GO>}

Maybe I didn't understand the question. I'll just try to answer, then you have to repeat it mainly, but some of the good development on life solvency is due to the good investment result, meaning that you can say the buffer level and in the interest rate groups is higher now that could be used all those one to one and reducing the solvency capital requirement. So that has improved as well as the use of profit margin, as we explained before, by taking the asset management company within the life company when we have use of more profit margin.

So, but -- yeah, and then we have made some corrections as Lars described because there's also some, you can say, some solvency requirement coming from using profit margin. But maybe that wasn't the answer to your question, then you have to repeat it, sorry.

Q - Derald Goh {BIO 20775137 <GO>}

No that's fine. So if I look at the life underwriting risk, so it was about DKK100 million level at Q1 and now it's gone up to just over DKK500 million, what's driving that increase?

A - Peter Hermann {BIO 20507411 <GO>}

Yeah, that's actually when you stress the use of profit margin, then actually that will be -- that will have a higher solvency effect. I think that is driving the -- because in the solvency it's just that -- there is a higher solvency requirement now on life due to the use of profit margins.

Q - Derald Goh {BIO 20775137 <GO>}

Yeah.

A - Peter Hermann {BIO 20507411 <GO>}

I think that is exactly that point you are pointing at, but maybe you could tell us what exactly are you looking, that will help us.

Q - Derald Goh {BIO 20775137 <GO>}

Yeah, sure. So it's in the slide back, slide number -- give me one second, it's slide number 37. So, yes, life underwriting risk at DKK538 million compared to DKK99 million last quarter.

A - Lars Thykier {BIO 16427122 <GO>}

Yeah, that is the increase that we will get due to the year increase in the profit margin.

A - Peter Hermann {BIO 20507411 <GO>}

And that's both in terms of churn and also the stress on -- because the profit margin is a function, you can say of, that the earnings we do, we take from, you can say, the savings. So there's both of stress on the market and there is also a churn risk. So that's giving us on Tier 1.

Q - Derald Goh {BIO 20775137 <GO>}

Yeah, okay, got it. Thank you so much for the answers and congrats again Lars. Thanks for your time.

A - Lars Thykier {BIO 16427122 <GO>}

Thank you very much.

Operator

And as there are no further questions, I'll hand it back to the speakers.

A - Peter Hermann {BIO 20507411 <GO>}

Yes. Thank you for taking the time, hear this Friday afternoon, close to summer for many of us hopefully, and taking time to turn to our conference. As you know, you're always welcome to reach out to Robin. And if you have any further questions, then please do. I wish you all a pleasant and relaxing summer holiday. Thank you and goodbye. See you next time.

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