Q3 2021 Earnings Call

Company Participants

- Daniel Sundahl, Head of Investor Relations & Rating
- Kjetil R. Krokje, Group Head of Strategy & Finance
- Lars Aa. Loddesol, Group Chief Financial Officer
- Odd Arild Grefstad, Chief Executive Officer

Other Participants

- Blair Stewart
- Hakon Astrup
- Jan Erik Gjerland
- Peter Eliot
- Roy Tilley
- Thomas Svendsen
- Ulrik Ardal Zurcher
- Vegard Toverud

Presentation

Daniel Sundahl {BIO 20548519 <GO>}

Good morning, ladies and gentlemen. Welcome to Storebrand's Third Quarter Results Presentation.

My name is Daniel Sundahl, and I'm Head of Investor Relations.

As always, we will start today with CEO, Odd Arild Grefstad, giving you the key highlights of the quarter before CFO, Lars Loddesol, dives deeper into the numbers.

At the end of the presentation, we will open up for questions-and-answers. And to ask a question, you need to be dialed in to the conference call. Details can be found on the IR website.

But without further ado, I give the word to CEO, Odd Arild Grefstad.

Odd Arild Grefstad {BIO 5483351 <GO>}

Thank you, Daniel; and good morning, everyone.

The Storebrand Group delivers a strong quarterly profit of NOK912 million. The operating profit of NOK762 million in the quarter or NOK827 million adjusted for performance-related cost is the strongest on record. Overall growth within savings and insurance, disciplined cost control, and increased profitability within insurance drive the growth in results. We continue to win customers with our attractive digital solutions and sustainable footprint. The growth is strong all across our front book as I will revert to.

Storebrand's solvency ratio strengthened 6 percentage points from last quarter to 178%. The increase is due to rising long-term interest rates and strong Group profit in the quarter. The transformation towards a more capital-light group progress according to plan. The growth area defined contribution pension or unit linked now exceeds 50% of the life group's balance sheet.

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

The combined synergies stemming from capital, customer base, costs and data across the group provide a solid platform for profitable growth and value creation. The ambition is to deliver a profit before amortization and tax of about NOK4 billion in 2023.

Storebrand also continues to manage capital and a back book with guaranteed products for capital release. This leads to our dividend policy of growing ordinary dividends from earnings as well as estimated capital release of NOK10 billion towards 2030.

Within the growth areas of future Storebrand our front book, we are making strong progress across the whole organization. Let me start with the occupational pension area. Reserves in unit linked grew by 18% year-on-year and premiums are up 7% in the same period. In the third quarter, we have also won a new public sector mandate and in the Norwegian market for defined contribution pensions around 65% of transfers to individual pension account have now been completed.

We continue to build on the ambition to become a Nordic powerhouse within asset management in this quarter with acquisition of Capital Invest. Storebrand and Skagen delivers strong performance for customers and we have NOK364 million in earned, but not yet booked fees that all else equal will be booked in the fourth quarter.

The overall growth in insurance premiums was 18% year-on-year. In the retail market specific insurance premiums grew by 47% helped by the transfer of the insured portfolio and the bank grew by 17% compared to last year. The retail area really experienced strong profit growth.

Let me conclude my part by diving a bit deeper into Storebrand's work within alternative assets. Over the last decades, the quest for yield has turned all eyes towards alternative asset classes, private equity, real estate, infrastructure, and private debt. The high demand for sustained attractive revenue margins -- has sustained attractive revenue margins for alternative asset classes. And as a long-term pension investor, Storebrand has long-standing experience with investment in alternatives, which has generated superior returns for our pension clients.

We leverage on this expertise and developed new products and co-investment opportunities for our clients through Storebrand asset management, since 2015 alternative assets has grown 20% annually, increasing their share of our assets under management from 9% to 15%. Today, we managed NOK160 billion in different types of alternative assets, on behalf of both our life insurance companies as well as external clients.

The acquisition of Capital Investment is a great opportunity for us to strengthen our position as a gateway to the Nordics for international real estate investors. We are happy to welcome Capital Investment on board, and we look forward to the investment capabilities and complementary network for deal sourcing they add to our real estate business.

As Storebrand has more than 100 years of experience and a history when it comes to real estate investments, today's portfolio stems from both our Norwegian and Swedish life insurance companies. And since 2010 Storebrand has also developed an open-ended Norwegian real estate fund, which has raised roughly 1 billion annually in new capital.

With Capital Investment now on board, we manage NOK76 billion of assets composed of 245 properties spread over the Nordic countries with office, retail, logistic, hotel, and residential real estate. To us, real estate is more than just financial state investment. Sustainability is at the core of our investment including real estate, which is shown by our 5-star GRESB ratings and BREEAM's certifications.

We work to reduce energy and material consumption and we promote the use of renewable energy and circular economy by reducing waste and limit the use of new materials. We're also very proud to how we contribute to a vibrant city development.

Many of you might remember this place on the picture as narrow and unpleasant street running below the majestic Victoria Terrasse building in Oslo. Today it is a nice pedestrian path connecting important parts of the city. And at the end of this pedestrian road, we find the newly constructed Via Vika, which offers some of Oslo's most beautiful and modern office spaces, shops, and fantastic places to eat. In cooperation with Aspelin Ramm we have raised a beautiful building meeting the highest sustainability standards.

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

Lars Aa. Loddesol {BIO 3969188 <GO>}

Thank you, Odd Arild.

With NOK827 million in operating profit adjusted for performance cost, we set a new record in ordinary operating profit. In the IFRS statement, we record a cost of NOK65 million related to good performance in the quarter, which is linked to NOK134 million in earned, but not booked performance fees. The financial items and risk result life adds NOK151 million in the quarter for an IFRS result of NOK913 million. The solvency position continues to strengthen and ends the quarter at 178%. Customer buffers remain at record levels despite the increase in rates in the quarter.

The solvency movement in the quarter is as follows. Every third quarter, we make a thorough review of our model and assumptions used. This year the consequence is a net negative of 1 percentage point.

Interest rates have gone up in Norway and Sweden by 24 bps in Norway and 14 bps in Sweden lifting the solvency by 2 percentage points. Regulatory assumptions are related to volatility adjustment, which have gone up slightly and symmetric equity stress, which has been reduced a tad. The two largest elements in asset return and business mix are related to a reduction in equity exposure and investments in some very long bonds to better match our liabilities. Furthermore, good returns in the alternative asset classes build buffer capital, which is positive for the solvency.

The acquisition of Capital Investments had a -- I see that the pictures are flipped here, sorry. Furthermore, the acquisition of Capital Investments had a solvency impact of 1.6 percentage points whilst the strong group result contributed to about 2.5 percentage points of solvency of which half is set aside for dividends. The small contribution of transitional capital is a technical result of some Norwegian specific limitations in how the transactional capital is calculated. For all practical purposes, we are now out of the transactional capital. However, it remains a cushion if interest rates were once again to fall.

In summary, the SCR has gone down, the capital position has been strengthened and the group is approaching a level of 180%, where the Board has indicated we will start a -- start repurchasing shares in the market subject to regulatory approval. This picture illustrates the solvency position and sensitivities to different market movements. Importantly, with higher interest rates and stronger buffers, the sensitivities have been reduced and the group solvency position remains robust in all scenarios.

Storebrand continues to see strong growth in fee and administration income. Insurance results are improving after a period of weak results. Operational costs are under control and well within the guiding for the full year. The financial results are satisfactory. The tax charge at the -- in the quarter is at 23% and 19% year-to-date in line with previous guiding. All result areas in the bottom box here are showing significant improvements year-to-date from last year and all areas have satisfactory profitability in the quarter.

Let's start with savings; all areas within this area show satisfactory development in the quarter and year-to-date. Despite margin pressure following the introduction of individual pension accounts in Norway, unit linked Norway shows improvements from last year. I will explore this further in a moment.

The asset management area has to include a total of NOK159 million in performance related expenses year-to-date, but are not allowed under IFRS to include the corresponding NOK364 million in performance income. The performance income for the full year will be booked in the fourth quarter.

As Odd Arild has already shown you, the growth in the front book is strong. The flow in asset management is good year-to-date. We have recently won several large mandates that we expect to book in the fourth quarter. As we commented on in the fourth quarter last year, the large UK municipality mandate we won then has paved the way for further growth in the UK market and on the Irish platform solution that we've developed. Around NOK6 billion worth of mandates have recently won in the UK market and will be booked in the coming months.

On our Capital Markets Day last December, we guided that the introduction of individual pension accounts in Norway would lead to margin pressure in Norwegian unit linked. Furthermore, we said that this would lead to temporarily lower profitability in 2022. This picture shows that the fee income margin has gone down as guided, but that cost measures and volume growth has more than made up for the reduction in income margin. We still expect somewhat lower profitability in the product line next year, but feel comfortable that we will be back on track for profitability growth in 2023, about 65% of the expected individual pension account transfer has now been finalized.

Overall, the results and insurance are within the targeted range and premium growth is a healthy 18% compared to the corresponding period last year. P&C and individual life show great development and pension-related disability is at an acceptable level.

The only significant weakness in results this quarter comes from group life. Whilst the disability results in general have returned to normal after the pandemic, we have seen an increase in claims in certain contracts dating back in time. We think that the delayed claims may be an indirect result of the pandemic and the Norwegian pandemic temporary salary leave -- relief also called (inaudible). We have strengthened reserves and increased prices to address this uncertainty.

Here, we see that the blended combined ratio is at the satisfactory level within the targeted range of 90% to 92%, that the cost ratio is declining after digesting the expenses relating to the acquisition of Insr. And that P&C and individual life now accounts for more than 50% of insurance premiums. This product category has a combined ratio of 79%. Overall portfolio premiums are up 18% from last year. The total transfer from Insr is currently at NOK648 million. This is better than the business case and the claims development is satisfactory.

Fee and administration income is up and guaranteed following growth in the public sector market and takeover of some smaller pension funds. This growth is capital light and shows good profitability despite the guarantees. Storebrand will on a very selective basis continue to assess these kinds of opportunities, subject to satisfactory buffer levels, risk manageability and profitability. Risk results and profit sharing show a satisfactory development in the quarter and year-to-date.

The overall reserves for guaranteed products are now -- are down in the quarter primarily because of the stronger Norwegian kroner. The buffer capital is slightly down following the higher interest rate level, but is still at a very comfortable level. We have now crossed the milestone, where guaranteed pension reserves make up less than half of the total pension reserves.

SPP is leading the way with only 38% guaranteed reserves and have already released excess capital from the guaranteed book for several years. We have already won one large municipality in Norway this year and we are in a handful of remaining tenders to be concluded in the fourth quarter. The cost level increase in other is partly related to M&A.

And with that, we move over to Q&A.

Questions And Answers

Operator

(Question And Answer)

A - Daniel Sundahl {BIO 20548519 <GO>}

Thank you, Lars, and thank you, Odd Arild.

We will now open up for questions and answers. And let me just remind you that to ask a question, you need to be dialed in to the conference call. And with that, I will give the word to the operator.

Operator

Thank you. (Operator Instructions) Our first question comes in from the line of Peter Eliot calling from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Start with three questions if I may; the first one I saw you were quoted on The Wire this morning as saying that you might do a buyback review after the full year '21 results. So, I guess now that you're getting close to 180%, I was wondering if you could share your thoughts on how much the stability of the solvency ratio matters as well as the absolute level. I mean I'm guessing, if it's bouncing around a bit, appreciate the sensitivities are reduced, but still has the ability to bounce around a little bit. And I'm guessing that sort of being over 180% just for one quarter is not enough, but it would be really useful to hear your thoughts on that, I think about how long it needs to be up there or how stable it needs to be, that'd be a great.

Second question, the fee margin on unit linked Norway, I mean you mentioned that, Lars, little bit of detail, but I guess you're -- and I know you're saying it's in the communicated range, but I was just wondering if you could a little of an update in terms of the near-term outlook. It sounds like you're expecting profitability to sort of full next year. But we've already seen the margin coming down a little bit. And I was sort of expecting the margin pressure maybe to come mainly in '22. So, I was just wondering if it's coming a little bit earlier than you expected, any more detail there would be great.

And then finally, on the profit sharing and paid up policies, you're starting to see the benefit now. So, I'm just wondering how we should think about that going forward. If I look at your supplementary information, you show 3.2% expected return and 3.2% guarantee, which kind of suggests limited profit sharing. So, I'm just wondering whether we should be thinking about this year as being one off due to the good returns you've received or whether there is sort of potential for ongoing profit sharing there. Thank you. Sorry for the long questions.

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

Thank you, Peter. Let me start with the solvency position and the buybacks.

With 178%, we are, as you say approaching the 180%, so, very pleased to see this development; and as we have said before, we are very eager to start doing share buybacks, and we've also seen from the sensitivities that Lars showed earlier that the sensitivities in our solvency position is very much lower compared to what it used to be. So, we of course work towards getting to the 180 as soon as possible and are ready to have conversation with our Board and start the process with also the regulator to actually do share buybacks as soon as possible.

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

With respect to unit linked margins, as we said, 65% of the conversion into individual pension accounts has happened and the margin pressure comes as a result of the conversion. So, this has happened -- this will happen gradually throughout the rest of this year, and the full impact will therefore come in 2022. So, we're not going to comment on specifically any product lines in terms of exact margin at any one point in time, but the guiding that we put forward in December last year on the Capital Markets Day, they stand firm. And as we've illustrated this quarter and this presentation, we are -- the development is very much as expected. And we've also worked with profitability, both in terms of cost measures, pricing, and volumes in order to make sure that profitability will once again go up again from 2023.

With respect to profit sharing from paid-ups, we continue to manage this in a long-term way to build buffers to have a robust balance sheet over time that will create if rates continue to go up will contain -- will include profit sharing. But the main objective of our risk management is to have a solid balance sheet and to have sufficient buffers on these contracts, but there will be on certain some contracts that are well reserved and have lower guarantees or approaching pay out, there will be from time to time some profit split.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thank you very much.

Operator

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

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much. Good morning, everyone. I've got a few questions as well. Some of them are similar to Peter, so apologies, but hopefully worthwhile.

On the margin development and the guidance that you've given in unit linked and you talked about NOK100 million profit decline before recovers. And I just wondered is that guidance still intact? And are we basing that off the 2021 run rate, which looks like it's going to be off the region of NOK500 million or so. So, is that guidance still intact?

On the solvency versus buyback, I'd be interested in comments around why the sensitivity is dropping. But to Peter's point, are we going to be in a situation, where you start a buyback next year or so and then interest rates fall by 50 basis points and you're having to stop the buyback. So, I mean, is that part of the thought process that you'll be embarking on in the coming weeks and months; just to get a little bit color on there in terms of the kind of the risk to the buyback once it starts if interest rates go down and clearly, that's not something that you can control.

And then just focusing on buyback potential as well, I guess, you want to get to a situation, where you're not building any more capital. So, the points of capital build that would -- that are going in at the moment, which is about, I don't know, four or five points a year that would presumably be available for a buyback. So, you're looking at the quantum of NOK1 billion, NOK1.5 billion, is that again -- is that consistent with your own thinking as and when the buyback does start?

And then my -- two other small questions; one is, could you comment on any good luck one off aspects, don't know how you want to describe them in the P&C side of the business. Obviously, 79% is a very good combined ratio. Just wonder if there's any one off aspects in there.

And finally, you made quite a lot in your presentation about real estate, which is great, but there is -- there is a real estate business on the market, I believe, Oslo Areal and I wonder what your appetite is for more real estate in Oslo itself? Thank you.

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

If we start on the margin pressure, we have indicated around NOK100 million in the Norwegian business. But then in the presentation that we make on the whole unit linked across the business, we will continue to have the Swedish business, which has continued growth, et cetera.

So, the overall impact, hopefully, on a group level will be somewhat smaller than that. And we're also working on finding the right pricing in a new balance in this market. So, I think that's pretty much as much as I can say on the margin development in unit linked.

A - Kjetil R. Krokje {BIO 20060140 <GO>}

I think on the -- I'll start on the sensitivities on the solvency and then I'll hand it over to you, Odd Arild, on the buyback questions.

The sensitivities are dropping first and foremost because the rates (Multiple Speakers)

Q - Blair Stewart {BIO 4191309 <GO>}

Sorry, Daniel; can't hear you very well.

A - Daniel Sundahl {BIO 20548519 <GO>}

Apologies, excuse me.

A - Kjetil R. Krokje {BIO 20060140 <GO>}

Sorry, Blair; it's actually Kjetil (inaudible) can hear me.

Q - Blair Stewart {BIO 4191309 <GO>}

Sorry, Kjetil.

A - Kjetil R. Krokje {BIO 20060140 <GO>}

Yeah.

Q - Blair Stewart {BIO 4191309 <GO>}

We can't hear you then.

A - Kjetil R. Krokje {BIO 20060140 <GO>}

Yes. Perfect, perfect. No, so, the sensitivities in the solvency are reduced because rates are higher, so that in itself reduces solvencies to have much more policies that are more than funded by the interest rates that are here today. And secondly, we have also bought longer bonds during the quarter that reduces the duration mismatch in the -- in the book of business.

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

Yeah. And when it comes to the solvency and the buybacks, what we see is that when we -- of course, 180%, it's based on today's view from the Board, forward-looking view about the needed capital in the business and also at the point of overcapitalization. And of course, the Board needs to do that kind of forward looking assessment that at all time. But that has led to the 180%, and of course, when we start doing a share buyback based on 180% that will be a program that then will be fulfilled.

And when we have done that program, we have to look at of course, the forward-looking view again and actual solvency situation that we have in the market and then agree on starting a new program on share buybacks or not. So, that is the mechanism we are seeing when we entered this stage of overcapitalization and share buybacks. And of course, the volumes we have talked about this NOK10 billion over the next years and of course, the magnitude of the share buybacks and the starting points and also the magnitude of what we do on an annual basis will be based on the overcapitalization due to the solvency ratio.

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

With respect to one off

Q - Blair Stewart {BIO 4191309 <GO>}

Can I just ask on that before we move on?

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

Yes.

Q - Blair Stewart {BIO 4191309 <GO>}

So, are you saying that if we -- just imagine we're in the first half of next year, the solvency is above 180%, but not by much and the Board agrees to do, let's say, NOK1.5 buyback. And then the interest rates go down 50 basis points and solvency is back to 170%. Is that a scenario that you think is likely or I mean that scenario could happen, right?

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

Well, interest rates can of course fluctuate both up and down. What you see is that our sensitivity towards that kind of fluctuations in interest rate is lower, but of course there is possible to think about scenarios that reduces Storebrand solvency. And if that reduces the solvency in a way that the Board means that the forward-looking view of the Company make us on different stage, then we'll not continue with the share buybacks, so you can see a situation, where you start doing share buybacks in a period, stop doing in a period, and start again with a new period of share buybacks. So that has the mechanism that we see.

Q - Blair Stewart {BIO 4191309 <GO>}

Understood. And is there any color on the phasing of the NOK10 billion run off? I know you've said this before 2030, but we're now going into 2022. Is that something that will start to materially impact in solvency as we go into 2022 or is it going to be more back end loaded?

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

I think it's quite well distributed. And what we see is that of course, we have come -- we have talked about the value creation and the solvency creation in the Group, the 10% to 12% points annually, where half of it is used for normal dividends. And of course, the rest of it is done in a situation, where you start to get above 180% available for share buybacks. So that is the magnitude what we see and the outlook we can give on solvency.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you.

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

On

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

Yeah.

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

P&C, the P&C results and individual life results are strong as you say. And there are no particular one offs, but that's also usually one offs in this area are of negative nature in terms of large claims, large fires, whatever. We've had no significant large claims outside the normal in this quarter. So, roads in Norway and Sweden or Norway are less slippery in the third quarter than they are in the fourth quarter, and we've had no large claims in the quarter. So, it's been a good quarter without any one offs either positive or negative.

A - Kjetil R. Krokje {BIO 20060140 <GO>}

When it comes to M&A and asset management, you have seen that we have focused on doing M&A activities towards alternatives with the acquisition of Cubera and also the acquisition of Capital Invest lately. So, we are looking into the market and followed it very close, what comes up with alternatives in the Nordics. Saying that, we feel that we have a very good presence in Norway, and now also in Denmark when it comes to real estate. And actually a bit lower present in Sweden, when it comes to real estate. So we are looking to, of course, have a balanced Nordic present when it comes to alternatives.

Q - Blair Stewart {BIO 4191309 <GO>}

I guess the Oslo Areal business is a -- is direct properties as well. It's not property asset management business; it's actually direct properties.

A - Kjetil R. Krokje {BIO 20060140 <GO>}

That's true.

Q - Blair Stewart {BIO 4191309 <GO>}

Cool. Thank you. Sorry for asking so many questions.

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

No. Thanks.

Operator

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

Q - Roy Tilley {BIO 19127459 <GO>}

Good morning, guys. Three questions from me as well. First of all, on the unit linked business, I was just wondering if you could say something about the transfer balance. It's quite negative again this quarter. Is there anything new on the competition or you just kind of trying to keep your pricing up and then accepting (inaudible).

And then secondly, on the group life result, if you could just try to put the figure on the reserve strengthening you did this quarter to get a sense of the underlying development.

And then lastly to follow-up on that question on buybacks, I was just wondering if we get the scenario, where you start the buybacks, but then interest rates drop will you lean on the transitional rules in any way or is this the clean solvency that will kind of dictates whether or not to renew the buyback program or not, if we get a scenario, where the interest rates drop? I think that's my questions for now. Thank you.

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

Okay. On unit linked transfers, you are correct that there has been a negative development in Sweden for some time due to very, very strong payments from one of the competitors in terms of transferring clients to them. We -- those transfer bonuses have been reduced and we expect them to disappear. And we see that the Swedish operation is now that the transfer balance in Sweden has been, as I said, negative for sometime this year, but that seems to be turning. And we are putting in place a number of measures to turn that into next year.

In Norway, we are in the midst of a transition to IPA. We don't know the exact outcome of the IPA transfer yet. 65% has happened, and we will make a thorough review of that in the fourth quarter and give you the numbers in terms of what has moved out, what has moved in, and so on. But what we did see is that we manage for long-term profitability this business. Last year -- towards the end of last year, we saw some very aggressive competition that lowered prices significantly in the defined contribution pension market and that should indicate that they would receive some more individual pension accounts this year than they would otherwise do. However, as you see on the margin pressure, that seems to be somewhat smaller than we indicated before. So, the balance between volumes and margins seems to play out pretty much as we have expected, but we will give you a thorough analysis of the total IPA transfer when that has been finalized by the end of the year.

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

Yes, in terms of group life, we're talking pretty small numbers and actual claims here. But some of the claims are a little larger, and there are a few more claims than expected. So, we have strengthened reserves on some old cohorts. And due to the increased uncertainty, we've also had a buffer strengthening of approximately NOK25 million.

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

When it comes to the question about solvency, again it's a forward-looking view from the Board about overcapitalization. And I think the transitional capital is really not the important part of that view. So, it's very much the clean solvency ratio we are looking at when we are talking about overcapitalization and also the number that indicates overcapitalization and gives opportunities for share buybacks.

Q - Roy Tilley {BIO 19127459 <GO>}

Thank you very much.

Operator

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

Q - Hakon Astrup {BIO 18861149 <GO>}

Good morning. Two questions from me; the first one on dividend. So, given the strong results year-to-date that paying above 50% of EPS -- of dividend can actually lead to a higher nominal increase in dividends than we have delivered in the past. So, if the Board comfortable with this certain observation that the structural part of the dividend as a special; that's the first question.

And the second question is regarding the proposed changes in the Norwegian law for occupational pension I think it's called Proposition 223. And here, it's among other proposed to reduce duration on smaller paid-up policies and have you looked into what its impact will be for Storebrand -- on Storebrand's solvency position. Thank you.

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

Well, yes, first on dividends, I think, I will leave the discussion to the Boards at the end of the year to do that discussion. We have not had that discussion with the Board so far. But of course, we have a dividend policy that is quite clear to pay out more than 50% of the reserve that also nearly growing. And we are also eager to get to the 180% and start doing share buybacks. So, I think that's what I can say on that matter so far.

When it comes to the new proposal from -- on guaranteed products, you are absolutely right. There is a potential now to -- will be if this is passed through the Parliament during the autumn a potential for reducing the duration of some of the guaranteed paid-up policies. And we have looked into that. We haven't decided everything around it yet, but of course, everything equal, that will be a positive element when it comes to the solvency calculation. But we have to revert to that when it has passed through the Parliament. It's also other positive element in that proposal, because it increases the savings in the market, because everyone will now have pension savings from the first krona they earn. And we -- I think, we have estimated that it will give an impulse into the market with more than NOK3 billion in additional pension premiums that of course will be on an annual basis.

Q - Hakon Astrup {BIO 18861149 <GO>}

And just a follow on the impact on the solvency (inaudible) provide us with ballpark number of how it will impact the solvency ratio.

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

I think it's still a little bit early, Hakon. We're working with this and there's a lot of parameters to consider here, so still a little bit early.

Q - Hakon Astrup {BIO 18861149 <GO>}

Okay. Thank you.

Operator

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

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

Thank you. Just a follow-up on the paid up policies in Norway. I just -- it's like the fee margin on the reserves there continue to drift slightly upwards quarter-on-quarter and they're up quite a lot year-on-year. I was just wondering if you have some comment on the drift upwards will continue or if it stay at current level. And then just a short second question, you said roughly NOK6 billion in inflow into external mandates from the UK in Q4. Did I hear that correctly? Thank you.

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

Okay. On the paid-up policies, as I mentioned earlier, we take on some -- we've taken on some smaller pension funds in the last few years that will add to the volumes, but they also add significantly to fee income. As you can see in the profitability growth in these portfolios. So, we will on the selected and very selective basis look at certain -- look at possible growth in that also in the coming years. Then you have the normal churn from defined benefit to paid-up policies, less the paid-up policies that comes to maturity. So, basically this should be quite stable going forward. And you did hear me correctly that we won some large UK mandates in the order of NOK6 billion that we expect to be coming to the books in the coming months.

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

Just to add on the paid-up policies, of course, we are in it for a long-term runoff and capital release, but it's very satisfactory to see also that the result from this area is picking up and that is due to, of course, the strong risk management around this portfolio, but also that we have a critical mass here. That of course gives very effective management and low costs in this portfolio together with also good risk results all together. So, we are following this very closely. And of course, there is the opportunity also for profit sharing going forward, when we see that the buffers starts in some contracts to be on the level, where we actually have to start doing profit sharing.

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

I think, also one more thing that since we are now in the -- since we are selling very low guaranteed products in Sweden, we are going into the municipality market in Norway. And from time to time, we're looking at the pension fund transfers. We will adjust our reporting so that you will see what is actively sold in good guarantees if you want and then the guarantees that are in runoff. So that may make it easier to see what this good part and what is more of a challenge and then close business in run off.

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

Yeah, that would be great. Thanks a lot.

Operator

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

Q - Thomas Svendsen {BIO 6070863 <GO>}

Yes, good morning. Two questions, both to the savings area. First on the banking side there is a nice uptick in the interest margins -- interest margin. How much of that uptick is sustainable and how much should we consider non-recurring. I had question number two, to the unit linked volumes in Norway as has been mentioned before, they are nearly stopping off. It's not growing anymore. So, how concerned should we be about your end market position there and also what is your market share targets or market position target in the Norwegian unit linked markets?

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

If I start on the first one with bank margins, bank margins are slightly open in the quarter. We know that short-term interest rates have gone up recently, and then there's a lag between when you get you immediately get the funding cost when short-term rates go up, but you can't get that on the income side. So, there's a delay, which is negative for the banking industry in the rising interest rate environment. That said, higher interest rates is positive for the banking sector for our bank as well. So, we continue to run this business with very, very low risk, almost all of the lending is very safe mortgages and therefore, our interest rate margin is lower than for example consumer lending banks, et cetera. And we have very, very low losses in this bank, and we will continue to run it for profitability and maintaining this 10% ROE as we have indicated before.

A - Kjetil R. Krokje {BIO 20060140 <GO>}

On the unit linked side, I can start.

I think what you see now is that the premium income is still strong in the Norwegian market, so there's still structural growth in the market and then it is the factors that both Lars and Odd Arild touched upon that there are transfers now in the market with the introduction of IPA that has led to some outflows during the year. But I think when we see this settle into next year, you will continue to see structural growth in the unit linked area both in Norway and Sweden around the 12% to 15% we discussed on our Capital Markets Day last year. And I think that when it comes to market share target, there is no specific market share target for Storebrand in the unit linked market.

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

Now -- but as I said, we -- this is the core of Storebrand and we aim to be the leading player within corporate pension in Norway and we believe we are, because we are the only one that actually offers a defined contribution pension. We offer different hybrid pension solutions and also now in the public sector, we're the only provider doing that. And we look at the corporate market all together, not only on the DC market, because we can offer all these different solutions to the market.

Q - Thomas Svendsen {BIO 6070863 <GO>}

Okay. Thank you.

Operator

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

Q - Vegard Toverud {BIO 17129809 <GO>}

Yes. Good morning. I have a couple of questions, first on the municipal market and the tenders you referred for Q4. Could you say something about the whole total volume for all those tenders?

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

Yes, one municipality has been decided and come to us. And I believe there are three or four additional municipalities that are in tender currently. The exact volume, I'm not sure about this, is it NOK3 billion-NOK4 billion?

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

No, it's the -- it's around NOK1.7 billion. The one that we that we already have one and there is still -- it is not only municipalities in this market. It's also more public companies, and other type of corporations that also have a public pension that is possible. And I think its tender offering is around NOK4 billion to NOK5 billion in the fourth quarter that is outstanding.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. Thank you. And if uncertainty way -- there with COVID-19 effect, would that lead you to still make some precautionary reserve strengthening also in the next quarters on (inaudible).

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

I think, what we have -- we have done what we need -- think is needed for reserve strengthening now, and we have no outlook for doing reserve strengthening into the fourth quarter as we speak.

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

We need to be fully reserved at all

Q - Vegard Toverud {BIO 17129809 <GO>}

Thank you and

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

We need to be fully reserved at all times. So, it's a best estimate what is fully reserved.

Q - Vegard Toverud {BIO 17129809 <GO>}

Of course. And then last year on returning to the Norwegian DC margins, around two-thirds now been converted to do this pension accounts, could you give us some details on the difference in margin between the ones that have been converted or -- and the ones that have not or any other help in making us understand the apparent stronger margin and at least my impression has been that you have communicated earlier.

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

As you know, we have a number of corporate contracts in different sectors of the market. We have small contracts. We have large contracts. We have the NHL agreement. So, there are a number of different prices and solutions out there. There are some very simple solutions and there are some quite complicated solution with different prices. And then the IPA market, the pension certificates are transferred into an active contract with a higher or lower margin or -- and with more sophisticated solution or simpler solution. So, it's difficult to give you a meaningful number in terms of exactly what this is on an average basis, because you can see some transfers that may not follow an average pattern.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay.

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

But as I said also, we will give you a full rundown on this in the next quarter when the transfer market has closed, and we can assess total of what has happened during the year.

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

But of course, the guiding we gave on Capital Markets Day when it comes to reserves effects of this, we feel very comfortable about that guiding.

Q - Vegard Toverud {BIO 17129809 <GO>}

Yeah. So, just to start to help there, for the volumes then transferred, can we see the impact already in the Q3 numbers or have the volumes been transferred towards the end of the quarter and we expect the P&L impact to hit in Q4 for instance?

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

I think what you see is that the transfers are ongoing. So, you see in the second quarter, there was some transfers, there have been some transfers during the quarter. And then the margin impact will take place gradually as they enter the book of business. So, not really easy to give a very more -- a more precise answer on that level.

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

But that's exactly why we said that the full impact will come in 2022 and not in 2021, although the transfers happened in 2021.

Q - Vegard Toverud {BIO 17129809 <GO>}

Okay. If Odd Arild are available afterwards, I would be happy to have a short call. Thank you for answering the question.

Operator

The next question comes in from the line of Jan Erik Gjerland calling from ABG. Please go ahead.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Yeah. Good morning to all of you.

On the deposit side in the bank, is there any special floor effect, which comes through, which is special for this quarter or is also that the higher interest rate should sort of impact the deposits positively also going forward. And then of course, you try to manage your mortgage book with a lag.

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

Yeah. The deposits in the bank has floors right there, and we are putting in place measures to increase the deposit rate.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

So, it's no floor effect on margin there, which is more positive this time around than otherwise. So, just understand that the margin impact as some have pointed to.

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

Obviously, zero has been a floor in the Norwegian market. When rates go up, then at some states that floor is gone.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay. Secondly then -- on -- for repricing on the group health and life, which looks like how fast can that repricing take place is -- 1st of January or is it already now?

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

We have had some challenges in the group life for some time and we've increased prices gradually in a number of different contracts over the last three years. So the impact comes through on different contracts at different times. And we continue to rise prices until we have adequate pricing on these contracts. So, you will have some impact that has already come through the numbers and there will be additional impact coming into next year.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay, perfect. On the growth side, you touched upon -- you've been attacking from a lot of areas from competitors. We have high growth expectations in Storebrand. So, you have mentioned a few that is positive here. But how can you defend your market share in the different kind of markets asset management growth in funds distribution, et cetera. What is your sort of your funds to attack with so that we could get more funds on the management from the retail area.

A - Kjetil R. Krokje {BIO 20060140 <GO>}

That's a kind of a broad question to go into the whole saving strategy in the retail market. What we do see is that we are picking up volumes at adequate profitability and margins and as Odd Arild touched upon as well, the retail area was the area that grew the most and had the most significant results in the group as a whole in this quarter. So, we do see in the retail area that we are succeeding in P&C, in banking and in the savings area.

Q - Jan Erik Gjerland {BIO 5346031 <GO>}

Okay. Thanks for the answers.

Operator

The next question comes in from the line of Peter Eliot calling from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Hi. Thanks a lot, still have couple of small follow-ups. The first one is just on the insurance premiums of 7, 7.9 in the quarter, I mean, I just think -- should we sort of multiply that by 4 now to get the current run rate or is there anything still more to come through from Insr or anywhere else?

And then the second one, I'm sure the answer is no, but just to check whether there's any sort of update on the various tax uncertainties that you've got ongoing. Thanks a lot.

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

Yes. So, on the insurance, most of the Insr portfolios have been transferred. So, times four is a good starting point as an estimate. That said, we are also experiencing strong growth elsewhere in the market there taking market share organically. So, hopefully we will continue to see growth above the x4 metric; when it comes to the tax cases, there's no updates in the quarter.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks a lot.

A - Daniel Sundahl {BIO 20548519 <GO>}

I think we're approaching the end of the Q&A session. Just to check with the operator, if there's still a queue of analysts wanting to ask questions or if we're approaching the end.

Operator

We have one caller remaining in the queue.

A - Daniel Sundahl {BIO 20548519 <GO>}

So, we'll take the last question. Thank you very much.

Operator

Lovely. The final question comes in from the line of Blair Stewart calling from Bank of America. Please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks, guys. Thanks for taking it.

Just wanted to return to solvency. Odd Arild, you talked about the Board taking a forward look on -- a forward view on solvency. I'm guessing that means they'll start with the current position, they'll think about the profits of the company, which I guess will not be too different from your guidance, led me to think of your interest rates, but somehow those are -- so the only -- the final thing that they'll do, I'm guessing is they will have a view of some guidance from you on how the book will evolve and that comes back to the -- I think it comes back to the NOK10 billion of capital runoff. And I wonder -- that's really not for today, but I wonder if you might provide more of a forward-looking view on solvency to help us come to the same conclusion as the Board might come to.

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

Yeah. On the run off of the portfolio in itself, I understand that will be helpful and we'll look into that. And you're absolutely right, of course, when the Board takes a forward-looking view, they have a very thorough process, the ORSA process to look at our current solvency situation, to use different kind of stress tests on that position. And also look at needed capital for other measures. And that is the basis for looking at overcapitalization.

As we have talked about also earlier over time, of course, this will also evolve because Storebrand is getting to be a much more capital-light company day-by-day and today it's 180%, is maybe the right measure for our capitalization today. But over time, of course that the level will be lower due to the fact that we will have much more capital-light business as a part of the mix. So, that is also a part of this forward-looking view that I take into account on a yearly basis of course.

Q - Blair Stewart {BIO 4191309 <GO>}

Great. Thank you very much.

A - Daniel Sundahl {BIO 20548519 <GO>}

Well, thank you very much ladies and gentlemen. Thank you for tuning in to our Q3 result presentation. We look forward to speaking to you next quarter again; in the meantime, have a nice day. Bye, bye.