Q2 2020 Earnings Call

FINAL

Company Participants

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

Other Participants

- Blair Stewart, Analyst
- Jan Erik Gjerland, Analyst
- Jon Denham, Analyst
- Michael Huttner, Analyst
- Per Gronborg, Analyst
- Steven Haywood, Analyst
- Unidentified Participant
- Youdish Chicooree, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen, welcome to this call on Sampo's Second Quarter 2020 Results, and on the bid on Hastings that we have disclosed this morning. I am Jarmo Salonen, Head of Investor Relations at Sampo, and I have with me at this call, our Group CEO and President, Torbjorn Magnusson; Group CFO, Knut Arne Alsaker; Chief of Strategy, Ricard Wennerklint; and CEO of If, Morten Thorsrud.

We will start with Torbjorn's presentation and then open up for your questions.

Let me remind you that you can follow this on sampo.com/result. There you can actually see Torbjorn's slides as well and a recorded version will later be available at that same address.

That's all from me now. I'll hand over to Torbjorn. Torbjorn, please.

Torbjorn Magnusson {BIO 1863476 <GO>}

Thanks, Jarmo; and welcome, everyone. Sampo has performed well during the COVID-19 period and all our businesses have been able to run smoothly and remotely continuing to develop and produce good results. This is not least true for the biggest part of our group, If P&C, but I also think so for our associated bank, Nordea, which recommitted to the 2022 targets in their Q2 report.

Overshadowing this today is our offer together with the South African company RMI for the UK motor insurer Hastings Group. So I will spend my introductory words on this only.

Hastings Group as you will know is a leading P&C insurer in the digital distribution part of the UK retail market. The company is focused on and optimized for this segment and has been developing well over the past decade. This segment has in itself for a number of years been a growing one and Hastings has operated there with an average combined ratio of 91.5% over the past five years since the IPO and the average growth in number of policies over the same period has been 9% and the company has at the same time also made substantial investments in modern technology.

The offer is made in partnership with the now largest shareholder Rand Merchant Investment, RMI, a South African financial services investment company, holding almost 30% of the shares. We have spent a lot of time together with RMI. And so, our similar views on how to create value in non-life insurance, on governance and on our underwriting amongst other things.

If the bid is accepted, we are to own 70% of the company and RMI 30%. We also both believe that Hastings can develop more rapidly in a non-public setting. The execution risk for us is limited by this fact that we're acting together with the largest existing shareholders and it is further minimized as we do not expect operational integration and that the Hastings management team is motivated and really strong one.

Sampo is an insurance company and we have for some time viewed non-life insurance with strong underwriting skills as a business model that is quite resilient to the low risk, low interest rate environment, or even to changing interest rates. Allocating more capital to this line is also based on our team's wealth of general insurance experience and our assessment of the Hastings opportunity is an unusually positive one.

The valuation of Hastings will be an attractive one just by meeting the company's own loss ratio target. The offer price is GBP2.50 per share, which is a premium of 37% to the three-month average until Wednesday last week and 35% if you instead make that date July 9, the day before one of the biggest owners sold down. This corresponds to roughly EUR1.3 billion for our part and the offer is unanimously recommended by the Hastings Board of Directors.

This is a sizable acquisition for Sampo. However, relative to Sampo's total size, the EUR1.3 billion only constitute some 7% to 8% of our present market cap. Transaction is to be financed partly by internal cash and partly by hybrid Tier 2 capital and we expect the solvency ratio to stay robust at 175%, no change to the dividend policy is necessary and, of course, in longer term we expect the deal to contribute to Sampo's dividend capacity.

I have already talked about the rationale for this a bit. The knowledge and technology fit between Hastings and Sampo is an unusually good one with similar cultures and possibilities for learning and usage of each other's capabilities. They are pure non-players -- pure play non-life insurer in a growing segment of the large Western European market with leading digital and data analytics capabilities and we are able to do this with very limited risk.

Financially, to the right hand side of this slide, we expect some small savings from withdrawing the listing. We expect our focus on underwriting to support strong loss ratio development and we will explore possibilities to keep more of the insurance premiums in Hastings for own account. We expect the deal to be EPS accretive from the first year and return on equity invested is to be very attractive, given our expected funding costs and the expected trajectory of Hastings earnings.

Hastings business model is, as already mentioned, a motor-focused UK insurer, where data driven risk selection and modern technology are competitive advantages. The digital distribution part of the UK market is still growing and Hastings has not yet, to any significant degree, grown in home insurance. These are opportunities that remain to explore for this company.

Maybe, one more and final slide. This slide shows Hastings growth and combined ratio since the IPO in 2015. A slide that I think substantiates my comment at the beginning of this introduction about the performance over time for this company.

And, with that, I think we should open for questions, Jarmo.

Jarmo Salonen {BIO 1860650 <GO>}

Thank you, Torbjorn. And, operator, we are now ready for the questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Youdish Chicooree, from Autonomous Research. The floor is now to you.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Hi, everyone. I've got three questions, if I may, please. Just the first -- the two question is really on strategy and you tend to have a strong market position in all markets you operate, depends your market share is like 18% or above. So should we assume ambition in UK P&C is to become a top player. That's my first question.

Secondly, your geographic expansion in the year into the UK marketis quite a surprise to many of us. So I was just wondering, which of the market and countries of interest to you?

And then, finally, I just wanted to check something. In terms of the solvency impact of this transaction, is it right that this transaction is costing you 32 points of solvency capital? These are my questions. Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I'm sorry, would you mind repeating the first question? I don't think any of us could hear it here.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. Sorry. So I was talking about in terms of your ambition in the UK P&C market, because you tend to have strong market positions in all the markets you operate, your share is usually 18% or above. So are you planning to become like a top three player in the UK?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

All right. I'll give some thoughts on the first questions and maybe Knut can talk about the impacts. Sampo's current strategy suddenly includes allocating more resources to P&C insurance, the field where we have the most expertise in the management team and where we have the most experience in the company. We have talked for some time about the possibilities to expand into other geographies and the UK is of course a large market, where we have pure play P&C insurers. It's a digitally savvy market. It's a market where -- if you look at separate segments, like the digital -- distributed segment, you have peers to Hastings, Hastings itself and peers that have been successful. And furthermore, of course, the UK is a market which is culturally and language wise easier for us to relate to. So that was the high level version of why the UK was of interest to us. And then, of course, in some of the slides, described the strengths of Hastings in this market and how and the fit with ourselves, where the market possibilities that they have, the best-in-class abilities in data analytics, digital and the low execution risk that this opportunity holds for us.

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

Could you repeat your question on the solvency impact as well? I didn't --

Q - Youdish Chicooree {BIO 17430923 <GO>}

Yeah. How much is it costing you in terms of solvency capital? I know you've disclosed the pro forma ratio, but that is of the -- you raised an extra EUR1 billion of debt and it seems that this transaction is costing you roughly 32 points of solvency capital?

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

If you take -- what we've said is post the Tier 2 transaction of EUR1 billion, the pro forma Solvency ratio would be approximately 175%. If you take EUR1 billion Tier 2 of additional owned funds and apply it to our Q2 SCR of just above EUR5 billion, that would be around 20 percentage points, meaning that Tier 2 transaction of EUR1 billion would add approximately 20 percentage points to our solvency ratio as of Q2.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay, fine. I think, I will take that offline with you, because I probably need to clarify some more detail.

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

Could you repeat?

Q - Youdish Chicooree {BIO 17430923 <GO>}

Sorry. Sorry. I think, I will take that offline. So, thank you very much for your answers.

Operator

Thank you. Our next question comes from Michael Huttner at Berenberg. The floor is now open to you.

Q - Michael Huttner {BIO 1556863 <GO>}

Yeah. Can you hear me?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

So far so good. Carry on.

Q - Michael Huttner {BIO 1556863 <GO>}

Yeah, so far so good. That's pretty good. I hope you won't be disappointed by the question. Well done to the audacity of your move, I may describe it like that. And three questions. I think relating pretty much to the prelim -- previous question and kind of how much do you want -- do you think Hastings can grow, will grow? Because I mean, as you said, relative to Sampo, it's actually quite a small business. And it seems -- to me it seems strange, given that you're a big player in a small market, suddenly you're becoming a small player in the big market. So that -- how big do you want to become in the UK?

And the second question is, I think in the -- also the -- kind of background, there is an option for RMI to go from 30%, which was their share of the initial transaction to 40% and I just wondered if -- why is that there. It seems weird that if you want to control and own Hastings to kind of -- and maybe the last question would be on synergies and maybe you can talk a little bit more about cultural synergies in terms of exchange of data, whether is it more your intent to profit from Hastings or they can profit from you. I wasn't -- I'm not sure and also on the reinsurance side? Thank you. And well done, it's nice to see deals.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Thanks for those kind words. How much can Hastings grow? Well, that's a question that even -- we don't even answer for our present in non-life insurance holdings. But we certainly see upside from realizing the management plans that are there.

A small player in a big market. Well, in a way, but Hastings number six in the overall UK metro market. But as I tried to point out in my introduction, they operate in a sub-segment of this, the digitally distributed part and as any part of any group we will attempt to be successful and grow.

On RMI, we have tried to formulate a long-term partnership with an agreement that contains the -- a compromise of the objectives of both parties and we are very happy with the fact that they wish to do this together with us and the conversations that we've had as -- again as I pointed out, it's been very easy and very enjoyable to discuss value creation in a P&C setting with them. Reinsurance obviously this company cedes a very large proportion of its premiums in -- to reinsurers, something we need to explore whether that is a potential synergy that we can change.

A - Morten Thorsrud {BIO 16111627 <GO>}

And then Morten here. I'd like to also add on the synergy part. I think today in the P&C insurance industry, it's more important about synergies of skills and technology insight than synergies of scale. And obviously Hastings and If has a lot of skills and technology insight that we can share within the areas such as underwriting expertise, data and analytics, digital distribution, claims handling and so forth.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you. The next --

Operator

Thank you. Our next question comes from Blair Stewart, Bank of America. The floor is now open to you.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. And I hope you can hear me okay. I've got three questions. Torbjorn, I thought it was interesting that you described the results is overshadowed by the Hastings deal as an interesting disruption and the share price reaction with over the last few weeks would tend to corroborate that. Any how, that wasn't the question.

Firstly, do you think that your presence in the UK market can change the fundamentals in the way that you did in the Scandinavian markets in terms of having a more concentrated share of the market within the hands of rational players? And just from a growth perspective, roughly through the price comparison websites price is absolutely key which might be slightly different from the Scandi market, but you tell me, is there any other way to compete other than price?

Secondly, you described Sampo as an insurance company, you could also describe it as a financial holding company, because you do have private equity stakes and a significant stake in a bank. And I wonder I should reflect on the relatively poor performance of the shares over the last few years. Is that something that you look to address and actually the common insurance company and wholly focused Insurance company.

And, thirdly, a question on leverage, the leverage goes up to 33% under your measure, is that a number you're comfortable with or is -- should there be or will there be a plan to reduce leverage in the coming years? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yeah, you're right. Maybe I should have talked more about its record breaking combined ratio actually be quite good performance of all parts of the group, but I decided to do this way. Change the fundamentals of the UK insurance market, that is not part of this story. It would be lovely, wouldn't it? And then the reflection on what we are, well, we -- the biggest part of the group is non-life insurance and now we're taking one more step -- trying to take one more step in that direction and that is what's happening today. I think I've commented maybe enough on that in over the past six months. Knut, the leverage?

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

Yes. You're right. We've recognized that leverage ratio will be a little higher than our historical average, although below 33%, which should point out both S&P and Moody's have confirmed our credit ratings, where leverage is the key aspect of the evaluation. And they are comfortable with our current rating and we are also comfortable with our pro forma leverage ratio. However, we have no plans at all to raise more debt going forward, which means that over time, it would be more natural to see that leverage ratio go down from the pro forma Q2 level.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you. Can I come back on just the first question and ask them well enough. But on the UK insurance market, do you think you can achieve what you're looking to achieve through only wanting Hastings or would you -- I think coming back to the very first question on this call, you're accustomed to operating with higher market shares, which you don't really have in the UK as yet. I just wonder Hastings is enough to fulfill your ambition? And coming back to the structure of the group, is there a desire from the board to simplify the structure of the group in the future.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Our ambition is to be successful with Hastings in their development going forward. And, as I said, we believe that there is an upside from realizing their existing plans. Our ambition is not to change the UK market from this move. So what we are looking at here is limited to the offer for Hastings together with RMI.

You mentioned quite rightly that price is fundamental to the choice of insurer in the UK market and there is a lot of focus on that. However, I don't think there's any market in the world where price is not the most important or one of the most important parameters for the choice of your insurer. But it has -- it is very pronounced in the UK market and maybe there are things -- markets are different, maybe there are things that we will take with us from the UK market and more insights there -- from there and maybe there are work -- there is work that we can do on, for instance, retention levels from the Nordic markets to bring there, that remains to be seen when we start the work.

On the structure of the group, let me maybe add one comment to your original question, the PE state, as you call them, we don't see them as strategic, that's part of the investments in the holding company, but that is not the strategy that we are following anywhere.

Q - Blair Stewart {BIO 4191309 <GO>}

Is there a desire to simplify the group, Torbjorn?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I wouldn't express myself that way. We have a strategy currently to allocate more capital to non-life insurance. We are trying to do that with a software that we're discussing today and that is a good step in that direction. The PE states, we have talked a lot about in the past and we will, of course, try to make them succeed, but that is not part of the strategy. It's because of the fact that they are in the holding company, that they have been so much in focus, nothing else and, well, there we are.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question comes from (inaudible). The floor is now open to you.

Q - Unidentified Participant

Thanks for taking my question. Hopefully, you can hear me fine. I have a question regarding the net interest bearing debt on your supplementary information page 26. So we are basically seeing a declining trend in the interest bearing assets and particularly in the liquidity buffer plus fixed income line and at present on the subordinated loans that remain stable for roughly four quarters and of course roughly start to decline for the last four quarters. So the result of that is that, the net debt is in a somewhat steady incline actually. So I'm asking you a little bit, you have to be concerned of the growing net debt, somewhat growing net debt, while at the same the gross debt is in a steady decline, especially when you consider the upcoming Hastings acquisition that you have.

And the second question, could you elaborate a little bit on that? And what are the main drivers concerning the growing amount of net debt in Sampo's capital position? Thank you.

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

As I mentioned, we are comfortable with the pro forma leverage ratio. That will be below 33%, so are the rating agencies. We neither see any problem at all to service our debt, our -- sort of debt service ratios in terms of our income and liquidity to the holding company, where the majority of our debt is very strong, and that's also recognized by the rating agencies in one of their many measures, when evaluating the credit profile and financial strength and financial flexibility of the group.

Q - Unidentified Participant

All right. Thank you very much.

Operator

Thank you. Our next question comes from Michael Huttner, Berenberg. The floor is now open to you.

Q - Michael Huttner {BIO 1556863 <GO>}

Sorry about that. But, well, sorry. Thank you for the opportunity of asking an extra question. So I had three. One is, if you've been focused on Hastings, what is the risk that you might take your eye off the ball a little bit in the Nordic markets. And here, what I'm thinking is no competitor is going to -- they are all going to be thinking of how can we boost our own digital, et cetera, while maybe focusing on what Hastings is doing.

And the second question is, you kind of alluded to it, but is that -- can you set -- if we were to assume that the debt rolls off according to the maturities that you have, when would we get to below 30%?

And then the final question is, maybe since you are just very proud of the results of this and you improved the guidance to I think 80% to 85%, so -- by two points on the low-end, maybe you can talk a little bit -- you can help me and explain what's changed so much that you've changed the guidance by two points, which is a huge amount? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

So I'll take the first one and then our eyes off the ball in the Nordic market, that will not happen. We fully understand that the success of Sampo is to a large degree dominated by the combined ratio on Nordic P&C operations. But also over time, we have had the situation for many years. We have fostered a large group of really strong insurance professionals and we have the traditional as you have may have seen today way of incentivizing this group of individuals and professionals, which I think make sure that there is no way that we are going to lose the ball in the Nordic P&C market.

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

Then on the leverage, the maturity profile of the debt in the group is well spread out over the next 10 years or so with the debt that we currently have on the balance sheet. And that also means that there are long-dated debt maturing '28, '29, '30. We also have a possibility to -- if we want to when we come to that point to reduce leverage ratios somewhat when we have maturing -- some maturing issues that matures over the next couple of years.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And then maybe if Mr. Thorsrud could answer the --

A - Morten Thorsrud {BIO 16111627 <GO>}

We will do that on the guidance. Yeah, we are guiding 80% to 85% on the combined ratio for the full year. And of course that's reflecting that we are reporting 82.1% for the first six months and that we have a very strong 80.5% combined ratio in the second quarter stand alone. Profitability for the first six months is driven both by improved sort of underlying performance and also driven by some positive kind of one-off effects from the ongoing COVID-19 situation. So of course we bear that in mind when giving the forecast that we have a very strong first six months. Then we have a 3% range, which is a bit higher than what we normally have at this time of the year kind of bearing in mind that there is still some quite a bit of uncertainty in the current market. And so that's the explanation on the guidance.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much. Thank you.

Operator

Thank you. Our next question comes from Per Gronborg, SEB. The floor is now open to you.

Q - Per Gronborg {BIO 15910340 <GO>}

Yes, thank you. It's Per from SEB. What just works -- one single question from me. Hastings and you are addressing synergy of being the in-sourcing of the current quite extensive use of reinsurance. When I look at your balance sheet, it's probably no problem. If I look at RMI, they are not really putting new money on the table in connection with this deal. Have you an agreement with them that they are able and willing to support a potential higher solvency requirement after you have stopped the quite extensive use of reinsurance at Hastings. Can you say anything about that at this stage?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

No, I said we were going to explore the -- this possibility together with Hastings if we -- if the bid becomes reality.

Q - Per Gronborg {BIO 15910340 <GO>}

Okay. We will see what happens.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yeah.

Q - Per Gronborg {BIO 15910340 <GO>}

Thank you.

Operator

Our next question comes from Jan Erik Gjerland, ABG. The floor is now open to you.

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

Good morning. Could you elaborate a little bit of how you see this accretive on your EPS, both short and long term versus the debt you're issuing. So we just can understand how well accretive it is and if it's just marginally the first year and then more softer, so if you can give us some more insight to that? That's my first question.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

You're going to do that, Knut.

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

Yes, it's EPS accretive for the first year and that's also when stating that with sort of mid single-digit accretion. It's also taking into account the funding costs, and then the funding cost is -- will of course be more or less fixed over the period of the Tier 2 bond and then we can -- you can speculate in the development of the Hastings' earnings during that period.

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

Okay. Thank you. On the -- on your other investments that you have just touched upon, your are getting more into the non-life sector. How should we read you then in both the bank and Nordea and all of the other smaller investments you have holdings in the holding company as sort of an associate as you will say, so we shouldn't expect more to be moving out of those long term rather than keeping them and tried to make as much money out of them of possible, is that what you are -- really you're thinking over such a 10, 15 years horizon here?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

That was an interesting phrase, Nordea and all the other small investments. We will support the small investments in holding and try to make as much on as we can. They have developed well as a group investment and we do not intend to double the number of those investments going forward or anything like that, that is not the strategy.

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

Okay. So more on the seller side than on buying more. Just on the If side, the premium growth has sort of abated from a very strong numbers in the first quarter, is that due to the GDP changes, which you have highlighted there, Morten, or is it just that it was really too high at the start of the year and then more sort of coming out to a normal level now in the first and the second quarter?

A - Morten Thorsrud {BIO 16111627 <GO>}

We have seen quite clear, sort of, negative effects from the lowered activity level, sort of, in the Nordic society. First and foremost, sort of, the record low new car sales is giving us quite a big impact. We have strong presence within the new car sales, sort of, part of the business in all Nordic markets.

In Q2, I think the new car sales on the Nordic level was down 33%. So, obviously, that, sort of, impact growth in second quarter, in particularly in business area private, that is kind of the business area responsible for that.

In addition to that, we've seen some kind of effects from some companies reducing turnover, reducing number of employees, taking cars, buses out of traffic, also giving then a bit of a headwind on the growth in the second quarter. The first quarter was very strong with more than 7% growth, then the second quarter was clearly, sort of, below what we would expect, sort of, more as a normal growth rate due to then the, sort of, these effects.

And then, of course, high uncertainty on how this will develop going forward. But I do see that the new car sales is starting to stabilize somewhat in the Nordic countries. Just looked at the statistics from Norway this morning sales in July was minus 3% in terms of new cars in Norway. So a bit of a, sort of, COVID-19 effect if you like, sort of, on the growth in the second quarter.

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

Okay, perfect. And so Finally on the combined ratio. You touched upon the COVID-19 sort of gains if you factor that having effects in the combined ratio. Has there been any other kinds of effects that you can isolate, which has not been COVID-19 effect that throw the combined ratio down to 80.5% for the quarter?

A - Morten Thorsrud {BIO 16111627 <GO>}

Now, we've been commenting on that. We've seen reduced motor frequencies. Down there we of course continue to see increase in travel claims. However, on the travel part, we have a reinsurance protection, so the net-net of this we have said is roughly 4% positive impact on the Q2 combined ratio standalone. And then, of course, you also see that the cost ratio is low. Of course, we are benefiting from the fact that we are, for instance, not traveling these days. So (multiple speakers)

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Claims oriented, Morten, but, of course, we are also benefiting from the rate increases from -- for the past few years.

A - Morten Thorsrud {BIO 16111627 <GO>}

That's, of course, improving down the line.

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

Of course. Okay. Thanks a lot for your time. Good luck with Hastings.

A - Morten Thorsrud {BIO 16111627 <GO>}

Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Thank you.

Operator

Our next question comes from Steven Haywood, HSBC. The floor is now open to you.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you very much. And on -- one question just related to Topdanmark. What's your view on the company now? Has it changed? Does it appear too expensive currently to acquire and reality is why Hastings not Topdanmark currently? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yeah. Topdanmark develops well, that's the first starting point, maybe. And we haven't changed our view on the company. It's not cheap for us to acquire and in comparing Hastings with acquiring the rest of Topdanmark, the price that we expect to have to pay for that. Hastings is a more attractive proposition to us.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Very helpful. Thanks.

Operator

Our next question comes from Blair Stewart, Bank of America. The floor is now open to you.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Just wanted to come back on the financials of the Hastings still. I think the return on invested capital was maybe 6%, so it's almost impossible not to get EPS accretion when your debt funding. So given the multiples you've paid, clearly the financials are not as attractive as buying your own shares, so this is obviously a strategic transaction, which you've not -- which you've talked about clearly. And just from a strategic perspective, what can you share with us at this stage and it might be too early, what can you share with us in terms of what Hastings management plan is or what your plan is to improve the underwriting and growth profile of the company? The expense ratio looks low, the balance sheet is very efficient, what can you do particularly on the underwriting side, perhaps we can see in a stated financials?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

You are maybe unfortunately right that there is a limit to what we can discuss at this stage. But you could hypothetically say that maybe the buy back shares wouldn't be necessarily that, let's say, hypothetically, the same order of magnitude of return as the EPS from Hastings. However, there is a difference for the longer-term, of course, in the way that we can develop and work with Hastings compared to the buy backs. So, short term, yes, sure we can hypothesize that it is similar, but long term the Hastings proposition again looks much more attractive.

Q - Blair Stewart {BIO 4191309 <GO>}

I'm assuming we will get to look inside your strategic box as and when you're able to open it and show us it?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes, absolutely.

Q - Blair Stewart {BIO 4191309 <GO>}

That'd be nice.

Operator

Our next question comes from Michael Hunter, Berenberg. The floor is now open to you.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. This is my last question. And I noticed from the slides and you alluded to it that the S&P capital adequacy of If has improved markedly, so it was the EUR200 million less than S&P wanted in Q1 or designed or whatever, and it's EUR200 million above in Q2, can you explain -- can you maybe say where -- how -- where that swing came from? Thank you.

A - Morten Thorsrud {BIO 16111627 <GO>}

Again, Michael, obviously the main driver for the improvement in S&P standalone capital model for If is the really good result that we've had in the second quarter, both on the underwriting side and obviously bounce back in terms of investment returns from the meager Q1. So the main driver is simply the net profit in the If Group in the second quarter.

Q - Michael Huttner {BIO 1556863 <GO>}

Good. Thank you.

Operator

(Operator Instructions) Our next question comes from Jon Denham, Morgan Stanley. The floor is now open to you.

Q - Jon Denham {BIO 19972914 <GO>}

Thanks, and just one for me. Policy count growth at Hastings has slowed pretty dramatically over time. I was just wondering what makes you confident that Hastings can grow at a rate not possible for you in the Nordics, whilst maintaining an attractive loss ratio? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I didn't catch the question, I'm sorry.

Q - Jon Denham {BIO 19972914 <GO>}

I was just saying policy count growth at Hastings has slowed dramatically over time. So I guess it has fallen from almost 25% in 2013 to just about 5% now. I'm just wondering what makes you confident that Hastings can grow at a rate that's not possible for you in the Nordics, whilst maintaining attractive loss ratio?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I think I've described the positive view that we have on the company. And then 2019 was for various reasons, especially a challenging year for the company as can be seen from the numbers -- the figures, so maybe looking at their first six months gives more of an indication of the continuation from '20, let's say, '17 and '18 than the 2020 and '19 numbers. But by and large, I described our view of -- on the company, they are special or the segment that they are operating in, that is still increasing with the price comparison website proportion of the UK motor market, the way that they have been able to do this over quite a long time with the low combined ratio that they have and their capabilities in the modern world technology data, data driven analysis, et cetera. So that is -- we've done our homework. This we have really -- we worked hard at understanding this company and we have followed it for quite a period.

Q - Jon Denham {BIO 19972914 <GO>}

Okay.

Operator

Thank you. There appears to be no further questions, so I'll hand back to the speakers for any further remarks.

A - Jarmo Salonen {BIO 1860650 <GO>}

Thank you, operator, and thank you all for your attention.