Company Participants

- Kjetil R. Krokje, Head of Finance, Strategy and Merger & Acquisition
- Lars Loddesol, Group Chief Financial Officer
- Odd Arild Grefstad, Chief Executive Officer

Other Participants

- Ashik Musaddi
- Blair Stewart
- Hakon Astrup
- Johan Strom
- Peter Eliot
- Roy Tilley
- Thomas Svendsen
- Ulrik Ardal Zurcher
- Vegard Toverud

Presentation

Kjetil R. Krokje {BIO 20060140 <GO>}

Good morning, ladies and gentlemen, and welcome to Storebrand's First Half Results Presentation. My name is Kjetil Ramberg Krokje and I'm Head of Strategy and Finance in Storebrand.

As usual, CEO, Odd Arild Grefstad will start with the presentation of the main points of the quarter. And afterwards CFO, Lars Loddesol, will go deeper into the numbers. After the presentation, the Operator will open up for questions. To ask questions, you need to be dialed into the meeting. Dial-in numbers are to be found on the invitation and on the Storebrand investor relations website.

With that short introduction, I'll leave the word to Group CEO, Odd Arild Grefstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Kjetil, and welcome this morning to this presentation. I'm very pleased today to present for you the historical strong result for Storebrand for the second quarter 2021, NOK1,353 million. This is driven by a continued underlying growth within savings and insurance combined with disciplined cost control and increased profitability within the insurance segment. Reserves in unit-linked grew by 26%, compared to last year, driven by growth in premium income and also a market return and very strong new sales.

A milestone is past this quarter, as Storebrand now exceeds NOK1,000 billion in assets under management. This represents the 18% growth in assets under management from the last -- during this last year. Within insurance, the annual portfolio premium also grew by 18% compared to last year. Storebrand's solvency ratio weakened by 4 percentage points from last quarter to 172%. The decrease is due to falling long-term interest rates in the quarter and increased regulatory country cyclical stress factors. This is offset by a strong group profit after tax. The overall customer buffer capital level strengthened to more than 12% of the guaranteed customer reserves.

The financial result is positively affected by a gain of NOK546 million in the quarter due to the divestment of the shares in AS Vaerdalsbruket. Given strong investment performance in Skagen and Delphi in the first and the second quarter, the performance-related cost is already booked while the matching NOK230 million in performance fees is not recognized under IFRS. This performance fees will be booked at year end. So, this means, if we have closed the books after the second quarter, we would have NOK230 million higher result year-to-date.

Moving to Storebrand strategy, Storebrand follows a two-fold strategy with compelling combinations of self-funded growth in the front book and capital return from a maturing back book of guaranteed pensions. Storebrand aims to be the leader, leading provider of occupational pension in both Norway and Sweden to build a powerhouse in asset management, a Nordic powerhouse, and continued fast growth as a challenger in the Norwegian retail market for financial services.

The combined synergies stemming from capital, customer base, cost, and data across the Group provide a solid platform for profitable growth and value creation. The ambition is to deliver a profit of about NOK4 billion in 2023. Storebrand also continues to manage capital and back book with guaranteed products for capital release. This leads to our dividend policy or growing ordinary dividends from earnings as well as an estimated capital release of NOK10 billion towards 2030.

Moving to the strong growth across the future Storebrand. Unit-linked reserves grew by 26% compared to second quarter in 2020. The growth in unit-linked savings is driven by premiums from existing contracts, new sales, investment returns and increased savings rates. Within retail unit-linked, we recognize 42% premium growth year-by-year.

Asset under management in Storebrand Asset Management increased by NOK157 billion or 18% compared to last year. The growth is driven by positive net loss from new sales as well as market returns. Within insurance, the annual portfolio premium grew by 18% compared to last year. The premium growth is primarily attributed to retail P&C insurance due to strong contribution from sales agents, distribution partnerships, and acquisition of the customer portfolios from insurance.

Growth in P&C and individual life portfolio premiums amounted to the strong number of 48% compared to last year. The bank lending portfolio increased by NOK2.7 billion or 5% to NOK54 billion during the second quarter. Compared to the same quarter last year, the growth was 15%. The portfolio consists of low-risk home mortgages with the average loan to value of 55%.

Moving to asset management; the positive flow continues for Storebrand Asset Management from an increasingly share of external clients. In the quarter, in the second quarter 2021 Storebrand for the first time exceeds NOK1,000 billion in assets under management. The growth in 2021 has been NOK75 billion, NOK36 billion stems from external institutional clients, and we also recognize strong growth from retail customers.

In total, now 44% of the assets under management is coming from external clients, non-captive assets -- it's more than 44% of asset under management is coming from external non-captive assets. And this is a radical difference from 2016, where there was only 24% of the assets stemming from these external non-captive assets. This transformation in business model has led to growth with stable fee margins. The fee margins in 2021 is 18 basis points, which could be compared to 17 basis points in 2016.

In the second quarter Storebrand finished a successful transition to cloud for Storebrand asset management. This has been a 14-month large scale transformation project. It has included full consolidation of existing data centers for asset management and implies a shift from traditional infrastructure to fully automated cloud services. The purpose of this transformation has been to build a cost-effective and scalable platform for further growth and development.

Storebrand continues to hold the number one position in sustainability in the industry, and the region. We continue to push the agenda forward. In 2021, we have continued engagement in nature and biodiversity issues. As part of the working group for task force of nature-related financial disclosures. We are also continuing our growth of sustainable funds internationally, and the Central Bank of Ireland has approved Storebrand ESG Plus to be launched on AMX in August.

In the 2021 Prospera surveys, Storebrand strengthens the position as the number one sustainable brand. 100% of our investment undergoes strict sustainability screening and then more than 10% of the asset under management is in green solution companies.

Last, but not least, coming from a challenger position in the Norwegian P&C market, Storebrand has grown steadily over the past eight years with high single-digit organic growth in portfolio premium and increased market share in the period. The performance is due to our strong position in the market, where we are able to leverage a strong brand name with significant customer product and capital synergies.

Over the past couple of years, we have increased the focus on gross sales, and since December 2020, we have transferred approximately NOK550 million from the initial transaction. In total, we expect NOK700 million to be the converted volume during 2021 from insurance. It is satisfactory to see the strong growth in retail P&C with a steady growth in market share now increased to 5.2% by the end of the first quarter.

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

Lars Loddesol {BIO 3969188 <GO>}

Thank you, Odd Arild. Good morning, ladies and gentlemen. Storebrand delivers a solid set of figures for the second quarter and first half of 2021. All business areas are performing well. Financial markets have been generally good and our risk management performance according to plan. This means strong results and a solid balance sheet.

Let me start with the key figures, the underlying operating profit adjusted for performance related expenses of NOK68 million is at an all-time high of NOK754 million. In addition, the financial result is strong at NOK667 million including profits from the announced sale of Vaerdalsbruket of NOK546 million.

The solvency numbers are slightly down to down to 172%, following falling interest rates and higher regulatory stress factors. The regulatory solvency does not contain any transitional capital. Importantly, the customer buffers are at all-time highs, which lead to stronger risk capacity for customers and better protection for shareholders and customers for potential future financial market volatility.

The solvency position ends the quarter at 172%, down by 4 percentage points. Model and assumption changes are neutral. The fall in Norwegian interest rates caused a reduction in solvency of 5 percentage points. This is slightly higher than what can be read from the Q1 sensitivities due to a twist in the interest rate curve. Lower volatility adjustment by 3 basis points in Norway and 1 basis point in Sweden had a negative impact of 2 percentage points while the higher equity stress and now at 45% cause another negative 2 percentage points. Importantly, this also leads to higher solvency protection on the downside should equity markets correct.

Strong asset returns and strong quarterly results give a positive contribution of 6 percentage points. As usual, we set aside for future dividends quarterly for a final solvency at 172%. This falls slightly behind market consensus, which may be a result of the interest rate fall at the end of the quarter and reduced volatility adjustment set by EIOPA after the end of the quarter.

The sensitivities described here shows strong resilience in different scenarios. I would like to emphasize that Storebrand aims to reach a solvency above 180% during 2022. Lower interest rates make this more challenging, but we will continue to strive to close the gap through measures that we have at our own disposal.

Fee and administration income continues to grow strongly at double-digit levels. The insurance results are picking up after a period of weakness with no extraordinary claims in the quarter and a positive development from growth and price adjustments. Importantly, we see that the employment market has started to recuperate towards the end of the second quarter, which leads to expected improvements in reactivation and disability results going forward. This is in line with previous communication.

Despite including NOK68 million in performance-related expenses in the quarter, overall reported cost remains well under control and below the run rate of our guided NOK4.4 billion for the year as a whole, excluding performance-related expenses. We do expect the cost level in the second half to go up in line with increased economic activity, but within the previously guided -- guiding of NOK4.4 billion.

Financial items are particularly strong including a gain of NOK546 million from the sale of Vaerdalsbruket. The profit from the sale of shares in Vaerdalsbruket is tax free. Combined with lower taxes from our Swedish operation, this leads to a very low tax charge of only NOK52 million for the quarter. Our normalized tax rate remains at 19% to 22%. This picture shows the same results as the previous page. Now, broken into the profits area, savings, insurance, and guaranteed. As you can see, there is a positive development in all areas.

The savings area shows continued good growth in earnings despite margin pressure. The reported cost is up primarily due to high reported cost related to good performance in the -- our funds with performance fees. The corresponding profits from good performance will be booked in the fourth quarter according to the IFRS Accounting Rules. All business lines shows satisfactory growth and profitability. The earned, but not booked performance fees in asset management year-to-date are NOK230 million. This means the best half-year value creation in the asset management section on record.

The growth is further Illustrated here, but since Odd Arild has already commented on most of the important parts, I will move on to insurance.

Insurance continues its strong growth partly driven by the acquisition of customers from insure, but also from price adjustments and partnerships as well as own sales. We have increased the number of people to handle the growth as previously announced. Still there is a good cost control and a stable cost ratio. There are no significant extraordinary claims in the quarter. The disability results, which have been weak since the beginning of the COVID-19 situation shows sign of improvement towards the end of the second quarter. And we hope to be able to report gradually -- gradual improvements from here on.

The combined ratio of -- at 91% is within the targeted level in the quarter. The growth is particularly strong within P&C and individual life. At the end of the second quarter, we had signed up NOK553 million from insure clients and we now expect a total acquisition of around NOK700 million in portfolio premiums somewhat ahead of the original business case. The portfolio shows satisfactory profitability and relatively low turnover.

The guaranteed area delivers strong results. The operational results continue to be stable. The inclusion of new customers in the public sector in the beginning of the year as well as a takeover of a small private closed pension funds with solid buffers drive fee and administration income. There is strong cost control. High buffer levels across the different products combined with continued good booked financial return leads to profit sharing in some portfolios as well as reduced capital contribution in Sweden.

The guaranteed reserves have now reached just below 50% of total pension reserves, continuing the long-term transition journey in Storebrand. The remaining liabilities have gradually lowered guaranteed rates of return, lower duration and better asset liability matching through long-term investments in long-dated fixed income instruments. The buffer capital is at all-time highs, ensuring the guaranteed rate of return to policyholders and protecting shareholders.

And the high buffer capital level as we have seen this quarter is gradually lifting expectations of profit sharing in the guaranteed products, which may make them more profitable in the coming years. Under other, the financial results is primarily driven by the profit from sale of shares in Vaerdalsbruket as communicated.

And with that, I leave the word to Kjetil.

Kjetil R. Krokje {BIO 20060140 <GO>}

Thank you, Lars. The Operator will now open up for questions. Remember that you need to be dialed into the conference to ask questions at this time.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) And the first question comes from the line of the Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Three questions as normal, please. Okay. The first one, you hinted just now that you might have some tools or you might think about using tools to boost the solvency ratio to reach 180% next year. Could you maybe just remind us, how you're thinking about those tools at the moment and what you have available?

I guess, you obviously mentioned that the various ones before that reinsurance, ALM, internal model et cetera, so I'm sort of thinking that the debt lever I guess you've already pulled to an extent, and I don't know if there's any more new things you can do there, the internal model I guess will take some time to come into effect. So yes, it'd just be useful to think about how you're thinking about those various levers?

The second question was on net flows, the NOK24 billion year-to-date, I think is the same number that you showed at Q1. So, I guess, Q2 was zero in aggregate, but I was just wondering, could you just maybe -- is it possible to break down and especially the NOK14 billion of non-captive that flows break it down by segment where they're coming from and maybe give some hints on Q2 as well?

And then, finally, just looking at the solvency sensitivities, I was a little bit surprised by the equity sensitivity which basically seems to say that if equity is fall by 25%, then without transitional ratio increases by 2 percentage points. So I just wondered if you could confirm what's happening there and exactly what your net equity exposure is? Thank you very much, sir.

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

Thank you. With respect to the solvency tools, we talked about that at some length at our Capital Markets Day and you comment on all the right things. So, we will continue to work with the toolbox that we have and you already mentioned the available tools for us. So, we don't want to go into any further detail, but we still have availability to talk to work with those tools. In terms of net flows, we have had good sales both in alternatives in the Nordic as well as a good sale of -- in retail funds and institutional funds across the Nordic and Norway. So, I don't know.

A - Lars Loddesol {BIO 3969188 <GO>}

I think one point to add there is that there is a positive net flow also in the second quarter in isolation, the large bulk came in Q1, we're expecting by memory roughly NOK2 billion positive net flows also in the second quarter.

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

And in terms of solvency sensitivities, I guess, that shows some of the weakness of the solvency you know that you have some technicalities that make this happen. And it happens with respect to the Norwegian Group where there is a limit as to how much solvency capital you have from the back book and the front book, and if you have a strong fall in the equity markets, a cap is lifted in terms of the balance between the front book and the back book, which lifts the actual solvency levels, which doesn't really make a whole lot of sense, but that's the way the solvency model is, it's set up with a Norwegian tapping all the solvency capital from the front book.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay, great. Thanks very much.

A - Lars Loddesol {BIO 3969188 <GO>}

Really, now we have a very high level of spread of equity in the model. And with all of 35% in the equities we will also have a corresponding reduced stress in equities, and that reduced equity stress is even higher than the effect of the fall in equities. So that is what you see with the culture cyclic elements really kicking in.

Operator

The next question comes from the line of Ashik Musaddi from JP Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Thank you and good morning, Lars. Good morning, Odd. Just a couple of questions I have mainly with respect to the unit-linked margin. Now, unit-linked margin in the quarter declined quite a lot for both Norway, as well as for Sweden. Now, I agree that you have given some guidance that the unit-linked margin will gradually decline, but I think the decline quarter-on-quarter was say, 7 basis point, 8 basis point with basis point which sounds a bit higher than what I would have assumed.

So I mean, was there anything funny in this quarter that the margins declined, or would you say that this is what is reasonable we should be expecting going forward as well? And especially, how do we think about like year-on-year basically, from a full year basis, I think last year you did 80, 81 basis point in unit-linked, Norway and you did about similar 80 basis point in unit-linked Sweden. So, are we talking about 5 basis point decline every year for next three, four years or are we talking about 1 basis point or 2 basis point decline a year -- over the next three, four years? So I think, some clarity on that would be very helpful, because that was a big driver today.

Secondly is, how do you think about this asset management related margin, I mean, clearly asset management, AuM has been going up pretty rapidly. I mean, it is up, say, quite a lot this year only.

So, does that put any pressure on margin? Because, I mean is there any shift business -- business shift mix, et cetera that drives it?

And third question, I have is a simple one is, I mean you have lots of tools to address the solvency concern and you can move towards 180%. But how -- is there anything you can do to reduce interest rate volatility, because the reason I'm asking this is, interest rate is the one of the biggest driver of your solvency up and down and it just moves in a wild way. I mean this quarter it's just minus 5%, so clearly that creates a lot of noise in your solvency ratio, like one quarter you are like, very closer to 180%, next quarter you'll be closer to 170%, so anything you can do on the -- on reducing the interest rate sensitivity? Thank you.

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

So, if we start with the unit-linked margin for Norway and Sweden, there are no particular extraordinary items this quarter. As we have mentioned, the owned or the individual pension account in Norway will put pressure on margins for unit-linked Norway this year and we've already made some adjustments in the pricing to and we have transferred customers into the individual pension accounts, which lead to gradually lower margins.

In Sweden, there was also a big difference between last quarter and this quarter, but that's primarily related to one-off gained in the last quarter. So, if you -- just the last quarter by NOK36 million, you will get the much more straight line in terms of the development in Sweden. On our Capital Markets Day in December last year, we guided that we expect the unit-linked premiums overall to remain in remain in the 60 to 80 basis points level in the next or for 2023 and we maintain that guiding on the overall in terms of details for each individual product, that's too early to say exactly.

A - Lars Loddesol {BIO 3969188 <GO>}

When it comes to asset management, as you see, we see strong growth. We also see that a large part of the growth comes from alternative, private equity, infrastructure, real estate has been very successful also for external sales. And that keeps up the fee margin, the top-line margin. And we also have kept our cost level very steadily nominally over this growth period that means that we have been reduced cost margin over the last quarter. So actually, we have seen increased margins over the last years due to a falling level of the cost margin. And as I talked about being now into a even more scalable platform, means that we believe we should be able to keep this margin also going forward, due to this shift in the business mix and a very scalable platform.

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

In terms of sensitivities for interest rates and the solvency calculation, we have this year increased our holding of bonds at amortized cost. We have growth of NOK14 billion of long-dated fixed income instruments, with an average duration of 13 years longer than the past, which means that we reduced the sensitivity to interest rate swings.

As you are very well aware of, we have this dilemma where we have to manage the risk on a one-year horizon due to Norwegian guaranteed product groups. And at the same time, we have to hedge the long-term risk. So in the balance between the two, we have increased duration in the investment portfolios so far this year, which will lead to lower sensitivity on swings in the interest rates and the solvency, however, it's impossible to lock this altogether due to Norwegian product group as they forces to also look at the one-year horizon in terms of our risk management.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. I just have one follow-up question again, going back to the retail margins basically. I mean, I agree that 60 to 80 basis point is a margin guidance you have given, but I mean, is it possible at some point, not now, but at some point in the future to just narrow it down because the reason is, I mean 60 to 80 basis point is a big gap. I mean, 20 basis point is basically a third of your revenues in the retail business which could be NOK1 billion, and NOK1 billion is basically a third of your groups profits.

So, if we can get a bit more narrowing down of this number that would help a lot because it just a very wide revenue margin number. So, I agree that you have your limitations how the book will evolve -- IPA book will evolve over time, I agree, but any thoughts at latest stage would be very, very helpful? Thank you for this.

A - Lars Loddesol {BIO 3969188 <GO>}

Ashik, the individual pension count is one of the largest changes in the Norwegian pension market that has taken place for a very, very long period of time. And it's an impossible to say at this point exactly how that plays out in terms of margins, but we will obviously come back to you with more guiding as this market is finding a new balance.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Point well taken. Thank you.

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

The guiding we gave in our Capital Markets Day, showing quite well the result from these area should be in line with what we saw in 2020. You will expect around NOK100 million in decline in 2022, but due to the growth in the business, and also cost measures, we expect to be at the same level as we have seen in 2020 already in 2023 again. So, there will be a dip due to this margin squeeze in 2022, but it's limited to around NOK100 million.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, sure. Thank you. Thanks a lot for this. Very clear.

Operator

The next question comes from the line of Hakon Astrup from DNB Markets. Please go ahead.

Q - Hakon Astrup {BIO 18861149 <GO>}

Good morning. So I have two questions. First one, just a clarification with regard to solvency and dividend. So in order to start to pay out the excess capital next year, do you need to have a Solvency II ratio above 180%? That is the first question. And the second question is regarding inflation and the off-take that we have seen in or I was wondering, if you can share some thoughts on how this is expected to impact your insurance result, and the measures that you are doing in order to limit claims inflation?

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

Well, the 180% of course, is internally set target for us, where we measure ourselves to be overcapitalized when we are above this level. Of course, there is a gradual shift in the balance sheet that we also have to take into account, but that is our best estimate today to where we set target being overcapitalized, we have to start doing share buybacks. And as Lars said, we are very committed as a team to work towards reaching this goal during 2022.

Q - Hakon Astrup {BIO 18861149 <GO>}

Just to follow up --

A - Lars Loddesol {BIO 3969188 <GO>}

In terms of inflation impact, obviously, the insurance results, the P&C insurance result is smaller impact on the overall results for us, than for some of the large competitors. However, we, as everyone else, put our inflation expectations into the price adjustments we do. And in terms of the results, this first half year, and a particularly strong increase in the base number for in Norway, which means that we have increased reserves by some NOK50 million to strengthen expected costs related to -- related expenses. So, that's something that is taken into the account by the away.

It also drives the growth of the business, because very much of premiums and so on this is also regulated by this claim inflation-based numbers. So we see stronger growth coming out of inflation and of course if it also leads to higher interest rates that is absolutely positive for Storebrand.

Q - Hakon Astrup {BIO 18861149 <GO>}

Thank you. And just a quick follow-up here on the solvency. So in the past, you have been talking about that you have down the road, just 180% target in order to be more in line with the new business that you are -- you still develop, that be as early as next year or this is the small sort of five years down the road type of adjustments?

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

Well, we are following, of course, this very closely but we are not ready to change any target for our capitalization at this stage. It's still the 180% that we've used to be the limit for us to reach to start doing share buybacks.

Q - Hakon Astrup {BIO 18861149 <GO>}

Okay. Thank you. That was very much.

Operator

The next question comes from the line of Ulrik Zurcher from Nordea. Please go ahead.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Thank you for taking my questions, I have three. I think this was asked about previously, but I didn't quite hear it because I think that AuM inflow was 0% met in the quarter. And I was just wondering if there was -- if this is a sales issue or an outflow issue or a situation and color on that would be nice?

And then, I was wondering on the sensitivity, is it so that the increased duration of the bonds that have a big impact on your sensitivity to higher rates because I think it's fallen, but this is 4 percentage point last quarter and I think it's seven. So it's a bit up some wondering, what's driving that? And the last one, since the positive sensitivity to the equity markets falling, does that means you have a negative impact to equity markets, for example, going up 25%? Thank you.

A - Lars Loddesol {BIO 3969188 <GO>}

All right. I can start on the net flow number. I think that the correct number for the second quarter is roughly NOK2 billion positive net flow. I think in the -- I looked into it now and unfortunately I think we have forgot to include company capital in the numbers here. So we need to do a little small correction there, but there's a -- but besides that point, there's normal outflows and good sales in asset management in the quarter.

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

And you are correct in assuming that when we have increased duration of the investments, and the interest rate sensitivity on the upside and the downside will go down. And in terms of the equity sensitivities, it's -- as Lars mentioned, a technicality that makes this the strong or the positive development in solvency, as a consequence of falling equities, you don't see the opposite happening if equities continue to go up, that will generate more returns and we'll be positive.

A - Lars Loddesol {BIO 3969188 <GO>}

We now have a very high stress factors on equities, some 45%, it cannot be higher than 49%. That will be the highest level you can have on these stresses. So, we are not pushing this limit, so higher equity will be positive for us also in the solvency calculations going forward.

Q - Ulrik Ardal Zurcher {BIO 19208986 <GO>}

Very interesting position. Thank you a lot.

Operator

The next question comes from the line of Blair Stewart from Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. Just two questions from me. The developments in the defined contribution markets that you mentioned in the report, it seems to have been expanded to more people at a lower level, just wondering is that a positive or is it a negative for you? Seems to be opening up more people but possibly not the right types of people, I don't know if that's the correct interpretation. And secondly, could you comment on what -- how much debt capacity you think you have, whether you're measuring that on a solvency basis or something else, but just interested in how much debt capacity you think you have in the business? Thank you.

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

Let me start on the, on the question on expanding defined contribution pension, so this is a proposal that is now going to Parliament to expand it to people who previously didn't have a right to earn pension. This is a positive for us. It -- in expectation, if it goes through it will increase premium volumes in the market with roughly NOK3 billion annually, and we will then take whatever market share we get from that as premiums in Storebrand.

And I don't know Lars, if you want to start -- on debt capacity, I think that we look at it on the Solvency II basis, first and foremost. Of course also, we look at it in terms of rating and IFRS measures. We think that as on now we are still in the lower end of leverage scale compared to the sector and to think that we can have the somewhere in the area of 20% to 25% of leverage in terms of own funds, that -- it's reasonable. So we have -- we still have room to do more debt if we should wish to do so.

Q - Blair Stewart {BIO 4191309 <GO>}

Are you able to quantify that number? I could do it myself but wondered if you've got a number in mind, to take you to 20% to 25% of own funds?

A - Lars Loddesol {BIO 3969188 <GO>}

Well, I think when you look at the SCR now you could increase it with a couple of billions, little bit -- it's a little bit preparations in the numbers here and we also, of course need to be within the limits of the how much we can have in Tier 2 capital and Tier 1 capital as a percent of the SCR. But again, there are, in addition to that threshold, we need to, of course look at waiting and end of the measures for him before we make a decision to change the absolute level of leverage compared to what we have today.

Q - Blair Stewart {BIO 4191309 <GO>}

Is that about 5 to 10 points then settle of capital could come from debt if you chose to do so?

A - Lars Loddesol {BIO 3969188 <GO>}

So you can think that with a capital requirement of around NOK30 billion, its 10 percentage point is NOK3 billion.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. And conceptually sorry, to go on guys, but conceptually would the management or the board consider utilizing that debt capacity say 10 points in order to push you above the -- and trigger equity capital returns?

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

Well as Lars said, we have a toolbox and it's a lot of tools in that toolbox. You are talking about the debt and debt capacity that is one. We also have reassurance agreements that is possible to do that we have done in more depth earlier on that can be used, and as you remember we see what can get most solvency capital cost at the lowest cost, so that is the trade-off we are doing and discussing with our Board. What is very important to say is that, the management team and the Board is very committed to reach this 180% solvency threshold as soon as possible and working with the toolbox actively to do so.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. That's interesting. I think, sorry, apologies, just on my first question, I think is it also the case that people with disabilities can also be eligible for cheaper pension as well? Is that part of the proposal from the government?

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

This is quite simple actually because before pension was earned from a threshold, you needed to earn well NOK30,000 before you started to earn pension on your salary. The largest shift now is that, everyone earns from the first Kroner. So its people that's already in the schemes that now get more pension out of their wages and their savings. So it's not like new element -- people coming into schemes, but its higher savings rates.

A - Lars Loddesol {BIO 3969188 <GO>}

And part-time employees as well as young people.

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

Part-time employees is also now included. So everyone from 13 year in Norway that has a work today will also have savings into pension based on this new regulation and that will have more than NOK3 billion in annual increased savings into the market.

Q - Blair Stewart {BIO 4191309 <GO>}

Understood. Great. Thanks very much, guys.

Operator

The next question comes from the line of Johan Strom from Carnegie. Please go ahead.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you. So, I was wondering if you have any further comments on profit-sharing in this quarter. Is all of this related to Sweden or have you started to take anything out of the Norwegian book? And then, secondly on the insurer premiums, as the level that you have kind of reached now been better than expected? And if so, do you think you will be able to transfer more than initially thought or is the NOK700 million still base case? Thank you.

A - Lars Loddesol {BIO 3969188 <GO>}

Profit sharing, we do have some profit sharing in certain paid policy portfolios as well as a little bit in the individual portfolios in Norway. So as we've had very good book return in the Norwegian market, there's also some profit split in certain portfolios. This is still at a relatively low level, but as I mentioned previously in the presentation, when we continue to build very, very strong customer buffers, more and more portfolios will be able to get profit sharing in the future. Also there was a discussion on inflation here, inflation leads to higher rates, higher rates again will lead to a higher probability for profit sharing and a possible significant strengthening in the profitability of all the guaranteed products.

And then you are correct we also had good booked profit in or good booked results in Sweden, which has led to a reduced need for the deferred capital contribution, which then is reversed. And furthermore, the indexation fee in Sweden is strong at approximately NOK140 million per year, which is booked into the income on a monthly basis or a quarterly basis, based on strong consolidation in all the relevant product groups.

And in terms of the insurance premiums, we have had booked NOK553 million at the end of the second quarter. And as I mentioned, we expect to be able to finalize this around NOK700 million, which is slightly above the initial business case that we communicated.

Q - Johan Strom {BIO 17541253 <GO>}

Thank you very much.

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

And might also add one thing on the retail P&C that also, if we take insure and the growth from insure out of that number, we are still growing that segment with 16% in the retail market.

Q - Johan Strom {BIO 17541253 <GO>}

All right. Thank you.

Operator

The next question comes from the line Vegard Toverud from Pareto. Please go ahead.

Q - Vegard Toverud {BIO 17129809 <GO>}

Thank you and good morning. Just pulling up on the paid up profit sharing there with the current buffers you have should we expect at least the current level that we reported in this quarter going board? That's my first question.

A - Lars Loddesol {BIO 3969188 <GO>}

As I said, the actual profit split is booked in the fourth quarter, and we make an estimate on a quarterly basis. So, we made an estimate based on the book return so far this year and a normalized return the rest of the year. And then whatever the actual return becomes at the end of the year will impact how much is actually booked as a profit split in the year as a whole.

Q - Vegard Toverud {BIO 17129809 <GO>}

Thank you. On unit-linked in Norway, could you tell us how much of the reserves that are currently on the new pension accounts and how much are on the pension certificate?

A - Lars Loddesol {BIO 3969188 <GO>}

The paid policies that we had at the end of last quarter was NOK39 billion, sorry, pension certificate. Pension certificates was NOK39 billion is currently at NOK35 billion, and that could go down towards the end of the year as more and more pension certificates are moved into individual pension account.

Q - Vegard Toverud {BIO 17129809 <GO>}

So, how much lows NOK35 billion or how much will the remaining under the or under the NOK15 billion is already on pension account?

A - Lars Loddesol {BIO 3969188 <GO>}

As I said, NOK39 billion in pension certificates has gone down to NOK35 billion, and we expect approximately half of the NOK35 billion will be transferred into pension accounts by the end of the year.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. And if you look at the transferred account, it's negative NOK2.5 billion in the quarter, is that connected to pension account and volumes moving away from you?

A - Lars Loddesol {BIO 3969188 <GO>}

Well, there's some volatility in the numbers with a lot of pension certificates being moved to us and being moved away from us. And there may be some periodic effect between the quarters in terms of when things are removed. But we do expect a small leakage in terms of -- overall, in terms of the pension certificate overall. And but then in the numbers we look at in the supplementary information that includes also customers moving to us and from us. So but there will be some volatility in these numbers this year, due to the fact that we have quite large transfers in the individual pension account market and there may be, as I said, some shifts between the different quarters in terms of the actual net numbers for the year.

Q - Vegard Toverud {BIO 17129809 <GO>}

Yes. Is it then fair to assume that the numbers we see the net balance of unit-linked Norway is related to pension account?

A - Lars Loddesol {BIO 3969188 <GO>}

Sorry, I didn't get that.

Q - Vegard Toverud {BIO 17129809 <GO>}

Is it fair to assume when we look at the transfer balance for unit-linked Norway that this transfer balance, or left transfer balance is related to pension account, the NOK movement of unit-linked active case?

A - Lars Loddesol {BIO 3969188 <GO>}

It's a combination of the two. So far 98.2% of all our individual clients have chosen to stay within Storebrand either in their own individual pension accounts or in the corporate schemes that they have with the Storebrand.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. Thank you.

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

And we actually see quite low activities with transferred into the own choices these days. It was some activities at the starting points of the regulation, but it's very low activities as we speak.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay.

Operator

The next question comes from the line of Roy Tilley from Arctic Securities. Please go ahead.

Q - Roy Tilley {BIO 19127459 <GO>}

Thank you very much, and good day guys. A couple of questions for me. Just one follow-up on Vegard's question on the transfer balance. Also saw the transfer balance is negative in Sweden, again for the third quarter in a row as we had any quite a few quarters that are positive transfer about. Just wondering how the competition looks there? That's the first question. And then, secondly, if there are any updates on the outstanding tax cases you have going on? And then lastly in the bank, you have a very strong growth rate there as well just wondering what's driving the growth there? Is it price or are you just doing better sales and also if you could touch upon how much of your growth there is in fixed rate mortgages versus floating? Thank you.

A - Lars Loddesol {BIO 3969188 <GO>}

Yes, I wanted to start with Sweden. We have, of course seen very strong growth in Sweden, a lot -- number of years now, and we also still see strong growth in overall premiums. There is a strong competition, especially from one player in the Swedish market that has introduced also fees to customers to directly move to them and that is of course quite a costly way of customer acquisition. We have a very good position in the Swedish Market, we have very low cost level compared to our competitors, a very high degree of digitalization.

So we of course, are looking into this situation and following it closely. But so far, we have not chosen to follow these players introduction of fees to really transfer their balances. So that is what we see as a situation that have occurred over a last half a year. We find that the competitive position for SPP in Sweden is extremely strong both due to sustainability to digitalization and through the very low relative cost level, we feel that over time we will be in position for further growth and also further transfer in SPP.

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

Yes, on the tax update, as we said before, we will challenge the tax authorities' decision and that has been done through a formal complaint to the tax authorities and we expect that to take some time to be handled according to previous communications. So, basically no news just business as we have previously communicated. And in terms of the bank growth, we have changed our sales strategy, we have entered new partnerships and we have been able to maintain margins, but sales growing quite strongly. I do not have the mix between fixed and floating, but I don't know if

A - Lars Loddesol {BIO 3969188 <GO>}

I think it's mainly floating rate mortgages.

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

There is some interest for fixed rate, but we don't see that as a large part of the total yet.

Operator

The next question comes from the line of Thomas Svendsen from SEB. Please go ahead.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes. Hi, good morning. Two questions, you highlight your recognition for sustainable impact of that you think you optimistic about possible new business (inaudible) asset management or if it's all that the competition is also increasing here that everyone is getting. But when things get more sustainable? That's the first question. And the second question is on M&A you have talked about add on acquisitions, what do you see on pricing opportunities? Thank you.

A - Lars Loddesol {BIO 3969188 <GO>}

I heard the first question about sustainability, but I didn't really --

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

The second was on M&A and how you see opportunities?

A - Lars Loddesol {BIO 3969188 <GO>}

Okay, within the whole space, that was also I understood. The line is unfortunately a little bit poor Thomas.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay. Other question was just do you think more business get strong ESG profile or the competition increasing for this green business or this ESG business. Are you optimistic about the approach?

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

Yes, just start with that, we feel that we have a very strong position and when we look at the scorings like, I talked about Prospera here, we see that we actually have a larger or have increased our position to watch our competitors during the last year. So everyone is working with sustainability and that is a good thing for the world. But I think, we have been working with this for very, very long time, we have increased our work also with active management to watch our investments and we feel that we have a very strong position and are recognized for that in the Nordics but also internationally. And we absolutely see growth in sustainable solutions both in the Nordics and in Europe going forward and are looking very closely or in part of competitions on that as we speak.

When it comes to M&A, of course, we are following, what is happening in the Nordics, very closely. But as I presented today, we have extremely strong growth rates both when it comes to unit-linked, when it comes to asset management, when it comes to insurance, the growth rates are I will say fantastic. So, we don't need to do any M&A to have the growth coming through. But of course, if there are opportunities to strengthen our positions, I would say especially as we have done in asset management where we have strengthened our offering in the Nordics to watch alternatives, we are looking very closely to that and we are of course, also feel that this has been a very successful for us but it take our reinsurers. So there -- if there is opportunities in the insurance space, we also look closely to that. Also, due to the fact that we have a very high capital synergy taking on more insurance volumes into our balance sheet.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay. Thanks.

Operator

There are no further questions in the queue. So I'll hand the call back to your host for any closing remarks.

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

All right. Thank you. And thanks to everyone who followed the call. We are, of course, available for questions later, if there -- if anything should occur. And other than that, it just remains to wish everyone a nice summer break and we look forward to see you over the summer as well. So thank you and goodbye.

Operator

Thank you for joining today's call. You may now disconnect your lines.