Q3 2011 Earnings Call

Company Participants

- Jarmo Salonen, Head
- Kari Stadigh, Group CEO, President
- Peter Johansson, Group CFO
- Torbjorn Magnusson, Head

Other Participants

- Adrienne Lim, Analyst
- Blair Stewart, Analyst
- Claus Hojmark Jensen, Analyst
- Duncan Russell, Analyst
- Gianandrea Roberti, Analyst
- Giulia Raffo, Analyst
- Hakon Reistad Fure, Analyst
- Hans Pluijgers, Analyst
- James Shuck, Analyst
- Matti Ahokas, Analyst
- Per Groenborg, Analyst
- Spencer Horgan, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst

Presentation

Jarmo Salonen {BIO 1860650 <GO>}

Ladies and gentlemen. welcome to this conference call on Sampo Group's Third Quarter 2011 results. I am Jarmo Salonen, Head of Investor Relations and Group Communications. With me here in the studio I have Kari Stadigh, our Group CEO and President, Torbjorn Magnusson, CEO for If P&C, and Peter Johansson, Group CFO.

We'll start with a few words from Kari on the Q3 developments, but before handing over to Kari, let me remind you all that you can follow this call at sampo.com/result and a recorded version of the call will later be available at the same address. And that's all from me now. Now, Kari, please?

Kari Stadigh {BIO 1504152 <GO>}

Welcome to the conference call, on my behalf, as well. As you all know, we run a very disciplined operation with stable and transparent underlying core businesses. This is, of course, exceptionally valuable in the turbulent times we now experience. Year-on-year, our operating results decreased 6% to EUR906 million as a result of impairment. So EUR189 million on our equity investments in the insurance companies. Excluding impairments, this is a stable outcome.

Our non-life businesses demonstrated the power of scale and diversification. National markets and various product segments behaved differently, offsetting each other. The combined ratio for the total non-life operation was at a stable 92.6% for the first nine months, even if the underlying combined ratio differed a lot between the Nordic countries.

Our associate Nordea contributed EUR373 million to our Group results in the first nine months. This is in line with the figures from the previous year. For the quarter, Nordea's contribution was down to EUR80 million, burdened especially by the effect of a non-recurring restructuring cost provision.

In the present turbulence, Nordea stands out as primus inter pares. Determined management action on restructuring and measures to meet tighter regulatory environment, best customer service, strongest rating in the region, and above all, a very good set of numbers on the core perimeters, makes us, as owners, very confident on the future prospects of Nordea.

In life insurance, the volume developed seasonally in line with the first part of the year, however clearly below the previous year. Mandatum Life is well positioned to gain, if and when the climate for wealth management services turn again more positive. Operating profit for the first nine months is up 7% compared to last year. The mark-to-market result is naturally clearly negative. Mandatum Life solvency is, however, at a very good level of 18.9%.

On the investment side, the quarter was very volatile indeed. In the spring, we were net sellers of equities and sold off more than EUR550 million of equities. During the summer and early autumn, we have been cautiously buying and have, as of today, almost bought back the amount we sold earlier in the year. If new lows are seen, we have a possibility for further modest increase in our equity weight. At the end of the Third Quarter, our equity weight in If was 9.3% and in Mandatum Life, just below 26%.

Going forward, we expect the P&C business to deliver a healthy combined ratio between 92% to 94% for the year. Nordea's contribution to our results should improve as their new normal plan is being executed. The results from the life operation is naturally very dependent on the investment market.

Jarmo Salonen {BIO 1860650 <GO>}

Thank you, Kari. And operator, we are now ready for question.

Questions And Answers

Operator

(Operator Instructions) The first question comes from the line of Claus Hojmark from ABG Copenhagen. Please go ahead.

Q - Claus Hojmark Jensen {BIO 15042961 <GO>}

Good afternoon, gentlemen. Three questions from me. The first one on the strong combined ratio in Norway. I was wondering if you could add a bit more flavor to the development there. Is it due to a few large claims? Have you had high runoffs or is it just strong underwriting?

Secondly, we just heard from (Puhul) asset. They expect an adverse impact in Q4 from prolonged maturity or changed mortality model. I was wondering if that has any impact on your life insurance business. And lastly, is on the holding company, where I struggle a bit to get to the numbers you had the Third Quarter. So I was wondering if there was any one-offs in that number. Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

We'll start with Norway, then. In Norway, as you've guessed, we've had very few large claims this quarter, combined with a very benign claims inflation and actually quite extraordinarily few frequency losses as well. I don't think that this is something that we can expect at this level going forward, but we expect good results anyhow for the next quarter. Mortality --

A - Kari Stadigh {BIO 1504152 <GO>}

I thought you mentioned life. I think you're confused. In formula's case, it's not life, it's non-life.

Q - Claus Hojmark Jensen {BIO 15042961 <GO>}

Yes, yes. Yes, sorry. Yes. Yes.

A - Kari Stadigh {BIO 1504152 <GO>}

Torbjorn takes this one.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And the announcements on the new tables came yesterday. We will, of course, go through them in great detail and see what the effects will be, considering the overall reserving levels that we have for Finnish annuities in motor third party and workers comp. That we will have a look through in Q4.

Q - Claus Hojmark Jensen {BIO 15042961 <GO>}

Have you done anything so far? It is my understanding from Puhul that it's been known that this has been coming through. Have you done any extra provisions so far?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

We did a part of this increase already last year when the first details came out of this. This was now the second round of details that came out yesterday and this is too early to say exactly how they affect our own portfolio.

A - Peter Johansson {BIO 3902189 <GO>}

On your third question on the holding company, yes, there are one-offs, so it's definitely not a normal quarter with reported profits of EUR5 million on the holding company, excluding Nordea. So this mainly comes from the EUR2.3 billion of debt that we have. And everything has been swapped to floating rate. So there is mark-to-market -- there is mark-to-market gain from these swaps, plus then there's some currency -- positive currency effects and the total effect of these two are close to EUR20 million. So excluding these two numbers, the negative development in the parent company would have been normal, minus EUR50 million.

Q - Claus Hojmark Jensen {BIO 15042961 <GO>}

Okay. Thank you very much.

Operator

The next question comes from the line of Spencer Horgan from Deutsche Bank.

Q - Spencer Horgan {BIO 4241901 <GO>}

Thank you very much. Good afternoon. I've got three hopefully quick ones around the balance sheet, if I can. The first one is the solvency ratio of 139% that you present on the -- I think, the traditional rules, can you give us an indication of what that ratio might be, if there were to be a spot implementation of Basel III.

The second one is, if we move to the economic capital and I look at the life insurance side, the life insurance business seems to have less capital at the end of the quarter than it theoretically needs, another economic view, which I assume is due to low equity markets and low interest rates. And I guess it may have recovered post quarter and anyway.

But could you talk about whether -- if that situation would persist, you'd see that as an issue and a need to put more capital in the life insurance side or is it not so much of an issue because it's made up for by surpluses elsewhere in the Group? And thirdly, just more broadly, could you give us an indication of at what level you would like to run the balance at on a long-term view, be that by reference to either the Solvency I number or the economic capital? Thank you very much.

A - Peter Johansson {BIO 3902189 <GO>}

I could start with the solvency, EUR139. That is actually not calculated with full Basel II numbers. The number would be higher if we would assume full Basel II. So this is actually calculated with Basel II numbers with transition rules. Then how much the CRD and CRD4 will impact Nordea's capital requirement? You can actually -- I would refer to their capital market day presentation where it -- that gives a pretty detailed description on how the capital requirement would increase, relative to the present level.

But also part of their programs, how they would bring down the solvency requirement? So most likely, if I apply those numbers to our present transition rule and improve Basel II number, I guess the number would fall somewhere between these two. So actually, it would mean that our solvency level would increase, of course, assuming that Nordea is able to deliver on their new normal.

Then on the life side, if you look at our Solvency I level, we actually report a 80% solvency. Solvency requirement under Solvency I, EC capital is slightly below the adjusted solvency level in the life company, mainly coming from the very low interest rate level, which affects -- gives a negative effect on the liability side adjustment from discounting.

We haven't specifically set any level where we would increase the capital in the life company, but, as a reference, if you look at the history -- so during the Lehman crisis, actually, the Solvency I capital was down at 7%. We had roughly the same amount of risks on the investment side.

So definitely, we are far, far away from a situation where we would have to put in capital into the life company. What level of EC, actually, we had not specifically said any exact number, which the board would prefer to be at minimum level above the EC, minimum EC capital, because we have always been clearly above the requirement.

Q - Spencer Horgan {BIO 4241901 <GO>}

Okay. And I guess, by virtue of that, there's no particular level that you'd be uncomfortable falling below.

A - Peter Johansson {BIO 3902189 <GO>}

So far there -- we haven't said any. But always we have said that we want to maintain good buffers against the minimum requirements.

Q - Spencer Horgan {BIO 4241901 <GO>}

Yes. Okay. Thank you very much.

A - Peter Johansson {BIO 3902189 <GO>}

And I would -- actually, I would like to add that when we calculate both the conglomerate directive solvency and also when we calculate the EC capital requirements, so capital available, we always make a dividend assumption in the capital calculation. So we assume a normal deduction of dividends. So basically, dividend policy going forward, the same as it has been.

Operator

The next question comes from the line of Matti Ahokas from Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, hi. Matti here from Handelsbanken. Two questions, if I may. Firstly, regarding the industrial extremely high prior year gains that we've seen, could I get some light on what was behind this? And obviously, we've seen fairly big prior year gains in these divisions previously, but not to this magnitude.

And the second question is regarding the EUR39 million that you talk about the risk question in Sweden. How much was the discount rate impact and how much was the large -- adverse large claims impact? I guess this EUR39 million was the net figure of both of them. If I could get a breakdown on that.

And if I still may, a final question regarding the market turbulence we've seen in the Third Quarter and the Fourth Quarter as well. Would you say that this would have some kind of impact on your potential thoughts about the dividend policy of the Group as it is? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Last year prior gains. Yes. This is a relatively high number. No. There's no difference in principal to what happened in the past few years. We have conservative reserving for large losses. We have been able to settle quite a few of them, actually, this quarter with very positive results. I am pleased with those results. I am unhappy that you see this is prior year gains, but that's the way it is.

The EUR39 million is for the reduced discount rate in Sweden exclusively. The interest rate has gone from above 1% to 0.42%, it's a real discount rate, in one quarter. That's for the discount rate exclusively.

A - Kari Stadigh {BIO 1504152 <GO>}

For the dividend we have now received, as of today, roughly EUR750 million in dividends from the subsidiaries and associates. And we have also increased our liquidity with other measures. So at this moment, we have EUR1 billion in cash in the parent. The dividend is, of course, a board decision. But from a funding or liquidity perspective, there is no reason to think that our dividend will be changed. Dividend policy will be changed.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks a lot.

Operator

The next question comes from the line of James Shuck from Jefferies.

Q - James Shuck {BIO 3680082 <GO>}

Hello. Good afternoon. I just had two questions, please. Looking at the combined ratio, 92.6% in Q3, you give us a very useful disclosure, talking of the low discount rate effects of EUR39 million, the cloud burst effect of EUR21 million, and large claims of EUR18 million. So if I add all of those up, I get EUR79 million. And in theory, those are kind of one-off in nature.

So if I take the 92.6% and then deduct 7.7percentage points of one-off effects, I actually get a combined ratio of 84.9%. Which, the way you're presenting that is kind of your underlying run rate for a combined ratio.

And now, I appreciate you haven't given this sort of disclosure in the past and therefore it's difficult to see what's kind of happening on an underlying basis. But that looks to me like a very sharp improvement in the underlying improvement on the combined ratio. So I was just hoping you could talk a little bit around that and try and square that with your guidance to 92%, 94% and what we should be thinking about, going forward.

The second question I had was to return to the point of capitalization because you're clearly overcapitalized at the moment and I can appreciate you need some kind of buffer in this uncertain world. You've got around 155% of your economic capital requirements. That's calibrated to a singular level, which is roughly where you want to be.

I appreciate you probably want some buffer for Solvency II type uncertainties albeit the (quick five) calibrations I think are pretty generous to you. So you've got a lot of kind of flexibility there in addition to the Nordea state, which you're not geared up against. And you've talked in the past about potentially introducing some sort of gearing level against that.

So you can pretty much draw a scenario where you've got several billion euros to play with. And be that with operating with a more efficient capital structure on an ongoing basis albeit kind of freeing up capital for acquisitions. So I know you kind of -- you're a bit reticent about being drawn on this topic about how much you actually view your excess capital is, but in a way, I'm kind of -- the key point is when you're actually likely to make a move on that?

Because I think you've talked a little bit in the past about needing flexibility. You can't run with this sort of capital -- inappropriate capital structure indefinitely. There must be acquisition targets which are becoming more attractive to you, particularly when markets are falling 10% in one day. So can you give us some kind of timeline where you might sort of look to move towards a more suitable capital structure? Thank you.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Combined ratio, unfortunately, we don't live in a wonderful world 84.9% combined ratio underlying, especially since there has been no major change to our customer base or our prices since last quarter. And in my industry, there are no quantum leaps of results. So what's happened is, of course, that the lower discount rate reflects a very low inflation claims climate. It also -- we also have IBNR to meet sudden changes and strong reserves. So we have, by and large, met the EUR39 million deterioration due to the discount rate with releases from other reserves in the long-term business.

Q - James Shuck {BIO 3680082 <GO>}

Surely that's actually captured in your 2.7percentage points of prior year development, so there's no change year-on-year on that number.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

No. The prior year gain that we have shown is the net of all of those changes for prior years, so there is a big one-off gain there to meet the change in the discount rate.

Q - James Shuck {BIO 3680082 <GO>}

So if I was to adjust for that -- so if I was to adjust for the (latest), the EUR39 million through prior years, so actually, your underlying prior year development has actually come down in Q3. Is that fair?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

To be specific then, the EUR39 million prior year loss from discount rates, almost as much as that in prior year gains in the Swedish business from long-term business. Then another -- I don't have the euro number, but say EUR22 million, EUR23 million in prior year gains, after which about 80% or so comes from the large corporate business. That's the total picture for prior year gains.

A - Peter Johansson {BIO 3902189 <GO>}

For the capital, I would like to be as bullish as you are, but I think that we look at this more long-term. We are -- dividend stock, yes, we want -- earlier our dividend policy was that we wanted to distribute the dividend, which was giving a certain percentage yield on our share. That maybe reflects our thinking that we want to protect our dividend distribution capacity long term. Now we have a new dividend policy and we distribute the share of our profits. Still, I think also there we need some margin so that we will, in all circumstances, be a very good dividend stock.

On the leverage, you have see us leveraging this Group much higher than we are today, especially when we bought this. I think that we would have liked to leverage this Group more just for the course of leverage. We would really need to know what the target is and the risk reward ratio in that target. When we bought this, we were ready to leverage the Group much more than today, also in double leverage terms, because we knew the assets and we knew the upside of the assets.

Even if there are also equities or targets in the market whose values have dropped 10% or 20%, 30%, that's still not a business where you can make three or four times your money. So with the present scenario, I think we will speak to this type of capital buffers that we have. We weather out this storm and see what opportunities arise and continue with our present dividend policy. You should not expect us rocking the boat very much in this sense.

Q - James Shuck {BIO 3680082 <GO>}

But your current -- your current dividend policy is easily covered from the underlying capital generation of the business because you're not really going to outline that much. And therefore, you don't need to retain much of your retained earnings. So holding a capital buffer in order to be able to maintain the dividend, you can have some buffer, but it -- surely, it's kind of -- it's just too much at the moment. And you have got this additional flexibility should you need it.

And rating agencies would look favorably on that as well. So if you were to hold this kind of structure over the next five years, it would seem very inefficient from a shareholder perspective. So can I just kind of press you on that and sort of try and get some kind of answer about when you might sort move to a more normal capital structure, one that is suitable for longer term?

A - Peter Johansson {BIO 3902189 <GO>}

I think it takes two to tango. And you have to look at the opportunities that are there. At this moment, there are no opportunities. Otherwise, we would have already moved on them. So it is clear we have said that we would like to increase our shareholding in Nordea, but that's not very big difference to what we have now. We have now 21.3%. We have said that we could go up to 22%, 23%.

Then there are, of course, a lot of other opportunities which we are not aware of today because we are not -- we don't know what the other counterparties do. So yes, you can exercise more pressure on me on this, but I think that this is my stance that we weather out this storm with a present capital base. Then five years from now we have to see whether we create the value or whether we have distributed more to our owners. The jury is still out. But there is no timetable for you today.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

Operator

The next question comes from the line of Vinit Malhotra from Goldman Sachs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Oh, hi. Thanks. Most of my questions have been answered. There's only one remaining. On this -- in your press release, there was a mention of EUR80 million worse than normalized level of large claims. Now in the presentation I can see in the industrial line of EUR46 million worse than normalized property claims. How do we -- what's the missing number here? Where -- what -- where am I missing the math, please? Thanks.

A - Peter Johansson {BIO 3902189 <GO>}

The EUR46 million figures actually refers to January, September. The EUR80 million figure is a Q3 number. That's where the difference is.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And that was mostly in the industrial lines -- that connect?

A - Peter Johansson {BIO 3902189 <GO>}

That is industrial line at EUR46 million. It has some additional releases otherwise.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Fair enough. Thank you.

Operator

The next question comes from the line of Blair Stewart from Bank of America Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much. Good afternoon. I just wonder if we can tidy up this debate about the underlying level of the combined ratio. If you could just summarize what the elements of bad luck, whether that's large claims, higher than expect, where the losses were in the year-to-date, would be most useful for me. And how the underlying combined ratio has moved in the year-to-date, that would be really helpful.

And the second question is on the economic capital. That declined significantly in Q3. I just wanted to check the liability side of adjustment within your economic capital has reduced significantly. Is that just a discount rate fact? And if so, has that come back since the end of the quarter? And more generally, does that level of volatility concern you in any way and would you take steps to reduce the volatility in your economic capital? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Okay. Underlying combined ratio. I actually don't like that. I don't like to add these numbers or say, have extra as is to operational whatever combined ratios. The underlying combined ratio, as we calculate it, with all the effort that we spend with that, is roughly in line -- is very much in line, actually, with last year and the year before that. So I am happy with developments in general. In the market, there have been no big changes and we are able to increase the prices as we want to.

Q - Blair Stewart {BIO 4191309 <GO>}

Just on that, Torbjorn, just to be clear, the -- all we'd need to do then for the year-to-date is to take the EUR46 million you've identified, plus the EUR21 million, that's the amount of bad luck you feel like you've had in the year-to-date. Is that correct?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

And the good luck is the prior year gains net, of course, then.

Q - Blair Stewart {BIO 4191309 <GO>}

I'm not too worried about them, they seem to be roughly stable.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes. That's your choice.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. Thank you.

A - Peter Johansson {BIO 3902189 <GO>}

The economic capital side, you're exactly right. So the biggest volatility indeed solvency area or the adjusted solvency capital comes from the life company where we, under present rules, discount all the liabilities with 3.5%. Except for this year we had lowered the discount rate down to 2.5% and next year we have 3%. So that means that now when the government -- when the yield curve is very low, relative to the 3.5%, we actually have a negative effect on the so-called adjusted solvency capital, which we understand would be the potential ruling under Solvency II.

The only way, of course, to get away with this would be to hedge by buying long bonds, but definitely we would not buy long bonds at these low levels. And the jury is out what is going to happen with the overall Solvency II framework. So at present, we are not going to hedge our duration mismatch on our balance sheet in the life company.

Q - Blair Stewart {BIO 4191309 <GO>}

And has that reduction -- has that come back in any way since the end of the quarter, given there's been a move back up in some bond yields?

A - Peter Johansson {BIO 3902189 <GO>}

I haven't followed that closely where the -- where the yield curve was at the end of Q3 and where we are now.

Q - Blair Stewart {BIO 4191309 <GO>}

Is it the 10-year we should look at, Peter?

A - Peter Johansson {BIO 3902189 <GO>}

It's the overall -- it's been pretty flat, yes. I think it has been. So basically, you should look at the overall yield curve. You take the swat curve from --

Q - Blair Stewart {BIO 4191309 <GO>}

Okay.

A - Peter Johansson {BIO 3902189 <GO>}

-- one year to 30 years.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

Operator

The next question comes from the line of Duncan Russell from JPMorgan.

Q - Duncan Russell {BIO 15944951 <GO>}

Good afternoon. First question is on the running yield in the life and the non-life portfolios -- holding up very well. At the beginning of this year and the end of last year you took out quite a bit in mismatch position. Just wondering if you could reconcile that, please.

Second question was on the management incentive schemes. I talked to Peter this morning about it, but just the hurdle rates for those new schemes don't seem very high. They don't seem to have that much of an incentive in them. I was just wondering if you could comment through how you came about that. Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

Could you clarify the last question on the --?

Q - Duncan Russell {BIO 15944951 <GO>}

Well the incentive scheme is flat on the other developments on the press release. They seems to compose of two things, which is the insurance margin and then the return on economic capital. And it seems like the requirement for the insurance margins is less than your long-term combined ratio target, let alone including the interest on the technical reserves. Then for the return on economic capital, again, that seems quite low. So I was just wondering if you could --

A - Kari Stadigh {BIO 1504152 <GO>}

I think that you should interpret those as hurdles -- that if those hurdles are not met, then the incentive program is not in power.

Q - Duncan Russell {BIO 15944951 <GO>}

Exactly.

A - Kari Stadigh {BIO 1504152 <GO>}

So they are low hurdles and they are not really reflecting the target setting. They are different from that. The target setting is, of course, the return on capital that we -- return on equity that we have 17.5%, fortunately, in the insurance operations. That's where we derive the target setting. So these are hurdles for a non-payout situation in the incentive program.

Q - Duncan Russell {BIO 15944951 <GO>}

But isn't this bloody strange that the payout of the incentive is lower than your long-term targets?

A - Kari Stadigh {BIO 1504152 <GO>}

Well this is -- the payout is, of course -- the volume of the payout is decided by our share price development. So -- and then we must have, according to our rules, we must have a floor -- what is the situation where there is no payout? So I am not really looking, even, at those numbers when we are incentivizing people.

Q - Duncan Russell {BIO 15944951 <GO>}

But if the share prices --

A - Kari Stadigh {BIO 1504152 <GO>}

-- it has been approve -- we look at the number of units that are distributed and then the strike price and the development from there. The management interest is completely aligned with shareholders so that you are in practice incentivized by a number of units multiplied by the margin.

Q - Duncan Russell {BIO 15944951 <GO>}

But if the share price is flat between now and the target time period and you fail to hit your long-term targets, but you hit these reduced incentive targets that paid out.

A - Kari Stadigh {BIO 1504152 <GO>}

No, no.

A - Peter Johansson {BIO 3902189 <GO>}

Duncan, you can actually read the full conditions -- terms and conditions for the incentive schemes on our website. And it assumes that the share price moves upwards. Otherwise no payment will be made.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay. I'll read that again.

A - Kari Stadigh {BIO 1504152 <GO>}

And you are most welcome to come with more detailed questions to Torbjorn or myself. On the running yield, your question was we have a running yield now of 3.9% in If and in Mandatum Life, 5.5%. We have, of course, been able to maintain this mainly because the amount of cash has decreased. But now I have -- we were so confused with this first question that I forgot what your real question on the running yield was.

Q - Duncan Russell {BIO 15944951 <GO>}

Why is it stable?

A - Kari Stadigh {BIO 1504152 <GO>}

Why is it stable? Well it's stable because the amount of cash has decreased as we have been buying more equities.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay. I thought the money market portion had increased over the last year and a half. And the duration mismatch has increased.

A - Peter Johansson {BIO 3902189 <GO>}

If you compare, we had a running yield of 5.2% in the life company at the end of Q2 and then money market yielded less than 1%. And now there's clearly less investments in money markets because it has been reallocated so that's the reason why there is surprising pickup in the running yield.

Q - Duncan Russell {BIO 15944951 <GO>}

There's more on the P&C side, but the running yield -- the money market portion at the end of the year (will entail) as 85% and now it's 89%. And I had remembered that you've increased your mismatch.

A - Peter Johansson {BIO 3902189 <GO>}

Actually, the running yield would be marginally down. It was 3.9% at the end of Q2 and now it's 3.7%.

Q - Duncan Russell {BIO 15944951 <GO>}

But it was 3.7% at the end of 3Q last year, as well. So I thought that was seasonal. So the year-on-year is flat.

A - Peter Johansson {BIO 3902189 <GO>}

Yes. I don't remember what it was a year ago.

Q - Duncan Russell {BIO 15944951 <GO>}

It was 3.7%.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes. But the fact is that, anyway, we have been extending our fixed income portfolio. We have been buying more corporate and then money market has decreased. So -- and of course, the big shift from fixed income to floating rate notes, if you compare to one year ago. That's also one of the components we explained to.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay.

A - Peter Johansson {BIO 3902189 <GO>}

Yes. We have typically published the rationing in life -- that life and If but now we also gave the average maturity, which is 2.7 years in the life company and 2.6 years is the average maturity. So the average maturity is clearly longer than the duration because there is so much floaters in -- both in If and life.

Q - Duncan Russell {BIO 15944951 <GO>}

I see.

A - Kari Stadigh {BIO 1504152 <GO>}

That was the big shift that was done during last -- over the spring and winter.

Q - Duncan Russell {BIO 15944951 <GO>}

Okay. I'll have a look at the reports all again. Thank you.

Operator

Next question comes from the line of Giulia Raffo from Autonomous.

Q - Giulia Raffo {BIO 7573856 <GO>}

Hi. Good afternoon. Just two quick questions. One, if you can give us a sense of your new money yield at the moment in both life and P&C. Then my second question relates to your dividend capacity for the next two years. This year you highlighted that you have already channeled about EUR750 million of dividends from the different unit to the holding. If I am not mistaken, EUR100 million out of the EUR750 million came from the life business.

Now if the market stays as it is with the economic solvency positioning life, which is below what your requirement would be on Solvency II basis, would you still be comfortable channeling EUR100 million from Mandatum for the next two years? And if not, where else can the cash can come so that you can still have a steadily growing dividend flow? Thank you very much.

A - Kari Stadigh {BIO 1504152 <GO>}

If insurance has distributed historically roughly EUR500 million, almost EUR500 million per year for the last seven years. And I see no reason why this dividend capacity would dramatically change. On the life side, it's, of course, more sensitive to the solvency situation and because of our equity weight. We still have room in the life company also to adjust the capital base with hybrids, which are not fully used.

So I see -- I don't want to commit myself whether we are going to take a dividend from this next spring or not. It is so dependent on the equity market development. But that is not really relevant in the full numbers. Nordea -- I wouldn't like to comment in an open conference call like this because of the sensitive political situation in Sweden.

A - Peter Johansson {BIO 3902189 <GO>}

Also in the life company, basically, if you would assume Solvency II, the capacity to increase hybrid would be quite dramatic. So that would actually be the -- one of the few positive sides about Solvency II.

A - Kari Stadigh {BIO 1504152 <GO>}

On the reinvestment yield, our main focus is, of course, in the Nordic sector, in covered bonds, Nordic Bank senior notes, and so on. I would expect the yield to be somewhere between 3% to 3.5%.

Q - Giulia Raffo {BIO 7573856 <GO>}

That's -- that applies to both your P&C and your life business, right?

A - Kari Stadigh {BIO 1504152 <GO>}

Yes.

Q - Giulia Raffo {BIO 7573856 <GO>}

Okay. Thank you very much.

Operator

The next question comes from the line of Hans Pluijgers from Cheuvreux.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Yes. Good afternoon, gentlemen. Two questions from me remaining. First of all, on your fair value items, for reserve is EUR7.9 million negative at the end of Q3 on the non-life side. Could you a little bit break it down because, of course, that's a net number? Could you give an indication what the gross amount is with respect to negative fair value of reserves in that number?

And secondly, a more detailed question on the discount rate -- impact of discount rates on your annuities in Sweden? What was the average duration of that portfolio and maybe also, more clear, what could create the annual impact of the lower discounted rate on your numbers in Sweden?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Starting with the discount rate and I actually don't have the duration off the top of my head. It's a combination of lines and portfolios. But it a very long-term business with a very low discount rate now.

Q - Hans Pluijgers {BIO 16245530 <GO>}

So (Torbjorn), logical to assume, let's say, more -- not much more than EUR5 million to EUR7 million annual impact from this low discount rate on the combined ratio.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Sorry, I didn't catch that.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Because the discount rate is now low. You, of course, you have to also to reserve on your new policies more. So I estimate the impact between EUR5 million to EUR7 million on an annual basis. That's more -- that's a reasonable assumption going forward?

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Yes. But we have no problem in the Swedish market to get the rate increases for that business as needed from this. This is something that doesn't only hit us, it hits the rest of the market and that type of increase we can achieve.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay, clear.

A - Peter Johansson {BIO 3902189 <GO>}

On the (fairly) reserve, actually, when we did the impairments, so we impaired everything that -- every single equity that had a negative valuation or equity -- equity funds that had a negative valuation of more than 20%. So the remaining negative ones that we have are in the range of zero to minus 20%. Then we have some positives. But I don't exactly remember what the breakup of those were.

Q - Hans Pluijgers {BIO 16245530 <GO>}

So based upon that, taking current market prices you don't expect that much impairment going forwards? But of course, you also have in the rule that it would support prolonged periods below purchase pricing. Also, it will take impairments with --

A - Peter Johansson {BIO 3902189 <GO>}

Prolonged -- yes, a prolong is not really an issue. So that would mean that they would be negative for 12 months. But we were slammed in the face in one quarter. So then basically everything came down more than 20% in the Nordic regions. So it was -- the problem was the significant part. Then, of course, last week, we saw a very dramatic improvement in the equity portfolio and now we have been a few days down again. So it's extremely hard to predict how it will look like at the end of the quarter.

Q - Hans Pluijgers {BIO 16245530 <GO>}

Okay. Thank you.

Operator

The next question comes from the line of Adrienne Lim from Morgan Stanley.

Q - Adrienne Lim {BIO 16537674 <GO>}

Hi. Good afternoon, everyone. Lots of my questions have already been answered. I guess I have a couple more. Firstly, on the capital point, can you comment a little bit on how the fundability of capital between the non-life business is and also your life business, assuming equity markets and yields continue to be quite volatile? Are you able to sort of extract some excess capital from the P&C business and put it into the life business?

And my second question was on the P&C side. You highlighted some worsening of frequency development in property and motor for commercial lines. I just wondered whether that was part of the one-off in the quarter or that's sort of an uptick in frequency of claims in the commercial business?

A - Peter Johansson {BIO 3902189 <GO>}

First question about the capital fundability. This is typically what the rating agencies would look at. But simply if there would be a capital need in life or P&C or any other entity, we would simply do that straightforward from the parent company network. So we wouldn't start to move around capital between the different business areas.

Q - Adrienne Lim {BIO 16537674 <GO>}

Right.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

Then on pricing and commercial, this related to commercial, Sweden, real estate, and motor fleets. That's a portfolio of, let's say, maybe EUR40 million in premiums where basically our patience have ended and we are going to implement price increase now in the 1-1 renewals.

Q - Adrienne Lim {BIO 16537674 <GO>}

Okay. Thanks.

Operator

Next question comes from the line of Hakon Fure from DnB.

Q - Hakon Reistad Fure {BIO 16623060 <GO>}

Good afternoon. Just two quick questions. Firstly, on the Swedish annuities. Are there any significant differences from how you -- your discount rates are fixed and how they are fixed in the Swedish life insurance market in general? And secondly, on impairments. Are there any significant single exposure that were impaired that we should know about? Thanks.

A - Torbjorn Magnusson {BIO 1863476 <GO>}

I don't know how the Swedish life companies do their annuities, basically. I don't dare have a guess compared to us. I know what the non-life companies do and we do roughly the same thing.

A - Peter Johansson {BIO 3902189 <GO>}

On the impairment side, it was a wide spread of different equities. So there wasn't anything special.

Q - Hakon Reistad Fure {BIO 16623060 <GO>}

Okay. Thanks.

Operator

The next question comes from the line of Per Groenborg from Danske Markets.

Q - Per Groenborg

Yes. Good afternoon. Two questions from me. The first one on your buyback. It seems like you stopped it mid-September. What are your thoughts about it will be restarted or can you give any indications of what your thoughts are? The second one is related to your economic capital model. I just noticed that the capital location for If is going up by some 15% this quarter. What is driving this? Is it the market volatility or are you starting to narrow the gap up to the rating agency requirement for the rating you require on that company? That was the two questions.

A - Kari Stadigh {BIO 1504152 <GO>}

We stopped our buyback program when we reached a nice round number of 560 million shares. It's easy to remember going forward and we have, from the moment, no intention to continue.

Q - Per Groenborg

Okay.

A - Peter Johansson {BIO 3902189 <GO>}

On the economic capital, Per, I think you -- the biggest explanation is the increased volatility. So basically the exposures we had are pretty much the same, but the volatility has gone up and that has increased the economic capital requirement.

Q - Per Groenborg

Why doesn't that hit the life insurance as well then? They have even larger financial exposures. Is that actually going down?

A - Peter Johansson {BIO 3902189 <GO>}

Yes. But then on the life side, actually, there are two directions. There is partly the volatility has gone up, but partly also the market values have come down -- that's reduced.

Q - Per Groenborg

Okay. Thank you.

Operator

The next question comes from the line of Thomas Seidl from Sanford C. Bernstein.

Q - Thomas Seidl {BIO 17755912 <GO>}

Good afternoon. Really, two questions. One on the life side. With policyholders really being hit hard on the unit length, can you give us a sense of an outlook for the sales and also the trend in cancellations? And secondly, could you give us the outlook on your engagement at Topdanmark? How should we think about it going forward? Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

Topdanmark, we have expressed our view very clearly. And we have a short and a long version. I take the short version, the short version is that it's company, which shares our view on underwriting excellence, we like the style, we like the management, and we wanted to increase our shareholding to about 20% as the company does not distribute any dividends.

And this way we can get something into our numbers. We have said that we would love to buy more shares in Top. Unfortunately, we feel that it is fully valued or fully plus valued and our bid (out) spread is quite high, so the share price should drop significantly and then we would be very willing to buy more shares. Otherwise, if that doesn't happen, if we stay put and enjoy the success of the Company.

On the unit length side, you were asking how will the volume develop or was that the question?

Q - Thomas Seidl {BIO 17755912 <GO>}

Yes. The sale of new business, but also if you already see, let's say, increasing trends on cancellations due to the hit on the equity side.

A - Kari Stadigh {BIO 1504152 <GO>}

No. We can't see any new trends in cancellations. The market in Finland is, of course, down because it's not easy to sell wealth management services in this exceptional turmoil and therefore the market in Finland is down by 25%. But the customers we have -- they behave in a very loyal way. It's very difficult to predict the future volume because you always need some good investment teams to sell in the unit length business and we have to see how this plays out.

Q - Thomas Seidl {BIO 17755912 <GO>}

Because it means cancellation rates are rather stable now? Okay. Thank you.

A - Peter Johansson {BIO 3902189 <GO>}

The stock on unit length is somewhat down. It's mainly because of the value in the equity holdings and the unit length portfolios are down.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yes. Thank you.

Operator

The next question comes from the line of Gianandrea Roberti from Carnegie.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Good afternoon from me as well. Most of my questions have been really asked and answered already. But I just want to check with you, Peter. The holding company numbers -- excluding Nordea, really -- I remember, I thought you were sort of guiding for a negative result around minus EUR90 million on a full-year basis, which would leave me a sort of minus EUR20 million or a bit more than that on a quarterly basis. But it's very, very volatile from one quarter to another one. Does that assumption still stand, if I look at a clean year? Thanks.

A - Peter Johansson {BIO 3902189 <GO>}

Probably I would guide it closer to EUR50 million per quarter now because the interest rate is -- interest rate level is, overall, is lower and this positive 5% comes from the mark-to-market valuation of the swaps and then we had some gains from the Swedish kroner allowance that we raised. So probably we're closer to EUR50 million per quarter. So now even if we have gross debt of EUR2.3 billion, we have cash on the parent company balance sheet, EUR1 billion. So net debt is EUR1.3 billion and with low interest rate, everything is floating rate.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Thanks a lot.

Operator

(Operator Instructions) We appear to have no further questions at this time. Thank you.

A - Jarmo Salonen {BIO 1860650 <GO>}

Gentlemen, thank you for your attention and have a very nice evening.

Operator

Ladies and gentlemen. thank you for your participation. This concludes today's conference and you many now disconnect you lines.