Q2 2015 Earnings Call

Company Participants

- Kjetil Krokje, Head of Investor Relations
- Lars Aa. Loddesol, Group Chief Financial Officer
- Odd Arild Grefstad, Group Chief Executive Officer
- Unidentified Speaker

Other Participants

- Daniel Do-Thoi, Analyst
- David Andrich, Analyst
- Gianandrea Roberti, Analyst
- Matti Ahokas, Analyst
- Peter Eliot, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the Storebrand Analyst Conference Call. My name is Susan and I will be your coordinator for today's conference. For the duration of the call, you will be on listen-only. However, at the end of the call, you will have the opportunity to ask questions. (Operator Instructions)

I am now handing you over to Kjetil Krokje to begin today's conference. Thank you.

Kjetil Krokje {BIO 20060140 <GO>}

Good afternoon, everyone and thanks for calling into the conference call. This is the Storebrand's second quarter 2015 conference call. My name is Kjetil Ramberg Krokje and I'm Head of Investor Relations at Storebrand. Together with me, I have Group CEO, Odd Arild Grefstad and CFO, Lars Loddesol.

In the presentation today, Odd Arild will give an overall view of the developments in the second quarter and first half and Lars will give some more details on some of the elements in the results. The slides will be similar to the analyst presentation released this morning and are available on our web pages. After the presentation, the operator will open up for questions. To be able to ask questions, you will need to be dialed into the conference call.

I now leave the word to Storebrand's CEO, Odd Arild Grefstad, who will start the presentation on slide two.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Kjetil. Slide number two highlights second quarter 2015. Storebrand delivered a Group result of 459 million for the second quarter in 2015 and 909 million year-to-date. This result is characterized by a strong result before profit sharing and is the high quality part of our results, and the result for profit sharing and loan losses was 661 million.

It was a weak result -- financial result in STB, and a direct negative contribution to the result of 151 million related to longevity reserve strengthening. Despite the ongoing transition from guaranteed to non-guaranteed business, we achieved a strong 11.5% top line growth adjusted for currency changes and discontinued businesses, that is Corporate Banking and public sector.

On the right hand side of the slide, you'll see some important key numbers that I like to comment. The insurance business is developing strongly and the written premium increased by 16% compared to the first half of last year. Unit Linked based pensions grew [ph] by 23% in the first half of 2015.

We entered into 2014 with a need for longevity reserve strengthening of 12.4 billion. 18 months later, we have already reserved 65% of this amount equal to approximately 8.1 billion. During this quarter, we have reserved -- we have done a reserve strengthening of NOK700 million. The Solvency margin including transitional rules has strengthened from 152% to 154% during second quarter and the Solvency margin without transitional rules is estimated to 114% that is an increase of 16% points from last quarter.

If I then move to slide number three. As you know, Storebrand's business is undergoing [ph] a fundamental transformation. We have a dual strategy where we handled the guaranteed balance while implementing measures to continue the strong growth in savings and insurance. We handled the guaranteed balance with the aim of more than 130% Solvency II margin including transitional rules.

We will also continue the growth in savings and insurance by using our market position in our increasingly (inaudible) life, pension markets. Let me start with an update on the guaranteed business and then move into the update on the growth in savings and insurance then we move to slide four. And as mentioned, Solvency II margin including transitional rules is strengthened from 152% to 154% during the second quarter. The effect of the transition rules is reduced during the quarter due to the increase in the interest rates. But overall, the Solvency margin remained stable. We see that the transitional rules is functioning as a buffer against interest rate volatility, in line with its intension.

The Solvency II margin without transition rules is estimated to 114%, which is a strengthening of 16 percentage points from last quarter. Of that increase, 13% points are due to the increase in the interest rates, about 50 basis points in the quarter and 3 percentage points are due to result [ph] creation, buffer building and other management actions.

To summarize, we are well underway to realize an improvement in the Solvency II ratio of 10% points based on our own improvement measures.

Then, I move to slide number five on Longevity. As you know, we entered into 2014 with a total need of reserve strengthening of 12.4 billion. One and a half years later, we have reserved 8.1 billion, while 4.3 billion remains. On the remaining strengthening needs, 2 billion is covered by the 90 million charged over the result each quarter, this implies that only 2.3 billion remains, which will be covered by excess return of customer funds during the next five and a half year.

We prioritize to accelerate the reserve strengthening, it's important to keep in mind that this will have a negative impact on the result short-term in addition to the quarterly 90 million, we have this quarter contributed 61 million to the fully [ph] reserve of the paid-up policies converted into paid-up policies with investment choice. In addition to this, direct impact on the result, lost profit sharing and risk result further impact the result negatively. In total, longevity reserves strengthening has reduced the result by 253 million in the quarter.

If I then move to slide number six. This is a similar slide to what I showed you in the fourth quarter 2014, and it is a slide that illustrates the expected portfolio return within paid-up policies. Since fourth quarter 2014, the expected returns have increased significantly. Two important factors contributes to this change. First, the allocation to bonds at amortized cost within the entire guaranteed portfolio has increased from 43% to 47%. For paid-up policies, the allocation has increased to 53%. The reallocation has been conducted with the strong investments yielding well above 3% and the average weighted yield for the total portfolio has just -- has been reduced, just from 4.8% to 4.7%. The other factor which has increased the return is of course the increase in the interest rates.

Looking ahead, we see that the return will cover the interest rate guarantee and the longevity provision in the entire period until 2020 with only a limited use of market value adjustment reserves. Beyond 2020, we see that the guarantee level falls down to around the 3% annual level and that is equal or lower than the reinvestment rates we have in the market today.

Moving to slide number seven, it's natural that our guaranteed balance sheet achieves high attention. However, the development within the savings and insurance segment is highly exciting. Let me turn to some highlights. Unit Linked reserves results are growing steadily with 26% year-to-year. The growth is driven by a premium growth of 23% compared to the first half of 2014, a total of 2.8 billion converted to paid-up policies with investment choice so far this year, it was 1.2 billion in the quarter and due to financial returns in the first half of 2015.

We also see that we have a strong growth in asset management with 10% assets under management growth compared to the second quarter of 2014. Increased interest rates and weak equity market in the second quarter had led to a weak development in the volumes in the second quarter, is related. I'm very pleased with the growth in insurance with 16% premium growth and then we also see as part of the growth of the retail loans with 700 million increase in the volumes in the second quarter.

If I then turn to page number eight, on June 17, I announced some changes in Storebrand's Group operating model. The main change we have done is to establish a unified product and customer service area across our products and markets. The change facilitates improved customer orientation and increased profitability. With regards to customer orientation, holistic and seamless customer service processes, independent of single product and distribution channel will make it easier to become and be a Storebrand customer. In addition, the new operating model facilitates better use of best practice and increased use of offshoring and automation.

If I then jump to slide number 10, before I leave the word to Lars Loddesol, I will just give some more insight in the growth in the insurance area. Strong growth both in the Life area for Group Life and for the traditional P&C in the retail area. In the second quarter, we achieved also very important internal milestone by welcoming the P&C customer number 100,000 into the company after we re-entered the P&C market in 2006, and the growth also continues in the second half of 2015.

And then Lars, I leave the word to you.

Lars Aa. Loddesol {BIO 3969188 <GO>}

Thank you, Odd Arild. Then I would like to focus on page 12 with the heading Storebrand Group and I will go through some of the lines in somewhat more detail. The fee and administration result is, as Odd Arild mentioned, 11.5% top, adjusted for currency and non-discontinued business. The risk result in the quarter are good and in terms of indicating whether it should go forward, the half-year numbers are probably a better estimation on future profitability on this line, we had strong results in the second quarter.

There is a good growth in insurance and the combined ratio is at 87% which is also satisfactory development with cost control and due to claims development. The financial results are also satisfactory in light of the lower interest rate level, which gives us a result before profit sharing and loan losses of 661 million, which is the earnings power that we need from the underlying high quality business in order to deal with the following issues on this page, namely the net profit sharing and loan losses which shows minus 51 million for the quarter, which is led primarily from a reverse in the profits split in the Swedish business as a result of a fall in the equity markets in Sweden and also a significant increase in loan [ph] rates.

The negative return in the second quarter, therefore reverses the profit split we had in the first quarter. The results on this line are weaker than you can -- if you calculate from the sensitivities that we show in the supplemental information, you will find -- get a higher number. This is a consequence of the twist in the interest rate curve where long-term interest rates have gone up at the same time as short-term interest rates have gone down. That combined with an increase in credit spreads have led to the fact that the indications or the sensitivities that we give -- have given are not -- were not a good indicator for the final result.

We have been going through the sensitivities and we have improved them and improved also the explanation on a quarter basis in the supplementary information, so hopefully we will be able to close [ph] or estimate the results for the following quarters, but there will be some volatility in this number.

Furthermore, on the second or the next line is provisions for longevity and as Odd Arild mentioned, 90 million in the regular quarterly longevity provision and 61 million in addition for converting paid-up policies to paid-up policies with investment choice. But with the earnings power we have from the result before profit sharing and loan losses, we can carry the negative impact of financial markets in the second quarter and longevity reserve strengthening and still maintain a profit before amortization of 459 million.

To sum it all up, I think we are satisfied with the top line growth, the results from risk and finance is -- are good and we have weak results from profit split in the Swedish market.

On the following page, page 13, we show the transition taking place with a significant fall in profitability from the guaranteed pensions business, but that is to a large extent compensated by an improvement in profitability from savings and -- savings non-guaranteed and insurance.

Turning to page 14, and that will be my final page. On the Capital Market Day we had in November 2014, we communicated a measure for cost/income, that the Group cost/income should be below 60%. This is an ambitious goal, the fundamental transition we are in, in the Group, it means that we have the profitability from the -- or the income that we have from the guaranteed business is disappearing and it tends to disappear somewhat quickly than we manage to bring down the cost level.

At the same time, we have significant investments in growth in non-guaranteed savings and insurance from a low relative level. We also see that the market in the Unit Linked business significantly lower than in the traditional defined-benefit business and we expect and plan for a continued margin pressure in this business. To maintain the profitability or to maintain our profitability and the cost/income below 60% that means that we need to have factors [ph] or reduced cost, which is in reality an improvement of more than 100 million in cost savings each year from an inflation based (inaudible). We have chosen to report this on a 12-month rolling basis and as you can see from these numbers the cost/income in the quarter or on the 12 months rolling basis after the second quarter is 58.8, i.e. under the goal that we have set.

And you can also see the different components that are part of the equation. These are total operating cost and on the income side it's fee and administration income and underwriting result including insurance premium for own account, claims for own account and the risk result from life and pension.

And with that, that concludes our presentation and we open up for Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Daniel. Go ahead please.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Hi, good afternoon. Daniel from JP Morgan here. Just have three question. One on the Solvency and two, on the insurance reserve. Firstly, you mentioned last quarter a total of about 10 percentage points of capital generation for the rest of the year, of which you've achieved 3 percentage point this quarter, just wondering whether that -- or we should see that as another 7 percentage points remaining in the second half of the year?

And then secondly, on insurance both P&C and Group life premium up quite considerably year-on-year. Could you just comment on the main drivers here and also on the sustainability of those growth rates going forward? And thirdly, in visibility, I guess, both in terms of top line and combined ratios, they're fairly disappointing. I was just wondering whether you could also comment on the trends that you're seeing here and also on (inaudible) to improve margin going forward? Thank you.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

I'll start on the Solvency question and it's right, as you say we stated 10% increase in the underlying solvency level seen from own elements not taking interest rate fluctuations into account. We posted that we achieved 3% points so that in this quarter and we have planned to equate the 7% points going forward for the second half. And the basis for that is of course result generation in itself, it's also on longevity reservation, there is also improvement in the amounts [ph], so lot of elements that we are still working with and that we have hopes for giving increased underlying solvency ratios. Then on the insurance question.

A - Lars Aa. Loddesol {BIO 3969188 <GO>}

Yeah, I can comment on the insurance question. We see that the agreement we got with Akademikerne, the white-collar association in Norway have significantly led to a pick-up in premiums. However, we have not in anyways seen through the potential in that agreement, so we expect that to continue to be a contributor to future growth. So we should be able to maintain a good development in insurance premiums (inaudible) over this business lines basically as you see of the graph that we have shown on page 18.

And I think also now we have a strong brand name, especially for the P&C retail market in Norway and start up that business again after having have that of a strong market share. And we are now seeing that we are able to take growth in that market and we have ambition to take steady growth in that market going forward. I think it will be more volatile when you look at the growth rates on the Life side, Group Life was very strong this quarter. That will vary from quarter to quarter, but on the pure P&C retail area, we expected to have a steady growth going forward.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

On your last question, Daniel, I think you asked about the line that's build in actually Nordics and of course it's been somewhat volatile and when the results especially in the Norwegian line of business. Of course pricing here is a -- we need to look at the total profitability of the customer relationship of our DC [ph] customers, which we have earnings from both in the Life company, in the Risk segment and also in the Asset Management division, so it's a balancing act between -- and looking at the whole customer profitability.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Okay. So the outlook here remains fairly unchanged on the visibility [ph] and within P&C we should see the first half growth rate sustained into the second half of the year, is that correct?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

To guide the exact level of numbers is of course difficult, but we see that we have a good situation now in the market when it comes to retail P&C, we have this agreement with Akademikerne and they have not tapped that potential, so we expect to see growth rates also sustainable in the second half in that area.

Q - Daniel Do-Thoi {BIO 17019775 <GO>}

Okay, great. Thanks very much.

Operator

Our next question comes from the line of Peter Eliot. Go ahead please.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you for that chart three [ph] as well please. The first one is actually a follow-up on the solvency, when you took the management actions, because one thing you specifically mentioned that Q1 with the possibility of rising subordinated debt in the second half of the year, given how interest rates have risen in the current sound situation and I was wondering if you could share with us where you currently stand on that?

The second thing was on the development of paid-up reserves. I guess just looking at the quarter in isolation they grew by 1 billion despite sort of strong progress transferred out. When I -- and I guess also despite the sort of the seasonality that you get a lot of inflows in Q1, I think it was basically because the book return was quite high, so I'm just wondering if you could perhaps comment a little bit on that and how we should expect that sort of quarterly progression from here?

And then the third question was on the Health and Group Life, just the combined ratio of the underwriting, that's been quite volatile, only 78% this quarter, 104% last quarter. Just wondered if you could sort of touch more effective sustainable on that level with that? Thank you.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Okay. A thought on solvency question. We have a toolbox, as we have said before, a lot of elements. One of those elements is of course to increase subordinated debt. We are looking into that, we have not decided yet whether we will do that or not do that, it's of course a balancing act and higher than the line solvency are, they're -- of course, the cost of increasing the solvency with next represent point is something that we have to look very closely into cost of interest rates on loan side versus increasing the solvency ratio on the other side. So that is a part of our toolbox, it's available for us and we have not decided yet on how to use it.

When it comes to paid-up policies, I think what you see is that we have in the first quarter normally quite a strong or high conversion from defined-benefit into paid-up policies, we also have that this year, and we have guided on 8 billion to 10 billion around new basis in conversion from the defined-benefit bookings to paid-up policies and I think that guiding is still the guiding we stand with is now a surprised us in the second quarter in the numbers as far as we see it when it comes to the rate of conversion.

And (inaudible) if you to look at the table 41 in the supplementary information, you'll see all the different flows in that book so you can follow that quarter-by-quarter in somewhat -- some detail. Yeah, and the last question I think was on Health and Group Life combined ratio and I think it's been volatile, but if you look at the year-to-date number, I think around that level is a reasonable level going forward.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much.

Operator

Our next question comes from the line of Matti. Go ahead please.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, good afternoon. Matti Ahokas, Danske Bank Markets. Two questions from my side please. Firstly, regarding internal dividend. Have you -- how much or have you at all upstream dividends from the Bank asset management and life company during this year and how much should we expect that you would upstream during the full year 2015?

And the second question is regarding the conversion as previously as well, 2 billion is quite a lot above what you've been guiding roughly above 1 billion. What was the reason for the higher than expected or higher than what you guided for conversion of the paid-ups into paid-ups with investment choice. Was it the interest rate level or was there something special with that?

A - Odd Arild Grefstad {BIO 5483351 <GO>}

If I start with the second part of your question, I'm not sure if I had clearly understood it. But that conversion from paid-up policies into investment choice in the second quarter was 1.2 billion. It's so far this year 2.8 billion and when you take with you the 900 million last year, that's so far been converted 3.7 billion.

And our guiding is that we should achieve 5 billion in total for the last quarter last year and this year and we are well ahead of that routes, but we also see that, it is balancing act of how we use our distribution forces into different areas. We have strong growth in insurance and other elements and you'll also see that we have somewhat higher charge to the longevity reservation this quarter and you should expect us to take that down to be around 3% to 4% in shorts versus the volumes, we move from paid-up policies into investment choice going forward. Yes, and the dividend question maybe (inaudible), the Finance Director can tell what we actually did in 2014.

A - Unidentified Speaker

Yes, when it comes to the dividends, in this quarter, 20 million coming in not only from the health insurance company, the holding company. In the first quarter, there was transfers from the Asset Management operation and also from the P&C operations and a rather large transfer from the Bank. All those were from the date from the 2014 accounts. The reason why Bank contributed more than the result was due to the build down of the portfolios on the corporate banking side.

So we have an upstreaming of approximately 700 million from last year's results and I think as a general rule, we try to keep the excess capital as far as possible in the Group structure and the holding company. And the exception is of course the life company that have been not giving a dividend from last couple of years due to their buildup of the reserving on longevity side.

Q - Matti Ahokas {BIO 2037723 <GO>}

So 700 million is a good working figure for this year as well?

A - Unidentified Speaker

We are not guiding on the different internal pay, but there is room for dividends from the asset management operations and the banking and P&C insurance side.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

To see a good result generation in asset management, that could be upstream and you also see strong result generation in the insurance company. And I think, when you revert down and look at the 2014, it was higher upstream from the Bank compared to what you should expect on an ongoing basis.

Q - Matti Ahokas {BIO 2037723 <GO>}

Thanks. If you just may remind me about the cost in the holding company. How much is the kind of run rate of the costs, interest costs and operational costs that you need to cover?

A - Unidentified Speaker

20 million in the quarter, 19 million, I think if I remember quietly[ph], but approximately 20 million, and (inaudible).

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks a lot.

Operator

Our next question comes from the line of David Andrich. Go ahead please.

Q - David Andrich {BIO 15414075 <GO>}

Hi. Good afternoon. Two questions on my side. Your Unit Linked growth has been really, really strong and continues to be. But I was wondering that the premiums on the disability insurance linked to that seems to be pretty flat and I guess this is kind of a follow up question to Daniel's earlier, and is that purely kind of a margin pressure or is that a business mix, I'm just wondering what's the dynamic there between those two?

And then I was just wondering in the past you've given some guidance in terms of the capital required under 72 as a percent of reserves with different product lines and I was just wondering if you had any kind of update on that as you've progressed through the process of your 72 models and if there was any big changes there? Thank you.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Yeah, on the Unit Linked disability premiums, there are mix between Norway and Sweden. It's depended up on the product sold if the disability or premium waiver is connected to the Unit Linked premium sold or not sold. You won't see growth rates in that line following the growth rates in the savings part of the Unit Linked line. So I think that explains the difference between the two.

Let's try to give some insight into the Solvency II shortages [ph]. I think, we gave an update in our Capital Market Day on different areas. What happens is that -- and basically that is the guidance we still give into the market. But what happens that I like to say is that when we move now to defined-benefit assets into paid-up policies that is a higher quality on these assets compared to what it used to be, because we are now more or less a fully reserved for longevity in the defined-benefit portfolio.

That means that it's fully reserved contracts that's goes into paid-up policies. This also tend to be a lower interest rate level guarantee on these products. So we see that we have a lower capital charge compared to ratio we gave to you on Capital Market Day on the new paid-up policies and overall of course that also give a higher or a better ratio in the total portfolio as we then develop and (inaudible).

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much.

Operator

Our next question comes from the line of Gianandrea. Go ahead please.

Q - Gianandrea Roberti {BIO 6786731 <GO>}

Yes. Hello, this is Gianandrea from Carnegie. I have three questions as well. The first one relates on the paid-up to paid-up with investment choice, Odd Arild, I think you mentioned before and this is in the report that you're down 1.2 billion in the quarter and 2.8 for H1. It's my understanding that you're still targeting 4 billion for the full year and I'm trying to understand what is the reason for that? Are you trying not to depress earnings or do you see a slowdown in general and this 4 billion that has been mentioned before, will it be fair to think that it should be slightly lower than that in the next couple of years or how do you see the entire process? That's my first question.

Then the second question is really, I think you touched before about the intra -- I mean the dividend paid by the subsidiary to the holding company. But I was wondering if you can tell us really a little bit about the dividend that the Group could actually pay it or pay not. Did you have any discussion with the FSA at this point, do you know what they're thinking? I mean, I suppose there are several issues here including the fact that they may be unhappy for you to pay a dividend considering there is a still sizable longevity strength, but if you can spend some words on this, I think it would be quite interesting? Thanks a lot.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you for your question, Gianandrea. Starting with the paid-up policies, we gave a target of 5 billion for the end of 2015 for this five quarters and we have not changed that guiding. Of course, having already now 3.7 billion with what we have seen in the conversion in the first and the second quarter, you should expect us to at least be able to meet that target of 5 billion and maybe somewhat more than that in 2015. But of course, it's a slow during the summer, now there is not much conversion going on and it is dependant also how we use actually our sales force, so we want to use it on the different areas.

We have not given any indication of what happens in 2016 and 2017, when it comes to conversion from paid-up to paid-up policies with investment choice and we have to revert on that. And as I said, we will ensure that we don't have any higher charges (inaudible) compared to what we have seen in the second quarter. The guiding on 3% to 4% is still the guiding we are looking at.

When it comes to dividends, I'll just repeat what I already have said and it's not the new guiding on this in this quarter compared to what it was in the first quarter. We could follow this target and the strategy to make sure that we were able to meet Solvency II without asking for new capital. If it's the targetable of more than 130% in Solvency II ratio including transfer rules, we are well in process to meet these targets and we also see that we have very good situation when it comes to longevity reservation of 65% so far, and we also give you a some insight in how we actually see our returns on the paid-up policies going forward with a strong asset mix, that gives quite strong reassurance around both meeting the interest rate levels or the guarantees and also the remaining reservation. So we feel comfortable that we also of course understand that there is volatility in these numbers compared especially based on the interest rate levels going forward.

And we are also very clear that when we now enter into the markets to give dividend, that is not the dividend for one time or one year only, it should be a dividend that we on a regular basis every year is prepared to give. So I suppose this is not very new for you, it is the same evidence that I gave in the first quarter. But it's still the same news we have on dividend, and of course, at the end of the day the Board will take everything into account and look at the situation at year-end.

Q - David Andrich {BIO 15414075 <GO>}

Okay. Thanks for the answer. Just my final question, sorry. It's actually about the recent downgrade from S&P and on your credit rating, which has opposed comes somewhat to surprise at least to me considering that really that the very low level of rates has been passed for some time, so there seem to a delay. But in general, I'm just wondering, I mean, does that impact your plans in anyway. And you touched before about the sub that for sure this will cost you more if you decided to issue more sub that and even is it the case that we are talking about a max of 1 billion, 1.5 billion of additional sub capacity. I know under solvency do you have more, but I understand there is an (inaudible) in terms of fixed charge coverage there? Thanks.

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Yes, when it comes to the rating, I actually agree with you, it seems we are very lagging in the (inaudible). Low interest rates is not new for us, actually the interest rates has increased in the second quarter compared to what we have used to see. And when you look at the description of the downgrade, it's very much above the expectations for low interest rate for a long time from S&P.

Now we have the same -- we have the situation where the negative outlook for a long time. Now we have the same rating of both Moody's and the S&P, so it doesn't impact very much the interest rate cost as we see, it is based on the lowest rating as it was with Moody's before. So it doesn't impact the cost and I will say, it doesn't impact the way we are running the business and the way we are doing the transfer from guaranteed to non-guaranteed business in any way, but it seems to be a quite lagging indicator, I agree with you in that.

Q - David Andrich {BIO 15414075 <GO>}

Thank you.

Operator

Okay. We have no further questions. (Operator Instructions).

A - Odd Arild Grefstad {BIO 5483351 <GO>}

Well, if there is no further question, then we would like to thank this opportunities to wish everyone a nice summer and thank you for dialing into our second quarter conference call. Tomorrow, we will be in London and I hope to see as many as possible of you there at 1400 hours at our Analyst Meeting. Thank you.

Operator

Thank you for joining today's call, you may now replace your handsets.