Tryg A/S Acquires Alka Forsikring Conference Call

Company Participants

- Christian Boris Baltzer, Group CFO and Member of Executive Board
- Gianandrea Roberti, IR Officer
- Morten Hubbe, Group CEO, Member of Group Executive Management and CEO of Tryg Forsikring A/S

Other Participants

- AsbjÃ¸rn Nicholas MÃ¸rk, Analyst
- Jan Erik Gjerland, Analyst
- Paul De'Ath, Analyst
- Per GrÃ¸nborg, Research Analyst
- Robert John Rankin, Former Co
- Steven Haywood, Analyst
- Unidentified Participant, Analyst
- Vinit Malhotra, Banca di credito finanziario S.p.A., Research Division

Presentation

Gianandrea Roberti {BIO 6786731 <GO>}

Good morning, everybody. This is Gianandrea Roberti, I'm Head of Investor Relations for Tryg. We're hosting this call this morning to present you the acquisition of Alka. I'll -- a few short words, I'll leave the -- yes, the words to Morten.

Morten Hubbe {BIO 7481116 <GO>}

Thank you. And a good morning from me as well. And particularly thank you for spending the time with us this morning. This is a special day for us with very good news and an important driver in the value creation for Tryg in the future. We start on Slide two announcing this important acquisition for us. And it's quite clear that Alka will strengthen our core Danish private business in a very high-quality customer segment. Alka having delivered average combined ratio of 84% in the last five years on average.

If we look at Alka's technical result during the last 12 months through September this year, it is more than DKK 300 million. And we expect run rate synergies of DKK 300 million in '21, which would be the third full year after authority approval. There's no doubt that there is very large synergy opportunity to improve both businesses. There are areas where Alka is clearly more advanced than Tryg. And vice versa areas where Tryg is more advanced than Alka.

Christian will return to the synergies. But just to give you a few examples. We can see, for instance, that fraud, which was a theme we discussed at the Capital Markets Day, Alka is significantly more advanced than Tryg. And even more advanced than our ambitions for the next three years. It is also clear that on cost of sales, which we discussed at the Capital Markets Day, Alka is significantly ahead of Tryg. Those will drive, amongst others, significant financial impact in Tryg.

On the other hand, it's clear that there are number of areas where Tryg is more advanced. For instance, we showed our advantage of claims procurement driving a lot of value in Tryg. This is not an area that Tryg -- that Alka has developed and an area where we can add significant synergies in the Alka business. Then, of course, we have a number of areas where there are overlapping functions, which will drive synergies. But Christian will get back to that.

We will issue DKK 4 billion of equity, which is already fully underwritten. This will be accretive to earnings in the first full year, which will be 2019. And then we will have high single digits accretion by '21. Also on this slide, we reconfirm our extraordinary dividends of DKK 1 billion expected to be paid in Q1 2018.

Now if we turn to Slide 3, we comment that this is a very rare opportunity to buy a high-quality businesses in our core Danish private market. We show a headline purchase price of DKK 8.2 billion. But bear in mind that, that includes excess capital of DKK 2.5 billion, which can be released in the transaction in Alka. And therefore, the actual price for the operations we're buying is DKK 5.7 billion.

As I mentioned, the business we are acquiring is generating a technical profit of DKK 325 million rolling 12 months. And we intend to deliver merger benefits of DKK 300 million by '21. Financing supported by our largest shareholder, TryghedsGruppen. And of course, we're very pleased that this will drive higher earnings growth. It will also drive higher potential for dividend growth in the future. We show also here a pro forma solvency ratio calculation after the transaction and the capital increase.

On Slide 4, we elaborate on the strategic rationale. We will clearly deepen our presence in Tryg's core market segment. We will grow the market share in Denmark, in general, by 4%. And more importantly, by 6% in the private lines market as this is predominantly a private lines business. We are very importantly investing in what you already know is our most efficient and most important business. And Alka brings very high-quality customers and high-quality business.

We see that over a number of years, the loyalty and satisfaction amongst Alka customers has been extremely high, while at the same time delivering very strong growth and very strong financial results. And through Alka, we'll have -- Tryg will have a long-term business with the unions and the union members. And bear in mind that in Tryg stand-alone, we already have more than 75 years of experience working with unions to build upon.

As part of the transaction, we've entered into contract with the current union customers for five years, which is the legal maximum period. Also important that the union members and all other customers of Alka will become members of TryghedsGruppen. And as a result, they will also in the future receive the membership bonus, which for the past three years have been 8%. And of course, that reinforces our belief that the partnership will create value both for the members. And customers and for Tryg.

As I said, it's quite clear that Tryg can learn in a number of areas from Alka. It's quite clear that in, for instances, online sales. But also the work with data, pricing and a number of technical skills, also including fraud detection, Alka is very, very advanced.

On Slide 5, we have shown our Capital Markets Day targets. And then we have shown an update post this transaction. And importantly, we've shown update of the technical result target for 2020. Previously, DKK 2.8 billion, increased to DKK 3.3 billion, of course, driven by the current earnings ability of Alka. And then, of course, the synergies driven in both Tryg and Alka as a result of the transaction.

Then bear in mind that the full peak of the synergies is not in 2020. But in 2021. You will also see that we have revised of our ROE target back to 21% post-tax. This is, of course, a function of the DKK 4 billion of incremental equity. And of course, while 23% to 21% is a reduction, when you do the math, it's actually a tightening of the financial targets on ROE and that reconfirms our focus to work with our balance sheet and work with capital repatriation. Then finally, please notice that we are improving our combined ratio target from 87% to 86%.

If we turn to Slide 6, there's no doubt that we have always admired the success of Alka business from the outside, particularly their ability to combine strong combined ratio results with growth above market growth level and very high customer satisfaction. The quality of the business is supported by strong relationships with the unions. And given our more than 75 years' experience with unions, we are certain that we can drive that in a strong way forward.

We show that the historical evidence of 84% combined ratio for Alka stand-alone over the past five years indicates a very strong business. And in addition to the financial metrics, it's quite clear that we're attracted to the strengths of the technical capabilities. But also the digital market presence.

We show here, for instance, that in 2017, 36% of Alka sale is online, of course, with a substantially lower cost of sale, while Tryg's Danish proportion of online sale is extremely limited. Then also, we see a very strong Alka brand awareness. And we show that on Slide 7. Now Alka might not be as large as some of the other insurers shown on this graph. As I mentioned, a 4% Danish market share and importantly, a 6% Danish private lines market share. But what you also see from this graph is that the brand awareness is very strong.

Only Tryg is ahead of Alka. And in other words, we are combining brand awareness in Danish insurance #1 and #2, which clearly bodes for strong market positioning in the future. We believe we can further capitalize on the strength of both brands, both to build even higher customer satisfaction, grow the business and deliver strong financial results in the process.

On Slide 8, we show a little bit of the split of the business. There's no doubt that the Alka business is very focused on Danish private nonlife, which is almost 80% of the total top line. And of course, that is highly complementary to Tryg's business.

On Slide 9, we show that over the past 10 years, Alka has consistently outgrown the Danish nonlife market, while delivering very high customer satisfaction and very strong combined ratios in the process. We also show the historical development in market share, which of course, gives us significant conviction regarding the strength of Alka's prospects.

We believe it is realistic to take Alka through also in the future, another stage of significant growth as part of the Tryg family. But of course, very importantly, to continuing to build upon their strong financial result track record. Finally, on Slide 10, before handing over to you, Christian, we show market shares where clearly Alka adds significant presence to our core lines of business. Alka has approximately 6% in private lines Denmark. And here, we show a little bit of the product split where Alka brings 5% to 6% in each of motor insurance, accident and health and fire and property.

And over to you, Christian.

Christian Boris Baltzer {BIO 19705595 <GO>}

Thank you, Morten. And as you can see on Slide 11, Alka have had a long track record of very good combined ratios and they're here compared to Tryg's private business. So very much in line with how Tryg's private business has been performing. There has been a period of elevated runoff in Alka. And during our due diligence, we actually found that we were dealing here with a company that was even more conservative in their reserving practice than Tryg has been. So a very strong due diligence and a very strong balance sheet when looking at the reserves of Alka.

The 2016 numbers that kind of peaks up a little bit is, however, a -- some work that was done on the reserving models giving a peak to the results. But in 2017, we see the results coming back down to historical levels or the combined ratio coming back down.

On Page 12, which is basically our DKK 300 million benefit -- merger benefit. And I think it's important here that we're calling it merger benefit. From our point of view, we can see a lot of things that we can learn from Alka and that Alka can learn from us.

Morten has already mentioned on the claims side. And we see here about 45% of the DKK 300 million is coming from claims. When we at the Capital Market Day showed that we are detecting 1.5% of fraudulent claims, Alka is excess 4% of detection. That's 3percentage point more detection than Tryg is doing. Basically, this is where a lot of the value is going to be driven and where we are going to learn a lot from Alka taking their models and their data analytical models here to improve our business in Tryg's main.

On the procurement side, we can see this is an area that Alka has not been working on for the past as much as Tryg has. And for example, looking at the -- when we showed on the Capital Market Day that we have a 6.6% average better procurement on auto, Alka does not have this. But when we merge together, Alka will benefit from these procurement agreements that we have and thereby giving us better performance in Alka.

On the cost optimization, we basically are talking about double functions. And a lot of these double function will be reduced by natural churn. The other 25% of revenue optimization and commercial best practice, Morten has already mentioned their presence on the -- on online. With a 36% online sales, they have been working with cost of sales over the past many years where Tryg is just getting started. And we have much to learn from Alka here.

Their -- generally, their use of data and analytics is an area that we will benefit and reap a lot of benefits from over the next coming years. However, on the product and services side, we can see that our product offering is much larger than what Tryg is. And there, we can sell more products to the Alka members or the Alka customers.

And lastly, a component that you won't -- wouldn't find in their normal cost ratio. But is a synergy for us, is about 5% of reinsuring and investment synergies where combining the 2 entities are going to give us these benefits. Bear in mind that there is a DKK 250 million transition cost will affect our 2018 numbers.

Turning to the next page, which is the funding page. As Morten has already mentioned, the DKK 8.2 billion consist of a DKK 2.5 billion excess capital in Alka that will be released upon closure. The price paid is then DKK 5.7 billion. And of that, we are raising DKK 4 billion of equity, which has been fully underwritten by TryghedsGruppen at a minimum price of DKK 146 million guaranteed.

Furthermore, to finance this transaction, we have a Tier 1 capital issue that will be done during Q1 '18. And we have a DKK 1.2 billion of Tryg capital used for this transaction. Trying to put on the next page, which is our solvency ratio and pro forma, again, trying to give these moving parts a little bit of a content. We have put a solvency ratio pro forma based on Q3 2017, how would our solvency ratio look if we apply all these numbers. And it ends up at DKK 170 million.

Now bear in mind once -- upon closure, these numbers will differ to the extent that time has passed and we will kind of get the final numbers on all these components.

I think that was on the financial side, Morten. And back to you to summarize.

Morten Hubbe {BIO 7481116 <GO>}

Thank you, Christian. And just lastly, before we turn to Q&A, on the last slide, we summarize that we are extremely pleased with the news today. It is indeed a very rare opportunity to be able to buy a high-quality business in our core Danish private lines area.

The economic value of the operations we're buying, when you take out the excess capital of DKK 2.5 billion, is DKK 5.7 billion. Alka has rolling 12 months now been delivering in 2017 technical result of DKK 325 million. And we expect to deliver DKK 300 million of synergies across Tryg and across Alka in 2021. This will be strongly accretive to our EPS. And it will strengthen our ability to grow our dividends in the future.

We very much look forward to welcoming the management and the employees of Alka, once we have completed and received approval. We very much look forward to welcoming the customers of Alka with strong propositions in the future, including the 8% membership bonus. Then, we'll very much look forward to continuing a Tryg journey of long-term profitable growth and very strong shareholder returns.

And with that, we will turn to your questions.

Questions And Answers

Operator

(Operator Instructions) And the first question is from Per GrÃ¸nborg from SEB.

Q - Per GrÃ¸nborg

A couple of questions from my side. First of all, one clarification. Your gross premium was DKK 2.5 billion, (auto) plunged to DKK 2.1 billion something. Can you elaborate on what the difference is? If it's life, what's the profitability of what is on the life business? That was my first question. My second question is related to the DKK 2.5 billion you are taking out in excess capital from Alka. You leave the company with an equity to premium ratio of only 20%, assuming DKK 2.1 billion and not DKK 2.5 billion. That seems like a quite aggressive giving compared to where you're running your own business, must imply that you could run your own business with almost half the capital it has currently. And my final question on the goodwill, I guess a part of that will end up as client intangibles that needs to be amortized over a period of time. Can you elaborate a bit on how we should expect that accounting treatment to turn up?

A - Christian Boris Baltzer {BIO 19705595 <GO>}

Good morning, Per. The DKK 2.5 billion to DKK 2.1 billion is -- the difference is the group life business there. And the group -- the life business is basically more or less a zero-sum game with a collaboration with the unions. So the DKK 2.1 billion is where you would find us as our nonlife portion of the business. When it comes to the DKK 2.5 billion in capital -- excess capital release and the solvency ratios and the premium ratios that you're talking to, you have to bear in mind that this is a private line business. And when we look at our numbers and look at our private line business, it's very comparable to the ones that we're using for Alka. So you are right, if Tryg was an only private line business, we could be running our solvency at a different level. But since we have workers' comp and other corporate lines that does consume more capital per premium, it -- when you combine those things in Tryg, it is a -- it's a higher solvency ratio. And on the goodwill part, could you just repeat the question, sorry?

Q - Per GrÃ¸nborg

The goodwill arising from this deal, I assume part of that will be classified as client intangibles that needs to be amortized over a period of time? What sort of amortization cost should we expect?

A - Christian Boris Baltzer {BIO 19705595 <GO>}

I think we'll revert to that at a later stage, Per. And give you more details once we have kind of finalized and closed the deal.

Q - Per GrÃ¸nborg

Okay. Can I just add one more in. In your closing remarks, you said that this will be strongly accretive to EPS. In the release, you say that this would give a high single-digit profit growth or is that EPS growth?

A - Morten Hubbe {BIO 7481116 <GO>}

It is EPS growth. So it is within the three years. So we're saying '18 will be sort of transitioning year, we'll get the authority approval, et cetera. '21 will be the year 3 of full collaboration and ownership. Then in '21, we will see a high single-digit EPS accretion.

Operator

And next question is from the line of Steven Haywood from HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

And can I just clarify that last statement quickly, sorry. You say the acquisition is initially earnings enhancing, is that on a EPS basis?

A - Morten Hubbe {BIO 7481116 <GO>}

Yes.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Then...

A - Morten Hubbe {BIO 7481116 <GO>}

Slightly enhancing the first full year and a high single-digit in '21.

Q - Steven Haywood {BIO 15743259 <GO>}

On a per share, that's good. A couple of other questions. The excess capital of DKK 2.5 billion that you removed from Alka, what would that drop the 360% Solvency II ratio to? My first question. Then the reserve -- the buffer on reserves now trigger those -- I think, with a 7% buffer, what does -- what level does Alka reserve at? Then you also -- and finally, you mentioned that you grow -- you're going to grow the dividend in the future. And this deal is supportive of that. Is there any change to your special dividend philosophy going forward?

A - Christian Boris Baltzer {BIO 19705595 <GO>}

Good morning. So the DKK 2.5 billion excess capital, you have to think of this as a combined entity. So we will not post-Alka solvency ratio post this. This is both combined with a cash excess and also the capital synergies that we get from Tryg. That is the total of the DKK 2.7 billion excess capital. When it comes to the reserving buffer, we are not disclosing kind of like Alka's reserving buffer. But as I mentioned, during our due diligence, it was very evident for us that the reserving practice at Alka is at a conservative level and even more conservative than Tryg has been working at. With respect to your last question, which was?

Q - Steven Haywood {BIO 15743259 <GO>}

On the -- any change to the special dividend?

A - Christian Boris Baltzer {BIO 19705595 <GO>}

Thank you. Yes, sorry, I didn't get to write that one up. I think you have to bear in mind the way that we operate with our special dividend, it is at a year-end consideration where we look at our capital position and our financial forecast. And by then, we will decide whether to distribute excess extraordinary dividend. So there is no changes to our practice.

A - Morten Hubbe {BIO 7481116 <GO>}

And I can just complement by saying that over the past 15 years that I've been in Tryg, we've had a number of due diligence exercises. And it's fair to say that I've never previously seen our actuaries being positive about anyone else's reserves. But they were in this case. And of course, that is very positive.

Operator

Our next question is from the line of Paul De'Ath from RBC.

Q - Paul De'Ath

And just a couple of questions, please, more around the kind of the brand and growth aspects of the deal. So you mentioned how strong the Alka brand is relative to its size and are you intending on running the 2 brands in parallel going forwards and how does that work, does that affect anything in terms of the way the businesses are run? Then the second point on that was and you also mentioned you'll confidently continue to grow Alka's business going forward. But does that have any impact on Tryg's business? I mean, where has Alka been growing in the last 5 or six years? Has that been impacting Tryg's market share? And essentially does 2 plus 2 equal 4 or does it equal 3 in terms of sales?

A - Morten Hubbe {BIO 7481116 <GO>}

Thank you. Good morning, to you as well. Yes, on the brand attraction, it is our intention to continue to use both brands. It is our expectation that it will be separate products, separate prices. The unions have special agreements. Those special agreements will continue. There is, of course, a strong link between the high brand awareness and the sales methodology and the cost of sales, because what we're seeing in the Alka business model is that they have reduced the cost of sales significantly. Amongst others, the 36% online sales, which is extremely high in a Danish market context. And of course, the high brand awareness creates a pull impact of customers contacting the company. And as such, there is a very strong value creation in continuing the Alka brand, continuing the products and the pricing and continuing the cooperation with the unions. And that is very much a part of the transaction and the agreement. When it comes to your second question on growth and how that relates to Tryg, we can see that over time, Tryg has lost net some customers to Alka every year. But to be honest, that is not a large number and is not Tryg customers has not been the main source of Alka customers at all. So the overlap or cannibalization, if you will, has been quite small. So generally, Alka has been active in the entire Danish market and not specifically towards Tryg. Then, of course, you should bear in mind that we expect that the 8% membership bonus will gradually grow in awareness in the Danish market. And that, that will over the next 4, five years benefit both Tryg private lines customers, commercial customers, corporate customers. And now and the future, also the Alka customers. And of course, that will strengthen the value proposition of Alka's, which is already attractive in the Danish market.

Operator

Next question is from the line of AsbjÃ¸rn MÃ¸rk from Danske Bank.

Q - AsbjÃ¸rn Nicholas MÃ¸rk

Just 2 questions really. First, on the excess capital, the DKK 2.5 billion. Just to clarify, will that capital be freed up more or less from day 1? Or is that sort of a transitional phase here? The second one relating to your rating. So I guess, your solvency ratio will increase quite a lot the next couple of quarters before the transaction goes through, because you take on the equity. But the 170% solvency pro forma, I guess, that leaves the risk on your ratings. Is that factored into your synergies of DKK 300 million per year? Or what impact you expect from this?

A - Christian Boris Baltzer {BIO 19705595 <GO>}

Good morning, AsbjÃ¸rn. So to the excess capital, yes, it will be once upon closing that we will release this DKK 2.5 billion. So it will come up and be freed up more or less at closing. With respect to the rating, we don't -- we have had a discussion with Moody's and given them all the material needed. We don't expect any significant changes. If we are having any changes, bear in mind that not too long ago, we actually had a notch up from Moody's and it has not really given us an impact on the business overall. So you could argue that it is included in the DKK 300 million synergies. But we expect very low impact for any kind of rating changes.

Operator

And next question is from the line of (Ayes Vandanka) from Danske Bank.

Q - Unidentified Participant

My question has already been answered. So no further questions.

Operator

Okay. So we go to the next question, which is a follow-up from Per GrÃ¸nborg from SEB.

Q - Per GrÃ¸nborg

Yes, I have a few other things. You were addressing the high brand awareness of Alka. It's pretty obvious that Alka has probably had a marketing spend that was way above what Tryg had. Is that part of the synergies taking away that marketing spend? In that case, how much are we talking about? And my second one is, this -- the synergies you will take into account, is that including a head office relocation? That was my 2 additional questions.

A - Morten Hubbe {BIO 7481116 <GO>}

Yes. Thank you, Per. It's nice to see that you're awake twice this morning. No, on the brand awareness, to be serious, we expect -- you're right, Alka has a very high brand spend. They will continue to have a very high brand spend in the future, because we see that -- again, it's a combination of cost of sales and branding spend. I think that once we have had closing of the transaction, of course, we will do some changes to branding spend. But you should expect that we will continue a higher branding spend on Alka, because combined with a very, very low cost of sale and the 36% online sale, the totality of those 2 is extremely attractive. And there's no doubt that we are not planning to just return to a traditional Tryg model where our branding spend is lower. But then our cost of sale is significantly higher. So some adjustment you should expect, Per. And some of that would also flow into the synergies. But you shouldn't expect a revolution on the branding spend. Then on the head office, on the other hand, it's quite clear that Alka's employees in Denmark are positioned in 3 different locations. They are positioned in Taastrup in Copenhagen area and in -- also in Aarhus and Kolding in Jutland. In all 3 of those locations, we expect that there will be a relocation. It will happen expectedly in 2019 on all 3 locations. And of course, that will both do something for the culture and also do something for the cost.

Q - Per GrÃ¸nborg

Okay. Can I add one more question. When I look at the pricing of the products of these 2 companies, I just take up my own house, your price is 35% more expensive than Alka's price. You are buying a mid; to low-end priced company. Your own company is priced totally at the other end of the price range. Now the content of these products will be the same. Don't you feel that there will be a cannibalization that the people will take the cheap Alka product knowing that there's Tryg quality behind where some might have been a bit uncertainty about yesterday?

A - Morten Hubbe {BIO 7481116 <GO>}

I think, first of all, Per, it is completely clear that there is a lot of difference on prices, there's a lot of differences on products and there's a lot of difference on process. There will continue to be a lot of differences on all 3. Alka products will not become Tryg products. We will continue to drive this as 2 separate market positionings. And therefore, you will continue to see the same difference in the future. What you will, of course, add to the equation is a membership bonus, which our 60% shareholder is paying for. And of course, that will strengthen the Alka equation. But there's no doubt and that is one of the reasons why we will continue to have 2 brands and to a large extent, 2 separate parts of the organization with separate focuses. That is also today, if you look at Tryg's current business with the unions, the unions business within Tryg is a separate organization that has other prices and other products and another business model to the broader private lines Tryg Denmark business. And similarly, that will continue for Alka as well. So very separate profile, separate products, separate prices. And therefore, I'm not worried about the challenge you're mentioning.

Operator

And the next question is from the line of Robert Rankin from UBS.

Q - Robert John Rankin {BIO 1883443 <GO>}

Two questions from me. Just on capital. Just want to check that the Slide 14 roll forward supercedes the Capital Markets Day. One, i.e, no more IT investments and then it looks like the partial internal model approval has dropped off? Then the second question, what -- can you tell us what reserve releases we're running up at the nine months for Alka? And a bit color around what the reserve addition was in 2016?

A - Christian Boris Baltzer {BIO 19705595 <GO>}

Good morning, Robert. With respect to the solvency ratio pro forma, I think when we mentioned at the Capital Market Day the work on our internal model, you can see the second bar being internal model for Danish workers' comp is the one that has been approved. Now the continuous work on our model is something that will come in the future. So we haven't taken all the component in. And also, as you mentioned, the IT spend that will come in 2020, this is more a pro forma of what this transaction does to us. Now with respect to your other question, what's -- go ahead, sorry?

Q - Robert John Rankin {BIO 1883443 <GO>}

Okay. So both -- we can still expect both the IT and the continued optimization?

A - Christian Boris Baltzer {BIO 19705595 <GO>}

Yes. That is correct. And your second question was on the run-off levels. The run-off levels for Alka in 2016 was somewhat lower than average. It's been around 8% over this last 5-year period. I think that we expect run-off levels of Alka to go down to levels of Tryg being the 3% to 5% in long term. So that's what been contributing their performance over the last five years.

A - Morten Hubbe {BIO 7481116 <GO>}

It is fair to say that given that the reserving position of Alka is slightly more conservative than Tryg's, we're quite comfortable with that. But we're trying not to be too positive in our outlook on future run-offs. So we've taken a conservative stance. So what you can actually see when you do the math is that we've assumed that run rate combined ratio increases assuming more conservative run-offs. And then we improve it again with the synergies. That is the math we've done.

Operator

And next question is a follow-up from Steven Haywood from HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

The pro forma 170% Solvency II ratio, is this level quite comfortable for you? And looking at your history and you've previously given the Solvency II ratio on the standard formula, could you provide some information here, would it be around the 130% level on the standard formula?

A - Morten Hubbe {BIO 7481116 <GO>}

Well I'll start to kick off, Steven. We're showing the 170%, which we think is fully comfortable given our business model and the transaction we have now done. But you should bear in mind that prior to this transaction, we have given no guidance as to target range of solvency in the future. And we're not starting to give guidance on solvency ranges in the future either. For us, it's quite clear that our important drivers are on the earnings targets, including the targets for return on equity. Then we have our dividend policy and our track record of high capital repatriation. So no further guidance than we're comfortable at the 170% we're showing here.

A - Christian Boris Baltzer {BIO 19705595 <GO>}

And with respect to your second question on the standard formula, I can see that Gian, he'll get back to you on those numbers to give you the details Steven.

A - Morten Hubbe {BIO 7481116 <GO>}

But Steven, just to be clear, we can provide the information on the standard formula. And we will do that. But so you know, we are using a partial internal model. We are not using the standard model for purposes within the group. So just so that's clear.

Operator

And next question is from Jan Erik Gjerland from ABG Sundal Collier.

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

Just wanted to clarify one more question regarding -- most of them were answered. But the accretion of the new -- after the new shares, of course? And finally, there was some noise during the weekend from a lot of stuff in the local press. I just wanted to confirm or hear your thoughts on those noises as you have acquired Alka?

A - Morten Hubbe {BIO 7481116 <GO>}

Good morning, to you as well, Jan Erik. Yes. The EPS accretion is, of course, the net impact of the new shares issued and the change to earnings. So that is completely correct. You're correct that there has been some noise in the local papers during last week and over the weekend. And I guess, it's fair to say that when you change a company from being owned by unions to no longer being owned by the unions, then there's a lot of, of course, getting used to what does that mean and how does that potentially impact the unions. We're quite clear that the offering to the union members until now has been very strong. And the customer satisfaction has been extremely high. The growth and the results have been strong. We're continuing exactly the same membership benefits for the union members. So there's no deterioration on that. Then, of course, our 60% shareholder is adding the 8% membership bonus in addition. So I think once everyone has gotten used to that there has been a change, I think what will be seeing is that the new offering is actually the same or if anything, slightly stronger than the old offering. So I think that will be a positive to the customers and the union members. And there's no doubt that, that has been a very important part of the choice also on the unions when choosing whom to sell this company to that they saw a strong commitment on our side and they saw a strong DNA relationship, our strong experience with unions through 75 years, our giving back to society through our main shareholder and the 8% bonus. So I think that will come down during the coming period.

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

Okay. Just 2 quickly. On the life side and the capital at use, is it so that there's no risk for Tryg's shareholders (and their fish), because this is covered by a sort of 100% combined ratio scheme for the union members? Or is it anything capital at risk for -- on the life side even though it's a very small part of it?

A - Morten Hubbe {BIO 7481116 <GO>}

There is no significant impact on the risk profile of Tryg given the small portfolio of life. It is a very -- currently a very profitable portfolio that where there is a -- as mentioned, a combined ratio of 100 sharing between the unions and Tryg in the future. So no significant change in the risk profile.

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

Okay. And the final, who approached who in this transaction? Is it sort of you were approached by Alka or did you approach them?

A - Morten Hubbe {BIO 7481116 <GO>}

I think what you can read from the press -- of course, we are well informed of our own process. But what you can read from the press is that it was an initiative taken by the company and the seller. And therefore, they approached us.

Operator

And the next question is from the line of Vinit Malhotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Probably, just one question I had was, a few years ago, when there was a lot of pricing competition from the likes of Alka, I don't think you were that complementary about their reserving and pricing practices. So I just wanted to understand why your view is different today, have they changed some things? Then, just one follow-up is that, what was the motivation for Alka to seek a buyer -- I mean, if everything was going so strongly, what could drive them for solvency those were not very neatly derived?

A - Christian Boris Baltzer {BIO 19705595 <GO>}

Good morning, Vinit. You always have a good memory of what has happened in the past. I think that when you look outside and in the company, you kind of -- and you see them performing, as Morten mentioned, with strong combined ratio and strong growth, you kind of get -- trying to find out what is actually driving this. But during our due diligence, we have found that it's a strong focus on pricing, it's a strong focus on just performing on -- with the portfolio constantly, which basically is giving them the ability to keep their -- maintain their low prices and maintain them at high profitability. So once we've been under the hood and see the engine is actually a well-oiled engine that we are absorbing into Tryg, which we are really looking forward to learn a lot from.

A - Morten Hubbe {BIO 7481116 <GO>}

I'll just complement what Christian said, I think it's fair to say, Vinit, that from the outside, a strong competitor with low pricing is not a -- of course, that is challenging for everyone. So we have mentioned that in the past. I'm quite sure we have never mentioned anything about Alka's reserves. So I think that is your interpretation, not something we've ever said. Then when it comes to the motive of the unions, it's quite clear that it is very important for the unions to have strong value creation for their members. So they get offers and propositions that are unique to their members and that is an advantage to the members. Therefore, it has been very important for the unions in the negotiations to secure that, that will continue in the future and even be strengthened further with a membership bonus. But what has also been clear as to the motive is that there's really no reason why the unions would have to own the company to have those advantages. And it is a very, very significant value concentration for the unions to have so high asset value in one specific company. And that has been the main motivation.

Operator

And there are currently no further questions registered. So I'll hand the call back to the speakers. Please go ahead.

A - Gianandrea Roberti {BIO 6786731 <GO>}

Well this is Gianandrea, again, closing the conference call. Thank you very much. It's been a hectic morning. And I guess, we woke you up more or less. But Peter and I are around to take all your questions. And we'll be in Copenhagen and London in the next few days. Thanks, again.