Q1 2019 Earnings Call

Company Participants

- Jarmo Salonen, Investor Relations
- Kari Stadigh, Group Chief Executive Officer and President
- Knut Alsaker, Group Chief Financial Officer
- Morten Thorsrud, President and Chief Executive Officer, If P&C Insurance Holding Ltd

Other Participants

- Blair Stewart, Analyst
- Jakob Brink, Analyst
- Jan Erik, Analyst
- Jonny Urwin, Analyst
- Kevin Ryan, Analyst
- Matti Ahokas, Analyst
- Michael Huttner, Analyst
- Phil Ross, Analyst
- Youdish Chicooree, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to this conference call on Sampo's First Quarter 2019 Results. My name is Jarmo Salonen, and I'm the Head of Investor Relations at Sampo. And with me at this call, I have our Group CEO and President, Kari Stadigh; CEO of If P&C, Mr. Morten Thorsrud; and Group CFO, Knut Arne Alsaker.

As has become tradition, I'll first-hand over to Kari with his -- for his highlights on the first quarter developments, but let me remind you before that that you can follow this call at sampo.com/results, and a recorded version of the call will later be available at the same address. Kari, please.

Kari Stadigh {BIO 1504152 <GO>}

Thank you, Jamro. Welcome to the conference call on my behalf as well. Well, what do we have in front of us now after the first quarter. First of all, we have a very strong results in our insurance operations, especially in the P&C insurance. With a combined ratio of 86.5% in If and 78.2% in Topdanmark. Both either best ever or on par with best ever for the first quarter results. Also Mandatum Life performed well with the result on the same level as the corresponding quarter of the previous year. However, one has to take into account that EUR54 million was used to lower the discount rates. All in all, very strong results.

Secondly, the strong rebounds in equity markets impacted our total comprehensive income significantly. We report EUR561 million for the first quarter, which actually is more than half of what we reported for the full year 2018. In If, it is also noteworthy that the number of retail clients continues to grow in all markets. In general, there is a healthy premium growth for both If and Topdanmark.

Our P&C operations are performing better than ever on plan or above. Nordea's numbers have been available already for a while and I see no need to comment on this. From an owners' perspective, the important thing is the new Board composition and the new Chairman nominated by the AGM. It is too early to see any results of their work. However, I'm convinced that their input will be critical when crystallizing the potential for the improved performance we expect to see going forward.

As we have received several pretty technical questions on capital prior to this call, I would like to stop here and handover to Knut Arne, who will give a short summary on the regulatory issues over more technical nature.

Knut Alsaker {BIO 18730318 <GO>}

Thank you, Kari. As you have seen in our Q1 report, our solvency ratio deteriorated during the quarter despite the growth in own funds due to good results on the insurance side of our business and high investment returns. The deterioration is due to an increase in our capital requirement related to our 21.25% holding in Nordea. The increased capital requirement is coming from a significant increase in Nordea's REAs risk adjusted assets, following the bank's redomiciliation to Finland.

To include a bank in the Solvency II capital regime gives unwanted consequences. As part of the remedy for our reduced solvency ratio, we have this afternoon announced that we are looking to issue some hybrid capital out of Sampo plc. This will stabilize our solvency ratio short-term and increase our excess capital long-term. In addition, we are looking to reduce our holding in Nordea to below 20%, and by doing so, treat Nordea as an equity investment in our solvency calculations. This will significantly reduce the capital. We have to commit for owning shares in Nordea.

The standard capital requirements for O-SII's stocks in the Solvency II regime is 39% of market value. The SCR related to Nordea as of end of Q1 for Sampo was equal to 80% of Nordea's market value. There are some technical discussions related to change in the treatment of Nordea, which we currently are having with our regulator. These discussions have progressed during the last few weeks, and we expect to revert to our Board with conclusions from these discussions at the Board's next meeting in June. We expect that the solution will be so that our solvency ratio will exceed the level it was set at the end of 2018.

Kari Stadigh {BIO 1504152 <GO>}

I feel that this is really a technical issue and a regulatory issue where our structure is such that in a way we feel -- we feel that fall between shares and I think that now we have on the table enough remedies for these issues of a pure technical nature, because of course, where Nordea move their headquarters to Finland, our risks as an owner didn't increase at all. So this is -- this whole discussion is more of a technical nature, but now we have the remedies -- in our toolbox, we can choose how to proceed more of that then in June.

Jarmo Salonen {BIO 1860650 <GO>}

Thank you, Kari, and thank you Knut Arne. Operator, I think we are now ready for the questions, please.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Youdish Chicooree from Autonomous Research. Please go ahead. Your line is now open.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Good afternoon everyone. I've got three questions, please. The first one is on, since the trends in P&C, you reported a flat combined ratio, but if you adjust for prior the release in large claims, it is slightly up year-on-year. So I was wondering, is this due to weather or are there any underlying trends that got to us relative to last year? So that's my first question.

The second one is on solvency. You already give us some indications in your opening comments. So I was just wondering, I mean, your solvency -- your group solvency ratio is not a reflection of the cash generation or dividend capacity of the underlying business units. So I was wondering how would the ratio cross that 120% minimum threshold you've talked in the past your thinking on the Group dividend? So that's my second.

And my last question is, first to come back on solvency. I was just wondering, to secure the deconsolidation of Nordea from a solvency perspective, is it as simple as going below 20% or are there any aspects where the regulator, for example, do they want to see whether you have control over Nordea or having a significant influence or is it just a question of being -- of having just a lower shareholding?

A - Morten Thorsrud {BIO 16111627 <GO>}

Okay. Morten Thorsrud here. I'll answer the question on the Gjensidige part. We reported a net combined ratio of 86.5%. For the first quarter, this is an excellent combined ratio bearing in mind that this is the first quarter and inter quarter. The large claims outcome was EUR5 million higher than what we assume to be normal, which is actually in line with what we also saw last year and the prior year gains was 3.8, down from 3.9 -- 4.8 sorry, down from 4.9 last year. So it means that if you adjust for that, there is a small improvement in the combined ratio and then obviously this winter effects are quite different across the Nordic region.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. So -- because that improvement you're talking is all coming from expenses. So your cost ratio, your loss ratio would still be slightly up?

A - Morten Thorsrud {BIO 16111627 <GO>}

It'll be on last year level.

Q - Youdish Chicooree {BIO 17430923 <GO>}

Okay. So stable basically versus last year in terms of underlying margins?

A - Morten Thorsrud {BIO 16111627 <GO>}

Yes.

A - Knut Alsaker {BIO 18730318 <GO>}

On your second question, regarding Group dividend. When it comes to internal dividends in the Group, the subsidiaries are strongly capitalized, and of course, Nordea also had excess capital on their side. So I do not see a link between the consolidated solvency capital and the internal dividends within the Group. When it comes -- and of course, we expect this to be solved by the year end. So also when it comes to the external dividend, our dividend to our shareholders on Sampo, we do not expect this to play a role when we decide on the dividend -- when the Board -- AGM decide on that dividend next year.

When it comes to the technical matters, there's a number of technical matters we currently are discussing as I'm referring to with the regulator. That is also based on the fact that we actually have two capital regimes that we are under, both the financial conglomerate directive and Solvency II regulations. And these two are two different regulation, meaning that there are a few things that we just need to have clarity together with our regulator before we can proceed with the plan, I referred to in my opening comments.

Q - Youdish Chicooree {BIO 17430923 <GO>}

All right. Congrats. Thank you very much.

Operator

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

Q - Jakob Brink {BIO 20303720 <GO>}

Thank you very much and good afternoon. Two questions from my side. Sorry for one of them coming back to internal dividends. There has been a lot of talks also recently about whether Nordea can pay out more than 100% which consensus estimates are now indicating. One thing is, of course regulation, but secondly, if I'm not remembering wrong, it seems like historically you Sampo have had an ambition to keep payout ratios below 100%, does that also go for Nordea this year? That was the first question.

Second question is regarding run-off gains. You're not the only one to have seen significant run off gains this quarter and I tried to calculate your ratio greater from last year and it seems like it's dropped a lot indicating may be you're building significant reserves. So is it fair to assume that we should continue to see an elevated level of run-off gains going forward? Those are my questions. Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Thank you, Jakob. As you are actually well aware of, I can't answer on Nordea, anything else than what they have communicated, and Nordea has communicated that their ambition is to increase the dividend year-after-year.

A - Knut Alsaker {BIO 18730318 <GO>}

And then on the run-off gain, yes, we report 4.8 in run-off gain this quarter, which is in line with what we reported Q1 2018. But also as you say, somewhat above the more longer-term run-off gains that we've seen in the past. The run-off gain is of course driven by the fact that we're seeing a more positive development on old underwriting years than what we had assumed in our models. And of course, we're not speculating on future one-off gains that depends on the continuing claims development whether that continue to develop more favorable than what we have assumed in our reserving models.

Q - Jakob Brink {BIO 20303720 <GO>}

Is there any specific sectors driving it?

A - Knut Alsaker {BIO 18730318 <GO>}

Yeah, it's obviously the long tailed exposures that we have. Among those motor insurance in Sweden, is the most long tailed, and of course, where you will see some volatility on the run-off gains if your assumptions on the claims development is different than what you actually experience.

Q - Jakob Brink {BIO 20303720 <GO>}

Okay. Fair enough. Thanks a lot.

Operator

Thank you. Our next question comes from the line of Matti Ahokas from Danske Bank. Please go ahead. Your line is now open.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, good afternoon. A question on the dividend as well. As it looks now more likely that Nordea may have to cut its dividend and assuming that Sampo Group wants to maintain the increasing dividend policy, would this dividend shortfall be covered by higher internal dividends from If and Mandatum Life or increasing the net debt in the holding? Thanks.

A - Kari Stadigh {BIO 1504152 <GO>}

I don't have an indication that Nordea has changed their guidance for dividend. So I don't really want to speculate on that. I feel confident that we can stick to our own ambition to increase our dividend yearly.

Q - Matti Ahokas {BIO 2037723 <GO>}

Fair enough. But if, let's say, the Nordea still increases their dividend by EUR0.01 which would be in line with their policy, still increasing the Sampo dividends, would imply that you would actually have to get the increase somewhere else. Would this be done mainly from higher dividends from If or Mandatum Life for increasing the debt? What do you think is the preferred alternative?

A - Kari Stadigh {BIO 1504152 <GO>}

I think that we have room to increase the dividends from our subsidiaries if necessary.

Q - Matti Ahokas {BIO 2037723 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Kevin Ryan from Bloomberg Intelligence. Please go ahead. Your line is now open.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thank you, and thank you for being so clear on the capital. I just have one final question on that if I may. Could you share with us what going forward, your ideal Solvency II level would be? And the second question which is prompted by your reduction in your Nordea or proposed reduction on Nordea stake, is -- has this prompted you to think about any of your other investments such as Topdanmark? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

May be I'll start with other investments. These has nothing to do with our investments. The reason why we would distribute Nordea shares as dividends is only the regulatory technicalities, and therefore we don't want to sell any of our holdings, we -- and therefore we wouldn't like to sell Nordea either, we would like to pass them on to our shareholders.

A - Knut Alsaker {BIO 18730318 <GO>}

And if I should take the first question, we haven't set an exact range of what would be an ideal solvency ratio. I'm comfortable that the solution we believe we will have from changing the calculation basis of Nordea will bring us above -- way above a minimum solvency ratio. It gave us plenty of excess capital, and with the stability of the earnings we have in the businesses that we own, that would just add to our view of our excess capital position.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Michael Huttner from JP Morgan. Please go ahead. Your line is now open.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you so much, and really well done on the combined ratio. That's unbelievable, that's wow anyway. So on the combined ratio, I just like to -- lots of questions. But the first one is, this year even though the number was the same as last, you actually improved your outlook by a lot to 85% to 88% I think versus last year where the minimum range, I think it was 86% to 89%. So I just wondered, if you can explain where this confidence comes from relative to last year? And more color on the combined ratio the lovely to be in and may be you could explain how come Sweden, which is a big country had a 78% combined ratio, I cannot believe it. This is -- yeah -- it's -- particularly in winter. So those are the two questions.

And then on the Nordea. When you start selling, temptation will always be to sell more and I just wondered once you've done this special dividend through or whatever, what just stop you the thinking, we sold some and solvency went up and it didn't seem to hurt any, maybe you can sell some more. You see that here. I've seen it in so many companies, when you start selling an asset, you -- your mindset changes. I suppose that the technical question, if I try to put it more formally, would be -- at what level would there be a risk for you being able to appoint the Chairman of Nordea? Thank you.

A - Morten Thorsrud {BIO 16111627 <GO>}

Okay. I'll answer your two first questions on the If performance. Yes, we delivered an excellent combined ratio for the first quarter in line with what we see so last year, 86.5%. That's excellent. We do see also a strong growth of 3.9% if you adjust for currency effects and part of that growth is driven by price actions and it's fair to say that the price actions are somewhat above expected inflation which means that we have a good outlook for their P&C insurance business and that's why we are guiding on a combined ratio level of 85% to 88% for the full year, which is somewhat better than what we guided after Q1 last year.

When it comes to your question on the combined ratio in Sweden, yes, it is indeed very low and I think it's fair to say it's exceptionally low, because a larger part of the run-off gains that we see in first quarter stems from Sweden, and in particular, from motor insurance in Sweden. So that is obviously supporting the Swedish combined ratio, nevertheless, underlying combined ratio level is at a decent level in Sweden as well.

Q - Michael Huttner {BIO 1556863 <GO>}

Morten did -- last year, if I remember, the winter was in a way different from this year, it lasted much longer into the spring into the second quarter. Had that any effect on your view on guidance or is that just so minor things that it doesn't affect it?

A - Morten Thorsrud {BIO 16111627 <GO>}

It has some effect. Of course, it's early to conclude on what will happen in Q2, but of course, I guess, we can conclude that winter is over. Of course there could be other events taking place in Q2, but the winter in 2018 is more special in the respect that it lasted well into Q2. So of course that is a significant difference Q2 this year versus last year.

A - Kari Stadigh {BIO 1504152 <GO>}

On your second question or third question on how we view the value of our assets, I think that we have to separate two very different things. One is that, we are in a regulatory hiccup or we are, as I said, between the chairs that the regulatory framework really doesn't or is not built for a structure that we have. And therefore and as Knut Arne said, we have two different answer regulations that affect our solvency. So the solution we are now proposing is not to sell Nordea at all. I repeat, we are not selling we are -- because we don't want to sell. So we are dividending out Nordea shares to our owners if we go that route. And that is not the stance on the value of Nordea as such. This is a solution for a regulatory issue.

I think that, then if you -- your second question was that, how much should we own of Nordea and able to influence the Board composition and Chairman. It doesn't work that way that we count percentages. I think that when I'm on the chairing the norm comm [ph] of Nordea, I feel that I represent all shareholders there, and of course I want the Board composition to be the best possible and the Chairman to be the best possible person for that job. And I actually think that after Bjorn had chaired it and the Board had taken all the big decisions on redomiciling, ramsification, derisking Baltics, Russia, it's a long list. Then it was time to focus more on operations and now we put our best man from the operations side to chair it, because we feel that's exactly the qualities of the Chairman Nordea should have. And I don't think that has to do with our percentage of ownership.

You must remember that the norm comm when proposing this Board composition, and for instance (inaudible) part of it, it was unanimous. And I think someone even expressed that they were very happy that Torbjorn took the task to be the Chairman of that Company. We have said earlier that we are not a Group where we are in love with any of the assets. If the assets are -- if we see a value in the assets that someone is willing to pay us which is above what we can accomplish with our own work, we are obliged to sell the assets. But Nordea's case is of course the complete opposite. We see a lot of upside and we see a lot of upside that can be created through pure operational management work and that's the task the Board has taken. So it's not a question of how we see the value. It's clear that we see a significant upside in the share.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. And if I may just add, the two shares you mentioned, I think one is very soft, the insurance regulator, soft is wrong word, but they have certainly show understanding, I'm not sort of the Chair the banking regulators quite as comfortable, anyway, thank you.

Operator

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

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Good afternoon. I've got a couple of questions. Firstly, just on the fair value adjustment reserve which has gone up in the quarter. How do you see economic value in that? How we use those unrealized gains in the coming years?

Secondly, just on the non-life business and looking at the reserve to premium ratio, which is a very good measure, I accept, but it is significantly higher than some of your peers? And I just wondered if you've done any comparative work to compare the level of reserves that you have compared to some of the peer group? It does suggest that you're very heavily reserved against peers, does that business mix impacts or I just wonder if you've observed that and if you've got an explanation for that?

And finally just coming on to the Nordea dividend point, and I wouldn't expect you to comment on Nordea may or may not do with its dividend, but conceptually -- if you look at the estimates in the market conceptually, how do you feel as owners about Nordea potentially paying out more than 100% of its earnings to fund the dividend? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Well, if I start with Nordea, so -- it's as an owner, I think that we have followed the guidance from the bank, and as an owner we are happy if Nordea delivers on what they guide. In the end, I don't want to talk about bank regulation, but the fact is that over the last 10 years Nordea has been able to meet all capital requirements from the regulator from its own cash flow and that means that there we have accumulated billions of euros into Nordea as capital from the profits.

And if the bank is not growing and once the bank has met all the regulatory requirements, it means that the cash flow generates extra capital which the bank really doesn't need. So that's just a comment I have that. Then it's more a political question of how the surplus capital is treated in Europe, but the fact is that Nordea's capital generation capacities of the level that at one moment there will be excess capital, because I don't assume that the regulator will for an indefinite time increase the capital requirements. That would not -- that would also be detrimental for the development in the society.

On the fair value I didn't really understand your question. Fair value is a result of increased valuations in the stock market and dropping interest rates. It's normal buffer in our accounting.

Q - Blair Stewart {BIO 4191309 <GO>}

It wasn't a great question Kari I said, but it was more a care question of whether you see that filtering through to the P&L at some point or whether it's just a book value item?

A - Kari Stadigh {BIO 1504152 <GO>}

I think that if we sell assets when we think that they are fully valued or over valued, then it will come into the P&L.

A - Knut Alsaker {BIO 18730318 <GO>}

Then on your P&C Insurance question, the reserve to premium ratio is quite difficult to compare between companies, because as you were indicating yourself, it is highly dependent on the business mix. And even on a mix between countries, for instance, the Swedish motor insurance again is one of the most long-tailed businesses in all of Europe. So having big exposure towards Swedish motor and Swedish bodily injury claims, it gives you a high reserve ratio to premiums. So it's quite hard to compare that between companies.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. That's fine. Thank you.

Operator

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

Q - Jan Erik {BIO 16874081 <GO>}

Good afternoon. I have a couple of questions on the If P&C business, if you could shed some light into that. You answered the Swedish improvement on the combined ratio from 78% -- from 88%. Could you also shed some light into what happened in Norway from 82.5% to 93.7%. While Finland and Denmark looks sort of more fairly and suddenly on the private versus commercial industrial segments, could you also shed some light into how and where -- how the combined ratio has changed so much over the year first half? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, I'll start then with Norway. The difference in outcome for Norway 2018 Q1 versus 2019 Q1 is quite simply explained by the large claims outcome. Last year in first quarter we had a better outcome than what we assume to be normal in Norway. This year, we have a somewhat worse large claims outcome in Norway compared to what we assume to be normal. And of course, these impacts combined ratio quite a lot in the first quarter, in particular.

Q - Jan Erik {BIO 16874081 <GO>}

It could be 3 to 7 percentage points?

A - Kari Stadigh {BIO 1504152 <GO>}

Excuse me.

Q - Jan Erik {BIO 16874081 <GO>}

It could be as much as 3 to 7 percentage points (multiple speakers)?

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, yes.

Q - Jan Erik {BIO 16874081 <GO>}

Okay.

A - Kari Stadigh {BIO 1504152 <GO>}

And then you had a question on combined ratio development on private and --

Q - Jan Erik {BIO 16874081 <GO>}

Commercial and industrial which looks the same, but of course it could be the same kind of explanation?

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, it's -- commercial is somewhat impacted by large claims. This year they have somewhat more large claims than normal. Industry is actually having somewhat less large claims than normal, but they have somewhat negative development on some prior year losses, some development on the single large claims. And of course, again being a first quarter, it's kind of give some volatility in the figures.

Q - Jan Erik {BIO 16874081 <GO>}

On the private side, it's mainly the run-off gains Sweden which is entitled to the progress on the motor side?

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, a larger part of the run-off gains come from motor as I said. And again, a larger part of that will be in the private business area.

Q - Jan Erik {BIO 16874081 <GO>}

If you could just elaborate on the trend underlying for private, commercial and industrial? Could you shed some light into what you have seen in the quarter?

A - Kari Stadigh {BIO 1504152 <GO>}

I think no particular trend as such in the quarter. I think we do see good price discipline across the Nordics and we do see that pricing is somewhat above expected inflation at the current level. And of course this differs a lot from country to country and business area to business area. More price increases obviously in Norway than in other countries.

Q - Jan Erik {BIO 16874081 <GO>}

Okay.

A - Kari Stadigh {BIO 1504152 <GO>}

Apart from that, the claims inflation as such is in line with what we expect -- what we've seen in Q1, it's just in line with what we had -- what we expect.

Q - Jan Erik {BIO 16874081 <GO>}

Okay, perfect. Thank you.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Phil Ross from Mediobanca. Please go ahead. Your line is now open.

Q - Phil Ross {BIO 20618440 <GO>}

Hi, there. Thanks for taking my question. Just one point of clarification on me -- from me, sorry, and it's revisiting solvency. The detail you gave at the start of the call is very helpful. Just thinking about the regulatory discussions that are obviously ongoing and then the potential Nordea divestment which you have to decide upon, I wonder if you're thinking about those two things separately, particularly when you talk about the impact on capital moving above where it was at the year-end. So for instance, is it with the regulatory discussions alone, if they were successful, whatever that might look like that they would move the ratio above 147% at year-end or you thinking about those two things together are not necessarily projecting exactly where our solvency will end up? Thank you.

A - Knut Alsaker {BIO 18730318 <GO>}

Not sure I exactly understand your question, but I understand it so that whether or not we sort of combined a reduction in our shareholding of Nordea with the change in solvency treatment and that is combined. We expect that we will have to reduce our shareholding in Nordea to below 20% to change the solvency treatment.

A - Kari Stadigh {BIO 1504152 <GO>}

Solvency treatment will change as a consequence to the fact that we go below 20% automatically.

Q - Phil Ross {BIO 20618440 <GO>}

I just wondered on the regulatory discussions whether that was sort of something material in that which if you didn't change the Nordea stake, then the regulatory discussions might be on something different and they could move you above say 147% or is that -- might think about it in too much detail that they all sort of weaved in together?

A - Knut Alsaker {BIO 18730318 <GO>}

There is a few different things, but that is sort of, we still -- there will be -- the change in the solvency treatment will be as a consequence of going below 20%. So it's not a change and remain with 21.25% we're talking about. That is a change following reduction of our shareholding below 20%.

Q - Phil Ross {BIO 20618440 <GO>}

Yeah, okay fine. Thank you.

Operator

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

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Just a quick one. I'm just curious as to why you are swapping the senior -- will stop that if the sell down of Nordea is going to be highly significant, I was thinking on your solvency, I always thought that alone would be enough. So interested in the decision to raise capital qualifying debt at the same time? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Well, we have a possibility to issue this -- so more hybrid capital just in terms of the room for utilizing hybrid capital both in our solvency calculation and rating calculation and we are happy with the current leverage levels we have. And there is a, as you allude to Blair, there is 500 senior that is maturing now in May. This hybrid will stabilize the solvency ratio, which will otherwise deteriorate 1st of July when the SRB is introduced, and when we have changed to solvency treatment, the hybrid capital would further increase our excess capital position long-term.

Q - Phil Ross {BIO 20618440 <GO>}

Yeah, presumably the SRB would only matter if you still consolidate it to Nordea.

A - Kari Stadigh {BIO 1504152 <GO>}

That is correct.

Q - Phil Ross {BIO 20618440 <GO>}

Okay. All right. Thank you.

Operator

Thank you. Our next question comes from the line of Jonny Urwin from UBS. Please go ahead. Your line is now open.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks. Just one from me, I mean, on the P&C business, things are obviously progressing very well from a top line perspective. You're adding customer numbers, the greatest level constant FX is good, it creates 4%, retention is coming up. You also was saying your pricing had a claims ratio, which is the first time we've heard that from you guys for a while, I mean that -- what do you attribute that -- it's a bit of an improvement, is it investment in the brand, the distribution, is it just market conditions improving, and more importantly how sustainable do you think that is? Thank you.

A - Kari Stadigh {BIO 1504152 <GO>}

Yes, I think as you point out, the large part of the growth is actually coming from improved retention levels across the business areas. But, in particular, in business are private. I think a large part of that is coming from hundreds of internal improvements, making it easier and better to be a customer at If. And at the same time, I think the competitive environment is stable and I must say with somewhat more pricing discipline than what you perhaps have seen in earlier years. So that of course is also supporting that. And of course, again since a large part of the growth is driven by high retention, we also expect to see a fairly positive development also going forward.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great, thank you.

Operator

Thank you. (Operator Instructions) Our next question is a follow-up from Michael Huttner from JP Morgan. Please go ahead. Your line is now open.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much for this opportunity. It's really a second question. I just wondered if you could give an indication, when you say higher -- solvency would be higher than the full year, I just wonder if you could give an indication of what you mean, suppose the more detailed question is not that important as you refer to Solvency II or conglomerate solvency, but any kind of indication would be precious, but it is a fishing question.

A - Knut Alsaker {BIO 18730318 <GO>}

We are referring to Solvency II since we expect us not to be a financial conglomerate following that change or a reduction below 20% and the Solvency II ratio was 140% as of year-end. I wouldn't be too worried of also referring to the financial conglomerate ratio, which was 147%.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. Thank you.

Operator

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

Q - Jan Erik {BIO 16874081 <GO>}

Thank you. Just trying to square the equation on the solvency. If you take the 80% as you referred to earlier on the (inaudible) which is the requirement and take the 39% which is the new sort of requirement if you go below 20%, should we go then be above 180% solvency ratio or is that too high?

A - Kari Stadigh {BIO 1504152 <GO>}

180% sounds a bit too high. There's a couple of things, additional moving parts which you have to take into consideration. Two of them is actually neutralizing each other, more or less depending on our issuance of hybrid capital where we will pay a dividend which we have -- or in a formal Nordea shares which will reduce our capital base by that amount 500, and then we intend to issue hybrid capital whatever exact amount that will be.

And also one adjustment you have to make in your calculation is the fact that the current own funds base which we use in our solvency calculation, it's somewhat higher than our share of the market cap of Nordea which will be currently which would -- everything else equal, be a negative adjustment on the ratio. The increase I was referring to -- or the decrease, sorry, in the SCR because of a lower capital charge would significantly out way that reduction in own funds and of course could also move the beating other way around if the Nordea share price and currently market cap would be above our current owned funds. So with that simple calculation you did, it is somewhat above what I would consider to be a good pro forma calculation.

Q - Jan Erik {BIO 16874081 <GO>}

Okay. Thank you very much for your insights.

Operator

Thank you. And as there are no questions registered at this point, I will hand the word back to the speakers for any closing comments.

A - Kari Stadigh {BIO 1504152 <GO>}

Thank you. Ladies and gentlemen, thank you for your attention, and have a very good evening all of you. Thanks.