Storebrand ASA Conference Call On The Banking Law Commission's Report

Company Participants

- Jan Otto Risebrobakken, Director of Public Affairs
- Lars Aa Loddesol, Group CFO
- Odd Arild Grefstad, CEO
- Trond Finn Eriksen, Head of IR
- Unidentified Speaker, Unknown

Other Participants

- Blair Stewart, Analyst
- Matti Ahokas, Analyst
- Peter Eliot, Analyst
- Vegard Eid Medias, Analyst

Presentation

Trond Finn Eriksen {BIO 17132188 <GO>}

Good afternoon, ladies and gentlemen. Welcome to Storebrand's call regarding today's proposal from the Banking Law Commission on transitional rules in the new private occupational pension products in Norway.

My name is Trond Eriksen, I'm Head of Investor Relations at Storebrand. Together with me, I have the Group CEO, Odd Arild Grefstad; Group CFO, Lars Aa Loddesol; Managing Director Storebrand Life Insurance, Geir Holmgren; and Director of Public Affairs, Jan Otto Risebrobakken.

As we have notified, the slide presentation will be running on the webcast, available on storebrand.no/ir. In the presentation today, Odd Arild will give you an overall view of the actual proposal as to the Storebrand take on that. After the presentation, operator will open up for questions. To be able to ask questions, you need to dial into the conference call.

However, as these proposals are new, we need some more time to the detail on the Q&A session and on the implication of our operation, earnings and cash flow coming out of this report. We will perhaps only be able to answer such questions in general matters.

I will now leave the word to Storebrand's CEO, Odd Arild Grefstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Trond Finn. And as Trond Finn said, the Banking Law Commission's report today had the objective describe solution for moving existing pension rights earned under the old legislation into the new products under the proposed new legislation.

The report makes it clear that all new premiums will be earned in products well adapted to low interest rates, longevity and Solvency II. And all present guaranteed products will be open for conversion into non-guaranteed products with investment choice.

There are some clear positive elements in the report. First of all, the report suggests increased maximum savings rates on Defined Contribution. The report also opens for more flexible guarantee structure under the paid-up policies, which allows for an adequate reserving period for longevity. However, the final rules will be put down in amendments to the law from the Ministry of Finance and the effects on IFRS and Solvency II then remains to be seen.

The report also contains several objections from different members and we expect the report to be debated over the coming months of the hearing and in the treatment in the parliament. And the plan is for the legislation to be completed during autumn 2013.

If we then move to slide number three, this is a recap of the occupational pension products in Norway. First of all, we have up the paid-up policies, around NOK70 billion of the reserves in Storeband, which have an annual interest rate guarantee and a long underlying duration on the pension obligations. And it's the main challenge when it comes to Solvency II, given today's interest rate level and also risk manageable ability [ph]. New paid-up policies are coming from DB pension plans but no new premiums are coming out into these products.

Second, the DB plans have traditionally been the main pension plans in Norway. However, over the last six to seven years, most companies have chosen to open DC plans instead. It's still the largest product in Norway measured in premiums and the product, in itself, is well adapted to Solvency II. But since it creates paid-up policies, it becomes a challenge also under Solvency II. And finding good transfer solutions for this product has been the main objective in today's report from the Banking Law Commission.

Thirdly, we have the hybrid products, that is still not existing but was proposed by the Banking Law Commission in June. These products are, of course, well adapted to Solvency II, as also the DC products are. And all the sales we are doing these days in Norway are, of course, into the DC schemes.

One the next page, I will comment on the suggestions from the Banking Law Commission and starting with the Defined Benefit product. The proposal is that the product will exist only for three more years. However, the suggestion is that older employees, that is born before 1962, can continue to stay in the product until retirement. The main rule, however, is that all companies with DB products today have to start new pension plans, either in a new hybrid product or starting a Defined Contribution plan.

The current earned reserves, including the additional statutory reserves, will be distributed to the individuals within the DB schemes, as a pension certificates. The pension certificate must be sufficient to cover all liabilities at the time of the pension payment. The funds will be managed separately until retirement.

And there will then be two types of pension certificates; those where the employees still pay for the administration and the pension certificates that is fully paid up, this is similar to what happens to the paid-up policies. So if you look closer into the paid-up policies on the next slide, slide number five, we see that the paid up policies today will be converted also into these pension certificates.

Pension certificates will be a right to a certain amount of payment during retirement. Unlike today's paid-up policies, they do not necessarily consist of an annual guarantee. If the pension certificate is under-funded during the duration of the contract, a step-up plan will be presented. And the Ministry of Finance will come with detailed rules on step-up plans in an amendment to the law.

The rules on the step-up plan will decide how favorable a pension certificate is towards Solvency II compared to the traditional paid-up policy. No need to say, the work on these transitional rules will be of great importance.

Another important feature of defining the payout as the right, is that it opens to having a more long time horizon for increasing longevity reservation. We expect more news on longevity in the end of January or in the beginning of February.

Another important element is that the pension certificates are managed separately from new premiums. This still gives the opportunity to have another treatment on all the earned rights for it [ph] stands under a Solvency I regulation.

The Banking Law Commission also opens for voluntary conversion of the pension certificates into investment choice products without guarantees where the guarantee for the end payment is abandoned.

On the next slide, we have an illustration showing that it's a constitutional right for the guarantee that is earned so far. And the report adds together then today's pension reserve with the additional statutory reserves. This will be a pension reserve that needs to be sufficient for the annual payment, based on the estimated life length and the guarantee and we can revert on that later on.

If we then move to the next slide, slide number 7, it's on Defined Contribution. And Defined Contribution product was not of [ph] scope in this report. But the Banking Law Commission suggest to increase the maximum saving limits on the DC products and suggests the level to be similar to what is proposed for the hybrid products. And that is a maximum of 26.1%, well above today's maximum on 8%. Further, it's suggested it will be up to the FSA to decide on maximum levels. So the maximum levels can be adjusted over time.

If we then move to slide number eight, we now are in the process where the third report from the Banking Law Commission is out. And they have also announced a fourth one to deal with the risk products under the new administration.

And a short recap, the first one was released January 2012 and was passed through the parliament in December. Main element was about voluntary conversion of paid-up policies to investment choice products. And it's expected to be set in work later in 2013, dependent on the discretion of Minister of Finance.

The second report was about the new pension products, to the new public pension system and Solvency II. And this was released in June and will go through a hearing process. And that will be together with today's report. The hearing will end around Easter [ph] and the plan from the Minister of Finance is to pass it through the Parliament in autumn 2013.

However, the report contains several objections from different members and we expect the report to be debated over the coming months of hearing and treatment in Parliament. Hence, it -- there is a risk for the process to be delayed. The most likely extension of implementation of Solvency II also points in that direction.

And the fourth report from the Banking Law Commission on risk products will be then presented some time during 2013.

On slide number nine, the proposal today contains some clear positive elements, although there is still a slot of regulatory work to do. In certain situations, Storebrand will continue to focus on our own business, to improve operation and stay competitive and ready for Solvency II by improving our operation constantly.

As previously communicated, Storebrand has a clear target to approach Solvency II without raising new equity capital. To achieve this, we have put forward four main triggers, as described previously. It's about capital optimization, risk reduction, cost reduction and product optimization.

As we have communicated over the last quarterly presentations, we are well underway implementing several measures under these four main categories. As examples we can mention a cost-cutting program in excess of NOK400 million; adjusting the asset allocation in our portfolios; price increases in all guaranteed products; closedown our public sector offering in Norway; and also actively advising customers to non-guaranteed products, when this is the best for the customer.

As you see, the regulatory uncertainty prevails. Storebrand will continue to change the business to stay a profitable and robust company, independent of the regulatory changes.

If we then move to slide number 10. And the sum -- to summarize today's report. First of all, all new premiums will be earned in products well adapted to low interest rates, longevity. And Solvency II. And all the present guaranteed products will be open for conversion to non-guaranteed products with investment choice.

There are some very positive elements in today's report. It's increased maximum savings' rates in Defined Contribution; it's a better treatment of payment -- paid-up policies, as pension certificates; and it's an opening to find flexible long-term solutions to longevity reservation.

Although pension certificates will be more favorable than paid-up policies under Solvency II, it is important to understand the details for the step-up plans to be made by the Minister of Finance. And also important, that there is still an opportunity to find solution to all earned rights under a Solvency I framework. And that is still intact after today's report. The impact of the proposed changes for IFRS earnings and capital position under Solvency II is still too early to conclude on.

Storebrand will host a Capital Market's Day in London March 15, 2013 and we hope to be more -- give more answers on the implications on earnings and capital then, although several important regulatory issues still will be outstanding at that time.

Finally, Storebrand is constantly working to transform our business, to remain profitable and solid independent of the regulatory outcome. Thank you.

Trond Finn Eriksen {BIO 17132188 <GO>}

Thank you, Odd Arild. The operator will now open up for questions.

Questions And Answers

Operator

Matti Ahokas, Handelsbanken. (Operator Instructions)

Q - Matti Ahokas {BIO 2037723 <GO>}

Two questions. It looks to me like the big negative surprise here is that there's no automatic conversion of the DB product; I guess that was something that you were expecting. Obviously, if it looks like that we're going to see a big pick up in the non-sponsored pension certificate, won't this mean that you will lose then the profit from the risk and interest guarantee and then, obviously, the IFRS earnings would come down, or does this logic work the way I figured?

And the next question is regarding the details on this (technical difficulty) expect something on these lines? Thanks.

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

Well if I start with the first one and Otto maybe comments on the process with the step-up plan. (Technical Difficulty) it was an automatic conversion of the DB schemes. The DB schemes will then either be continued into a hybrid system, or it can be closed down into a pension certificate, with or without a sponsor. Even if it's with or without a sponsor, there is still an opportunity here to have these as a fee-based product. And increased results about the guarantee and, (indeed), the reservation is then open for pricing for Storebrand's shareholders' benefit. So I will say that was as expected when we saw the report.

And Otto?

A - Jan Otto Risebrobakken {BIO 17645797 <GO>}

Regarding the step-up plan, this is clearly an issue the industry will be working on this spring in dialog with the Ministry of Finance. I think we can expect some more clarity on this when the business proposed for Parliament sometime in the autumn. I think the Minister of Finance will say something then about how they view the step-up plan. It will be an important issue going forward. I don' think we can expect more clarifying of that until the Bill is proposed to Parliament.

Q - Matti Ahokas {BIO 2037723 <GO>}

Thanks. If I just may follow up on the DB question. How much do you expect of the current DB reserves to be -- to continue and how much will become these individual pension certificates?

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

That, of course, is a very good question and we have to look closely into these regulations now and we have to both do a decision what kind of these elements we like to produce as offering to the market. And of, course, it's almost very much up to our customers what kind of view they have on these different products and what kind of choices did they do.

So it's too early to be very precise on that. But what we see is that today's paid-up policies and also the paid-up policies coming out of a new conversion of DB plan will have a different treatment from today's paid-up policies. And the profit-sharing receipt will then be out and it's more a fee-based type of product going forward.

Q - Matti Ahokas {BIO 2037723 <GO>}

Okay. Great. Thanks.

Operator

Peter Eliot, Berenberg Bank. (Operator Instructions)

Q - Peter Eliot {BIO 7556214 <GO>}

The first question is just you've got three buckets, basically, of paid-up policies. You've got the existing paid-ups, which will be non-sponsored. And you've got new paid-ups, which may or may not be sponsored. Can you just confirm that my thinking is correct that for all three of those types of paid-up policy, you will be able to charge a fee. And can that be an economic fee or will there be limits on that?

Secondly, for all three of those buckets, am I right in thinking that the annual guarantee will be a thing of the past? We've got the escalation rules instead, which may well be very similar to an annual guarantee. But the actual annual guarantee per se will be in the past.

Then secondly, are you able to -- I note the rule on those born before 1962, are you able to say roughly what proportion of those -- of your reserves that is? Thank you.

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

Yes. To start with the first one, you are very precise what you are saying, there will be non-sponsored or sponsored plans. They will be fee-based. They will be possible as long as you have a return above the guarantee level and you also have powered up for the longevity reserving plan to have a result -- a fee-based result to the shareholders in that product. So it's quite precise, as you said it.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. But you can charge a fee that would result in a net return? Does the net -- is there still limits on the net return to policyholders?

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

Well at the end of the day when you're starting to pay this out, you need to have a reserve that is sufficient to cover up for the guarantee that is given. And also for the reserving. As long as you have, in the end of the day, a higher reserve of that, you can have been able to take out a charge on an annual basis in that product.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay.

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

When it comes to the 62 years and the portion?

A - Unidentified Speaker

The proportion is approximately 40% of the reserves under DB scheme.

Q - Peter Eliot {BIO 7556214 <GO>}

So that's four zero?

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

Yes.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you.

Operator

Blair Stewart, BofA Merrill Lynch. (Operator Instructions)

Q - Blair Stewart {BIO 4191309 <GO>}

A couple of questions to pick up on these points. Could you perhaps comment on your ability to charge a fee for this new qualification of paid up? Because presumably you can only do it, as you said, if you earn the return above the investment guarantee. And you're adequately reserved. It would suggest that your ability to actually charge a fee is somewhat limited.

Secondly, as part of the process that you've been going through, have you had any indication from employers as to what proportion of them will maintain an active DB book, albeit ring fenced. And (technical difficulty) will just simply close the scheme down.

And thirdly, you talked about objections to these sets of proposals. Could you outline what Storebrand's objections are. And what your alternative suggestions would be? Thank you.

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

Thank you, Blair. If I start with the possibility to take our charge here, in my thinking, it's very similar to today's Defined Benefits schemes, where you can charge a price for our fee on the Defined Benefits schemes. The difference here is that that fee needs to be within the return of the scheme on an annual basis. So you need to earn some excess the guarantee level. And that can be taken out as a fee to the shareholders.

So it's quite similar actually to today's DB schemes in that respect. Then it's also important to understand that in these suggestions also. And it's additional stuff, the reserves is a part of the total pension funds here that is up for giving the guarantee. So additional statutory reserves will be a real help to cover up for the longevity reserves in these schemes.

When it comes to indications on what the customers will choose here, I think it's a bit early stage really for commenting very much on that. This has been a lot of work with this regulation all the way up to today here. We have been able to talk with some of our customers around it. And it's different. Some will absolutely look forward to use higher rates on Defined Contribution to end their schemes. And start Defined Contribution schemes. And some is quite curious on what can be the opportunity also within the hybrid system. So we'll continue to talk, of course, with our customers around these issues going forward.

When it comes to the objectives we have for this proposal, I think the main objective we have put forward in the report is that this might not be necessary, or might not prefer [ph] that their pension certificate is well adapted to Solvency II. And in that respect, it's important for us to also have opportunity to use the Solvency I type of regime in one way or another, to make sure that these can run off their pension certificates and adapt their receipt.

Q - Blair Stewart {BIO 4191309 <GO>}

And if I can just ask you. So you're not really objecting against this proposal? You're accepting of it. But saying it doesn't work for us. So we'd like some sort of exemption in a Solvency II framework. Is that what you're saying?

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

Yes. As long as we have the constitutional right for the earned right so far, we are supporting what comes out of this report. But we are very clear that with the right or with the wrong type of interest rate level, combined with the rules around the paid-up policies, or the new paid-up policies, that can still be a challenge under Solvency II that needs to be solved in a later stage.

A - Unidentified Speaker

An important feature here is to know that there will be actually a separation of all reserves from new premiums; i.e., it will still be possible to separate all the rights from the new-earned rights. And hence there could still be a possible way to find solutions.

Q - Blair Stewart {BIO 4191309 <GO>}

Can I just ask one further question? How does this affect your cost-cutting plans? Because it seems that you were hoping and we're all hoping that you'd be able to look at -- you'll be able to run. And we'll be able to analyze a far simpler company. And in fact, the opposite is happening. We're going to be analyzing. And you are going to have to run, an even-more complicated business.

So how do you cut costs in that environment where you're going to have to deal with significant DC books. And then a hybrid arrangement. And large legacy books as well? How on earth can you cut costs on that basis?

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

Well let me be clear that the cost-cutting program is still with the same magnitude and the same volume, as we have communicated before. It's also important to understand that this report gives a very broad possibility for different products. It's not certain. And I might say that it's certain that Storebrand will not actually produce all this variance to the market. We can choose.

What we can be very clear about is that the Defined Contribution schemes will be very important going forward. What kind of other schemes within the hybrid-product solutions that will be up for producement [ph] to our customers, that is a part of what we have to look into going forward. We will be more focused and this report gives the opportunity to be.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

Operator

Vegard Eid Medias, Pareto. (Operator Instructions)

Q - Vegard Eid Medias

My question has been asked.

Operator

Peter Eliot. (Operator Instructions)

Q - Peter Eliot {BIO 7556214 <GO>}

Probably an inevitable question, which I'm surprised hasn't been asked already. But come on. Obviously, this has caused a little bit of extra delay. And while the escalation rules are being sorted out, that's what some of us were probably hoping for in this paper.

Given the delay on that front, you're obviously going to be coming to making a decision on the dividend in a few weeks' time. Are you in a different position this year round than you were last year round? I'm just wondering whether very much has changed given that the process is now very much still ongoing. I appreciate there's limited amount you can say. But there you go.

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

This is Lars Loddesol. There is no new news related to the paper that came out today relating our dividend payments. And we will revert to that in due course, together with the Fourth Quarter numbers. So there is no news here today that changes the dialog we have had with the market on this subject.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you.

Operator

At this time, no further questions.

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

Then we would like to thank everyone for participating in this call this afternoon. And we shall just finish [ph].