Y 2020 Earnings Call

Company Participants

- Jarmo Salonen, Head of Investor Relations and Group Communications
- Knut Arne Alsaker, Chief Financial Officer
- Morten Thorsrud, President and Chief Executive Officer, If P&C Insurance Holding Ltd.
- Toby van der Meer, Chief Executive Officer, Hastings Group
- Torbjorn Magnusson, Group Chief Executive Officer and President

Other Participants

- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Derald Goh, Analyst
- Jakob Brink, Analyst
- Jan Erik Gjerland, Analyst
- Jon Denham, 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 Group's 2020 Results. I'm Jarmo Salonen, Head of Investor Relations. And I have with me here, our Group CEO, Torbjorn Magnusson; and Ricard Wennerklint, Chief of Strategy for the Group; Group CFO, Knut Arne Alsaker; and Morten Thorsrud, CEO, If; and Toby van der Meer, who is CEO of Hastings. And I hope I did not forget any names.

So we are here to discuss the full-year results and you're more than welcome to join us in a couple of weeks time, 24th of February to discuss more strategy and that sort of issues in -- at the Capital Market Day.

And we'll start as always with the presentation from Torbjorn. And after that, we will take your questions. Let me remind you that you can follow this transmission on sampo.com/results, and a recorded version of the call will later be available at that same address.

Now, I'll hand over to Torbjorn. Torbjorn, please.

Torbjorn Magnusson {BIO 1863476 <GO>}

Thanks, Jarmo. I'm very pleased indeed to present the set of extremely strong number to 2020, which was at the same time also a year of intense activity to develop our Group. First and foremost, of course, the operational performance of our biggest division If P&C didn't leave much to wish for, I think, the lowest combined ratio ever, very strong indeed compared to peers and even at the lower end of our outlook from Q3. And this combined with further improvements in efficiency and good growth, again, especially in the digital channels. I'm sure that the momentum in If P&C has never been stronger and better. And as you know, I have a rather long history with that company.

Today, some attention is also given to the extraordinary accounting step to reduce the book value of Nordea at Sampo. However, this has nothing to do with Nordea's business. As you will have seen, Nordea is progressing impressively well towards their targets and our confidence in this is unperturbed.

A brief remark on Mandatum Life. It's encouraging to see that the high guarantee liabilities have never run off faster than this year. This of course reduces risk and releases capital in this solvency intense segment.

When it comes to our preparations for the future, I think our actions from the last year are well known. Suffice it to say now that with hindsight, the timing for the acquisition of Hastings from the date while the Nordea fell down seem to have been well-chosen or at least done with good timing.

For If P&C, let's begin with a few remarks on the combined ratio. As a launch motor insurer, it was certainly helped by COVID effects. On the other hand, large losses came in quite a bit above normal except for Q4. So the net effect of those two effects is not huge. The starting point for the coming years is just very strong and we gave an outlook of below 85% for the year, not a range as we used to do estimating COVID effects is uncertain to say the least.

Growth continued to be distinctly higher than the GDP, and this is despite a negative premium effect in excess of 1% due to the low new car sales. As many of you are aware, car dealers is a channel in which we have excelled for many years and continue to do so, as several of the largest agreements were renewed last year in all cases for long time periods, long contract time period. All in all, underwriting profits continue to grow and the Nordic markets seem to be on the way to even more consolidation. Thanks to Tryg and RSA.

Hastings, for the first time we have Toby van der Meer, CEO of Hastings Group on the call. So a special welcome to you, Toby. We have now had the chance to work together for a couple of months. So let me give you some impressions on Hastings, as it is now a new part of our Group. It's been exciting to start to work together. The corporate cultures are definitely so similar that we should have done this a long time ago. Toby and his team are hands-on thrifty insurance professionals with high long-term ambitions, all the characteristics we value at Sampo.

And when we looked at the company last year, we became convinced that we did not share the doubts about the company that the market seem to have. And consequently, we look more positively at valuations. 2020 ended well for Hastings in line with our previous plans on growth and loss ratio and we were also stable -- we were also able to strengthen the balance sheet of Hastings at the year-end. So that it holds the same standards we are used to at Sampo. And all this combined with a strong 77 -- 76.5% loss ratio.

We have also designed structured process for synergy development that started in January, which I have planned to discuss more in detail with you at our Capital Markets Day in two weeks time.

Turning finally to the dividend, you could consider Sampo to be in a transition phase in some respect, as we're moving towards a more focused, more simply structured insurance group. For this reason, it is natural to look to the insurance operations to supply the means for the dividend, and this slide details the numbers. We will work on increasing the insurance dividends as a reflection of the underwriting profits as a solid basis for our group dividends.

Volatility in underwriting profit is certainly much lower than other lines that are more exposed to the investment markets. The present market situation supports our ambitions better than in many years. And our insurance operations are better equipped than I can remember to win these increasingly digital markets. And now, we look forward to your questions. Operator?

Jarmo Salonen {BIO 1860650 <GO>}

And operator, we are now ready for the questions, please.

Questions And Answers

Operator

(Operator Instructions) And our first question comes from Youdish Chicooree from Autonomous Research. Please go ahead. Your line is now open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good afternoon, everyone. I've got two questions please. The first one is on dividends. I was wondering if restrictions on bank dividends are lifted later this year, Nordea is able to be further EUR0.72 per share. I was wondering with the Sampo will then distribute that dividend income as a special dividend, well, later this year or maybe next year? That's my first question. And then secondly, in terms of pricing in P&C, can you give us a sense of the price increases you have managed to achieve on the January 1st renewals in your industrial and commercial lines, please? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Morten, if you answer the price increase. And I will take the dividend after that.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah, sure. Price increases in at the first of first renewals, I think the general statement would be that they are very high seen in a historical perspective in -- particularly, in the large corporate segment, so i.e., our Industrial book of business. And also fairly substantial in the commercial book of business, in particular still in Norway, which is a situation that we see now for quite a while. And all in all, price increase is well above what is assumed sort of inflation.

Q - Youdish Chicooree {BIO 17430923 <GO>}

And so just --

A - Morten Thorsrud {BIO 16111627 <GO>}

It may could continue also on the first of first renewed.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Are they are strong as last year, or better?

A - Morten Thorsrud {BIO 16111627 <GO>}

I would say on the commerce -- on the industrial side, I would say, it's up slightly stronger and then commercial in line with last year in general.

Q - Youdish Chicooree {BIO 17430923 <GO>}

All right. Thank you very much.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

On the dividend, if the recommendation or ban on dividends were to be -- it was be lifted in the autumn. We would potentially then get a dividend for from Nordea hopefully I trust, and that would actually -- the timing of that would not be too different from when we receive normally the dividend from If P&C. We have a policy that's in excess of 70% of earnings. There is no ceiling to that. And we don't have any M&A agenda, except possibly if possibilities would occur for our bolt-ons in the Nordics, so that is probably as much as I can give as an answer.

Q - Youdish Chicooree {BIO 17430923 <GO>}

All right. Thank you. Thank you very much.

Operator

Thank you. Our next question comes from Jon Denham from Morgan Stanley. Please go ahead. Your line is now open.

Q - Jon Denham {BIO 19972914 <GO>}

Good afternoon. Thanks very much for taking my questions. Firstly on If, you flagged that, I think of the four points benefit to the combined ratio from COVID. And you or your competitors passing any of the benefit onto consumers by low pricing yet or still no? And I think you said less than 85% instead of a range because it was hard to estimate the COVID effects. I just wondering what would that range be before assuming any impact from COVID? And I guess to take the opportunity as Toby is here. What's driving the acceleration in policy count at Hastings? What kind of rate changes you're putting through best in the market? And just finally, I think you mentioned that you strengthened Hastings' balance sheet at year-end. What kind of benefit you think COVID has on Hastings loss ratio in 2020?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

On the range first, we have typically given a range of 4% points at the beginning of the year, which is the uncertainty that we've held hard in our more normal planning. So that's what history indicates. Morten, If and COVID.

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah. Yes, you say, we have made 4% COVID effect in the fourth quarter. And I think one should bear in mind that it's of course extremely difficult to really to make that effect. It's hard to read understand what's more sort of what's better, what's kind of more normal frequency development and what kind of specifically COVID related. So it's a very rough estimate. And similarly, we have a very rough estimate of 3% effect on the full-year level. And we are not passing that benefit back to the customers mainly because most customers placed a number of products with us. And again, we see beneficial development on motor insurance due to low frequencies, but then of course we have all the lines of businesses very similar to see a more negative development. So that's I think the situation on the COVID and let me pass it onto the customers.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And Toby, the last one.

A - Toby van der Meer {BIO 22123757 <GO>}

Yeah. Hi, Jon. Thanks for the question. So on your first question related to Hastings on policy count growth, then, I guess there's a couple of moving parts to the 8% policy count growth that we've seen for the full year 2020. The first is that we saw continued strong retention rates throughout the year. So very pleased with all of the team, the work that teams have done to continue what is now pretty close to market-leading levels of customer retention.

And then secondly, we -- throughout the year, we've been able to deliver a series of enhancements to our pricing models that have helped our new business volumes increased our share of price comparison website sales during the year. And that was particularly true during the second quarter or in the third quarter where we were able to continue running the business without too much interruption from COVID, and at a time when some of our competitors have to retrench as they dealt with operation for systems issues, we were able to work to keep forging a ahead.

On your second question on the impact of COVID on the loss ratio, you'll have seen in the numbers that Torbjorn talked about a six point or so improvement in the loss ratio embedded in that, although we haven't quantified the effect of COVID, but embedded that is, of course, the benefits of lower frequencies, particularly in the second quarter, of course, very limited driving then sort of driving behavior increase during the third quarter and the beginning of the fourth quarter, and then tail off again, of course, when the third national lockdown hit UK towards the end of the year. But as Torbjorn has also said, overall, we have delivered a good loss ratio with that six point improvement but also strengthened our reserving position. And I guess when you bring all that together then when we think about 2021, it leaves us in a very confident position to be able to say that the combination of the current accident year performance and development patterns for prior years will leave us in a position where we can say that could be expected to improve.

Q - Jon Denham {BIO 19972914 <GO>}

Thanks very much. Is it possible just to get the magnitude of reserve strengthening?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

We don't normally comment on that, as there are so many moving parts in that statement.

Q - Jon Denham {BIO 19972914 <GO>}

Okay. Thanks very much.

Operator

Thank you. Our next question comes from line of Blair Stewart from Bank of America. Please go ahead. Your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you, and good afternoon. I have a few questions. Firstly, just with regards to the Hastings underlying performance in the year. It's very difficult to get much from the six-week period that you've reported. Perhaps not today, but I wonder if that's something you'll talk about more to the Capital Markets Day. So we can have an idea of what to expect from Hastings going forward.

Secondly, just on the reserve strengthening, you're clearly not going to comment on the number, but was that done just internally from Hastings, there was no need to transfer anything from Sampo Group into Hastings, I'm assuming that was just done internally.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes.

Q - Blair Stewart {BIO 4191309 <GO>}

Also on Hastings, I wonder if I just take the opportunity to ask management what the expected impact of the FCA pricing review and changes will be on the company and its competitive position. And my final question, I'm sorry to ask so many, but they are all quite simple ones. The dividend from If P&C was only EUR600 million against I think over EUR700 million last year. Is that really just a balancing item in terms of what you need to fund the external dividend or is there something else going on there? Thanks very much.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

On the first two, we will speak more about Hastings performance in the Capital Markets Day, and Toby will be there and I have a separate session on Hastings. On the reserving, yes, it's been done within Hastings resources and then -- yes, the next one was for you, Toby.

A - Toby van der Meer {BIO 22123757 <GO>}

Yeah. Great. So just to comment briefly on the FCA pricing practices work and its impact on us, and we will talk more about this on the Capital Markets Day in a couple of weeks time as well. But at a headline level for today's purposes, I would just say that the FCA is identified, as you will be aware that a large number of players in the industry have been making disproportionate returns and profits from renewing customers through practices, such as price walking. And as you can imagine that has been most prevalent in the businesses that have been around for the longest have the most all surrounding customer basis.

And for a company like ourselves that attract customers mainly from price comparison websites and mainly over the last, say, four or five years, you can imagine that we don't have the sorts of customers who would let us do price walking stunt. We do charge customers a little bit more today on renewal than for new business. But for us, that's a negligible amount. And therefore, I guess, as we look ahead and we would expect to be FCA's changes to have an impact on those sorts of profits than it is largely irrelevant for us, but may have a big impact on some of our competitors.

The second dynamic then is how it will change shopping around behavior in the longer term and will it have an impact on price comparison websites is the distribution channel. I know some of our competitors are hoping that customers will all of a sudden become a lot more loyal, love their brands and start shopping around directly a lot more. I guess, we're not sure about that we suspect that customers across the UK have been told and educated to shop around like using price comparison websites to do so and we'll continue to do so in the future.

So I think we're relatively optimistic about the impact, but all of the changes that the FCA will bring are supportive of them. But of course, we'll monitor them very closely as they start to have an effect on the market depending on the timing, the final FCA expectations were slightly towards the end of the year.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And finally, Knut, have you emptied the coffers of If P&C?

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

I know for a fact, he hasn't done that Torbjorn.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

One other things, of course, we have not done the dividends from If P&C was based on the earnings in 2019. But also on the view that it was reasonable to leave If P&C with a little bit extra strong and solvency ratio at the end of the year, which they have given the uncertainties that we still have around us.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Great. Thank you.

Operator

Thank you. Our next question comes from Jakob Brink from Nordea. Please go ahead. Your line is now open.

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you and good afternoon from my side as well. I guess the first question is on the leverage in Sampo Group after the write-down, which was announced this morning of roughly EUR900 million. And could you just talk us through what would be the impact on the financial leverage in Sampo Group and what that might have of consequences or might not have of consequences? That was my first question. And secondly, a bit more broader question and I don't know if you can or will answer it, but I see there is a change to the bulk composition where your main owner is, as far as I can read no longer going to be represented in the Board of Sampo, can I read anything into this? Then lastly, why exactly did you choose to write-down the Nordea value now, anything specifically happened that made to do the change now? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Knut, will you talk about leverage and Nordea timing?

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

Sure. Good afternoon, Jakob. Leverage in Sampo at the end of the year based on our book equity was just below 29%. If you would calculate it based on the market value of Nordea, which would be just above 29%. The impairment as such, which had an impact on our equity of EUR900 million as to know, impacted the leverage ratio based on books equity by around 1.5 percentage points. Obviously, no changed on the ratio show based on Nordea market value. This is an adequate level for us. It has no impact on any considerations for us, and in terms of ratings and obviously not solvency.

When it comes to the timing, we have, of course, have had a market value on Nordea that is has been below our book value for some time and we have done impairment testing on a regular basis every quarter according to accounting regulation. What has changed during 2020 and also in the fourth quarter, is of course that Nordea have made good profit and we have consolidated our part of it, which is increasing the book value. But different than in historical years, there's been very little or no dividend payments, and that has not adjusted the book value downwards. The book value is mechanical exercise of the acquisition price plus all the accumulated profit less dividends that brought the book value up to a level, which we're about to exceed what we had as the value and use in our model and it was needed to do an impairment. And that basically happened now when Nordea announced their fourth quarter and also announced their plans to postpone the dividend further to the fourth quarter of this year. So it's a -- but it's basically -- the timing is basically due to the fact that Nordea is doing very well and not to change to view from our side on Nordea and not because the Nordea profitability is not in line with what we expect.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And then on Board representation Antti Makinen is not available for another season. But remember that Jannica Fagerholm, my -- our Deputy Chairman is actually also on the Board of Solidium. So I don't know, you shouldn't read anything into this as far as I'm aware.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Thank you very much. Very clear.

Operator

Thank you. Our next question comes from Per Gronborg from SEB. Please go ahead. Your line is now open.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you. Per Gronborg from SEB. Couple of questions from my side as well. First of all, why EUR7.5 and not down to EUR7 as the current market value roughly is on their own Nordea impairment?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I couldn't hear the question, Per, can you repeat it?

Q - Per Gronborg {BIO 15910340 <GO>}

I try it once again, you are impairing Nordea down to EUR7.5, why don't you -- why not impairing it down to the market value? What's the rationale behind that?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

This -- the impair -- this is -- we make an accounting considering is according to accounting rules. We use a mode on which is based on requirements under accounting regulations. We use assumptions, which are based -- market based particularly based on what we observed where cost of equity is at the time when we sold Nordea stakes, the 4% in Nordea in November. So it's not based on the actual market value. If we were to payout rate down to the exact market value, which there are no reasons to do based on our view of Nordea that would more be an indication of a change in accounting principle going mark-to-market on Nordea. And that's not what we do. We still count it as an associate company and not hope that's an available-for-sale asset.

Q - Per Gronborg {BIO 15910340 <GO>}

How far is you own a stake in Nordea dropped before you couldn't account for it as an associate and longer?

A - Toby van der Meer {BIO 22123757 <GO>}

There is no such exact limits. It used to be more clear before, but there is no such an exact limit. That consideration is based, of course, on the size of the ownership, on the size of the ownership versus other shareholders, our board representation, the fact that Torbjorn is Chairman, et cetera. So there, I can't give you an exact limit, but it's lower than where we are today, obviously.

Q - Per Gronborg {BIO 15910340 <GO>}

Not everything in the world is exact, at least that tells us where we are. And my second question back to what is important the P&C underwriting, if I should make a very rough switch from your 2020 results until and after COVID situation, you have three percentage point and COVID impact that will reverse. If I look at Q2 report weather-related say for -- if I look at a peer like Tryg they are guiding for weather-related being a positive one percentage point better in 2020 than in a normal year. I doubt your numbers are that different. Then you have the large claims that are a couple of percentage points above your normal run rate. Does this imply that after COVID, we should look for a combined ratio or claims ratio that is approximately two percentage points worse than it was last year plus/minus of course the improvements you will do to the business in between?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I think, yes, we have probably discussed this before you and I. And let me give you an indication what I think and then Morten will correct me. But we of course do planning and the factors that you mentioned are two of the more important ones. But also going into this -- these calculations are of course the price increases, the rate increases that we've done during the year and the exact timing of those as well as the weather influence on our results. So it is a little bit more comprehensive and what you have described. Morten, what do you think?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah. I think when we do our calculation, we do reach to quite a fair underlying improvement if it may. Large gains 1.9% higher this year than last year. Runovers felt more or less in line with last year. And COVID is a very rough estimate rounding up to 3% on the full year. And net of those being about 1% on the full year. Weather and events for us it's quite a similar 2020 as 2019. When we look at weather and also event of course in that bearing in mind, the tragic landslide claim in Norway at the very end of the year. So all in all sort of this leaves us with the improvement in the combined ratio of 2020 versus 2019 of somewhere between 1% and 2%. So I think it's a -- the way we see it is a good underlying improvement as a result of general underwriting improvements but also pricing being above inflation now for a time period.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question comes from Derald Goh from Citigroup. Please go ahead. Your line is now open.

Q - Derald Goh {BIO 20775137 <GO>}

Hi, good afternoon. Thanks. Thanks for taking my questions. The first set of questions I have relate to If P&C. So firstly, in terms of the large losses, which I think for the first three quarters and even for the fourth quarter exceeded the budget, our expectations. Are there any specific trends that you've observed would add specific lines of businesses or regions where the large losses have occurred?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Morten?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah. And now no particular trend. Of course, the large claims in the industrial segment, they'll be a bit volatile and you need to go really far back in time to find the deviation, the negative deviation on the level that we had in 2020. So it's typically sort of normal property claims, no specific geography clients that's been with us for a long, long time period, typically. And so we look upon this as being the normal volatility that you will have in the industrial market. So, yeah.

Q - Derald Goh {BIO 20775137 <GO>}

Thanks. And my next question is just on the run-off trends. So it's roughly stable year-on-year. Can you maybe talk about the sources of the run-offs and maybe the outlook for them given that some of your peers have been commenting on in a more -- a more moderated level going forward?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Morten?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah, it will be course, let repeating a little bit what we said before, but the main source of the run-off profits is still is from the motor business in Sweden, which is one of the most long paid businesses in all of Europe actually. And again, the driver is that we've seen over the last 10 years and more benign development on bodily injury claims than what was assumed in their serving model. And we typically, of course, do not try to predict too much about the future. And then, of course, sort of at a certain point in time, sort of these development is leveling out. But of course, we continue to have -- we continue to have strong reserves, and so I guess -- and again, the development has been positive and constant over the last 10 years in when it comes to motor, bodily injury claims payments.

Q - Derald Goh {BIO 20775137 <GO>}

Yeah, thanks. Thanks. And just one more on If P&C, please. Just looking at the underlying trends between the four segments. So it's quite hard to assess from the outside, but could you maybe give some comments on the 2020 performance relative to 2019? So which were the main segments of improvements and what were the main drivers, if you like?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yeah, I think the private business area being the largest one continue to perform really well, it had a great performance in 2019 and continue to have a very strong performance in 2020. The larger positive COVID-19 effect, of course, will be visible in the business at our private result, as the result of the motor business that they have been there. And commercial, so an improvement in combined ratio compared to 2019 and large claims more or less on plan, good pricing momentum throughout 2020. So I think again that represent an improvement in underlying performance for commercial. And industrial, very high combined ratio that can be fully attributed to the large claims outcome. So when you adjust for that, we do have good profitability also in the industrial business area. One could also bear in mind that we reduced the discount rate for Finnish workers' comp or Finnish annuities impacting commercial and industrial to a fair extent in 2020. And that's what we talk about on the third quarter. And then finally, Baltic continue to have a stellar performance, 86.6% combined ratio for 2020 on the same level as they had in 2019. So I think all in all, good profitability throughout all business segments and all geographies.

Q - Derald Goh {BIO 20775137 <GO>}

Thanks so much, Morten. Just one last question on debt leverage please. So what is the main metric that you look at.? And is it dictated by the rating agency? So whether is it IFRS equity? Is it tangible equity? Is it Solvency II? And what might be the ideal level that you want to operate at? Please. Thank you.

A - Morten Thorsrud {BIO 16111627 <GO>}

Could you repeat that? I didn't get the first part of your question, sorry.

Q - Derald Goh {BIO 20775137 <GO>}

Yeah. So just talking about the debt leverage.

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

Yeah. We'll talk -- we'll talk to elaborate a bit more on that at our Capital Markets Day, but obviously rating agencies is one such consideration to have leverage levels, which is in line with rating that we have from S&P and Moody's. And obviously, also to have a have a leverage, which is in line with our balance sheet and our balance sheet as P&C Insurance Group. And I'll talk more about this in two weeks time.

Q - Derald Goh {BIO 20775137 <GO>}

Yeah. I appreciate it. Thank you. Thank you all

Operator

Thank you. Our next question comes from Ashik Musaddi from J.P. Morgan. Please go ahead. Your line is now open

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, hi, thank you and good afternoon, everyone. Just a simple couple of questions. I'm pretty sure this must have been us in past as well. How do we think about leverage in case you were to exit Nordea completely? I mean, what would be the end leverage profile that you would want the company, the insurance company to have? So that would be my first question. The second question is for on Hastings, basically, now clearly as you suggested that there are participants in the market who are suggesting that loyalty will improve post the FCA, FCA promote basically, royalty is going to improve or not, I mean, that's not the way you are thinking about. According to you, there will be more volumes that will come on your way. Now, given that you're -- Hastings is making profit in the current pricing model, how do we think about the volume versus profitability focus of Hastings if FCA review goes through. And lastly is, Hastings never have strong reserve basically like no -- not much buffers are typically there in Hastings backlog. So how would you think about creating buffers in Hastings back book at the moment? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

First one, and leverage, we will discuss Capital Management more in detail in the Capital Markets Day. So welcome to that. And then I had a little bit of trouble hearing exactly what you said. I don't know if you had more, Toby.

A - Toby van der Meer {BIO 22123757 <GO>}

Yes. I think I got the gist. Thank you for the question. So well in terms of the FCA's work, I guess our base case expectation is that other firms are no longer able to make money from renewal pricing. And at the moment that they're often discounting new business prices assuming that will get the money back in the second year, then they will no longer be able to afford to do so. And because of that, you could imagine that new business prices might go up in the future. We'll see whether that happens, but it would be our base case expectation as we sit here today.

I guess, Hastings then because we don't rely on that price walking and we're already are in a position where we can price customers effectively in their first year and make a profit from that. We would like, I guess, then be in a position where we can choose to take as the market prices go up, whether we also increased our prices and therefore increase our margin for new business customers or whether we take it as additional volume. And that is a series of trade-offs that we have models in place for at an aggregate level, but more importantly, we have an individual customer level.

In other words, we would ask the underwriting team in our business to continue to be very disciplined in hitting a target loss ratio and improving that over time.

And then our retail trading team would maintain the algorithms that look at the trade-off between volume and long-term value at an individual customer and segment level. And if there is -- there are parts of the market where we think it's more effective in terms of long-term value creation to put our prices up rather than take it as volume, then we'll do that. If there are other parts of the market where we think there are higher value customers that we should be writing more of that we may choose to take it as volume. But we'll trade in it through the models in the way we always do rather than taking an ivory tower decision by the executive team, we prefer to let the models do the talking.

In terms of the buffer, I guess firstly to say is, we're not explicitly trying to create a buffer. We've just had a very strong reserving position at the end of 2020 and we're happy with that reserving position. No particular objective to increase it further as we sit here today, nor to create any other sort of buffers. So I guess that means that as we improve the loss ratio as we build more customers generate more profits and more free cash, then we should be in a position to release that to shareholders and make it available for dividends.

Q - Ashik Musaddi {BIO 15847584 <GO>}

It's very clear. Thank you.

Operator

Thank you. Our next question comes from Michael Huttner from Berenberg. Please go ahead. Your line is now open.

Q - Michael Huttner {BIO 21454754 <GO>}

I'm saying, one of my question is going to be repeats and one because I didn't understand the answer. So combined ratio for the years 2020 is 82%, it was 3 points of COVID benefits, so adjusting for that 85%. And the large claims were I think 1.9% higher than expected, so we arrived back at 83%, I'm rounding here. And your new guidance is below 85%. And I'm just wondering, normally you improve your guidance every year, but it doesn't feel like you're improving it. And I'm sorry, you kind of discussed it, but I've completely missed it. But I would wonder if you could kind of say if your new guidance and the improvement or you're kind of staying flat this year?

And then the other question is, this is really stupid, when you're going to sound like them. And, but if I look at the banner you have, which is the leading financials group in the Nordic region, what are you going to do when you can no longer use that banner? And I mean if you saw Nordea, or if Tryg completes its price issue and dose all these things, you won't be there. How are you -- what you're going to say to investors when they say, well, should I buy Tryg or Nordea or center was now that -- until now it's been very clear, but it doesn't -- the clarity is no longer there. But there will be a lot.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I think the guidance that we've given earlier -- early in the year, last year, yeah, that was 84% to 87%. So the upper end, 85% rather than 87% at the beginning of the year signifies an improvement. And as far as I can tell after 19 years in If P&C -- with if P&C, we've missed our guidance in one quarter when we had the worst winter in 30 years. Leading Nordic, I'm not sure how we use that. But whatever we have when Tryg -- when and as Tryg has completed its transaction with RSA, we will still be the biggest Nordic insurer if we really want to, to compete on that. But we obviously compete on being the best, the best insurer rather than necessarily the biggest one. But we will remain the biggest one in the Nordic even after -- even if they could cheat code on which is not obvious to me that they will.

Q - Michael Huttner {BIO 21454754 <GO>}

That's very clear. And may I just ask one more, which is really just to the completion on the -- in Mandatum, where did you get? I mean, and this is more a really pointed your question. You added EUR77 million to reserves, but the results were exactly in line with what I'd expect in line in the 4Q reserves. Where did that money come from?

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

The money came from a good result in Mandatum during 2020 and also during the fourth quarter. I will say a really good fourth quarter on the investment side, and it was better than last year risk and expense result. So it basically came from the result. If you would add back that EUR77 million, you would have the results for 2020 pre that additional reserving. So it's a fairly straightforward answer. Maybe I missed.

Q - Michael Huttner {BIO 21454754 <GO>}

No, no, no, there's nothing funny. No, no, I was just wondering if there's been an underlying improvement. Obviously it's investment income. That's lovely. Thank you very much.

Operator

Thank you. Our next question comes from Steven Haywood from HSBC. Please go ahead. Your line is now open.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you very much. I don't know if I'm jumping the gun here, but I believe Hastings tends to give policy targets and loss ratio targets for the year ahead. Can you provide these or would it be coming at the Capital Markets Day?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yeah. Can I first ask your questions to the Capital Markets Day, if I may.

Q - Steven Haywood {BIO 15743259 <GO>}

No problem at all. Sorry about that one. And then I don't know if this is strategy or if this is an M&A related, but obviously with the upcoming deal that Tryg is doing. Do you see potentially some sort of business coming to If P&C or Topdanmark, because of potential dislocations in the market as a consequence of the integration of Codan.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

It will be rather busy for a couple of years with all the synergies that they have promised the market. So out in the line organizations, there is a lot of activity to take business from them, but there is no -- there is no transaction or any interest from us in Codan in Denmark or anything.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, that's clear. And finally, sorry, talking about current restrictions in the Nordic markets, can you sort of give as an update who not based in the Nordic markets and what the restrictions are in the countries and how long they may be expected to occur?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Knut, do you want to try?

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

What -- was it dividend restrictions, was that the question, Steven?

Q - Steven Haywood {BIO 15743259 <GO>}

Yeah, lockdown economic restriction.

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

Yeah, I think I could try to comment that a bit. I think there are still quite strong restrictions in all Nordic countries, which means that every -- some are mostly working from home and which means that there is very limited traveling in the countries and within between the Nordic countries. Of course, a highly uncertain to know how long this is going to last. But the current restrictions, it varies a bit from country-to-country. But I think most countries talk about that. They at least have restrictions into March, and maybe this year, but they don't to be prolonged again. And so I guess it's and an certain situation for our side as it is for most of the countries.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, thank you. Thank you very much.

Operator

Thank you. Our next question comes from Jan Erik from ABG. Please go ahead. Your line is now open.

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

Thank you. I have some couple of questions left. The first one is on the cost ratio, which seems to be ever down every year for us, but it has jumped a little bit in the Q4 numbers, it is so that you have been able to take out some cost in Q4? Or also some cash up effect from the Q3, which was very benign? And if we can start with that.

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

Sure. Yes, as you say, cost ratio is down 30 basis points, which is a bit more than a bit in an average year, I guess, typically we've been around 20 basis points year-on-year. So good underlying cost development in Q4, if a bit off compared to Q4 last year. We're not thrown off. I mean the cost occurs a bit different from year-to-year some of the cost items and then this year in particular, we had a number of cost and sort of smaller, I would just say kind of investments that we'll postpone from Q2 into Q3 and Q4. Of course in Q2 then when the kind of pandemic started sort of -- we put some project at the hold and they were started again then in Q3. So then you see an effect of that in Q4. But I think the important thing is to focus on the full year development of 21.5% compared to 21.8%.

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

Absolutely agree. But then I understand the development between the quarters because it looked a little bit odd. But of course, COVID-19 has been around the whole year or at least since March. Secondly, on the life which one of the other guys could probably touched upon, is it only because you had very strong return that you came with respect to the (inaudible) on the life side? Or is it also what you put up on, anyway so to speak?

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

Could you repeat that? You said that it is --

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

On the life side Mandatum, is there the strengthening in the reserve?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

So, Knut.

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

Is it so that you have -- would have done that anyway?

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

It's not only because we have a strong result, it was a strong result for Mandatum. And Mandatum had strong results also historically so to speak. So there is nothing special in terms of the way we think around making prudent reserve strengthening of Mandatum. They obviously have a interest rate guarantee on a back book, which of course is running off in fast dates. And we want to maintain a buffer to meet those guarantees also going forward from a reported profit perspective. The discount rate reserve of Mandatum with the EUR77 million, we made this year is about unchanged compared to the end of 2019, so to speak. Then having said that, of course, the important factor what -- maybe even more important factor for Mandatum's dividend-paying capacity going forward is their solvency rate, which actually this discount rate reserving has very little to do with nothing really because there -- it's market-based and Solvency II reserves are -- solvency ratio of Mandatum is really strong at the end of the year. And consequently a dividend from Mandatum of EUR200 million is expected. But it is to make sure that we see from a -- also from an accounting perspective allocate the investment return we are generating to the discount rate. We have to be going forward from a reported profit basis.

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

Okay. Perfect. If you would -- as I see you that you have an adjusted EPS of EUR0.65 on your report. If you could give us some details on that later tonight or later this week about how you reach that level that will be great because it's hard to get all of the small and nitty-gritty stuff underlying for an analyst looking through your reports. So that will be great. And I'm looking forward to your CMD. Thanks a lot.

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

Thank you.

Operator

Thank you. Our next question comes from Blair Stewart from Bank of America. Please go ahead. Your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah, thanks very much. Just a couple of follow-ups. Firstly, I wondered if you could give us some insight on the trajectory of the private equity businesses. Obviously, you sold a stake in interim last year. I think Nets just had a merger. What happens post that? So that's the first question.

The second question is a slightly awkward one to phrase, but I guess it's well-known in the market that there's some pressure from investors on you to exit Nordea quickly. As ever the market wants to know when you're going to sell what you're going to do with the money et cetera. Difficult questions for you to answer. So just wonder how is it possible for you to square that circle? What level of disclosures can you give around that? Or will it just be a case of investors being frustrated until such times as the final actions occur? I know you'll probably talk about that more at the Capital Markets Day, but I thought I'd pose the question I guess.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Okay. Thank you, Blair. The trajectory for P/E there's not a lot to say. They will run their course together with our investors. And Nets is obviously doing something interesting, but there is no -- that deal isn't even closed yet. Pressure to exit Nordea, what would you do with the money? Well, the one thing that I can comment already is of course that I think I mentioned earlier, we don't have any M&A agenda apart from possibly, if there is a good opportunity for a bolt-on in the Nordics, but we will not be looking for other investments around the world.

Q - Blair Stewart {BIO 4191309 <GO>}

And I guess just on the -- the Nordea question's more complicated. It's not a simple investment because you do have the Chair at the company. So is that a hindrance to your ability to do anything quickly with Nordea?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

No. That doesn't have anything to do with that. And for the long term, of course, we are looking to allocate more capital to P&C.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Great. Well I look forward to a bit more color around that in a couple of weeks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Absolutely.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

Operator

Thank you. We have a follow-up question from Michael Huttner from Berenberg. Please go ahead. Your line is now open.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. It was a very simple question. The Mandatum so the EUR200 million dividend now. Is that the annual run rate we should expect?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

What do you think Knut?

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

Yes. No Michael. I would call that higher than an annual run rate. It's a reflection also that we canceled the dividend last year and left Mandatum with an improved balance sheet given the uncertainty we had in March 2020. Now the profitability in Mandatum as you also alluded to earlier has been really good for the remainder of the year, which left Mandatum with a very strong solvency base at the end of 2020. And we then felt we could take out a little extra, if you like compared to an annual run rate. I would say an annual run rate from Mandatum is more to the tune of EUR150 million.

Q - Michael Huttner {BIO 21454754 <GO>}

Very clear. Thank you.

Operator

Thank you. And we have a final question from Jan Erik from ABG. Please go ahead. Your line is now open.

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

Thank you. Just one follow-up on the life side. As you said, you would like to invest more money into the non-life industry. Is sort of life in business also one of your exit businesses?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

No, it's not. But then -- and I wouldn't call any of our businesses exit businesses. That's not a good phrase. But on strategy, welcome to our Capital Markets Day.

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

Thank you once again

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And that's probably a good final remark here, Jarmo isn't it?

A - Jarmo Salonen {BIO 1860650 <GO>}

Indeed, indeed. Thank you all for your attention and have a very good evening.