Storebrand ASA Proposals for New Occupational Pension Products Conference Call

Company Participants

- Lars Loddesol, Group CFO & COO
- Odd Arild Grefstad, Acting Group CEO
- Trond Finn Eriksen, Head of IR

Other Participants

- Blair Stewart, Analyst
- Christoffer Adams, Analyst
- Karl Morris, Analyst
- Matti Ahokas, Analyst
- Trevor Moss, Analyst

Presentation

Trond Finn Eriksen {BIO 17132188 <GO>}

Good afternoon, ladies and gentlemen. Welcome to Storebrand's conference call regarding today's report from the Banking Law Commission on proposals on a set of new occupational pension products in Norway.

My name is Trond Eriksen. I'm Head of Investor Relations at Storebrand. Together with me, I have Acting Group CEO, Odd Arild Grefstad; Group CFO & COO, Lars Aa Loddesol; Communication Director, Jan Otto Risebrobakken; and Chief Risk Manager, Bernt Sagard.

What we will focus on in this call is the proposed new products and the process adapting Norwegian occupational pension system to the new public pension system and Solvency II.

Due to the relative short time to Storebrand's Second Quarter 2012 results, we will not comment on other development in the operation. Nor will we, at this stage, comment in detail on income and cost implication of the proposals. But will refer to this to some extent in our Q2 report.

As we have notified, the slide presentation will be running on the webcast available on storebrand.no/ir. After the presentation, the operator will open up for questions. To be able to ask questions, you will need to dial in to the conference call.

Let us now turn to slide number 2 of the presentation as I give the word to Acting Group CEO, Odd Arild Grefstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Trond Finn. And thank you for joining the call. The main purpose for today's call is to explain in some more detail the suggested proposal from the Banking Law Commission today regarding the new occupational pension products in Norway.

We'll also try to set the proposal into a context of a wider set of changes that have taken place in Norway over the last years to reform the public pension system, as well as the occupational pension system.

I will also give you our take on the suggested products. And discuss the next phase of the Banking Law Commission's work to find good transfer mechanisms from today's DB schemes into the new products, as well as finding solutions for the book of business that remains under the Head of Policy's regime.

If we then turn to slide number 2, let's go -- before we go more into the details, let me give you some overall summary.

Storebrand view the products suggested by the Commission today to be very positive. The products give the employees predictable and good pensions. Second, it gives the employers predictable costs and reduced pension liabilities in the balance sheet. And third, it gives the pension providers like Storebrand a way of managing and price its products in a much better way.

In combination, this reflects a very good basis for the next phase of the Commission's work to find good solutions when it comes to transfer existing rights into the new products.

The product suggested, in itself, looks attractive to Storebrand based on these criteria. First of all, it manages risks and, hence, is well adapted to Solvency II. It gives the possibility to price risk, administration and financial guarantees. And it is a product that combines the risk elements and pension savings that is good for our customers. And also makes the life insurers a natural provider of these products also going forward.

If we then move to slide number 3, this is an overview of the changes that have been on the regulatory area for a while. There has been several changes in the legislation for occupational pensions over the last years. The reason is that we, in Norway, have transformed the public pension system. And have also chosen to change the occupational pension to PBIT[ph].

The two most known changes was introduction of mandatory pension schemes back in 2006. And a new life law that came into act from 2008. The first one brought 16,000 new corporate customers to Storebrand. And the second one increased the quality of earnings by moving effectively more than half of our balance sheet from a profit sharing regime into a regime where we had the opportunity to price interest guarantee on an annual basis.

On January 17 this year, we got a White Paper regarding the possibility of to move paid-up policies with an interest rate guarantee into products without guarantees. And today, we have received a White Paper regarding new product rules.

You have the complete picture. Let me draw your attention to the current products we have on the book today. And that leads us also to slide number 4.

Today, Storebrand's got three main product groups on our balance sheet in Norway. We have the fee-based unit linked and risk products, NOK26 billion in reserves. These products are, as you know, well adapted to Solvency II.

Then we have the second group, the fee-based guaranteed business, with NOK86 billion in reserves. It is manageable under Solvency II. But is not well adapted to the new public pension schemes. And it creates also paid-up policies, which is a challenge under Solvency II.

In traditional profit sharing, we find paid-up policies and individual products and that totals to around NOK87 billion in reserves.

The traditional products are, as previously communicated, not well adapted to Solvency II and mainly due to the underlying duration and yearly interest rate guarantee. This is especially the case in the periods with low interest rates.

The Banking Law Commission has got a mandate from the Minister of Finance to, first of all, adapt the occupational pension system to the new public pension scheme. But also to provide regulation for the occupational pension system to work well also into a low interest rate scenario under Solvency II.

If we then move to slide number 5, we start to see how these three blocks really changes into the future. In the first place, was, as I said, from January 17, where we got the voluntary transfer from guaranteed to non-guaranteed paid-up policies.

We work with this product today and it will allow us to move reserves from January 1, 2013 from the guaranteed to non-guaranteed paid-up policies. Our target is from 20% to 25% in this area, to move into the non-guaranteed area.

If we then turn to slide five (sic), we'll see how the system moves further in the new regulation and that is the second phase. Really what we saw today is the new proposal for the new products. This is well adapted to the new public pension system and with a low interest rate environment and is risk manageable under Solvency II.

If we then move to slide number 7, the third phase will also be a very important phase, when we will see the conversion of existing rights into the new products and measures to deal with the remaining book of paid-up policies and other guaranteed products.

Then I give the word to CFO/COO, Lars Loddesol.

Lars Loddesol {BIO 3969188 <GO>}

There are two products proposed under the new proposal today, both built on many of the same fundamental principles. They are defined contribution, i.e., the contribution from the employer is defined and the costs are predictable for the employer.

And two, life expectancy adjustment, the same adjustment factor as we have in the public pension system is incorporated into the occupational pension schemes. This means that longevity risk is transferred to the individual.

However, the products are constructed so that the inherit mortality is divided between the survivors in the portfolio, i.e., those who die finance those who live longer.

Three, in general, there is a zero annual guarantee. However, by contractual agreement, the employer can choose either a higher guarantee or no guarantees, depending on preference and cost. The maximum interest rate guarantees and guarantee periods will be set by the regulator.

The main difference between the two models are that while the pensions in the standard model will be adjusted with salary inflation, paid for by the employer, in the basic model the pensions will be adjusted by the actual return.

Last but not least, as you can see, the possible savings level can be increased significantly, with generous tax wrappers. This will, over time, lead to increased savings levels for occupational pensions in Norway.

Flipping over to page number 9. The Norwegian public pension system is built around some key elements; a clear distinction between the contribution phase and the payout phase. And in the contribution phase, 18.1% of income up to 7,1G, which is then an adjusted figure every year and which currently equals approximately $100,000 or GBP60,000, is what an employee earns as his pension right each year. In addition, the pension rights are regulated with salary inflation.

The payout phase is based on flexible retirement age between 62 and 75. The annual payment will be adjusted to life expectancy at the point of retirement, just as it is in the pension -- sorry.

And number 4, with a 40-year max contribution, would equal approximately 50% of salary and this means that more is needed as the political objective is that you should have approximately two-thirds of final salary as your retirement income. And that's why we now have these changes in the occupational pension scheme.

Turning over to the next page, page 10, we try to illustrate the occupational pension scheme, the standard product. Seen from the employee's point of view, the most important features of the standard product are one, a clear distinction between the contribution and payout phase. Two, an addition of up to 7% savings on salaries up to 7.1G and a total of maximum 25.1% as a maximum savings rate up to 12G; Three, the pension capital is adjusted with salary inflation each year, like in the public pension system. And four, the payout is based on flexible retirement age between 62 and 75 and the annual payments will be adjusted to life expectancy at the point of retirement, just like in the public pension system that I mentioned on the previous page.

For the corporates, this should lead to predictable costs, not sensitive to interest rate level adjustment like we've seen over the last few years. Furthermore, there is a limited need to bring pension liabilities on the balance sheet. At least, it will be less of a liability than there is today.

It will have the risk of indexation of pension funds. But the excess return, over 0% in any one year, will be used for indexation. And three -- no, four, a possibility to agree either investment choice or guarantees at zero or higher. So if they chose investment choice, there is no guarantee and they can set the investment parameters themselves.

For the life insurers, there will be, as a main rule, a 0% annual guarantee, with the possibility to price this guarantee, like today. And two, the longevity risk is transferred to the individuals during the contribution phase and risk margin can be charged to the corporations during the payout phase.

Going over then to page 11, which is the basic product, the other product possibility here, the basic product is similar to the standard product, with two notable distinctions. The pension funds are adjusted with the annual return instead of wage inflation. And there is a somewhat higher maximum contribution rate of 8% of all salary up to 7.1G. And 26.1% maximum savings rate up to 12G.

For the corporations the main distinction from the standard model is that there is no need to bring pension liabilities on the balance sheet if there are no guarantees. And there is no risk for indexation.

For the life insurance, there are not all that many differences between the product -- the two products; however, we expect to see much more involved choice solutions in the basic product.

The main differences to the current defined contribution schemes is that there are an internal subsidization between those who die and those who live longer, i.e., there is no pay out to the estate when people die. But that means that they leave -- is left to for those who live longer. Two, there is a significant increase in savings levels, or possible savings levels. Three, there is a zero guarantee as a main rule; and this can be chosen -- or they can choose also investment choice.

Four, that there will be less of a balance sheet impact for corporations, if any at all, if there are no guarantees there are no balance sheet implications either for the corporations. And five, there will be a longer payout period for the individuals, it needs to be a minimum of 10 years, up to 80 years of age, or a life-long payment.

So those are the details I want to give you on the products. Handing over to Odd Arild Grefstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Yes and to start sum this up. Importantly, the new products that are proposed today have important features. First of all, it gives the employers -- the employees, predictable and good pensions. It gives the employers predictable costs and would use the pension liabilities in the balance sheet. And third, it gives providers, like Storebrand, a way to price risk and risk manage its products.

In combination this reflects a very good basis for the next phase of the Commission's work, defined solution when it comes to transfer existing rights into the new products.

Then I move to slide 14 (sic), with the summary. And to sum it up, Storebrand views today's proposal as positive. And an important step towards creating a sustainable occupational pension system in Norway, well adapted to the public pension system. But also well adapted to Solvency II. And will work on also a low interest rate environment.

The products proposed are positive for the stakeholders; it gives the opportunity to find a good solution, while transferring existing rights into the new products.

And today the Banking Law Commission and the Government has clearly stated about the next phase of the work. And that they will work to find good transfer mechanisms from today's DB schemes into these new hybrid products.

At the same time, the essentials are taking place. I will also use the opportunity to state that we are working hard in Storebrand to adapt the business into the Solvency II framework. And we will use the presentation, our Q2 figures, on July 13, to go more into details about this.

Some elements in this are, of course, costs and cost reductions, it's about adaption to Solvency II. And efforts we are taking to adapt the business. And also, of course, a broader take on today's announcement.

Trond Finn Eriksen {BIO 17132188 <GO>}

Thank you, everybody. The operator will now open up for questions. To be able to ask questions you need to dial into your conference.

Questions And Answers

Operator

(Operator Instructions) Matti Ahokas, Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

Two questions if I may. Firstly I know it's early days but the DB business has been very profitable for you guys for a couple of years already. And any thoughts regarding the profit margin, the gross margins on the new OP product as compared to the old DB product? Obviously, there is clearly less longevity risk and the guarantee risk is minimal. So how do you feel about the profit margins going forward?

And the second question is regarding I see on the summary you talk about winter 2013 as the page three timetable, I thought originally it was supposed to come during this year. But it is now being postponed some time into 2013? Thanks.

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

When it comes to the last question, Matti, let me start with that. There was a -- at the press conference with the Ministry of Finance where the Finance Minister, Sigbjorn Johnsen has clearly stated that he expected the next report from the Banking Law Commission to come at around the year end. However, in the report they are writing during the winter; the winter is December, January, February defined in Norway. So -- and I guess that brings us to year end.

The second thing he stated quite clearly was that the whole process, both this report and the next report, should be passed through parliament before summer.

A - Lars Loddesol {BIO 3969188 <GO>}

On your first question, Matti, you are correct that the earnings model in Storebrand will be changed with new products. And we will talk more about that during the Second Quarter presentation in two weeks' time. And we will -- these products, as we also said, will be Solvency II compliant. So there will also be less capital tied to these products. So we have to look at the earnings model and how much capital is tied up -- in together. But we will revert to these questions, as Trond Finn Eriksen said initially, during the Second Quarter presentation in two weeks' time.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay, looking forward to that.

Operator

Karl Morris, KBW.

Q - Karl Morris {BIO 7154573 <GO>}

During the presentation you were talking about 8% of salary as a contribution cap, if I'm not mistaken, prior to this legislation I thought contributions were about 12% of salary. So does that mean that the contributions will actually fall? So that's the first.

Secondly, when you're talking about the transfer from the DB scheme to the new products, I assume this is going to be voluntary and obviously you've given them targets for the paid-ups, 20% to 25% to transfer to the new product, can you give us any targets of how much of the DB book will move or will all of it move under these rules?

And finally, I think, well, just looking at Bloomberg, there's a -- one of the reporters is quoting that the Norwegian Minister of Finance has basically said that it's important to strengthen the solvency of insurance companies. I'm not exactly what that means; I just wonder if you have any comments on that, thanks.

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

I can start with the second one. When it comes to what is voluntary and what is mandatory here, when it comes to the first phase of moving paid-up policy into paid-up policy it's with investment choice that is a voluntary process. When it comes to the phase, the Banking Law Commission now are working with connecting existing rights in the DB schemes into these new products. That is not going to be a voluntary process as we understand it; it will be a mandatory process. But then again, of course, it's -- the process in itself will define how much of today's reserves and how this connection will be done, of course.

Q - Karl Morris {BIO 7154573 <GO>}

That's hugely positive from a capital perspective.

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

Of course, the new products will, in itself, be Solvency I compliant and it will not be a product where we will see new -- old paid-up policies goes out of these products. So that is an important conversion and a positive one, of course.

Q - Karl Morris {BIO 7154573 <GO>}

Yes.

A - Lars Loddesol {BIO 3969188 <GO>}

When it comes to savings rates, I suppose some of my colleagues can help me. But, in total, you can say that -- in the next phase also, we expect to be a change in the DC percentages, savings, that will come out of the process. That, today, is the 5% up to a certain level. And then it's 8% above that level. We expect the DC schemes to be much richer and tolerate much higher savings when the Banking Law Commission comes out with the numbers in the last phase.

So that will, in itself, be positive. And when it comes to the savings rates in these hybrid products compared to what you saw in the old DB schemes that is a bit hard also to compare, because it's a benefit based scheme; it's very based on what kind of wage inflation you have in the society. This will be a contribution-based scheme. So we have a very clear contribution on the annual basis.

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

Just if I may add, if you are going for the maximum saving rate in the standard model, then you will have an average of 14.3% savings rate and an average of 15.3% saving rate in the basic model. Both of them are quite comparable to the DB contribution today.

Q - Karl Morris {BIO 7154573 <GO>}

Understood.

A - Lars Loddesol {BIO 3969188 <GO>}

You had one question more, it was about the capital need of the Norwegian Life Insurers. We will revert to that also in our Second Quarter presentation. But, as you know, capital under Solvency II, that has a lot of elements. I think the most important source for capital under Solvency II is own funds. And then you go back to the profitability and how you really are able to price and reduce costs and get the structure of your products. And that is the capital base we are working very hard with in Storebrand to make sure that this own funds part of the capital will be the important part covering the capital need in the products.

Q - Karl Morris {BIO 7154573 <GO>}

Very helpful, thank you.

Operator

Blair Stewart, Bank of America Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

A couple of points to pick up. The first one is just on the transition or the next stage. You talk on page two about the new report being available in the winter. Then you go on to talk about the winter of next year.

Just some clarity on that, I was under the impression that the transition arrangements would start to be discussed and understood towards the end of this year and not towards the end of next year. So just some clarity on that; maybe that's my misunderstanding.

The second question is relating to what your view is on what this means for the longevity reserve building that you talked about and that you talked about over the last couple of quarters. What does it do to that, because you're clearly saying that the longevity risks in the new product are less?

And my third question is, really, what you expect customer behavior to be like between now and the implementation of the new products?

A - Trond Finn Eriksen {BIO 17132188 <GO>}

Again, if I can start with the timeline. If we have been imprecise, the timeframe is around the New Year, this year just to quote the Finance Minister.

My aim is that the parliament will be able to adopt a comprehensive plan for the new pension products, which includes regulations and the transition from existing to new products within the summer of 2013. So the next three quarters should be either December, January or February and then we are talking January/February 2013. So six months away.

Q - Blair Stewart {BIO 4191309 <GO>}

So sorry, Trond, why do you talk about winter 2013 in your slides? Is that a typo?

A - Trond Finn Eriksen {BIO 17132188 <GO>}

Well it's actually what it has been in the report. And I think yes, the winter of 2013 is January/February.

Q - Blair Stewart {BIO 4191309 <GO>}

I see, sorry, I understand, yes. So it's early 2013, thanks.

A - Lars Loddesol {BIO 3969188 <GO>}

The second question was about longevity. And of course, this new product in itself will have models to deal with longevity in a very good way.

The transfer from existing rights into these new models, it has to deal with a lot of elements. It has to deal, of course, with the savings in the product in itself and to connect that into new model. But it also has to deal with the longevity risk in itself.

So it's too early for us to really say how that will work in detail. But it's a very important element that is taken into account when we are looking -- when the Commission are looking how to move from today's regime into the new regime with the new products.

When it comes to customer behaviors, well, we have talked with a lot of customers. My view is that it seems like our customers today are looking forward to these new products. They are looking into the flexibility in these different models.

And I have quite some examples of some processes where customers have been looking on closing their defined benefit scheme, moving into defined contribution, where they have said that they will wait to see really how this new system works before they do that conversion. Because that is also important to have as an opportunity and discuss with your employees[ph] when you start a certain process.

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

In addition, it could be added that 80% of our clients have already gone over to defined contribution for a unit-linked base and non-guaranteed occupational pension schemes for their employees. However, they have the tail of both[ph] defined benefit on the books with existing employees. So the hurdle to make a hard close, i.e., close upon all the ones when they've already changed into the defined contribution scheme, is higher. And therefore, it's likely that many of them will choose to be part of the transfer into the new occupational pension scheme in due course.

Q - Blair Stewart {BIO 4191309 <GO>}

If I can just follow up very briefly. So you're saying on customer behavior that you don't think there's a high risk that you see lots of active schemes being made paid-up in the intervening period?

Then just on the longevity issue, is there a risk, or how do you guard against the risk that you have to make the longevity reserves good very quickly, ahead of these changes coming through?

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

On the customer behaviors, it's like Lars already has said, we have seen a lot of customers in Norway moving to defined contribution schemes. So there is soft close solutions from most companies. And it's quite a long way to go to do a hard close on the defined benefit schemes. That will be taken care of when you have the new hybrid products.

So my view is that it seems like a lot of the defined benefit customers today are waiting to see really how this new product will be suited for their customers.

When it comes to longevity, I would say that I don't see any large risk that we will have further, a short period, really, moving longevity risk or reserving for the longevity risk. It's a discussion with the regulator, with part of this discussion, when we look at the conversion from the old products to the new products. And to make sure that we also have a flexible way of taking care of the longevity risk from the old products to the new products. And I would say that is a very important of that total solution here.

Q - Blair Stewart {BIO 4191309 <GO>}

Very good, thanks very much.

Operator

Christoffer Adams, SEB Enskilda.

Q - Christoffer Adams {BIO 15217428 <GO>}

Earlier in the call, you said it was your understanding that conversion from existing products would be mandatory. Are you then speaking of new business from existing contracts? Or will there be a mandatory conversion for all existing business. So that the business with average guaranteed rate of return of 3.4% will be moved over to the 0% guaranteed business?

A - Lars Loddesol {BIO 3969188 <GO>}

Yes. Well just to answer that. When we look at the conversion mechanism, it is an aim in this process to move as much as possible from the defined benefit schemes today into these new products that have been released today.

Of course, that will be a part of the important discussion in the phase 3 of Banking Law Commission. And you know that the both life insurance companies, their employers and their employees are taking part on that discussion. So I'm not seeing that it will be an important discussion.

But of course, the aim is to create a system where you can move from today's guaranteed system into, let's say, the standard system in the new proposal. And for an employee, you will then move from maybe a 3% guarantee into a system which we'll have a 0% guarantee. But will also have your wage inflation guaranteed by your employer. And that can be quite comparable at the end of today's system.

Q - Christoffer Adams {BIO 15217428 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Blair Stewart, Bank of America Merrill Lynch.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes, just a follow up on the conversion; I know it's early days and there's a lot of negotiations going on but is it -- just to get my thinking or to check my thinking is correct, is it a case that each person within an active defined benefit scheme will have a certain amount of accrued benefits from the service they've had at the employer; and each person's pot, if you like, a value would be placed on that and it could be transferred over into the new system? So each individual person within the scheme has their own fund? Or would it be done at an aggregate level? What's your -- just to get an idea of your feeling on that topic.

A - Lars Loddesol {BIO 3969188 <GO>}

Now, also today, you have quite an individualized system in Norway. You have your own accounts on a yearly basis. So you are right, this will be on a very individualized system.

What you saw today is that if nothing more happens, then you will have all your new rights coming into these new products like the standard products. But then you will have a shift from existing accrued savings and the new accrued savings from 2014 will be given to new products.

But then, of course, the work during this autumn will then define how much of this accrual that can be taken out, or if all this accrual can be taken into the new standard products, with the new regime around it.

So that is also my understanding of these new products. And again, as you said, that will be a very important discussion during this autumn.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes. And in your opinion, what would be the barriers out there, legal or otherwise, to just moving across all of the accrued savings on to the new system?

A - Lars Loddesol {BIO 3969188 <GO>}

Well of course, this needs to be a system that works well both for all three parties discussing this. So that is, in itself, an important discussion.

Then, of course, it goes also with looking at what is -- I think it's easy to see what can happen with existing policies. Then you can see if you already are a pensioner in this system. It's maybe harder to move that into the new system.

So you can see that with a part of the assets under management in today's defined benefit scheme will be in today's benefit scheme. So I will -- believe it will be much easier to do this transferring with the open, existing contracts. So that is one take on it. Then you have, of course, also a much lower duration on these pension years compared to the open contracts. So that is one way of looking at it.

Q - Blair Stewart {BIO 4191309 <GO>}

And just to ask very finally, these existing accrued savings, those are all fully funded at the moment within the scheme. That's the employer's responsibility to make those fully funded. Is that correct?

A - Lars Loddesol {BIO 3969188 <GO>}

They are fully funded into schemes, yes.

Q - Blair Stewart {BIO 4191309 <GO>}

Yes, okay, great thanks very much.

Operator

At this time, no further questions.

A - Trond Finn Eriksen {BIO 17132188 <GO>}

Then we would like to thank everyone for the joining the call today. We will report the Second Quarter figures July 30. And we will revert with some more detail also on this issue then.

Thank you very much for joining the call today.

Operator

We have one more question if you can.

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

Okay.

Q - Trevor Moss {BIO 1741504 <GO>}

Trevor Moss, Berenberg.

Operator

Go ahead please.

Q - Trevor Moss {BIO 1741504 <GO>}

I just wanted to clarify what the situation is with the paid-up business. I think you mentioned a figure of -- or your expected figure of 20% to 25% of the paid-up policies likely to shift into the new products, I was just wondering how you came up with that figure, I suppose, one.

Two, over what timescale you expected that to happen.

And I think three, what you then expect to happen with the remaining 75% that don't -- or you don't expect to transfer.

A - Lars Loddesol {BIO 3969188 <GO>}

Okay, I can start with that. Well 75%, how do we come up with that number; that's a good question, of course. Well first of all, I would say that we have looked at our business within paid-up policies. And we believe it's much easier, of course, to make a good value proposition to the German people into that portfolio.

It's hard again to get a good value proposition if you already are in a pay-out phase of that portfolio. So it's a part of a segmentation of that portfolio. And how we look at our possibilities in that portfolio that they may just come up with this number. It's early days; of course, I have a lot of hopes for that to be much higher. But that is what we have set as a target when we go into that process.

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

I would say that the timeframe on that is -- we start with this in 2013. And we hope to do very much about this existing portfolio during 2013. Then it will be also processed going forward. But again, hopefully these products will leave us in a situation where these will be a real run-off portfolio, because you don't get any more paid-up policies out of the new products. So it's quite a short timeframe when we are talking about this 25%.

And on the third question, I would say that the third phase of the Banking Law Commission is about conversion from today's defined benefits into defined contributions. But it's also how to really make a regulation around the rest portfolio. And the rest portfolio here is the rest, of course, of the defined benefits scheme that is not transferred. It's also these paid-up policies. And to have a regulation around that is something that is already being discussed. And are part of the mandate as we understand it for the Banking Law Commission this autumn.

Q - Trevor Moss {BIO 1741504 <GO>}

I see. So just to clarify there, you're saying that by the time the Banking Law Commission comes out with some further discussions in the winter or some further proposals in the winter, that will also include how -- what the intention might be to deal with the remaining paid-up policies. Is that correct?

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

Our understanding is that, that is one of the topics that they will use in the process.

Q - Trevor Moss {BIO 1741504 <GO>}

I see, because this remains a portfolio that effectively is non-Solvency II compliant, if I understand it correctly.

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

Yes. It's -- that --

Q - Trevor Moss {BIO 1741504 <GO>}

Or, not compliant; compliant is the wrong word. But you know what I mean.

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

Yes, I know what you mean. But of course, this conversion that we are working with will take out the policies with the longest duration. So that itself will make the rest of the portfolio more suitable for Solvency II. Then again it's possible to do internal elements that will make it more better transferable into a Solvency II regime. But what they're talking about now is that regulatory framework around that regime that we, of course, work very hard to get changed.

Q - Trevor Moss {BIO 1741504 <GO>}

Okay. Gentlemen, thank you very much.

Operator

No further questions.

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

Thank you. Bye.

A - Lars Loddesol {BIO 3969188 <GO>}

Thank you. Good afternoon.