Q2 2012 Earnings Call

Company Participants

- Lars Aa Loddesol, CFO & COO
- Odd Arild Grefstad, CEO
- Trond Eriksen, Head of IR
- Unidentified Speaker, Company Representative

Other Participants

- Farooq Hanif, Analyst
- Matti Ahokas, Analyst
- Peter Eliot, Analyst
- Robin Buckley, Analyst

Presentation

Trond Eriksen {BIO 17132188 <GO>}

Good morning, ladies and gentlemen. Welcome to Storebrand's Second Quarter 2012 conference call. My name is Trond Eriksen; I'm Head of Investor Relations at Storebrand. Together with me I have Storebrand's new Group CEO, Odd Arild Grefstad; Group CFO and COO, Lars Aa Loddesol; and Group Finance Director, Sigbjorn Birkeland.

As we have notified, the slide presentation we'll be running on the webcast available on storebrand.no/ir. The slides are similar to the analysts' presentation released this morning.

The presentation today will be somewhat different than what we normally do. First, Mr. Grefstad will give the overall take on the Q2 numbers, before we go to the last part of the presentation and we'll talk about Storebrand's work towards implementing Solvency II.

After the presentation, the operator will open up for questions. To be able to ask questions you will need to dial in to the conference call. I will leave the word to Storebrand's new CEO, Odd Arild Grefstad, and he will take up on slide number 2 of the presentation.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Trond Finn. And we move on to slide 2. And first of all, let's start with an overview of the Second Quarter. The Storebrand Group result for the Second Quarter was NOK346 million, and slightly over NOK1 billion year to date. It is satisfactory to note that the high-quality earnings are represented by results before profit sharing and loan losses, and they are 14% better than in the same period last year.

Also satisfactory to see that the strength of the balance sheet is maintained throughout the first half of 2012. We report a Group solvency margin of 152%, after the announced change in the calculation methodology.

The solvency ratio would have been strengthened to 157% after capital allocation measure completed early in July. Customer buffers are strengthened during the first half, but somewhat reduced in the Second Quarter just a little bit.

Operationally I'm pleased to report that there have been very successful in the market this quarter. Storebrand have won a number of new contracts, which will come into our numbers during the second half of 2012.

And Storebrand is working with formal measures to our business mode, to ensure future competitiveness and active adaption to new regulations. Powerful measures are implemented, among others a cost program which will reduce cost to the Group in more than NOK400 million within 2014. These measures will significantly influence Storebrand's capital position into Solvency II, and I will revert to this in more detail later on in the presentation.

Then let's move to slide number 3. If you breakdown the quarterly results of NOK346 million into the different business areas, we observe the following. First of all, Storebrand Life Insurance reports a good result, driven by increased degree of fee-based income, and especially a good administration result. SPP have been more affected by the market conditions, reporting NOK43 million in this quarter. However, the result year to date is NOK398 million.

The Asset Management result of NOK40 million is below our expectation and plans for the business unit. Significant allocation effects from equity into interest-bearing securities with lower margins, explains much of this gap this quarter. Corrective measures are under implementation, both regarding costs and the income side.

The Bank result of NOK57 million is characterized by improved operations and a net interest rate margin of 1.22% year to date, even stronger in the quarter with the 1.27%.

The Insurance area is yet again showing a strong result. There is a few large claims, and effective pricing model are the main drivers behind the result of NOK104 million for the quarter, and a combined ratio of 84% so far this year.

The cost in the holding company is roughly NOK20 million higher than usual, and this is caused by elements for consultants and IT.

Then I move to slide number 12, and I'm happy, of course, to take any questions regarding the results afterward. We move to slide number 12, and use the time now on the new regulations, and also mainly our own measures in Storebrand to meet the new regulation.

It's Storebrand towards Solvency II is the heading of the slide. The regulatory framework for life and pension are undergoing comprehensive change. To understand how Solvency II will affect Storebrand it is crucial to understand three processes.

First of all, the changes in the Norwegian product legislation, to better fit the public pension system, and a broader legacy framework towards Solvency II. We had our own conference call that addressed this earlier on, but this is, of course, an important factor in the transition from Solvency I to Solvency II.

Secondly, a change in the Solvency II and transition rules, decided in the European level. We understand it's an ongoing process to get new -- get decree regulation from EU into Solvency II.

But the most important of these three is the measures and transformative efforts that we do and will do continuing -- will continue to do to make the business model adapted to Solvency II.

Storebrand has a range of powerful measures in our toolbox to transform the business into the Solvency II world, and I will, of course, revert to that.

Then I move to slide number 13 and let me recap the process of changing the Norwegian occupational pension system. The Banking Law Commission effort have so far resulted in measures for paid-up policies, and lately the proposed regarding the new hybrid products now in June.

These changes is a part of a long series of changes in Norwegian occupational pensions system and the intention is that the process will culminate with new solution for conversion mechanism between today's defined benefit products and the new hybrid products, coupled with effective regulatory measures to handle the rest of the portfolio.

Then let's move to slide number 14, and this slide is aimed to explain the development also in a timeframe and its three phases in this process from the Banking Law Commission. The first phase dealt with the challenges with paid-up policies and the Solvency II. It will propose voluntary transfer for guaranteed to non-guaranteed paid-up policies, as indicated by the light blue arrow, the point sloping in the slide.

The second phase was the proposal from June 28 on the new occupational pension product, based on a unique Link platform, the new standard model and a new basic model. Then we have the third phase, and that is the conversion of existing rights into the new products, the measures to deal with the remaining book of the guaranteed business. This is the important work that the Banking Law Commission will start with right after the summer.

If you take a closer look at the proposal from June 28 on slide number 15, I will again clear on that Storebrand is positive on the new products that are proposed. The products are well adapted, as we see it, to Solvency II.

It gives Storebrand the ability to hedge our financial risk and to price it right in the market. It also makes a good foundation to develop attractive pensions solutions for our customers, and it is important to find good transition mechanisms from today's products into the new ones.

The features mentioned above, lead us to be optimistic that the government Law Commission also will find good solution when it comes to transfer existing rights into the new products.

It's also positive that the Banking Law Commission has defined a clear process for the next phase of the work. This will be to find good solution for the transfer, to transfer existing rights into the new product, without releasing new paid-up policies.

The next report for the Banking Law Commission is expected near Christmas. Then we move to slide number 16, and we have here tried to give some input on the economics when it comes to the new products and the expected effect for Storebrand.

It's, of course, still a very premature for us to be very precise on the implication of the new occupational pension products on Storebrand. It's obvious that it will depend heavily on the transitional routes from today's defined benefit schemes into the new products.

Anyway, I'd like to give some overall comments. First of all, it is proposed good savings rates in the new products, quite similar to the premiums in today's DB schemes. In addition, it will be a product that is well connected with private savings; the new product generation can also be run on a very cost effective manner, through one IT platform and automated lean processes.

When it comes to the capital requirement in Solvency II, the new product generation will be on a lower level compared to what it would be with today's defined benefit schemes into Solvency II. Storebrand will target to develop products that have equal or lower capital requirements as the DB products have under Solvency I today. And of course, the combination of these elements will be a positive factor into the return of capital for Storebrand altogether.

If we then move to slide number 17, I will quite briefly comment on the process in Europe. We see that our neighboring countries in Sweden and Norway have brought the implemented measures to bridge the life industry through a situation with low interest rates into the Solvency II.

And we also observe that there are important transitional routes that are being discussed in the EU regarding existing earned pension rights. One suggestion has been to -- on the proposal, on a seven year transition period for existing rights.

Then we move to slide number 18, and turn to maybe the most important part of the presentation, our own active adaption to the new capital requirement under Solvency II. And to be clear, these measures have one primary target and that is Storebrand shall adapt to Solvency II without raising new equity capital.

Storebrand has a range of measures to perform, to transform the business into a Solvency II world, and if we roughly divide these measures into four categories we start with the capital optimization, this is within the different product lines. But we will also organize the Group structure in the most capital effective fashion possible.

The key levers are to ensure that earnings and capital is used to the full extent possible within the limit of the new regulation. One specific example is to make sure that the life insurance-related income in Asset Management division can be counted for as available capital into Solvency II.

Then we move to the risk reduction and the key here is, of course, the managed asset allocation, to match the liability and earnings characteristics of every product. This will typically include longer duration and reduced allocation to more risk assets, such as equities for some lines of business.

Then moving to the third arrow, cost reduction, as I will demonstrate on the next slide, product profitability is a key generator to capital under Solvency II. Cost reduction is a very robust strategy with a multiplication effect on capital generation.

And fourth, products includes a number of measures like moving customers from guaranteed products to more profitable non-guaranteed products under Solvency II; that is both in Norway and in our Swedish business. It's also to change the pricing for the product lines to enhance solvency capital generation. And it does change and also includes changing on the pricing structure and terms to give as much as capital into Solvency II as possible.

Let's then move to slide number 19, where I try to -- in a simple way, to illustrate what is included in the concept of capital under Solvency II. As we all know, under Solvency I capital requirements it's calculated on a fixed percentage of insurance reserves regardless of the risk of the investment portfolio and characteristics of the products in itself. Available capital is derived from accounting figures and consists of equity and hybrid capital.

Solvency II is a risk-based and, at present, a much more dynamic picture where capital requirement is decided both by the size and the characteristics of the insurance obligations and asset allocation. Solvency II will produce a higher gross capital requirement than Solvency I, all else equal.

However, under Solvency II there will be two types of available capital. First, the normal hard capital that we used to look at representing equity and hybrid capital under the Solvency I rules. But the second fact that we might call a soft capital in the issue is represented by the present value of future profit, very close to the concept of value in force in a market consistent embedded value.

And what are the implications? Well the profitability of the product itself becomes a very important choice of capital, though all measures taken by Storebrand to increase the length of customer relationship and increase product profitability will affect available capital for Solvency II purposes.

In rough terms each additional kroner in increased profitability will crease NOK10 in available capital. Very profitable products will be able to actually cover the entire capital requirement with its own profitability. We have done calculations in our own portfolio and the effects of, for example, cost reduction. Our findings suggest that NOK100 million in reduced costs in our product will produce NOK1 billion in additional capital in that concept.

It's a remarkable way to increase capital under Solvency II, is to increase margins and that is what Storebrand has decided, of course, then to implement. And if we move to slide number 20, let's look at our cost reduction plan.

We based this in the analysts from the last slide; Storebrand has decided to implement a quite ambitious cost cutting program. We have previously announced cost growth in line with inflation, with synergies -- with significant higher top line growth is, in itself, a cost improvement.

We now decide to raise the bar and save additional NOK400 million with full effect in 2014. There are a number of initiatives being implemented around the Group. Some divisions' focus on new business and new products are scaling up to meet customer demands and adapt to new regulatory framework. Areas serving the old book of business are being billed down, products are phased out and some product units will be closed down.

On the side we have split the cost reduction measures by product and by cost category. We will reduce the number of full-time (employees) in Storebrand with roughly 300 employees.

The reduction will happen through natural turnover, restrictions in new hirings, but there will also be some layoffs. We are working together with the HR and the employment unions to make the process as smooth as possible, and we will conduct it in an orderly fashion in close corporation with the parties involved. As a consequence of all this plan we will scale up our operations in Storebrand Baltic.

If we then move from the cost reduction example into the next example and that is how we work directly into the different product lines. An example here is the public sector defined benefits.

Our review of the public sector defined benefit offering showed that the product had a capital shortage under Solvency II, and it was two main reasons. First of all, it was too low price compared to the cost and the risk in the products and the investments were not fitted to the liabilities in a proper manner.

We are, therefore, doing two measures; first of all, we are increasing the available capital in the business. We have sent a letter to all our customers increasing the price with 25% on all fee-based income elements in the product. For those customers who feel their price increase is too high we offer a complete set up for closed pension funds. Alternatively, the customer will move away.

Anyway, this will leave us to either a good business with the right price for the products in the Solvency II world or the required capital -- the capital requirement will move away, because all the customers have moved away from a product that was not profitable in the first round.

The second area is around decreased gross capital requirement and that is through a better asset liability matching of the balance sheet. It involves, amongst other, selling equity and increasing duration in the product. And of course, cost reduction will have the same effect also into this product together with these other measures.

So why these measures? We are moving the product from not being well adapted into a Solvency II world to be well adapted with the right capital base into Solvency II.

Then I move to slide 22 and I am ready to sum this up. The results in the quarter, in general, show good underlying operations. Storebrand are positive to the changes proposed by the Banking Law Commission and view the products as good, and will design to allow transfers from today's defined benefit products.

We have identified a number of measures to meet the requirement under Solvency II; these are implemented according to our plan and the more important one being the announced cost reduction program of at least NOK400 million.

Finally, I will make it clear; Storebrand has a clear target to managing the business towards Solvency II without raising new equity capital. Thank you.

Trond Eriksen {BIO 17132188 <GO>}

Thank you, Odd Arild. Operator, we'll now open up for questions.

Questions And Answers

Operator

(Operator Instructions) Peter Eliot, Berenberg Bank.

Q - Peter Eliot {BIO 7556214 <GO>}

I guess I have three questions if I may, the first one was just on slide 16, I guess one thing you don't mention there when you're talking about the various benefit is the embedded value impact.

Clearly, the cost savings you announced should also have a very positive impact on embedded value over time. But bearing in mind, the very large negative that you've shown in your embedded value disclosure for the cost of guarantees in the past, I was wondering if you might perhaps like to comment on that aspect.

Secondly, on the cost savings you've announced, I was wondering if I could just confirm that those are all new initiatives or initiatives that are not yet in the pipeline. And I'm perhaps wondering as well how much of that might have happened automatically with the move to the new products and how much of it is new, new initiations if you like?

Then the third thing I want to just touch on was perhaps competitive pricing pressure in the industry. I'm just thinking others are probably not going to be standing still as well, and how much of a risk is there that some of the cost benefits that the industry takes gets passed on to customers? Thank you very much.

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

Thank you, I'll try to answer the questions and I start with the embedded value impact. I think embedded value impact is very close to what you see as a capital requirement impact here. The concept of Solvency II and embedded value is very comparable. In many ways the own funds concept in Solvency II is very close to the value enforced with some changes, of course, into it.

So yes, we view this as, of course, very positive to the capital requirement into a Solvency II world compared to what it is today and, therefore, also it should be a positive internal value with these new products, everything equal.

When it comes to the cost savings these are new initiatives that we have now launched, worked with for a while. And it's new initiative that will take down the cost level compared to the expectation we have put in or the plans we have put forward earlier. So this is a reduction in the cost compared to that.

When it comes to competitive pricing, well, of course, pricing on the different products in the newer framework will be interesting. It's important to see that this is a product that are very much insurance -- life insurance products with a combination of insurance components and savings components.

So I think that you will see very much the same competitors in the market that you have seen in this area. And I also think that the Solvency II is quite a transparent system, when we start to use it, that makes the need for pricing to meet the regulatory capital needs very transparent to the different players.

But that is important to look forward to but it's -- most important is that the new framework gives a risk manageable system that is up for competition in the market. And we don't fear the competition in the market; we are feeling very comfortable about position.

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

If I could add just one comment on the (latter) question, on competitive pricing. It's important to notice that the new occupational pension system in Norway requires people that die early that the inheritance that comes from their pension saving to be used to for paying for people that live longer.

And this means that mortality risk and longevity risk is an inherent part of the occupational pension product. And that again means that this is -- the market will require that you have a life insurance license to operate here. So it's not going to open up for all kinds of mutual (fund players), etc.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much.

Operator

Farooq Hanif, Morgan Stanley.

Q - Farooq Hanif {BIO 4780978 <GO>}

Just a few questions. In the charts that you show, for example, on slides 21 and 19, you seem to be showing illustratively, qualitatively that when you do things like cut costs and you get up to NOK4 billion of capital, which is a very big number, and you also do pricing, you seem to be showing in those charts that those internal Storebrand initiated measures themselves probably take you into surplus.

Was that intentional? That's question number one. Question number two is what did you find in your cost base that you didn't have before, because NOK400 million is a very big number compared to your operating profit?

So it's always interesting when you talk to insurance companies, they always seem to find costs from somewhere to reduce their base. I just wanted to know what is it that you found that's different, where's the change of focus come from, and where are the risks, therefore, in implementing that?

Last point is what does this all mean for your dividend? We've got an uncertain message about where the dividend is going, so if you get all of these things in the bag, does that mean you're in a much better position to announce the dividend for this year? Thank you.

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

Let me start about it. It is on the illustration, I will say, the bars that we show around -- I think you commented on the bars around public sector DB. But I will stress that it's a very powerful tool to work the profit through -- profitability in the products. And as I said in the presentation, there are examples that we see products that, in itself, have product profitability that is higher than the gross need for capital and in Solvency II. So this is an important message, but this is an illustration in itself for the product.

When it comes to the cost measures, well, NOK400 million is, of course, an important and large number. Well it's around 10% to 15% of the total cost base in Storebrand. In that matter it's not extremely high, I would say.

I think the most important part of it is that the timeframe that we need to do this before 2014. And that is, of course, a tough timeframe to make this happen. So I would have been more concerned about the timeframe than the ability to reduce the cost in itself.

But of course, there also is a very strong change in the business, from old traditional defined benefit, paid-up policies in the portfolio, where we see we have both system and operational costs tied to that; that is expensive compared to what we like to see going forward. And we are working with that now, reducing line by line and reducing also very much when you look at the public sector DB area in itself.

Then we see that a lot of our new products are implemented on a defined contribution platform basis, and it should be an effective set up, both system wise and manning wise going forward.

So that is very much the shift we see in the business. It's also clear that we take a lot of our back office functions that we still have in Norway, and move towards Baltics with the cost reduction that gives in here. So I would say that is the important key element in the cost savings.

When it comes to the dividends, I would say that our main focus and main message today is that we are working towards Solvency II and to manage the business without raising any new equity capital.

That is our core aim, that is what we are doing, and focusing on. Then we, of course, have our dividend policy that stands in the market. And it is a rare situation that Storebrand is not paying dividend; norm situation is to pay dividend.

There's a lot of elements, of course, before year end that can have impact on dividend, and the level of dividends. Both the market conditions, our programs that we have put forward here today will be an important part of that. And I will not, today, give any statements around that, but I will focus on the main message, that we are managing the business into Solvency II without raising new equity capital.

Q - Farooq Hanif {BIO 4780978 <GO>}

May I follow-up just on some of those points? On the dividend, if your plans go according to plan -- sorry, if your measures go according to plan, if markets behave themselves, which I know is a very big if, and if the regulation is moving in the right direction, are you saying that it is possible you pay dividend for this year?

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

If the sun is smiling and so everything goes our way and everything is looking very nice, of course, it's a much better opportunity for paying a dividend. But it's very speculative for me now to be precise on this. I think my main take-away is about our work towards Solvency II.

Q - Farooq Hanif {BIO 4780978 <GO>}

Well I hope the sun shines. But just one last thing, you haven't mentioned implementation costs to get to your NOK400 million, I'm guessing it's roughly half or 100% of the cost savings, is that right or not?

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

We have not been precise on that. We have to work somewhat harder during the third and Fourth Quarter about that number in itself. What I will say is that we are working very much as you understand with a natural turnover, and a very restrictive hiring policy, and trying to limit the lay-offs as much as possible. But of course, there will be some packages that will be needed to make sure that we also have the total reduction of around 300 people before 2014.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

Matti Ahokas, Handelsbanken.

Q - Matti Ahokas {BIO 2037723 <GO>}

Firstly, on the taxes, you state in the report that the tax cost for the first half has been estimated on an effective tax rate, and I calculate that to be around 19%. Is this the level we should be looking going forward, or are there some other issues impacting the tax rate in the Second Quarter, in particular?

The second question is regarding slide 16, when you talk about the return on equity on the DB product under Solvency II, would be comparable to Solvency I. When you calculate the return on equity of the DB product under Solvency I is that based on a 4% capital charge on the technical reserve or something else? Thanks.

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

On the taxes question, while your numbers might be correct there, they're not really illustrative for what you should expect. We are currently using the current tax system in Norway, where when equity or shares in equity investments in the EEA area, i.e. the European area, goes up then our taxes goes down.

In the First Quarter, equities went up, and our taxes went down, i.e. became negative. Then in the end of the First Quarter we made an approximation as to what we would expect taxes to be for the rest of the year, and making that expectation we were looking at the new tax rules. So this basically was mixing up two different tax rules in the First Quarter, but that was the best possible way we could make an approximation to this.

In the Second Quarter, the same shares have fallen in value, which means that we have increasing taxes or basically reducing the negative taxes in the First Quarter. And we're still making an estimation that we'll have a normalized tax for the rest of the year.

As we said in the beginning of January, there will be tax changes later this year, hopefully they will be clarified in the Third Quarter and they will have an effect from starting January 1 this year. So at the end of the year you should expect us to have taxes which will be between 20% and 25% of our profits, and that would be the same in the years ahead.

In terms of taxable -- no, payable taxes, they should not be contactable in the next three or four years, before we've eaten up the tax loss carry forwards of NOK7.7 billion we had in the beginning of the year.

So you really shouldn't put too much emphasis on the reported taxes at this stage, because they are trying to follow an existing tax regime, which we know will be changed, and at the same time look forward into the new tax regime. And regardless nothing -- this is not becoming effective before later this year anyway.

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

When it comes to your second question regarding return on the capital, whereby that is comparable to return on equity on the fact that's a product under Solvency I. We have taken 6% capital charge, should our -- as solvency ratio 150%, but we have then allocated roughly one-third from hybrid capital, i.e., we have equity capital that should cover up for the solvency requirement of 4%.

Q - Matti Ahokas {BIO 2037723 <GO>}

Very clear, thanks.

Operator

(Operator Instructions.) Peter Eliot, Berenberg Bank.

Q - Peter Eliot {BIO 7556214 <GO>}

Can I just come back with a couple more techy questions on the results themselves, since we skipped over those a bit. The first one was on the consolidation ratio in Sweden, which was 107.6% and you took NOK5 million of the normal NOK27 million run rate.

Could you just comment on, if it stays at this level for the rest of the year, whether you would be able to take the full amount at the end of the year, and also how well protected that ratio is on the downside, what we should think about that going forward?

Secondly, on the admin and risk results in SPP were slightly lower than perhaps the normal run rate. I was wondering if you could comment on anything there.

And thirdly, on the Insurance division, I was wondering if you could just give the breakdown on the growth that you're seeing in the different divisions, so specifically health, P&C, etc. Thanks a lot.

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

When it comes to the consolidation ratio in Sweden, that will swing with the financial return, and I cannot give you any comfort at this stage what it will be at the end of the year. It was well above the threshold in the First Quarter, and we took the full income of NOK30 million. In the Second Quarter it was just slightly below -- above the threshold and, therefore, we were only able to take NOK5 million.

Obviously, this is taken with the final effect only by the end of the year, in which case what we have taken into income now may be reversed, or we may be able to take more in the Second Quarter than we have already. But it's difficult to give you any more forecast than we have through the numbers on this.

With respect to the admin result and risk result in SPP, the admin result in the quarter is slightly weaker than expected. The year to date admin result in Sweden is approximately where we would expect them to be for the next six months as well.

In terms of the risk result, it's quite strong in Sweden. However, it may look somewhat weaker in the comparative tables that we've put forward, because it was very, very strong last year as we were releasing reserves. We are no longer releasing reserves in the Swedish operation. So according to what we have previously announced, these numbers should go down somewhat from what has been historically, but still the numbers that we now report we deem as fairly good.

And with respect to the Insurance breakdown, the Insurance result as reported is a combination of risk that lies in the Life Insurance company, workers' comp and Group Life, and in the Health Insurance company and in the P&C company. And we have not made a specific breakdown between those three business lines in our supplementary, but we will increase the transparency on that in the Third Quarter.

What I can say is that the bulk of the results still come from the business lines that come from the Life Insurance company; i.e., personal lines -- personal mortality lines, and Group Life and workers' comp, and a smaller number comes from P&C and Health Insurance. But they are the ones growing the fastest.

A - Unidentified Speaker

If I may just add on the consolidation ratio, you -- to some extent, as Lars just said, the consolidation ratio can go up and down. But at the same time if you look at asset allocation within the defined benefits portfolio in SPP, it is down to 8% in equity; i.e., it should be less volatile on financial market movements.

Given that the consolidation ratio will be in the same area at the end of the year, you will probably get somewhat a haircut on the 120% you could expect in a situation where the consolidation ratio was higher than 108% approximately, but it would be significantly higher than zero.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much.

Operator

Farooq Hanif, Morgan Stanley.

Q - Farooq Hanif {BIO 4780978 <GO>}

Have you got any update on the longevity discussion -- the additional 3% to 7%, and the transition period? Thank you.

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

Yes. We have an ongoing discussion with the regulator, and we expect that there will be clarification on this in the second half of the year, as we have said previously.

We have no reason to believe that the span that we put forward previously on 3% to 5%, as a broad range, where they will come in, that that range still exists, and the dialog is ongoing with the regulator as to how these mortality tables, or longevity tables, what they will look like, and when they will put in place. But it should come in the second half, probably in the Third Quarter.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you.

Operator

Robin Buckley, Deutsche Bank.

Q - Robin Buckley {BIO 3596512 <GO>}

Just a follow-up question on the product profitability. You were just talking about some of the products where the margins were high, as being able to cover the capital requirement. Are you able to expand on that in terms of the different types of products, and perhaps just give a ranking or any sensitivities around that? Thank you.

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

Well I can do that on broad terms, if we use slide number 14 as a basis for it. We divide our products into three different buckets. And of course, it's the fee-based unit-linked and the risk products, they are valid up to Solvency II; the capital requirement in Solvency II is more limited. And the product profitability in itself will, for some of these products, be good and can cover the entire part of the needed capital.

Then we have the DB schemes. They are in themselves, with the pricing mechanisms we have in place, fairly well adapted. As I showed also with the public sector DB schemes, it's possible to price them and be well adapted into Solvency II. And of course, there is also an expectation that there will be a transfer on these products for the private sector into the fee-based unit-linked business.

Then it's all down to the traditional profit sharing portfolio that, today, is not very well covered into a Solvency II world. It's important to take use of the opportunity from a voluntary transfer from today's products into new unit-linked products, and it's also -- in this respect, it's important that with measures to adapt for the rest portfolio into Solvency II. So it is like -- around the three lines of business I think we can talk about the different margins and the capital in Solvency II.

Q - Robin Buckley {BIO 3596512 <GO>}

And I was just thinking in terms of the fee-based products; are you expecting any sort of significant differentiation between those different products within the top category?

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

Can you clarify that question a bit?

Q - Robin Buckley {BIO 3596512 <GO>}

In terms of, for example, the new products for paid-up with investment choices, and under the new occupational pension schemes, are the returns perhaps between those and the existing defined contribution products, or unit-linked products, expected to be significantly different?

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

If you look at the paid-up policies with the investment choice, that is very much a fee-based unit-linked product in itself. And we expect a very solid capital base in the product profitability in that product.

When you look at the new proposal from the Banking Law Commission about the standard model and the basic model, you will see that in itself the model or the proposal covers very much products that are close today's defined benefit schemes, but with a 0% guarantee, compared to today's currently of approximately 3.5%. And all the way to products that are in itself very close to the today's defined contribution schemes.

And of course, it's different pricing parameters in these different products, but we have very clear knowledge of how the capital will be in these different buckets and areas, and have the opportunity to price that into the markets.

Q - Robin Buckley {BIO 3596512 <GO>}

Okay, that's clear. Thank you.

Operator

No further questions.

A - Trond Eriksen {BIO 17132188 <GO>}

Okay, then we'd like to thank you for joining our conference call today. For those of you who are based in London, we will be in London on Monday at the Chartered Insurance Institute at 2 o'clock, and we hope to see some of you there. Thank you. Good afternoon.