Q3 2012 Earnings Call

Company Participants

- Geir Holmgren, Managing Director Storebrand Life Insurance
- Odd Arild Grefstad, Chief Executive Officer
- Trond Finn Eriksen, Head, Investor Relations

Other Participants

- Blair Stewart
- David Andrich
- Karl Morris
- Matti Ahokas
- Peter Eliot
- Robin Buckley

Presentation

Trond Finn Eriksen {BIO 17132188 <GO>}

Good morning ladies and gentlemen. Welcome to Storebrand's Third Quarter 2012 Conference Call. My name Trond Finn, Head of Investor Relations at Storebrand. Together with me, I have Group CEO, Arild Grefstad; Group CFO, Lars Løddesøl; and the --. As we have notified a slide presentation will be running on the webcast, available on www.storebrand.com/ir..

The slide supplements the analyst presentation released this morning. In the presentation today, Arild Grefstad will give an overall view of the development in Q3 before Lars will give I think on the operational Storebrand development. -- then will then our overview on the measures Storebrand are implementing to improve operations and prepared for Solvency II. After the presentation, the operator will open up for questions. Today to ask questions, you need to dial into the conference call. I believe the Storebrands' CEO Arild Grefstad. Arild Grefstad will represent the second quarter results first Storebrand group starting on slide number two.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you Trond Finn. Now let me start on slide two on the results. The results for the quarters shown underlying good development despite a 181 million charge to cover restructuring costs in accordance with the ongoing cost program. Year-to-date results report profit sharing and loan losses had grown by 19% compared to the same period last year. Again excluding a restructuring costs.

On operational side, as communicated in the presentation for the second quarter Storebrand have a wide range of measures and their implementation to adopt the business model into Solvency II. And increase the robustness ion the interest rates environments. And let me quickly mention some examples of implementive measures in the third quarter. The cost program is launched and new initiatives are being implemented. The implement price increases for guaranteed products both in Norway and Sweden. And we introduce new products. And advice customers who will benefit from it to move guaranteed products, to non-guaranteed products, and expected higher return. In September the program moved around 500 million in Storebrand expertise to these non-guranteed products.

A positive equity markets combined with the credit spread contraction have led to a strong value adjusted return this quarter and year-to-date. In Norway, this has led to a market value adjustment serve of 2.4 billion and also a booked return of all the guarantees with an undistributed return of 1.1 billion. These 12 months together are important for first and that can be realized there in the fourth quarter.

On top of this, we have seen the health maturity reserve in growing by 3.5 billion to 5.3 billion. In Sweden, the conditional bonuses has increased so far this year by 1.2 billion to 8.4 billion. So all together a strong increase in buffer capital during the year. Then we move to slide number three, as a service to the analyst following the company, we have no have not added column showing the third quarter result excluding the restructuring cost in connection with ongoing cost program. This makes it possible to look at underlying results comparable from quarter-to-quarter.

We see at the life insurance bank and a lot of lease insurance segment shows very strong results improvements this quarter. The only segment thing left with a disappointing development is the asset management operations. We expect higher results than around on the 20s on a quarterly basis. We see that income is reduced because of customer allocation from equities through fixed income. Cost for Norwegian have increased due to the adoption to new regulatory requirements.

We also see that we have allocated 52 million of the short restructuring cost through asset management. This is a clear indication that they have a clear target for a substantial cost reduction within our asset management business.

Then we move to --, and now I'd like to start to jump over the different business units. And, go directly to the Storebrand Group operational reporting on slide number nine.

As you can see the Group result, or with this overview you can see the Group result split into the different components driving the earnings in the company. The result before -- sorry the result befor profit sharing and loan losses is increasing even if you include the provision for the cost program of 181 million. Excluding this charge there is an underlying growth of 19% year-to-date which is quite strong.

The fee and administration result shows an improvement in the quarter and has increased by 5% so far this year. The increase is slightly lower than we have indicated previously as a result of the lower income in the asset management company.

However as a result of the what we -- when we look forward at the income projections we can expect to see continuing growth in the fee and administration income and with the cost programs implemented, the cost level should go down. So that the fee and administration result will show a strong results in the year's ahead.

In the quarter, the holding company and company portfolio results are good especially there has been a very strong return in the company portfolios both in Norway and Sweden which gives a good result from this business line.

There is also lower cost in the holding company as such. The net profit sharing and loan losses shows a good result after profit sharing in the Swedish business as a result of strong recurrence there.

Flipping over to the next page, key figures, we see that the result for profit sharing and loan losses, the blue element in the graph on the open left hand side shows a satisfactory development, excluding the one-off charges. And, the quarter earnings continue to strengthen in the quarter.

Looking at earnings per share is NOK 0.87 after tax, before amortization. If we were to include, if we were to deduct the amortization result would be NOK 0.63 per share. The tax charge that we have used in the quarter is based on the old tax rules, new tax rules were published on October 8th, and we will spend fourth quarter to implement them in the tax reporting that we have going forward.

However I would like to emphasize that we have maintained the guiding on a tax charge of 20% to 25% of the result before amortization. Furthermore, I would also like to reemphasize that we have 7.7 million in net tax carrying those forward at the beginning of the year which will make us in order to have a payable tax charge for a number of years to come.

If we look at the solvency ratio and the solidity capital, solidity capital has strengthened significantly in the quarter with a surplus return with increase in the customer represent Norway and Sweden and the solvency position has strengthened somewhat despite a growth in the balance sheet in Norway and Sweden as well as somewhat lower interest rate level in Sweden. So the portfolio situation have developed favorably during the quarter.

And I'll give the word back to Odd Arild.

Thank you, Lars. Then we'll move to slide 12 but having Storebrand to work Solvency II. In comments with our release of the second quarter result, I'll spend some time on the main levers to transform the business from Solvency I to Solvency II. I will again focus on our internal measures that are being implemented to improve our competitiveness and comparability to the Solvency II result.

But first one minute on the domestic and the AU level. First of all, the work to transform the Norwegian occupational pension system is still ongoing. This autumn, the banking law commission is working on conversion rules for existing pension liabilities within defined benefit into the proposed new hybrid products.

Of course this is a challenging and complex cost but we have no reason to believe that there will any delays. So, we still expect the new proposal to be out in the market before year-end. When it comes Solvency II process on the AU level, there has already been postpones in the process. Because of this delays, we now see that this two process, there is highly likely and that is Solvency II highly unlikely that the Solvency II will be implemented on the 1st of January 2014.

It's still not clear. Will, if it will then be 2015 or 2016. But it's quite interesting to read that what Carlos Montalvo the Executive Director of the European Insurance and Occupational Pensions Authority, the EIOPA said that some days ago and I read from the paper, Mr. Montalvo said if we were going for 2015 everything would have to be perfect and only my wife is perfect, having that he expects Solvency II implementation now to be delayed until 2016.

When it comes to Storebrand in our perspective, we feel it's very important for us to keep up the momentum in the Norwegian legislative policies and regardless of the European process. It also makes very much business sense for us to fulfill our cost programs and also do the conversion of the business, internal capitalized environment. So we have full focus on our internal measures towards 2014.

I'll spend the rest of the presentation now on our internal measures moving to slide number 12. First let's remind ourselves of the ambition. We have a clear target to manage the transition in the Solvency II without raising new equity capital. And last quarter, we went through the four and main categories to fulfill this ambition. First of all, capital optimization, these measures aim to take the capital in the group available under coming Solvency II regulations.

Then we have risk reduction. Main purpose is to adopt asset allocation to the current prospects of the liabilities. This typically includes increased duration under the used allocation practices on our product level. Then cost reduction, through a reduced costs, and increased profitability, increase this available capital with all front ramification.

Then on the product side this includes both moving customers to profitable products under Solvency II. But also changes in product terms and conditions, and prices is important to increase the capital situation to about Solvency II. And this quarter, we have worked with this different categories and let me give you some examples of what we are implementing and having implement already.

Let's start on slide 13, on the cost program. Last quarter, we announced the target of annual cost savings of 400 million. Drove down our cost base in 2014 of 3.5 billion. Focus in the third quarter has been to identify the levers to reduce cost to reach this target and as we see on the right hand side, we have identified 75 different measures, 12 of them already have been implemented, as we show in the graph. We follow this on a monthly and quarterly basis to make sure that we fulfill the total cost savings of 400 million. There is also a lot of focus on develop new tasks and measures that can make sure that we get the 400 million and even more going forward.

We are also being now clear to take the restructuring costs on the company level, having up to 181 million in connection with the cost program.

The measures are ranging from a lot of different elements. Most important is of course the mining costs and also cost of sourcing of IP systems and so on. We gave the number of 300 people in the reduction to fulfill the 400 million obligation and we have already during the third quarter have been able to have voluntarily lay out of 80 people, employees to fulfill this cost program.

Going forward, there is a lot of other measures in pipeline and one of the important measures is to scale up our operations in Storebrand Baltic and this expansion will reduce the numbers of employees in Norway and Sweden accordingly.

There is a complete cost breakdown provided in the appendix of this presentation that makes it possible for you to fulfill our full R&D cost reduction program on a quarterly basis.

If we then move to slide 14, if the number also possible adjustment in the pricing of the guaranteed products. These efforts needs to be reviewed in our also in our Solvency II context. Again in the second quarter we have already introduced the increased prices on the private sector pension. This quarter we also introduced 20% uplift in the price for interest rate guarantees and profit from risk. And we also introduced 2% up-front fee for old, new and guaranteed paid-up policies that is issued from the 1st of March 2013. There is also different measures taking place in SPP on the guaranteed business a 15% increase in management fees.

And, also doubling on the fixed fee, on the different contracts. Altogether this is forceful measures and it is important for us to increase the profitability in the products and reduce the total technical needs in the products in themselves.

If we then move to slide number 15, and we see that the reduced cost and increased prices are two measures to improve the product profitability and strengthen the capital position under Solvency II. Another measure is to move customers from guaranteed to non-guaranteed products. The benefit for the customer is robust that they will move into products with higher expected return. Considerable sales force reports in the quarter have been focused on moving and across the most to non-guaranteed products and altogether, we are moved in Storebrand expertise grown a 500 million in this six weeks altogether.

The next phase of this work is really to make sure that we are able to lift paid-up policies in Norway from 1st of January 2013 into investment choice type of products.

And let's move to slide number 16 to look a bit on this work. First of all, we have the products now clear for the customers. We use very much of the same products, we do for the prime contribution products, but we've also introduced them new life cycle product that is very well adapted into the new paid-up policy products.

We also have the marketing campaign under sales campaign ready to launch and very much over retail sale forces focused on this policy during 2013. And, operations of our team in place, make sure us to move working on new contracts and IP solutions for the electronic conversion are also in place. And, so more details on this is a big operation for us. We expect this to have an 270,000 workers, 130,000 emails, 220,000 coals and arrange 42,000 personal meetings during 2013 in this campaign.

I think then moved directly from slide 16 to slide 18 to summarize this up. In total this is a good quarter, we have strong customer research and good underlying results. And especially we see a strong development of the high quality earnings during the quarter. We have a significant strengthening of the balance sheet but the capital as I already have talked about is increased a lot during the quarter and we've flexibility during year-end.

We have also implemented a number of measures to create a more robust Storebrand. It's cost reductions, it's pricing elements on guaranteed products and it's moving customers from guaranteed products to non-guaranteed products and we are also ready and prepared for the battle of moving paid-up policies into paid-up policies with investment choice from the 1st of January 2013. Thank you.

Trond Finn Eriksen {BIO 17132188 <GO>}

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

Questions And Answers

Operator

[Operator Instructions]. First question.

Q - Matti Ahokas {BIO 2037723 <GO>}

Matti Ahokas, Handelsbanken.

Operator

Go ahead please.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yes, hi. Two questions if I may. Firstly on the Solvency II issues as you've discussed. What do you think this continues delay of Solvency II, how do you view it from your point of view, is it positive or is it negative and how should one take this into account with the dividend payout of this year and next year obviously you don't know which solvency regime to look at then and so it would be very interesting to hear your thoughts regarding this and especially the dividend payout for this year because last year you said that the uncertainty regarding Solvency II was one of the reasons why you scrapped the dividend?

And then the next question is on page number four, it's been a very interesting slide by the way. What is the net impact of all of these and how should one look at this price increase. Does this mean that the admin result on these different product lines goes up by for example in the defined benefit public sector by 25% or the premiums. It sounds good but how should one factor this into the model line, and especially the result per product line? Thanks.

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

Again, well as I said when it comes to the Solvency II process. We are very much doing in our balance sheet, and also with our cost programs. What we feel is the right thing to do with business anyway. And be prepared with the same speed as we done without the Solvency II would be in place in 2014.

So, this is the right direction for the business anyway, and we have the full speed ahead of this different tasks. When it comes to dividends, they we'll instead remain our ability to of course to make sure that we have the right capitalization into new regime. And again we also said that this abnormal situation for us is not to be in the market paying dividends and there is lot of elements going on now we have the new rules from the Banking Law Commission coming in the two months, and I think we have to revert to the situation saying that there is not the natural situation for Storebrand not to pay dividends. And I don't think Geir would you like to answer part of the pricing issues?

Q - Matti Ahokas {BIO 2037723 <GO>}

Sorry, if I just may on the first question but do you think it's positive or negative from your point of view that Solvency II is being delayed?

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

Quite balance on it on one side I think of course it's positive that the regulatory framework itself has a longer view that is not a regulatory constraint that makes us on a very early stage, sure to be have more time before that becomes a reeled boundary on the business so to say.

On the other side of course it's not good to be have uncertainty, and as the uncertainty around changes in the regulation on the EU level for a long time now and uncertainty around future regulation is of course not a good thing in itself. But anyway I think the totality of it is we view it slightly positive because we all have the time and we also do the right measures we don't lose to again the speed in that direction to launch the right way of running the business that is very much aligned with this whole business regime.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. Thanks.

A - Geir Holmgren {BIO 17639172 <GO>}

Okay. Think from -- and risk profit margin is on approximately around 550 million on elevated. Then we have a lot of changes in the balance sheet during 2013 because we expect transfer outs in the public sector approximately NOK 5 billion to NOK 6 billion during 2013 as a result of the pricing increase in that sector.

In the private sector, we have the -- you see on new pages from the 1st of March an increase in the level of the pricing for the interest guarantee, but it's such as the affect during 2013 because we expect a lot of time to that to convert from DB to DC during the last year we have seen that on annual basis approximately NOK 5 million to NOK 6 million have been paid us because of client transferring their pension scheme from DB to DC and our during this research the clarification do that in the beginning of the year about 50% of those charges will probably happen during January or February in 2013.

And then the new fee for the pay is still actually not applied for the payment of these charges. So selling interest, and we can probably expect increase on the total income from the fees from product guarantees, interest guarantee and from the profit margin but I expect close to -- million a year to 200 million but that was very hard number to estimate and adds lot of uncertainty currently to it.

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

When it comes to the Swedish business, I think the measures altogether here is a net affect of around 20 million.

Q - Matti Ahokas {BIO 2037723 <GO>}

Great. That's very helpful.

Operator

Next?

Q - Robin Buckley {BIO 3596512 <GO>}

Robin Buckley, Deutsche Bank.

Operator

Go ahead please.

Q - Robin Buckley {BIO 3596512 <GO>}

Yes. Good afternoon, just a couple of questions, if I could. First of all I didn't catch in my thoughts just, but did you give a figure for how much of the defined benefits fund are you expected to leave as a result of price increases, I thought I heard you say 5 billion to 6 billion. But, if you could perhaps just confirm that?

And second question is just related to what scope there is to increased pricing in your products from any other actions as well? And then the my final question is just related to the upcoming Banking Law Commission report. Do you have any indications of what direction the, thoughts are going on and any sort of update you can give around that? Thank you.

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

If I just start to sum it up. I think first of all, we've talked about the public sector in the second quarter and of course what we gave you the price elements there I was very clear about going whole to more or less from the public sector guaranteed business. And we expect that to give out in a situation where around 5 billion to 6 billion perhaps result this year. When it comes as a price issues that is the -- when it comes to the public, the private sector from that increase of the price of the interest guarantee and also introducing this fee of on paid-up policies.

That is very much inline with what we see other players do in the market. So this is not increasing in our lines, that's transfers from in DB into DC, but there is of course an ongoing process that we have set they have already for years that there has been closed the DB books and start off DC books in itself.

But this price and announce this also very much what we can expect to see it is all interest rate level we have in the market and we know right price of the interest rate guarantee going forward. So I think at this time what Geir said was that if you do have all the balances going forward and use that numbers from this year, you could expect maybe 200 million in increased results.

But because of the movements in the balance this year, we expect that to be a lower number mainly because rolled out lower in the public sector but also because of that the conversion this year on other elements and also the introduction first from 1st of March on the paid-up policies. So it is more likely to be around a 100 million number I think for the Norwegian business and you have the 30 million on the Swedish business on top of that.

If you look at other price elements of course there is a lot of price elements both in a low ramp than we have now been running through by much of the guaranteed business but price adjustment that you do on an annual basis on the defined benefit scheme and/or is a new price element based on the solvency fee and on the paid-up policies. We have a lot of tools, of course available that looks -- this is what we now introduced for 2013. Of course there is a competition also going on here, and we have to look at the competition in the markets. As a part of all this pricing issues. Then the last question was about...

Q - Robin Buckley {BIO 3596512 <GO>}

Banking Law Commission?

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

Banking Law Commission. Yes. Of course the Banking Law Commission now is working with a third phase of the work first phase was paid-up policies. And we expect more to be clear now on Friday. Then the second phase was to introduce -- directly before summer. And we expect them now to be able to be out in the market with a conversion from DB into the new products by year-end. I would say it's a process with high speed, it would not be right for us to comment and have any speculation I think about the policies at this stage but we expect to have the outflow from that before Christmas.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay. Thanks very much.

Operator

Next.

Q - Blair Stewart {BIO 4191309 <GO>}

Blair Stewart, Bank of America Merrill Lynch.

Operator

Go ahead please.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks very much and good afternoon, a few questions from me. Just picking up on the impact of the price increases that you are putting forward. Just to confirm you did comment that you thought that you were moving inline with the competitors, that was the first thing I wanted to pick up? Secondly on the paid-up policies a 2% up-front fee I just wonder how significant that is given there is hardly any new paid-up contracts at the moment. I believe and probably even fewer going into the future if the legislation goes the way you expect? So just trying to get some clarity here and there and as opposed more generally there seems to be a lot of moving parts on your profits expectations and you've talked in the past about the business being capable of generating around 3 billion or so of earnings.

And I just wondered where we are relative to that number are the cost cuts and the price increases that you're implementing intended to maintain a business that can earn roughly speaking 3 billion of earnings before tax? So sorry that's a detailed first question or set of questions. The second one is really just drilling down into the investment management business, this is our business that's been earning of the order of NOK 250 million to NOK 300 million. And clearly we're at a fraction of that level at the moment in terms of run rate and I just wonder how quickly you're expecting that to bounce back as you're thinking in terms of the outlook the earnings for that business over the next couple of years are we going to be of the order of 100 million or is it going go back to the 200 million, 300 million level? Thanks very much.

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

Thank you. Starting with the price issues, first of all yes we have the impression that what we do in the market, now when it comes to the private sector, and also for the paid-up policies is very much inline with what we have seen competition and the competitors do in the markets. When it comes to paid-up policies and there is not a transfer market for paid-up policies but of course as you have same defined-benefit schemes that are being -- lost into defined contribution, that creates new paid-up policies.

And, you also have turned over in the different companies that have active paid-up -- active defined-benefits so that leads also in a situation that we have new paid-up policies coming into the balance sheet. So it's quite and I think if you look at the last quarter it was 2 billion in increase or something in paid-up policies so there is an increase in that portfolio that will be effective with on the result line with the research and instrument that's the 2% charge that we're seeing here.

When it comes to the guiding I think first of all we are planning to have a Capital Markets Day in March where we have to look at all the different parts and pieces again and especially of course the new rulings from the Banking Law Commission we will have quite an impact let me give you an example, if we have a movement now from the existing defined-benefit schemes that moves into more or less partly this hybrid products, then you will have a lower I expect price range with regard to it. But then again also a lower capital in the business. So there is changes in the balance sheet and in the result generation. What we see when we have the line we have drawn from 2012 to 2013, we're very well inline with estimates on the existing business with the existing segment but of course new rules and changes in regulation will have to be taken into account in 2014 where the new regulation is active.

You mentioned 3 billion there, and obviously the 2.5 billion core earnings that's goes up set on the North Capital Markets there and we are progressing towards that in 2014 one year behind plan as we've previously announced. The other 0.5 billion you take is from the net profit sharing and loan losses as we are de-risking the business and building buffers with our surplus returns obviously that amount is going to look a little lower and then although interest with changes in the regulatory framework in 2014 we need to update the forecast with new regulations.

On your last questions the asset management business. The asset management business shows a weak earnings development in the second quarter and more so now in the third quarter some of these issues are related to one-off charges those are one-off issues but on the income side and cost side nevertheless the results are weak. The results will pick up with booked profit sharing bonuses in the fourth quarter as we used to book that in the fourth quarter and with the measures that we are now implementing both on the cost side and on the income side, and on the income side there are a couple of different things happening. One thing is, the fact that we have a quite strong growth in assets under management that is positive.

The other thing is that when we are now implementing these programs on transferring business from guaranteed schemes to non-guaranteed schemes, you will see a shift from investments with low risk and low equities at all into products with a much more long-term sound balance of -- investments valid allocation which means about 50% equities. So that in total also increase the margins in that business over sometime. So, we expect the asset management business to pick up again, and continue the positive development that we've seen over the last few years, after a different 2012.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

Operator

Next? {A:David Andrich:Morgan Stanley:} David Andrich at Morgan Stanley.

Go ahead please.

Q - David Andrich {BIO 15414075 <GO>}

Hi good afternoon. I was wondering if you could maybe comment on how the developments of the 400 million in savings will come through in 2013. Do you expect they're coming through materially in the first quarter or sooner, and do you think it'll fairly evenly spread or quite chunky?

Second, I know is that you sold down a significant portion of your gifts exposure in terms of Italy, Ireland, and Spain. And I was wondering if you give some comment on what the impact of that was in the quarter? And finally, would you mind giving us some updates on the longevity provisions that you spoke about in the first quarter? Thank you.

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

On the 400 million, the -- put in place to have a lower cost level from 2014 and you will get the full impact by 2014. The impact will come gradually and increasingly through to 2013 i.e. you will see not too much in the first quarter as success have been more through the second, third and fourth quarter and you'll see the full affect in 2014. With respect to the -- exposure was not sold down but they were a number of bonds maturing coming to maturity. And as we've said all along, we are bidding down the portfolio in a careful manner and waiting for some of these factors to go into maturity which I have to a lot extent done this quarter. We'll continue to drift down the portfolio but not force -- at the bridge.

And on your third question on longevity, the FSA Norway has indicated that they are going to publish a new mortality table in the fourth quarter. However, we see that the management for now are looking at mortality tables and longevity in connection with the new occupational pension schemes and we do not know exactly what is going to happen whether we are going to get these new mortality tables in the fourth quarter or whether mortality tables would be to fit into the new occupational pension schemes?

Q - David Andrich {BIO 15414075 <GO>}

Okay. Great. Thank you.

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

I think I'd like to also add to that. That we're able to build an unspecified reservation in the last year of 1.5 million towards these potential longevity resulting. And of course with the buffers, we now see in the second quarter about 1.2 billion in the return of about the guarantee level and also 2.4 million in -- gains. And various and good opportunities to also do quite a strongly serving at year-end 2012.

Q - David Andrich {BIO 15414075 <GO>}

Great. Thank you.

Operator

Next.

Q - Karl Morris {BIO 7154573 <GO>}

Karl Morris, KBW.

Operator

Go ahead please.

Q - Karl Morris {BIO 7154573 <GO>}

Good afternoon I just have a couple of questions. One could you update us on when we should be expecting the new tax legislation to come into force whether it's going to be in the fourth quarter or in the next year, I understood it's going until this year? And secondly in terms of the price increases in the DB book, on your guidance of a 100 odd million in actual revenues coming through. Do you employee that, although that certainly employees that you're certainly expecting some of the reserves to just trying for them paid up. And, I actually thought that Storebrand would want to avoid that at all cost. So the timing of these price increases probably encourages that to happen.

So, I just wanted to get your thoughts on that why you are potentially putting a price increases through the book which will encourage that sort of behavior?

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

Let me start on the second one and lastly I will comment on the package afterward. First of all the price on the interest rate guarantees very much aligned with the model we have in place. Reduced interest rates will have a very large impact on that so that is giving normal price increase. And, that is also what we see from our competitors in the markets.

When we have the transfer out from this portfolio, that is very much from the public sector and the public sector has now paid-up policies issues there is no paid-up policies for the public sector products so that is at clear transfer out from us into technicality the more or less -- in the public sector.

So we don't expect the this price elements on defined benefits to encourage for moving to what's defined contribution and increased paid-up policies that is not our expectation but there is a turnaround in the portfolio that we still have that affect strong on demand through defined contribution as such.

A - Geir Holmgren {BIO 17639172 <GO>}

If I just may add the 2% -- paid-up policies only applies to guaranteed paid-up policies so if you get the transfer to paid-up policies with investment choice then after that there is no need to pay 2% up-front fee in this way -- and and some -- are the same as such then -- which also could be helpful and on the tax issues White Paper was published of all days on Sunday January 1st this year. Saying that the tax increases would be valid from January 1st the same day and then there has been some work on making this into a new law. And, that was published on October 8th.

So the law has affect from January 1st this year. But, we have to rebuild our reporting to the final text of the, law which we've not been able to do since the short period since October 8th so that will happen in the fourth quarter. And, we will have full tax reporting according to the full tax reporting according to the new rules by year-end. And as I said in my comment a little bit earlier here. We can maintain the pricing that we will be paying or that way we will be charged 20% to 25% of result before amortization in tax going forward and that we will be able to use the tax to carry those forwards that we have for three or four years before we come into a situation with payable taxes.

Q - Karl Morris {BIO 7154573 <GO>}

Great. Thank you.

Operator

At this time no further questions. [Operator Instructions].

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot, Berenberg Bank.

Operator

Go ahead please.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I'd say I sort of -- my line disconnected a couple of times so I am sorry if I go over ground that's already been covered, hopefully it doesn't involve for that but if I could ask a few questions. Firstly on the pricing side, could you just -- I know you I think you have said that others are doing sort of similar price increases, can you just talk about, given that you are doing one parts, is there any reason that you couldn't increase the price even more than the 2% that you are currently charging?

Second thing on the less impact I know you have given some figures again I am sorry if I missed this, maybe a little bit confused but based on the current book if you ignore and so the future transfers out, are you able to say what the current net impact would be on the business as you see it today? And then again is there any reason that shouldn't to the bottom-line. And given that you've announced these price increases now I mean I appreciate that some of the ones have impact on March next year.

Is there any reason that we shouldn't see the price increases having a similar impact on capital to the cost savings that you've announced. I know is there any reason or in terms of the timing but these will flow through to the embedded value can we expect given that already be announced can we expect some of these to come through at the end of this year? Thank you.

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

Okay. First question about just the first increase in positive resulted from 1st of March 2013. What is important for us is to continue to get down other client in this situation now and they are actually waiting for the new pension products which will confirm in 2014 we will not force any client defined-benefit to defined contribution so the level of 2% is actually trying to balancing the need for increased income from paid-up policies but also in fact we're having a good dialogue and giving good price to main customers that are having still DB plans.

On your second question, the price increases if that they are lastingly increasing the profitability of the products I think that will increase the margins and therefor as a Solvency II front and the capital and EV et cetera. However if the price increases leads to change behavior for the clients so that for example the net rate increase which we do expect from the guaranteed products and which we want from the guaranteed products then obviously some of the affects will be reduced by an upstream and that's why we are -- we need a little bit more time to model this in an appropriate way and get back to you in the normal MCV reporting in March, and also increasingly giving you Solvency II numbers as they come forward here.

I think you also asked what would bidding act if you just look that while normally like 2012. And of course I think as we already have said 20% increase on 560 million that would have been 110 million in increased result directly on that line, and then on top of that if we have for the full year let's say a 45 billion increases in paid-up policies, the 2% charge that will add another 100 million that's why we say that this could have been upto 200 million implemented for this year. But then again there is a four months period we need to the use towards our clients before this is parted up and that is 1st of March 2013. And we expect some conversion to DB where to paid-up policies will happen before that. And also we have the special situation with public sector volumes that we expect to be run-off over two years superior period and around 5 billion to 6 billion by the start of 2013. So that is complicating the picture some more and that's why we say that we expect this 200 million plus to be more close to a 100 million.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much and sorry for repeating, going at a previous calendar.

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

Well, then.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you.

Operator

Next.

Q - Matti Ahokas {BIO 2037723 <GO>}

Matti Ahokas, Handelsbanken.

Operator

Go ahead please.

Q - Matti Ahokas {BIO 2037723 <GO>}

Yeah. Sorry two follow-up questions, if I may. Firstly on the Swedish tax rate cut and the impact on SPP, will that have many impact on SPP next year and obviously on the Group results as well? And then a more a detailed question on the life insurance the 88 million restructuring provision and how is that split up between the different business lines, i.e. DB, DC and the paid-ups? Thanks.

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

On the first question, the Swedish tax rate, tax rates has been lower that's obviously positive and we have tax optimized the group structure to the old tax regime and we will obviously make sure that we optimize the Group structure with the new regime. I don't want to go, we will comeback to you with reporting on that when we get to the fourth quarter.

With respect to the life, we haven't split off the 88. Except for one thing we've said that 9 million on the 88 will be taken in products with the profit split and by the way, they are fully recovered by in the customer returns. So 79 million will get shareholder return. But, apart from that, we haven't done a further stats?

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. But, if I look at on page 13, the admin result for DB in Q3 is 164 million. So, this is not the restructuring provision here?

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

Yes. That's correct. That's a restructuring provision as split out in the supplementary information data with the different product lines, as a part of the result. But, I haven't got the split of that compared to the other elements lying in the same figure.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. Great. Thanks.

Operator

Next?

Q - Blair Stewart {BIO 4191309 <GO>}

Blair Stewart, Bank of America Merrill Lynch.

Operator

Go ahead please.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Just a quick one. The 400 million of cost savings that you're targeting. What should one expectation is to how much of that will fall down to the bottom-line?

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

We expect all of that to fall down to the bottom-line. That is total cost reduction that we expect to be fully taken out in the bottom-line. Of course a part of this have an impact also on the income side and that is mainly that how we expect that. Because a part of this is really taking into account that we lose 20 million assets to investment on the public sector and that is main element that also have income element in and of course as we said when we neared on -- looked at least on the second quarter, we saw that this was not a profitable product, taking into account the capital constrain in the product altogether.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. That's great. Thanks very much.

Operator

At this time, no further questions.

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

And we like to thank you all for joining us this call of this year announcements. And then remind to those of you who are looking -- there will be at the -- insurance institute tomorrow at 2 O'clock. Hope to see you there. --. All right. Bye.