Q3 2020 Earnings Call

Company Participants

- Daniel Sundahl, Head of Investor Relations and Rating
- Lars Aa. Loddesol, Group Chief Financial Officer , Storebrand ASA
- Odd Arild Grefstad, Chief Executive Officer , Storebrand Group

Other Participants

- Ashik Mussadi
- Blair Thomson Stewart
- Hakon Astrup
- Jan Erik Gjerland
- Peter Eliot
- Thomas Svendsen
- Vegard Toverud

Presentation

Daniel Sundahl {BIO 20548519 <GO>}

Good morning, ladies and gentlemen. Welcome to Storebrand's Third Quarter Result Presentation. My name is Daniel Sundahl, I'm Head of Investor Relations at Storebrand. Today, CEO, Odd Arild Grefstad will start by taking you through the highlights of the quarter, and afterwards, CFO, Lars Loddesol will take you deeper into the numbers. At the end of the presentation, we will open up for Q&A. (Operator Instructions) But without further ado, I give the word to CEO, Odd Arild Grefstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Daniel. First a quick update on COVID-19. In the third quarter, the situation in the Norwegian and Swedish society following the COVID-19 pandemic have continued to normalize. As an impact of the pandemic, the corresponding -- and the corresponding economic downturn Storebrand's results were negatively affected in the first quarter. But the financial loss -- financial losses have to a large extent been reversed over the last two quarters. Storebrand has remained fully operational with close to normal productivity and has experienced strong underlying growth this year, despite the pandemic.

Today, we present the best third quarter operating profit in Storebrands history. Growth within savings and insurance segment combined with rebounding financial markets and a strong cost control are the main drivers for the profit development. Storebrand's group profit for the third quarter was NOK1,012 million. Unit-linked premiums grew by 22% and the insurance growth was 15% compared to third quarter 2019.

Asset under management increased to a record high level of NOK921 billion, and this solidifies Storebrand's position as a leading Norwegian asset manager. The solvency ratio was 179% at the end of the third quarter, an increase of 16 percentage points from last quarter. The solvency ratio without transitionals increased by 13 percentage points to 150%. The increase is due to positive returns on credit bonds and equities, as well as pricing measures in parts of our guaranteed book of business.

The Board remains committed to pay a normal dividend in 2021. To start the share buyback program, the Board will make a forward-looking assessment, including the view on the run-off of the transitionals. With today's interest rate level, the Board do not expect to start this program during 2021. We will of course revert to more details around capital management in our Capital Markets Day in December.

Storebrand continued to follow our two folded strategy. We actively manage our balance sheet and risk in the guaranteed book of business that are in long-term runoff. Solvency is at 179% at the end of the third quarter, and our operational costs is developing according to plan. Actually, we report lower nominal costs this year compared to eight years ago adjusted for acquired businesses.

In the front book, we harvest capital-light growth through our leading position in occupational pension in Norway and Sweden, as well as the individual market for savings and insurance in Norway. We are recognized strong growth in asset management based on our leading position in sustainable investments.

This picture illustrates the growth in our front book. Unit-linked reserves grew by NOK45 billion compared to third quarter of 2019. These represent a 22% growth. Total net transfer so far this year is NOK6.2 billion. Asset general management increased by NOK134 billion to record high NOK921 billion, this is a 17% growth. Market returns and net flows of NOK35 billion year-to-date is the main drivers for this growth. Within insurance, the annual portfolio premium grew by 15% compared to the same period last year. This is in line with our double-digit growth ambitions. Profitability is good, the reported combined ratio is 88% in the third quarter. Lending volumes in the Storebrand bank amounted to NOK48 billion, an increase of 2% compared to the same period last year. The growth in lending has slowed since we now approach the targeted level of NOK 50 billion in mortgages.

On the next two slides, I will give you some examples of how we in the third quarter have seen important breakthrough within targeted growth areas, such as the new offering in public pension, in our segment of insurance and a breakthrough within international sustainable asset management. In the market for public pension, Storebrand has been elected to be the new provider of public occupational pension for Westland County, that is one of the largest public pension accounts in the market. This contract includes more than 11,000 current and former employees and a transfer of NOK3.7 billion. When it comes to insurance, Storebrands has in this quarter successfully entered into an agreement with Insr Insurance Group to acquire their insurance portfolio. That will add up to 2% market share within our P&C business.

Storebrand has continued to hold the position as a leading provider of sustainable investment solutions. In the quarter, a new wide-ranging climate policy for investment was launched to increase action on climate and accelerate the green transition. With this investment policy, we strengthened our role as a sustainable asset manager contributing to reduced carbon emissions, leading to reduced climate risk and secure long-term returns. The policy utilize all our investment tools, including increased investments in solutions, active ownership and divestments.

In this -- it is therefore with great pride I announce that our broad family of sustainable funds also is recognized by the international audience, result in winning international mandates. And in the third quarter, we have won a large sustainable mandate in the U.K.

And with that, I give the word to our CFO, Lars Loddesol.

Lars Aa. Loddesol {BIO 3969188 <GO>}

Thank you, Odd Arild. So the third quarter of 2020 was a good quarter for Storebrand. Operating results are back on track after a bumpy first half of the year. The operating result of NOK703 million is as far as I can recall the best in the history of the company. In addition, the financial result was strong at NOK340 million, leading to a result before amortization and tax of NOK1,012 million.

In addition, we have accrued NOK49 million in performance fees in the quarter. The accumulated accrued performance fees year-to-date totaled NOK137 million, which will be booked in the fourth quarter. Earnings per share after-tax adjusted for amortization is strong at NOK1.90 per share. There is a rebound in the solvency from both lower SCR and higher own funds. I will revert to this shortly.

Customer buffers have been rebuilt and are at historical highs, securing returns to policyholders and protecting shareholders capital. The solvency movement in the third quarter has been strong. There is an overview -- here is an overview of the most important steps in that movement. Every year in the third quarter, we performed a form of thorough review of all model and assumptions. Net-net the biometric factors have a neutral effect on solvency. The most important factor in the 2 percentage point improvement is related to lower cost and the introduction of individual pension accounts from next year.

Updated pricing and derisk strategy, includes pricing increases in the defined benefit portfolio in Norway as a consequence of lower market rates, including an improved modeling of future pricing flexibility. De-risk strategy is related to how we act in times of market corrections, like the one we saw in February, March this year and how this has been incorporated in the modeling. The correction in the spring gave valuable knowledge on risk mitigation and tested our strategy implementation. In combination, this gives a positive contribution of 5 percentage points.

The negative movement of 3 percentage points in updated volatility adjustment and symmetric equity adjustment is primarily related to a lower volatility adjustment, which have gone down by 6 pps in Norway to 30 basis points and by 2 pps to 15 basis points in Sweden. The equity stress is up by only 0.3%, despite strong equity markets in the third quarter. This is due to EIOPA calculating the equity stress based on relatively weak European equity markets in the quarter.

Our investments are closer to the MSCI World, which have contributed to good returns without a parallel negative contribution from the stress factor. This means that we have benefited from good equity returns without the corresponding increase in the equity stress. Asset return and allocation have been positive by 8 percentage points. 10 percentage points is primarily related to good credit markets but also supportive equity markets.

With the increased risk capacity, we have increased our equity exposure sum during the quarter. The increase in equity exposure increases expected returns going forward, but reduce the solvency by 2 percentage points for a total movement of 8 percentage points. The result after tax with amortization added back is NOK889 million, which contributes 3 percentage points to the solvency, before we set aside NOK350 million for dividends. The transitional capital increases by 3 percentage points in the quarter.

This picture shows again the movement in the solvency margin as well as sensitivities in different scenarios. The sensitivities show an overall resilience to different market movements. Despite this, we know from the solvency movements earlier this year that we can experience basis risk between volatility adjustment and credit spreads, a disconnect between equity returns and equity stress, and twists in the interest rate curves that can cause cost effects not fully captured by these sensitivities on a quarterly basis.

Fee and administration income is up 7% year-to-date. Insurance results are strong pretty much across all products. There is still strong cost control and the fixed cost base has been reduced. The operating cost line includes both performance related expenses relating to investment products as well as increased sales commissions to external agents.

Financial return has been strong with contracting credit spreads and positive equity markets. Tax is lower than normal due to the composition of the results, where the good financial return in SPP reduces the average group tax rate in the quarter. The normal tax rate remains at 20% to 23%. The profit after tax at NOK1,483 million year-to-date is actually better than last year despite of the pandemic. This is partly explained by the tax gains in the first quarter and partly by the good results in the third quarter.

Splitting up the results in the three profit areas, savings, insurance and guaranteed, we see savings contributing with strong growth in assets under management; insurance returning to good profitability from portfolio growth and lower claims; and guaranteed, especially from Sweden, recuperating some of the losses from the first half of the year. Other shows good returns in the company portfolios, especially from contraction in credit spreads.

Despite some margin pressure, the savings area shows good growth. Good cost control and improving results in line with our ambition and strategy. All of the business lines show improvement with the exception of the bank, which is hurt by the low interest rate level. The bank has refinanced debt with a negative one-off effect in the quarter of NOK11 million, which will reduce future borrowing costs. The asset management company shows the strongest ever fixed result in the quarter and fixed result is the result with our adjusted for performance fees.

This picture illustrates the strong growth in reserves and assets under management. The slight fall in premiums from the first and second quarter is primarily a result of extraordinary good sales of one-off premiums in Sweden in the first half of the year. 22% growth in unit-linked reserves, and total assets under management approaching a cool NOK 1 trillion show that our growth strategy works well. The insurance area is back on track after three week quarters, all business lines performed satisfactory in the third quarter. A combined ratio of 88% is better than planned after quarter with very few large claims. We have strong growth in all business lines. The growth is partly driven by price increases and partly by good sales. New partnerships in distribution show promising results. The Insr portfolio transfer will start December 1, and should ensure continued strong growth throughout next year.

The guaranteed area is in long-term runoff. Overall, the results are satisfactory, but underlying there are weak results in defined benefit Norway with a negative disability result from less reactivation i.e., people on sick leave that will -- are not returning to work through this COVID period. The results from Sweden are up, where SPP now has a consolidation which allow indexation of pensions with the corresponding indexation fee to SPP. Furthermore, good financial return has allowed SPP to reverse deferred capital contributions from the first half of the year. The level of guaranteed AUM as a percentage of total pension AUM or assets under management continues to decline and is now 52.4%.

The buffer levels are at all times high and secure future customer returns as well as protecting shareholders capital. As we said at the second quarter, despite the low interest rate level we can, subject to normal risk premiums in the market, deliver guaranteed rates of return and not dip into the buffers on the balance sheet for the next decennium, the next 10 years. And if market returns in any specific year are lower, the buffers are an efficient risk management tool to deal with that kind of market volatility. We will obviously dig deeper into this on our upcoming Capital Markets Day. In this segment, we see that most of the mark-to-market losses in the company portfolios from the first quarter has been recuperated.

And with that, we move over to a Q&A, I don't know if you want to say something about the Capital Markets Day, first, Daniel?

Daniel Sundahl {BIO 20548519 <GO>}

Yes, thank you, Lars. Let me just remind you, we will be hosting our Capital Markets Day on the 10th of December, at 2 O'clock p.m. It will be hosted virtually and we will send invitation and registration details and the more information in due course.

With that, I will open -- we will open up for Q&A. And just to remind you to ask a question, you need to be dialed into the conference call. So let's open up for Q&A. Give the word to the operator.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We have a couple of them coming in already, and the first one is from Peter Eliot from Kepler Cheuvreux. Please go ahead, your line is now open.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks very much. First of all, congratulations on a great result, I guess, probably not be surprised if my first question is on the solvency. And I guess that parts of the beat comes from dynamic modeling of pricing and asset allocation. And I know you did a lot of work over the summer as you indicated and help by your experience year-to-date, but it still came as a bit of a surprise to me that you were able to find these big levers to pull, five years after Solvency II first came in.

So I was just wondered, could you confirm how much the dynamic modeling added itself? And also, are there any specific reasons why you were able to model them now, but couldn't before, what particularly has happened there? And then maybe separately on the solvency, I was a bit surprised that the individual accounts add solvency, perhaps you could just explain what's happening there?

And then a second area was on the disability reserves that you set up in Q1 and you commented briefly on those I think, but I was just wondering if you could say where you are on the review of that or what the risk is upside or downside to revisiting those? And also maybe if the news flow on the virus continues to deteriorate? I'll leave it there actually because it will be too long otherwise. Thank you.

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

Thanks Peter for your questions. On the dynamic modeling, it's -- there was a very significant interest rate fall in Norway in the first quarter. And as a consequence, we -- as you know from before, we have an annual rate of return guarantee on the defined benefit portfolios. And when rates fell significantly we were able to, according to the models that we use, to raise the prices in defined benefit with approximately NOK40 million to NOK50 million per annum next year.

And that dynamic that has been built into the pricing of defined benefit is captured by the solvency model. And when we model these things, we need to have it documented and proven and demonstrated in order to be able to capture the solvency effect. So that -- the interest rate fall made it possible for us to do all of those things, and therefore model it correctly.

On the IPA, the -- it's correct that, that has had a positive contribution, but that is like second and third order effects in terms of how you calculate the overall own funds contribution as well as SCR in the stressed scenarios on these IPAs and the dynamics in the market.

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

In general, I think you can say that the lapse risk becomes a little bit smaller when you model the individual pension accounts compared to the modeling earlier.

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

And the third element on your disability reserves, it's related to, as I mentioned, defined in all of our portfolios, in this particular case, the defined benefit portfolio. There is an expectation that some of the people on sick leave will return to the workforce. That has been much more difficult throughout the summer with a much weaker work market in these COVID situation. And therefore, we have seen less reactivation, i.e., less people returning to the workforce than we would expect on a normal basis. And we have had a minor or we had a weak result in the quarter and a minor reserve strengthening for the remaining of the year.

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

When it comes to the reserve strengthening within the first quarter and the development of disability or lower, we see -- we don't see the effect that we really take into account during the first quarter where we expected higher disability due to the fact that there always was a lot of people on leave from the work. But it's still early days, so we don't take that into account. We are very satisfied with our reservation and follow the situation, of course, thoroughly going forward.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great. Thank you very much.

Operator

The next question comes from Hakon Astrup from DNB. Please go ahead. Your line is now open.

Q - Hakon Astrup {BIO 18861149 <GO>}

Good morning. Two questions from me. The first one on the individual pension account. Can you provide an update there on how you see that will impact your fees going forward? And also, what do you have for mitigating measures? That was the first question. And the second question is also on solvency. You are closing in now on 190%. And based on the information that you have today, when do you expect it to start to pay off the capital, which is tied up in the back book? Thank you.

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

Let me start with the individual pension account. We expect that now to go live during the first quarter of our 2021. As you know, there will be the harmonized price for the pension, the active account of defined contribution and the pension certificates. And the estimate that was done early days from a regulator was that it will reduce the fees for the life insurance industry altogether in Norway with around NOK800 million.

And, of course, Storebrand being the main provider, we've 30% market share, you can then see what will be the effect approximately when it comes to income. Then of course, the tools to mitigate that is, of course, some pricing effects. It is a reduced cost and we work very thorough with our cost base. And the third in itself is that you see strong growth in this portfolio that over time will, of course, take into account their reduced fees, but we have a strong growth in volumes.

The second question was about solvency and approaching now 179%. As I said, the Board have the view, of course, about the solvency without transitionals and solvency with transitionals, and the view of the run off of the the transitional capital when they make the decision about our capitalization. They make the statement now that they don't expect to start this share buyback program during 2021. And as I said, we will revert to both the runoff profile of the transitionals and more comments around timing of share buyback programs in our Capital Markets Day, at the 10th of December.

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

And Hakon, as you know, both some of the transitionals will go away January 1, as well as the lower UFR will be introduced according to the rules at the January 1. So we know that some of this capital -- the transitional capital and the UFR based capital will be reduced in January 1st.

Q - Hakon Astrup {BIO 18861149 <GO>}

Okay. Thank you.

Operator

Next question comes from Ashik Mussadi from JP Morgan, please go ahead. Your line is now open.

Q - Ashik Mussadi

Thank you. And good morning Arild and Lars. Very strong results today, so congratulations. I have a few questions, if you can help me. So first of all, is it possible to get like a cost number for 2020, what you're expecting? Because it's still hard for us to think about what is the normalized number because you have done M&A, et cetera, so your cost target is very clear that adjusting for M&A et cetera, you want to maintain a flat cost base. But is it possible to get a hard number for 2020, what you're looking for? Or what is the normalized flat cost number that should be there?

Second thing on individual pension account. I mean, I agree that you have given some clarity that NOK800 million is the forecast by the regulator that was done long back, I think two, three years back. But we are just 1 quarter away from this to start getting effect into your portfolio. So, would you give us some clarity as to what sort of revenue, net of cost, you're expecting to be impacted in 2021? So this is just like next year, how much do you think the revenue or piece will come down on this basis?

And the third one is, can you just give some clarity on this Solvency II? You mentioned some transitional and UFRs will reduce the solvency ratio on 1st of January, what would be that number on 1st of January? So that would be great. Thank you.

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

Okay. Cost for the full year, you can expect the cost in the fourth quarter to be somewhat higher than what it was this quarter, as there is more activity in the fourth quarter. We don't have the exact figure, but as we said, if you remove the performance related fees as well as acquired business, the cost levels should be, and we will demonstrate this when we come this far, will be lower in 2020 than it was in 2012, and in the years '15 and '18 in between.

On the IPA and income effect, as we have said, we are doing some different measures in order to maintain revenue. For competitive reasons, we cannot go into details about these measures, and furthermore it's difficult for us to assess the exact impact as of this stage. So, we will shed some more light on that on Capital Markets Day. But I think actually the market has to find a new balance in order for us to come with a correct answer on that question.

And on Solvency II and the transitional measures going away, it's 1/16 every year. However, there's slightly more under Norwegian regulations due to some cut offs between the Solvency I requirements and Solvency II requirements. On the UFR, remind me, is it 5 basis points we expect next quarter? Or is it another 15?

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

I think it's another 15 basis points that the UFR is reduced with -- in the first quarter of 2021. And the sensitivity on that --

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

We showed it in the second quarter. I don't think it's in the package this time, but we showed it the last time, so you can find the numbers there.

Q - Ashik Mussadi

Okay. That's very clear. Thank you.

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

Yeah. Just to comment on it quickly, I think it's a couple of percentage points on the solvency when you look back on the sensitivities.

Q - Ashik Mussadi

Sure. Thanks.

Operator

The next question comes from Vegard Toverud from Pareto Securities. Please go ahead, the line is now open.

Q - Vegard Toverud {BIO 17129809 <GO>}

Thank you. I just have a couple of questions on the repricing of these the DB portfolio in Norway. If it could be some -- give us some numbers or be a little more specific on what this repricing means for the P&L? And also on the DC side, as I understood the report, both income and costs were somewhat lower in the quarter due to lower activity. Is it possible also to quantify the impact on income and costs for the DC products in Norway and Sweden? Thank you.

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

So on the repricing of defined benefit, as I said, the annual interest rate guarantee is more expensive when rates -- market rates go down. And I think I mentioned that we expect a positive impact on revenue in the DB portfolio of NOK40 million to NOK50 million above what it would otherwise be. But then again, if you compare to -- we still have closures of DB schemes, so it's not necessarily -- it's not NOK50 million higher than last year because we had more DB clients last year. And also in the defined benefit, I think we have previously seen that the risk results are going to contribute NOK40 million to NOK50 million a quarter, that's probably a slightly lower numbers. But there will be a positive contribution of some NOK20 million or something on the DB portfolio net-net.

On DC, there is -- as we've seen in the papers and in the Norwegian market, it's been very tough competition in the DC market this year. And there is some margin erosion that you can see in the numbers and illustrated with more details in the supplementary information. So, I guess that is going to continue into next year with IPA.

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

And as for concrete guidance on kind of effects from costs in the line, I think it's more the general comment that Lars gave that Q3 costs are normally a little bit lower than what we expect to see in Q4.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. So, I'm just referring to the text in the report which says that the public margins decreased due to lower activity-based fees from pension and administrative services.

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

That is -- yeah, we can --

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

It's roughly NOK10 million compared to the earlier quarters or normal quarters. But there is always some seasonality in those fees.

Q - Vegard Toverud {BIO 17129809 <GO>}

Sorry, is it possible to repeat that number, whether you expect that number to be the same next quarter or go back to a normal level?

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

There's always variation in those types of fees, depending on the activities we have in these types of services. So it's impossible to say what's going to be next quarter, but compared to earlier quarter this year or earlier quarters this year, it's approximately NOK10 million lower.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay, thank you. And just to follow-up on Lars' reply there earlier. The repricing is done only on the guaranteed element, there's no repricing of the administrative fee element for the DB portfolio.

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

No, it's primarily the annual interest rate guarantee.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) The next question comes from Blair Stewart from Bank of America. Please go ahead, line is open.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

Thank you. Good morning, all. I've got a couple of questions left. Interesting that you've moved back into the public pensions market. Could you just remind us of the characteristics of these types of schemes that are coming in? Are they similar to what's on the books already? Or has it got -- do you expect different types of profitability characteristics?

Secondly, just again a reminder that actually the SPP consolidation ratio has gone through 108%. Could you just update us on the impact that would have on ongoing profits into next year, assuming that stays above the key levels?

And thirdly, I noticed in the insurance segment, a combined ratio of 88%, obviously, above -- sorry, well, better than your target, let's say. Is there anything going on there specifically in the quarter that's exceptional? Or just any explanation on that very good combined ratio? Thank you.

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

Thank you, Blair. Let's start with the public sector market and the municipality market. As you know, it's dominated well by one player today, the KLP, Storebrand is now entering into this market. It's a healthy profitability in this market. The product is, I will say, similar to the defined benefit product in Norway, but there is well paid up policies as a part of that product. Its rights that they have to be covered from the municipality in itself. So it's some guarantee elements in it, but it's price guarantees and it's hedged risk compared to the paid-up policies. And it's a healthy product when it comes to pricing.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

Is it quite capital light on the solvency basis?

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

Yes. Absolutely. It's a capital light product. It is.

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

On SPP consolidation, you are correct, it's now above 107% at which time we can take an indexation. Which means that we write-off the pensions to the customers and we take an indexation fee. With the largest portfolio being where it is now, we can expect to take approximately NOK120 million a year, which means NOK30 million a quarter.

For some reason, this is set as of September 30th, which means that it has already been -- we already have the numbers that make this available to take now for this year and we can, therefore, say with a very high degree of probability that we will get another NOK30 million in the fourth quarter.

And then into next year, with -- if we have normal returns in Sweden, we will continue to book NOK30 million per quarter. If consolidation goes even higher in some of the portfolios, there is an opportunity to increase that somewhat, but not a lot more. But it's -- it will be approximately NOK120 million a year going forward.

And on combined ratio of 88%, as I mentioned, we had very few large claims in the third quarter, a few fires, few very expensive car crashes, et cetera, which therefore made it a good quarter. And I think Gjensidige experienced similar results in their portfolio from the results that they gave out on Tuesday.

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

Yeah. Thanks, Lars. I missed that comment. Thank you.

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

And our insurance portfolio is, of course, growing very fast with double-digit growth. In Norway, we don't use any deferred acquisition costs. So all the costs are taken for that growth upfront, so that also is a very important element to understand when you look at these numbers and these strong results.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

Thanks, guys.

Operator

Next question comes from Jan Erik Gjerland from ABG Sundal Collier. Please go ahead, line is now open.

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

Yes. Good morning to you. I have three sort of questions. The first one is to this PKB, the Pension Capital Certificates. Could you give us the AUM you have look for the PKB as of today? And as well, what kind of margin you really see on the new book you're writing currently, so that we understand maybe the mathematics behind it.

Secondly on the solvency side, is any of your, sort of, disability changes inside the solvency? Or is it just purely all of the things you have mentioned so far? Or is there any sort of GDP or unemployment inspired stuff into the solvency that we should be aware of?

And then on the solvency, would you consider hybrids so to boost it so that you will be above 180% at any time? And finally, on the cost, you mentioned some NOK43 million on reversed cost in the other segment, is that actually booked as a cost? Or is it as a reduced financial element or increased financial element? Thank you.

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

Let's start with the Pensions Capital Certificates. We have about NOK35 billion in Pension Capital Certificates in AUM. And the pricing is public, these are -- we charge a fee of maximum NOK400 for capital certificate and maximum 2% if it's a small Pension Capital Certificate. The average is substantially lower.

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

On solvency, I think I mentioned that we've gone through all the biometric factors in the solvency model. And net-net, they are neutral and there are no big effects. So we've also gone through disability and longevity and all of those things as part of that. So there's a thorough review every third quarter and this review this year did not lead to any significant changes either way.

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

Okay.

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

When it comes to boost the solvency, as you see, we are working very hard with the solvency and numbers on a quarterly basis. The most important is the profitability of the business. To increase that, we look very thorough on lifting our underlying solvency ratio and, of course, that is a part of the toolbox for using, for increasing solvency going forward. And the management and the Board is very eager to reach to the levels we have pointed to be really lower capitalized and start, of course, doing share buybacks as soon as possible.

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

And the hybrid in itself, where the current numbers are too small to impact the solvency overall, but if we create a new profitable business area and growth, that will obviously impact the capital generation going forward.

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

Okay. On the cost side, in others, this small NOK43 million you mentioned in the text, is it a cost element? Or is it an increased financial return element?

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

Increased financial return element.

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

Okay. So it's nothing to do with the lower-cost you reported in this quarter?

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

No.

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

And have you done any calculation on the cost side? How much is sort of lower activity driven or COVID-19 driven related lower cost in this fantastic cost number?

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

We work hard with the cost. We've promised the markets that the cost level in 2020 should be below 2018, '15 and '12. And we are going to deliver on that. We spend a lot of time making sure that we have good cost control. And in terms of forward looking statements on cost, we will revert to that on Capital Markets Day on December 1st -- no, December 10th, I'm sorry. But with -- I'm not go into the breakdown of exactly where the cost cut, or how the cost -- the different cost elements, I don't think that makes sense.

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

I think it is fair to say that there is quite limited impact on the cost levels from the pandemic. Of course, there's been less traveling, as for everyone, and there has been somewhat lower spending, especially in the third quarter when it comes to marketing. But above that, I think it's very limited impact on our cost numbers.

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

Perfect. Thanks a lot for your time.

Operator

(Operator Instructions) The next question comes from Thomas Svendsen from SEB. Please go ahead. Your line is now open.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes. Good morning. Two questions. Could you just remind us about the market size and the revenue pool you see in this public market? And also what market share you are targeting there? And question number two, you have earlier guided for -- in the unit linked operations you have guided for 12% to 15% AUM growth per year, should we still consider this valid? Or should the -- you expect the growth to be lower now, now that as most of the Norwegian corporations has converted from the DB schemes into unit linked schemes. Thank you.

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

Just quick on the profit pool in public sector, it's of course a bit difficult to talk about because there is a municipality company having almost a monopole position in that business today. But what you see is that the annual premiums in public sector is estimated to be around NOK52 billion versus the premiums in defined contribution in the private sector is NOK29 billion. So it's a market double the size of what we see in private sector, it's a profitable market. And of course, we are a new entrant in this market, very happy to see that we are able to win one of the largest and most complex account available in the market. And we see this as a real opening of the market. With this NOK4 billion, NOK5 billion that we expect to -- well, dig into the public sector this year, this is a real opening of the market and we expect to see at least the same numbers in the years to come as inflow into our business. Then the market share will be what it is going forward.

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

And in terms of unit linked and the growth, it is correct that most corporations have now close to defined benefit schemes and going to define contribution schemes. However, there is still an increase in the workforce, there is an increase in the savings level on the unit linked contracts. And most importantly, very few people with the defined contribution scheme has reached retirement, so the payouts are very small compared to the pay-ins. So yes, we do expect more than double-digit growth in AUM on a normalized basis within unit linked in the years to come.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay. Thank you for that.

Operator

And we have one more question, the last one in the queue, and it's from Peter Eliot from Kepler Cheuvreux. Please go ahead, your line is open again. Thank you.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you so much. Just one very small follow-up actually on the municipality business. I mean, obviously, congratulations on winning that contract. I mean, I understand that the activity has been much, much lower than we might have expected. Might we still get more good news this year? Or is that pretty much it? And could you think, I guess, how confident can we be that there'll be more tender next year? And maybe a few words about sort of the potential short-term pipeline would be great. Thank you.

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

Hi, Peter. Just one quick comment on the public sector first. We have also won more than the one contract with the Westland which we highlight here, but those are of smaller size. And I guess, Odd Arild can maybe also comment a little bit on the pipeline and how we think going forward.

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

Yes. I think first of all, when we talk about public sector we are used to talk and think about the municipality market. But there's a lot of also public companies that these days look into a situation when they convert from the old public pension schemes into more hybrid or defined-contribution type of schemes. We have had around, well, NOK500 to NOK700 million in inflow from these kind of companies also so far for this year. And there is also some very interesting tendering offering out in the market in the fourth quarter, especially for these kind of public companies or half public companies.

So yes, there is a pipeline also this year and of course, we expect a lot of municipalities to go out for tender offering during 2021. There was expected quite a pipeline in 2020 that was heavily changed due to the COVID-19 situation, but we expect that to come back, especially when you also see the opportunities to have reduced the price and better solution for the municipalities that comes from this competition.

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

So I think we guided previously on 20 to 25 municipalities tendering this year, that has been closed due to the COVID situation. But that is basically a delay not -- or a postponement and not -- that they are not going to tender. So it should be quite a good pipeline in the coming years.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks so much.

Operator

That was the last question in the queue. So I will hand a call back to you. Thank you.

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

Thank you very much. Thank you, everyone, for listening in today and the joining us. And again, save the date for 10th of December, you're all welcome to tune into our Capital Markets Day. And as I said, the registration details and so on will be posted in due course. Thank you very much. Have a nice day.

Operator

Thank you for joining.