Q1 2020 Earnings Call

Company Participants

- Jarmo Salonen, Head of Investor Relations
- Knut Arne Alsaker, Chief Financial Officer
- Morten Thorsrud, Chief Executive Officer and President
- Torbjorn Magnusson, Group Chief Executive Officer and President

Other Participants

- Alexander Evans, Analyst
- Blair Stewart, Analyst
- Derald Goh, Analyst
- Jakob Brink, Analyst
- Jan Erik Gjerland, Analyst
- Johan Strom, Analyst
- Jon Denham, Analyst
- Jonny Urwin, Analyst
- Matti Ahokas, Analyst
- Michael Huttner, Analyst
- Per Gronborg, Analyst
- Steven Haywood, Analyst
- Youdish Chicooree, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this Conference Call on Sampo's Q1 2020 Results. I'm Jarmo Salonen, Head of Investor Relations at Sampo. And with me at this call, I have our Group CEO and President, Torbjorn Magnusson; Group CFO, Knut Alsaker; and CEO of If P&C, Morten Thorsrud.

We will start with Torbjorn's introduction into Q1 developments and Morten will then follow with a more closer look at the If developments. After these presentations, we'll -- are happy to take any questions you may have.

Before handing over to Torbjorn, let me remind you that you can follow this transmission at sampo.com/result. And a recorded version is later available at same address. And this time, we have some slides, so it might actually make sense to follow this at sampo.com.

With these words, I'll hand over to Torbjorn. Torbjorn, please.

Torbjorn Magnusson {BIO 1863476 <GO>}

Thank you, Jarmo, and good afternoon, everyone. We've had an unusual quarter as has the rest of the world and we all now have to live with many [ph] uncertainties. We will try to straighten out as many question marks as possible for Sampo in this call and give you as much facts and information as we can about the development of our Group.

First and foremost, in terms of the technical insurance result, this is the best first quarter ever for our insurance operations in If P&C, the biggest part of the Group. The fact that we are a very technologically advanced Group with excellent remote capabilities has helped us also in a socially distant situation, we're able to meet our customers' expectations, sales have been good until the last two weeks of March and customer satisfaction continued to be high.

Morten will in a minute give some more in-depth information about If P&C's development and the COVID-19 effects. But let me already here state that the effects on the insurance side are very marginal so far.

Turning to our bank asset, it was gratifying to see Nordea deliver a second quarter with good progress. Obviously, we first looked at the loan loss documentation in these circumstances and there will remain some uncertainties there for all banks. But Nordea also reminded us all I think that it's a much less risky bank today than 10 years or even five years ago, much more a Nordic retail bank than then.

Looking at Nordea's report the other week, I was also satisfied to see a bank with a renewed self-confidence both in the language, in its culture and in the markets. NII and NCI [ph] developed well, costs and manning are coming down according to plan and capital is very strong indeed. And market shares are no longer way below Nordea's distribution capacity, but naturally reflecting [ph] where the Company should be. Frank Vang-Jensen and his team are working quite intensively and I'm pleased to see this.

Returning to Sampo itself in this introduction, we report a solid solvency ratio despite rather depressed asset values. In times like these, this is both prudent and a good strategy for potential opportunities, as is well known both Nordea and Topdanmark have delayed parts or all of their dividends and are reflecting -- and reflecting this and the investment markets uncertainties, the Board has decided to propose a EUR1.50 dividend to the AGM.

Can I have the next slide, please. So, with that and with this beautiful non-life insurance graph, I hand over to Morten Thorsrud to give us a more in-depth understanding of the non-life operations that constitute the largest part of this Group. Please, Morten.

Morten Thorsrud {BIO 16111627 <GO>}

Thank you, Torbjorn, and good afternoon to all of you. And the first quarter of 2020 was clearly quite an eventful quarter, where the ongoing COVID-19 pandemic, of course, is impacting our business in several areas. Throughout this period, the health of our employees has of course been a key priority, and hence, we have moved more than 6,000 out of our 7,000 employees to home offices.

I think the organization has responded to this challenge in a really impressive manner as we have been able to run our business close to normal and actually with very high service levels throughout this period. In many areas, we have even seen record high customer satisfaction levels in the midst of this crisis.

During the first quarter, some 26,000 COVID-19 related claims were reported with an estimated claims cost of some EUR12 million. Until end of April, this has increased to some 48,000 claims, most of these being travel claims and most of the claims coming from our Norwegian business. If has a reinsurance cover with self-retention of SEK100 million or approximately EUR10 million that cover these travel claims.

In today's environment as Torbjorn also mentioned, we do see that we benefit from our strong digital capabilities as we do absorb high level of online insurance sales, online insurance service cases, and of course online claims cases. The strength in our digital and remote business model is expected to be a clear advantage for us going forward in a world that you can say got a gentle push towards increased use of digital and remote operations.

On the financial side, the ongoing COVID-19 pandemic obviously had an impact -- significant negative impact on the investment return. However, the financial impact on the insurance operation has been limited in the first quarter. We continue to deliver strong earnings generation and we are well-positioned for future challenges and opportunities with a very strong balance sheet.

The increase in travel claims related to COVID-19 is temporarily offset by somewhat lower claims frequency in areas such as motor. And going forward, we do of course expect a negative top line effect as a consequence of the dampened business activity level in the Nordic and Baltic region.

Turning to the next Page 10. If continues to deliver on its promise of producing consistent strong underwriting performance. Combined ratio in the first quarter was a record low 83.7% down from 86.5% in the first quarter of 2019. The underline -- underwriting result was supported by clear improvement in frequency claims outcome. The cost ratio was on a low level in the quarter. And we had somewhat more run-off gain in this quarter than we had in Q1 2019.

At the same time, we did experience a large claims outcome that was well above what we expect to be a normal level. The large claims outcome stems in particular from two Norwegian industrial clients. But the fsingle largest claim was the fire in the parking garage at Sola, airport in Stavanger in January, where If insured the building, of course, in addition to our fair share of the cars. If has consistent -- If have had a consistent underwriting discipline, and they have been also supported by our Nordic and Baltic scale and diversification between the business areas. And this has enabled us over the last fifteen years to manifest a position as a best in risk insurer in our region with a combination of low combined ratio and low underwriting volatility.

The Nordic P&C insurance market remains rationale with generally sound combined ratio levels and low volatility compared to other parts of the world.

Turning to the next page, Taking a look at growth development in the first quarter. We have for a period seen a good business momentum and fairly strong top line development. In Q1, this continues and we produced a purely organic premium growth of 7%. The growth stemmed from both increased business volume through increased number of customers and insurance products as well as from price increases in the portfolio. In the first quarter of 2020, the split between these two sources of growth would be roughly 40-60 i.e somewhat more price-driven.

We do see attractive growth in all business areas and all countries. Moving forward, we do, again, expect some negative top line effect from the COVID-19 situation. But the strong growth materializing in Q1 makes us well prepared to handle some headwind in the future as well.

So with that, time concluded on the If presentation and leave the word back to Jarmo.

Jarmo Salonen {BIO 1860650 <GO>}

Thank you, Torbjorn, and thank you, Morten. Operator, we are now ready for the questions, please.

Questions And Answers

Operator

(Operator Instruction). Our first question comes from the line of Jakob Brink from Nordea. Please go ahead.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you, and good afternoon. I have a few questions, please. The first one is on the dividend of EUR1.50 and how this plays in with your dividend policy. I know it's within the plus 70%, but still, how should we look at this going forward? For example, I'm thinking, this is of course very exceptional times but loan losses in Nordea, I guess, could be higher, they could be low, who knows.

At the same time, Topdanmark has postponed half of its dividend. We don't know if Nordea will pay in Q4 or not and so forth. Could this maybe be the opportunity for Sampo to basically stick to around EUR1.50 in sort of an ordinary dividend and then put the rest of it into a buyback both this year and also going forward?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I'm somewhat surprised at the question. We have been very clear that we have a new dividend policy, we pay the dividend once a year and the dividend will reflect earnings and be at least 70% of earnings. And that answer has not changed for some time now.

Q - Jakob Brink {BIO 20303720 <GO>}

So how -- so basically, what you're saying is that, let's say Nordea would pay a dividend in Q4 this year, we should not expect it to be paid out until in connection with the dividend decision for 2020 to be paid out next year.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Then I expect our Board to take that into consideration when they look at the dividend proposal for the AGM in 2021.

Q - Jakob Brink {BIO 20303720 <GO>}

And then, sorry just to finalize on that question. But then next year, it's still 70%. But would you think that the 2.2% would be the sort of still the -- sort of the underlying base or would 1.1% reflect the new starting point going forward. Just to help us what level we should expect?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Maybe I was being a little bit flippant [ph] at your question. Firstly, I didn't mean that but we have a new dividend policy and there is no expectation that there will be an increasing dividend or something like that.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Thank you. And then on to -- again actually one more capital question. In If for the first time for quite some time there is a capital deficit versus the ratings approach of EUR241 million and no rating agencies doesn't downgrade or upgrade just because it's EUR200 million. But how do you look at this deficit? Is this something that should be solved right away, or could it have a potential impact on the upstream from If in December this year?

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

Good afternoon, Jacob. It's Knut Arne here. There is no plan to sort of downstream capital to If to fix that deficit, it is a deficit in the S&P model due to the current circumstances after Q1. If it's there still well capitalized from the perspective of solvency capital. The capital is only one of many factors that S&P is taking into consideration when setting the rating, but of course, I'm sure, also they will look to the capital position of all the If and the Group after Q1 when making the rating decisions going forward. But we consider If still to be well-capitalized and dividend upstreaming from If as from Sampo will be based on their earnings and capital position of If as of year-end.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Thank you. And then my final question on non-life insurance, you mentioned it briefly, Morten. But basically growth has been quite nice in -- across If and especially Finland is now growing 5%. I don't know if there is any technicalities, but it's the first time it's been growing that much for quite some time. Could you put a few words on that please?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes, Jakob. I think Finland is growing at 3.1% with [ph] constant exchange rates, but still it is somewhat of an improvement. Earlier, as we've seen quite a negative development on workers' comp, that situation is still not -- where we would like it to be, but it has improved somewhat over the period.

Apart from that, we see good growth again also in Finland in all business areas, both in private, in commercial and industrial. And then again this regarding workers' comp which has been a bit of the struggle in Finland.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Thank you.

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. I have got two questions, please. The first one is just on the underwriting performance. The year-on-year improvement in your line alteration is quite strong, was around 3.5 [ph] to 4 points in the first quarter. I was wondering if you could just give us an idea of what the benefit was from benign weather? And to what extent did the loss ratio benefit from lower frequency during the lockdown? That's my first question.

And the second one is just on business interruption fee. And I think you mentioned in your call and through your standard writings the claims related to COVID-19 would be excluded, but do you have an estimate of like the potential exposure arising from those contracts have been absolutely attended downstream.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes. I'll try to answer your questions. First, when it comes to the underlying improvement on the combined ratio, yes, we do see quite healthy development on that. It is hard to compare sort of and try to make kind of a true underlying development sort of trying to factor in all the effects, different weathers in different quarters and so forth. And I think generally this quarter has been pretty benign when it comes to weather, but that was also actually the case in the first quarter in 2019.

So I would say that sort of most of the improvement that you see in the underlying combined ratio is a result of the price and profitability actions that we have implemented over the last few years. And when it -- when it comes to impact of the lockdown, we do temporarily see somewhat less frequency on motor in particular. It's again hard to exactly estimate how large proportion of the reduced frequencies from the lockdown, how much is from again a general benign weather and so forth. But I think what we've said is that it's probably offsetting quite some of the EUR12 million that we have reported in travel claims. I think you have a bit of the magnitude there.

When it comes to business interruption, if I got your question correctly. I think as you know, all know businesses interruption, If typically covering the profit, followed by a reimbursable property claim. So physical damage of some sort to some imperils, the fire, the water leakage storm and et cetera.

In addition to that, you could have business interruption loss coming from access to the property being prevented, it's the so-called denial of access. But this is typically when you have again a property claim, a property damage that makes police or emergency services hindering your access to your own property.

In terms of epidemic business interruption covers, there are some covers in Sweden and Finland, but that covers loss from the authorities orders then a disease per specific laws, for instance, listeria has been found at the insured location. So again, this is not relevant in this current Corona situation. You could have of course some additional exposures, but our assessment so far, having gone through our portfolio and the exposure we have is that it's very, very limited exposure that we have, when you then disregard the travel insurance claims that we already talked about.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. So thank you very much. Just one quick follow-up on business interruption. Are there --were there many other cases where policyholders are disputing the terms and conditions essentially saying that well losses arising due to the COVID-19 lockdown should be covered?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

No.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. All right, thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I think there is a broad agreement in the Nordic region on the terms and conditions and how they are to be interpreted.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Great. Thanks very much.

Operator

And the next question comes from the line of Alexander Evans from Credit Suisse. Please go ahead.

Q - Alexander Evans {BIO 19956412 <GO>}

And I just got one left actually and Morten, it's on industrial. And I think you touched on it slightly in your presentation. But if I remember rightly, I think your premium is growing quite a lot last year in industrial. And I think you said that this is volume inflated as competitors exited the market due to some profitability there. And are you seeing If -- on combined ratio in the quarter as a one-off.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes. I hope I got your question fully, there was a bit of disturbance on the line. And we have seen an attractive combined ratio for our industrial business. If you look back, sort of the last say five years or even more than that. And now, we did have two individual large claims in this business area in the first quarter and we clearly expect this to be sort of the normal volatility that you would expect to have in this business area and the two claims coming from sort of traditional industrial clients that's have been with us for quite a while.

Q - Alexander Evans {BIO 19956412 <GO>}

Okay. Thank you.

Operator

And then the next question comes from the line of Matti Ahokas from Danske Bank. Please go ahead.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes. Good afternoon. I have two questions from my side, please. Firstly on the dividend. Could you a bit elaborate on the Board's view on paying a dividend at the time when both the EIOPA and also the Finnish FSA recommended insurance companies not to pay dividends. I guess you took this into account in the proposal, but obviously it is quite extraordinary in the current circumstances that would be the first question.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Sorry I was on mute. I agree with EIOPA that these are times when you should be careful with your balance sheet and but you will have seen that our solvency ratio has developed well and even increased since before the crisis. And of course we have had a dialog with the Finnish FSA and decided -- The Board has decided to propose this as a balanced view given the fact that Nordea and Topdanmark will not be paying -- have not paid the dividend that we were expecting from the spring.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks. The second question is on the non-life side. One of your competitors was talking about claims frequencies in motor and also burglaries down by 15% to 30% in March. Is this a figure that you would agree with? And how does Q2 look like at the moment? Obviously, we've seen the lockdown impact in the Nordic countries with full force mainly in April? So if you could give us some kind of light on how the claims frequency outlook has developed in April? That would be great. Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yeah. I would -- I agree to that general sort of trend and also the description that claim frequencies in motor in Q1 or the last 2 weeks of Q1 has been down some 15%, 20% even a bit more than that in certain weeks, varying a bit between countries obviously. And then of course this continues also in April, and even though we have seen a certain uptick in traffic on the roads over the last couple of weeks. And yeah.

Q - Matti Ahokas {BIO 2037723 <GO>}

Thank you.

Operator

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

Q - Derald Goh {BIO 20775137 <GO>}

Afternoon all. Hope you're keeping well. Key questions. So the first one is just on Mandatum. So solvency [ph] it seems quite strong. But I think there was some benefit of the canceled dividend. So I'm just curious there -- around your thoughts there because it seems to me that even taking away the EUR1.50 dividend, the solvency would still be actually at a level above the end of 2019.

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

Yes. That's correct. The canceled dividend in Mandatum contributed to an improvement in the solvency ratio of roughly 16%. Then there were negative effects obviously from the equity value drops and also the fact that during the quarter, interest rates fell, but then there were positive effects offsetting that and a bit more as you alluded to, from the change in the symmetric adjustments and also the fact that Mandatum applies differently from if, for example, the volatility adjustment as well.

So those two technical factors, according to the Solvency II regulation contributed to the improved solvency ratio on Mandatum even when excluding the canceled dividend.

Q - Derald Goh {BIO 20775137 <GO>}

So I guess the question is that, was there any other reason as to why you had canceled the dividend?

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

The -- there's no other reason than the fact that with the balance sheet of Mandatum, we felt it was prudent to keep a significant solvency capital base on that balance sheet during now the volatility that we have and have in the financial markets and obviously also Mandatum take into considerations, the communication that has come in from EIOPA and the Finnish regulator exactly as Torbjorn says that the Sampo Board has done.

Q - Derald Goh {BIO 20775137 <GO>}

All right. Thank you. And second question is just on the interest rate sensitivity, it seems that it's, like it's gone up quite a bit from year-end. I think especially in the interest rate down scenario. Any reason for this, were there some kind of investment portfolio adjustments that you made during the quarter?

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

No, no significant adjustments during the quarter, which impacts that. It has of course also to do with the share size since we're talking about sensitivities on the solvency ratio, the share size of the down funds and the SCR both which have shrunk during the quarter.

Q - Derald Goh {BIO 20775137 <GO>}

Got it. And one last question for Morten. So I think you mentioned the growth has been very strong which is mainly rate driven. And I think you alluded to the end of March where growth slowed somewhat. So what are you seeing in April in terms of the growth in prices? And then on the commercial side, what happened at the April renewals and what's the other there in terms of maintaining the rate momentum?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah. Well we do of course expect to see as I said some headwind on the growth going forward. And one could for instance sort of point that things like new car sales. If you take, sort of the largest country Sweden and the sort of kind of official forecast that Sweden gives out was reduced from 320,000 down to 270,000 cars.

On the Nordic level, already the year started a bit weak, so we had minus 9.4% in number of new cars being sold after February. That figure sort of increased to minus 15.2% after March. So of course, we do see an impact in terms of reduced new car sales that will affect premium income within private. But in business area commercial, we do see that some customers are making adjustments to their terms and conditions. For instance, as a result of our fewer employees so that will have a certain impact. And then similarly, we expect the same materializing to industrial perhaps with some delay into the industrial market.

But again, we do expect to see some headwind on the growth. And when that is said, of course, the P&C insurance industry is pretty resilient and when it comes to sort of how it operates also in the downturn. So -- and again I think it's good for us to having started at least the year with 7% growth. It gives us then an ability to handle sort of what we might see in terms of a bit more negative growth prospects going forward.

Q - Derald Goh {BIO 20775137 <GO>}

Thanks for that. So just a small additional point, any comments on what you saw in the April renewals. I think heading into it there's a lot of talk about the need to push for more rates coming from a very -- from a prolonged soft market. Did the rate momentum in April continued from January into April. And do you think it will continue going forward?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah. I don't want to talk too much about Q2, but I think we haven't seen any significant change with respect to that so far at least.

Q - Derald Goh {BIO 20775137 <GO>}

All right. Thank you very much.

Operator

And the next question comes from the line of Blair Stewart from Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much. Good afternoon, all. I've got a couple of questions left. Most of them have been -- have been asked. Just a technical one for Knut Arne. First, the fixed income impairments coming through the income statement. Why did those happen? Was that due to assets that you sold and therefore crystallized a loss or was there cash flow type impairments coming through? That's the first one actually. Just asked that one first and then I'll come back if I can?

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

All right. Good afternoon, Blair. No, we didn't impair assets that we sold, so to speak, so it's not a loss because of disposal. It is impairments in assets that we still hold. So we haven't sold an after-impairment either. The impairments of fixed income includes an element of management judgment different from equities which we impair when there is a difference between observable market value and book value of 20% which is the limit in Sampo Group.

So there is element of management judgment. We haven't done much impairments in fixed income, haven't had a need to do that over the years. This year as we did this quarter, we look at certain assets within the energy sector, we don't have a large exposure to assets within that sector in the first place. But for the assets we do own, we saw a need to make an impairment because both our view of all those assets and also that the market value of those assets were significantly below our book value.

So that -- it's about EUR50 million. It represents roughly a quarter or the exposure we have to the energy sector within the Group.

Q - Blair Stewart {BIO 4191309 <GO>}

Are those asset values recovered since the end of the quarter?

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

Some of those asset values have recovered not to the level of where we -- where we impaired it from.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. Okay fine. Thank you. And just one more question actually maybe for Torbjorn on just reflecting on the dividend policy. It seems that you've got, you've got two streams of cash flows in the business, one of which coming from the insurance businesses, which hopefully is quite stable and dependable. And then arguably a stream from Nordea that might not be as stable and dependable depending on what happens in the world. Does that form part of the Board thinking when thinking about a dividend, you mentioned earlier that you don't have any ambition to pay a stable and steadily rising dividend, for example, you just allow the dividend to be what it is. But I wonder if within that there is a stable element of the dividend that we can, that we can rely on and perhaps just a passthrough approach to whatever you get from Nordea? I wonder if you could just comment on that. Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Thank you. You expressed our thinking about the dividend policy a bit correctly. We certainly have an ambition to increase the earnings of our businesses continuously and that will be reflected in the dividend. I think it's a bit early to start speculating about the dividend for next year. We have just come out with our proposal to this AGM and let's leave it at that.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Maybe I didn't pick you up properly earlier Torbjorn because the line was a bit disrupted, but I thought I heard you say that there is no expectation that there will be an ever-increasing dividend or words to that effect, is that right?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

That's big -- yes, that is right. No promise that there will be an ever-increasing, increasing the dividend. That's right, which is a promise that I cannot make

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. So the dividend policy is really just based on a payout ratio depending on where the earnings are, but I mean, clearly, cash flows into the center matter as well when thinking about dividend affordability.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Cool. Thank you.

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. Good afternoon. Still a couple of questions left from my side. First, a clarification, travel insurance, your EUR10 million own risk on your reinsurance program. How long time does this cover, does that also cover potential massive cancellation over the summer or do you have to renew it start from scratch again at some stage?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes.Per, I think that depends on whether we will consider this as being one event or whether there will be multiple events going forward. As long as we are in the current status with one lockdown, we do absolutely look upon this being one event. Of course, you might have a scenario of -- where we are open -- opening up again for traveling and then that later, we close down again. And then, of course, it will be a new event. But so far this is considered as one event and it covers sort of the claims that will be reported sort of as a result of this event.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay, perfect. My second question on the dividend and the payout versus profit. Clearly, we have probably an all-time high, but close to all-time high difference between net profit and compensing profit. How should we look at your payout versus the one or the other?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I think that today what we have done is just as I responded to Blair decided on the dividend given a number of uncertainties in the market and the crisis situation in the world, and we have decided on what is the prudent and balanced dividend for this year. What will happen next year and going forward is very early to speculate about and we hope that the world will be a simpler world and easier to interpret based on the 70% of earnings policy that we have and that's probably the best answer that I can give you under these circumstances.

Knut, would you like to add anything to that?

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

No. The dividend policy is, of course, related to reported earnings, the dividend policy currently in force. Then it is -- and I would agree with Torbjorn, it is of course after Q1, a very big difference between that and the mark to market, let's see how that develops during the year and what consideration we then make mind you it is of course at least 70% of reported earnings that as we have in the dividend policy, which is AFS earnings.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you.

Operator

And the next question comes from the line of Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. And Hey, I'll stop myself -- bigger problem. Thank you so much for taking my questions. On the dividend, and I'm sorry, to go back and is not, it's just that I need to -- I should really try to understand it better. The 70% applies to profit you said, but is it the -- I didn't quite understand which profit line -- is it the profit which I consider which is excluding mark-to-market or is it the profit after the mark-to-market?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

It's net AFS earnings sir

Q - Michael Huttner {BIO 21454754 <GO>}

Okay. So it includes the mark to market volatility.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

No.

Q - Michael Huttner {BIO 21454754 <GO>}

Just to make it clear -- I think you reported about. Sorry.

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

The dividend policy is related to AFS earnings. So that would include things like the impairments that we have done, but it would not include the changes in the fair value of reserve.

Q - Michael Huttner {BIO 21454754 <GO>}

Brilliant. Excellent. Okay. Sorry, I was, I was unclear on that and hadn't thought about it. So thank you very much. And my other question is really about the combined ratio. Now I'm going to put words in your mouth, and you're going to hate it, but it looks to me as if the Group over the many years and I haven't followed it that long but has actually had a ratchet in terms of combined ratio and combined ratio guidance. I don't --definitely the guidance has either been flat or improved and the actual combined ratios has tended to improve. I think there was maybe one year where it went up a little bit or a couple of years, but really minimally. And so I got really excited when I saw you reduced -- you've improved your guidance further to 84%, 87% and here my question is given your comments on pricing and volumes, et cetera. Is this something that you see as sustainable beyond this year?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Maybe I'll start, Morten. We have for more than the past decade been able to improve the cost ratio for If P&C every year. We have improved the combined ratio gradually over the year, the same time or even longer than that. And it's our ambition to do that by improving the underwriting of course and being more and more competitive in the market. I see no reason to stop that ambition.

Then we have the market situation, which has improved in general compared to three or four years ago, and the market is now dominated by relatively few insurers in the Nordic region. So that is also supporting this statement. Morten?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes. And I agree to that. And as I said, initially I think, I mean the Nordic P&C insurance market, it is a rational market with some combined ratio levels and these are kind of combined ratio levels that we need in an environment where of course, we are not expecting a very high return on the investment side. And so we expect to be disciplined on also on the underwriting going forward.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. And if I may just ask a follow up but it's really more kind of detailed. If I think the -- of 84% 87% and the 83.7% you reported in Q1. I mean I can do the maths and think well, you could land in the middle of that and have ratios in the rest of the year which are more volatile or you could achieve the low end and have kind of a more sustainable number every quarter. And just obviously I don't want -- to put words in your mouth, if you don't give guidance. I thought you are careful, I hate to that, but in our thinking when you said the 84%, 87%, was it more. Yes, this is sustainable pricing competition rational et cetera. Or it did -- in there did you kind of say and actually Q1 and the beginning of Q2 was looking so good. We -- it gives us a kind of extra boost which we can put in the number?

A - Morten Thorsrud {BIO 16111627 <GO>}

I think we don't really want to give much more guidance than the guidance that we gave sort of which is 84% to 87% as a full year guidance on the combined ratio. Obviously, as you also stated, I mean, we now know that the utcome for Q1 was a quite favorable outcome of 83.6%. So of course, we factor that in when making the outlook.

Q - Michael Huttner {BIO 21454754 <GO>}

Okay. Perfect. Thank you so much. Thank you very much.

Operator

And the next question comes from the line of Johan Strom from Carnegie. Please go ahead.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you. Two questions from my side as well. First, and I'm sorry if I missed any comments or announced activity on this, but I was wondering how you think about -- I think it's SEK3 billion of senior bond maturities coming up in late May. Are you looking for a refinancing of this and how responsive do you think the market is for that?

Then secondly, it will be interesting to hear what you think about the solvency position at the Group level. Now I think end of April number of 187% certainly gives you a very strong capital position. But what would be, call it the minimum level in this uncertain market? Thank you.

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

Good afternoon. It's Knut Arne here. The SEK3 billion of senior, we always think around our funding taking market conditions into perspective as well as maybe how markets are now and we have planned our liquidity. This is a senior bond, so it's not capital. It's pure liquidity. We have planned our liquidity in a way that there is no refinancing need for Sampo for that particular bond those two tranches, which is due now later in May. That's my answer to your first question.

And I think you described our solvency position well as strong, I think it is prudent to have a strong solvency position with the volatility we have with the low visibility on how financial markets will develop going forward. And also to be able to use the opportunity of that might arise in such market volatility when asset value changes.

I would be careful because of what I just said to put a minimum number right now I am happy with having a high number to solvency ratio as we speak.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you very much. And just bridging that one -- sorry the end of March, number 187%, what's the difference there. Is that mainly the Nordea share price? If there's anything else that we should watch? Thank you very much.

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

Yeah. That's mainly the Nordea share price and then we had a big help on other equity prices as well, but that was canceled out, right, by a little negative effect from change in interest rates. So net-net, it's basically the Nordea share price that contributes to that 8% or so improvement in the solvency ratio during last month.

Q - Johan Strom {BIO 17541253 <GO>}

Much appreciated. Thank you.

Operator

And the next question comes from the line of Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi guys. Thanks for taking my questions. Just two please. So firstly, on the dividend policy, I think we've had a few snippets. I think I was a bit confused at the start. I think I understand it now, but I just like to kind of summarize what you said and just ensure we're on the right page. So basically, I think the EUR1.50 for this year is prudent, somewhat exceptional given what's going on. Sticking to the 70% policy, there is no ratchet, it's clearly too early to think about 2020 dividends, but you're not saying that the EUR1.50 is a new, a new starting point to think about. So just any yes or no commentary there would be great. And then secondly on the underlying loss ratio. I mean, -- yes, it's good development. You're not flagging any fundings in there, it sounds like it's relatively clean which given you've been pricing out of claims inflation for most of last year. I expect it to be running that way for this year. I mean that was quite a bullish outlook for the margin. I would think so again any color there would be great. Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And on the first question, I am grateful for your summary. And I'd say yes on that one.

A - Morten Thorsrud {BIO 16111627 <GO>}

And then on your second, on the underlying loss ratio. On one hand, yes, we have seen a clear improvement in the underlying frequency ratio. Going forward, it's of course always a difficult thing to speculate.

We do expect and we do see somewhat high claims inflation also over the last few months and of course we look carefully at the claims inflation going forward. Where there might be some extraordinary effects also in the middle of this COVID-19 situation sort of -- so looking at the claims inflation at the body shops, for instance, this is important for us. So I think I'll not speculate more about the future than that.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you. So that as far as I guess is the broad comment that you saw pricing in line to slightly ahead of claims inflation, does that still hold?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes. I think slightly above what we have seen as kind of -- yes claims inflation over the last couple of years, slightly above that.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you.

Operator

And the next question comes from the line of Jan Erik Gjerland from ABG. Please go ahead.

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

Yes, good afternoon. Jan Erik Gjerland from ABG. Just some couple of questions, just more technical I would say. The life solvency looks to be slightly lower without the transition rules. So I just wonder how is the Group solvency also including in these kind of transition periods for any levels? And secondly, on the life side, is there any sort of minimum you would like to have been without -- before considering the dividend stream from your life company once more?

Thirdly, on your impairments, will it be fair to say that you have done everything, you have to do now on an impairment on your fixed income side, or is there more to more come in the second quarter, as banks going forward when they comes to -- looks for their impairments. I still see that you have fixed income at the low (inaudible) at least in the mark-to-market reserves on the Page 13 in the supplementary. So any light on that would be great. Thank you.

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

Good afternoon Jan Erik. I should start with the life solvency if I understood your question correctly, the live solvency of 205%, we don't had -- there is no pending dividend proposal from the Board at that level. But obviously it is, it is a stronger solvency even excluding the EUR1.50 earlier proposed dividend which we -- the board canceled that proposal.

It's a stronger solvency than what we had in year-end. So if the visibility increases so of course the possibility for Mandatum to pay the dividend at around that level will be current solvency base I would say it should be there.

The Group doesn't apply any transitional rules that what you see is what you get there on the solvency ratio, so to speak.

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

Okay. Thank you.

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

That was your second question on impairments, but I wish we had the crystal ball mill in impairments and again, I'm not trying to sort of the funding, the question is a very relevant question. I just can't say if there will be a need for more impairment.

But I can say that when we look when we made the estimates for April, to give you those three data points of April. There were no need to consider it neither on the equity side, which is quite clear, nor on the fixed income side, at that point in time to do further impairments, but that is not promise for Q2 for reasons you understand.

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

No. If you say this 20% mismatch between the book value and the market, at least on the equity side, do you have any comments kind of internal level of guidance when it comes to what it should be between the fixed income mark-to-market and what you have built it for?

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

No. We don't have a guidance for that. That's not high as 39, it's being weak then so to speak. It's management judgment the impairments we did had a difference which was significantly above 20% obviously, there is, of course, a difference with equity and fixed income investment where you basically need to have a default of a fixed income investment to not be able to record the AFS result as predicted, fixing as long as its direct investment income is to say fixed-income assets is still paying, but because it was a significant difference it was above 20% clearly above 20% we made that impairment.

When we close our books Q2 and if there are significant differences also there we, of course, need to make that management judgment also in that point in time, but like I said in April even though there were fixed-income assets which -- the difference were above 20%, we didn't see a need to make in impairments in terms of the predictability of the cash flow from that asset.

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

Okay. Do you have any high yields in the energy sector at all, I couldn't find that in your disclosure today but you have a better disclosure on the fixed income on previously, so I appreciate that.

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

We have a little bit of high yields, the total exposure to the energy sector as of end of March was around EUR170 million for the Group.

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

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

Operator

And the next question comes from the line of Steven Haywood from HSBC, please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good afternoon. Thank you. Just a couple of questions, I wonder I don't know if you've explained this before but could you just go through it again on the symmetric adjustment in your solvency ratio, and how the movement in equity prices going down to minus 30% is a significant drop in your solvency. How the symmetric adjustment plays a role here? And how there's doesn't seem to be any movement in the equity dampener coming through as well? And then can you tell me how comfortable Sampo is running its business in the 140% solvency? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Maybe as you're thinking about the more technical question, I'll just say that 125% is of course a floor two where you can comfortably around anything. What 140% means that depends entirely on the situation. But we have previously said that below 140A% to 145%, you get limited room for maneuvering the Company if there were opportunities.

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

I totally agree. And just one additional on that from my side as well. It's not a target for the solvency ratio for the Group that's never what we have described it as. The symmetric adjustment, even if I understood your question correctly, it works like this, that when there are market movements up and down, there is adjustments to the risk factor that's applied to equities.

And the risk that given the significant market drops, the risk factor, the symmetric adjustment reduced the risk charge on equities from around 39% that's on year. And when the same metric adjustment was very close to zero to 29% as of end of the first quarter. When the symmetric adjustment was minus 10. The symmetric adjustment -- formula for the sym metric adjustment basically makes it stop there.

So when you have further drops, I think you mentioned 30%, you had no further held companies have no further held neither Sampo of course from the symmetric adjustment. And consequently, the sensitivities to equity in such a scenario increases that's also why the sensitivity for equities that we have published is different from the ones we had in our disclosures in Q4.

Similarly, of course, if equity markets increases under symmetric adjustment comes into play, again, it will have a negative impact on the solvency ratio as the risk, as the charge where equities increases with the symmetric adjustment. And this is applied to the whole equity portfolio and it is also applied for solvency purposes on our exposures towards Nordea.

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

Okay. Thank you. That's very helpful.

Operator

And the next question comes from the line of Jon Denham from Morgan Stanley. Please go ahead.

Q - Jon Denham {BIO 19972914 <GO>}

Thanks. Hi, thanks for taking my question. I don't want to drag the call on for too long. So just one from me. If you do end up making supernormal profits in your underwriting business this year. Would you expect to return any of that to policyholders via rebate? I think I know the answer but I have been given what's going on the asset portfolio, but maybe if you are under pressure from either policyholders or regulators in any of your geographies to do so? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

There is no such pressure and what is supernormal. We haven't seen that in the past and there is no such discussion in our markets frankly.

Q - Jon Denham {BIO 19972914 <GO>}

Thank you.

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

I think I could also add on one comment on that sort of I think internationally, there has been a lot of speculation on this on motor insurance in particular and the Nordics is especially in the way that motor insurance in the Nordics is generally priced based on expected daily mileage. So if people expect to drive significantly more or significantly less than what is assumed in the pricing, they have always been able to adjust that. So it's a quite different situation in the Nordics than what you have been quite many other geographies.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And of course, the final remark is that it is somewhat surprising that this discussion turns up once that almost every company has lost a lot of money in the investment markets.

Q - Jon Denham {BIO 19972914 <GO>}

Thank you.

Operator

And we have a follow-up question from the line of Blair Stewart from Bank of America.

Q - Blair Stewart {BIO 4191309 <GO>}

Just a quick one. I just intrigued, if everything was as it is at the moment with markets, et cetera, but Nordea had to pay its dividend with the Board to revise the dividend at Sampo.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

That as I think you expected, I cannot answer. I don't know what the Board would have done.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. It was worth a try. Wasn't it? Thank you.

Operator

One more follow-up question from the line of Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. It was one on pricing and one symmetry. An pricing, what was the number in Q1, which was included in the slightly increased premiums of 7%. And then on symmetry, say this is just a hypothetical markets return to the level of the start of the year, equity markets. Would it mean that solvency would go down from the current level, the 187% as of April. Thank you.

A - Morten Thorsrud {BIO 16111627 <GO>}

Could ask your first question then -- and the growth of 7% as I stated initially in this conference. We say that roughly support to 40-60 split where then the larger part i.e 60% is price increases and the 40% is then increase in business volume, sort of number of customers, number of insured WX and so forth.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you.

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

And good afternoon again, Michael, it's Knut Arne here. Yes, it would, it depends, of course, on how our portfolio would look and what we would do in terms of transactions if we have increased visibility and gradual more account for it in the equity markets, et cetera. But everything else equal, a 20% -- now, it's a little bit less, but just let me take that number, since we after all, are talking about Q1 results and where we were a month ago. 20% increase in equity markets would roughly have about a couple of percentage point negative effect on our solvency ratio.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you so much. Thank you.

Operator

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

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Thank you, operator. And thank you all for your attention. I wish you all a very nice evening. Thank you.