

# What lies ahead for the Nordic life and pension market?



itello

# Tomorrow's Nordic banks and insurance companies

– financial “department stores” with a cross-border selection

**The financial market is headed for the same division between producer and distributor that applies to most other commodity markets. The next step will be more cross-border products and a Nordic range of financial services.**

If you visit a department store in another European country, you may find that the range of products and brands is largely consistent with what you would find at home. If you visit a bank branch you'll recognize the similarity in the product offerings, but the brand is local, normally the same as the office brand.

Why are commodity markets so much more international than financial markets? The explanation is the historically strong link between the role as a provider of financial services and the role as the local distributor. Furthermore, the financial markets have been highly regulated by national legislation. The deregulation of the financial markets since the early 1980's has led to sector shifts between banking and insurance. Deregulation has also given us a more sophisticated financial market for individuals featuring a variety of new pension and life insurance products. Computerisation created the prerequisite for the rational management of bank accounts and insurance policies. This transformed them from being local services to centrally managed financial products. This in turn led to a clearer separation of banking and insurance operations into central management and branches.

In the long run it will be difficult to maintain the link between the bank as a product supplier and the bank as a branch/financial adviser, or the insurance company as an insurer and the insurance company as insurance seller/insurance adviser. A large diversified and differentiated product range for long-term savings makes it impossible for any single player to maintain a comprehensive financial offer that is selfproduced. The next natural step on this path is to untie the role of producer and distributor and advisory role, to separate

the “factory” from the “shop”. This will make the financial market's business logic more in line with most current commodity markets.

Life insurance companies and banks are becoming insurance factories whose success in the long run will be based on rational and cost-effective management of insurance contracts and the adaptability of the production line in a changing market. Depressed prices will require large volumes and there will be limited space for the number of major insurance factories that every small domestic market can support. The number of insurance stores, with a broad market range, is determined from the potential in each local market.

This development will certainly lead to more cross-border activity in the form of exports and imports of financial products. The shoppers will find a more European range of financial products. The road leading up to this scenario is long and it is clear that each national market will always have its special peculiarities. However, looking at it from a product and production standpoint, surely there will be a lot more that unites than divides the Nordic market.



“Successful business models, processes for managing and administration of pension, life insurance and long term savings need to become Pan Nordic ...”

# The Nordic insurance markets are more alike than different

**The Swedish competitive pension and life insurance savings have transformed from a heavily regulated static market to a deregulated dynamic market over the last 20 years. The same development has occurred in other Nordic countries and with deregulation. Itello has begun to discern a growing interest by the Nordic players in their respective national life insurance market.**

Currently, Nordic life insurance companies play a strong role in their respective national markets. The market share in the highly competitive life insurance market of the three largest life insurance companies is in Norway 84 percent, in Finland 74 percent, in Denmark 70 percent and in Sweden 35 percent (shown in the figure below).

Of the 20 largest players in the Nordic life insurance market, it is mainly banking groups that have life insurance business in several Nordic countries. This is a sign that banks are ahead of the insurance sector when it comes to consolidation.

The table on the following page shows premium income indicated in MEUR.

The fact that more Nordic financial groups have life insurance business in several Nordic countries, is however not a sign that there is already a Nordic pension and life insurance market, but rather a sign that we are heading for one.

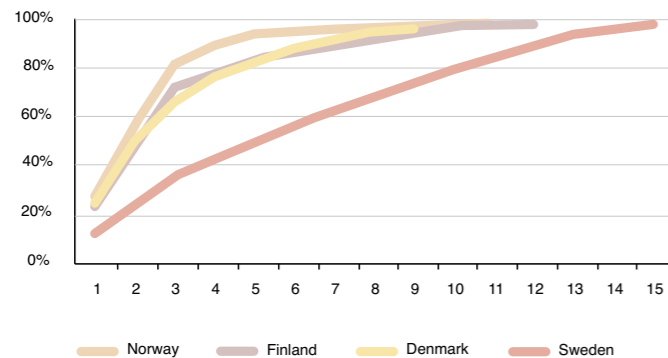
Stores are local and factories are still national producing for their own market. So far, only branding has become Nordic.

## SIMILARITIES AND DIFFERENCES IN THE NORDIC PENSION AND LIFE INSURANCE MARKETS

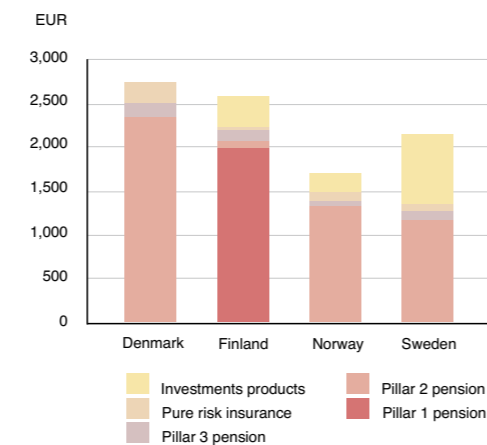
80 percent of the paid-up life insurance premiums relate to pension savings. The remaining 20 percent consist of endowment savings. Of the total pension provisions for the Nordic countries around 40 percent relate to life insurance premiums. The remaining 60 percent pertain mainly to general statutory pensions normally secured through taxation or pension contributions to a pay-as-you-go system.

In 2005, the level per capita and the distribution of pension contributions between the state pension, occupational and private pension plans in each Nordic country, were as shown in the figure below.

Market concentration based on premium volume



Total pension contribution per capita



Major players on the Nordic life insurance market 2009

Ranking	Company	Country	Premiums (MEUR)	Group
1	Nordea	Denmark	1,205	3,610
	Nordea	Sweden	1,080	
	Nordea	Finland	735	
	Nordea	Norway	590	
2	Varma	Finland	3,400	
3	Ilmarinen	Finland	3,185	
	SEB	Sweden	2,010	
4	SEB	Denmark	775	2,785
	Storebrand	Norway	1,890	
5	SPP	Sweden	880	2,770
	Danica	Denmark	2,140	
6	Danica	Sweden	435	2,645
	Danica	Norway	70	
	Skandia	Sweden	2,425	
7	Skandia Life	Finland	195	2,620
	KLP	Norway	2,250	
9	Vital/Gensidige	Norway	2,230	
10	Folksam	Sweden	1,220	1,955
	KPA	Sweden	735	
11	PFA Pension	Denmark	1,920	
12	Swedbank	Sweden	1,800	
13	Alecta	Sweden	1,545	
14	Avanza	Sweden	1,500	
15	AMF	Sweden	1,470	
16	Pension Danmark	Denmark	1,390	
17	Pension-Tapiola	Finland	1,390	
18	Länsförsäkringar	Sweden	1,185	
19	Pension-Fennia	Finland	1,095	
20	SHB Liv	Sweden	925	1,000
	SHB Liv	Norway	50	
	SHB Liv	Finland	25	
21	Others		11,475	
			<b>53,220</b>	

The average Nordic resident contributed approximately EUR 4,000 for private pension plans in 2005. About 70 percent were through the statutory state pension, 25 percent occupational and 5 percent for private pension savings.

Finland differs from other Nordic countries with its high proportion of general statutory pension and the low proportion of occupational pension. The Finnish earnings-related public pension, Work Pension, has effectively taken over the role that occupational pensions play in the other Nordic countries. In addition, Work Pension is unique in the sense that it is the only national pension, which is secured by life insurance.

Exposure to competition of the Work Pension means that companies can choose from a number of mutual life insurance companies which are active only in this area, but neither the company nor the employee can influence the management of pension assets.

In Sweden as well, though to a lesser extent, there is a competitive public pension program, the premium pension. This is not competitive for life insurance companies but for the fund companies. The Swedish Pensions Agency acts for the premium pension, in practice, if not legally, as a unit-linked company with a range of approximately 800 funds.

“It’s crucial to identify your role in the value chain and adapt your business model to the constantly changing Nordic market ...”



# Life insurance in the Nordic countries

## – greater competition and independent intermediaries

Over the past 20 years, life insurance markets in the Nordic countries have been subject to strong pressure for change and the major trends are essentially the same for all Nordic countries. The trends go towards defined contribution schemes and public and occupational pensions, a competitive market portability and distribution through independent brokers.



These trends have seen the volume of premiums within pension and life insurance multiply since the 1990's, and during the past 10 years they have doubled. The total life insurance premiums in the Nordic market for 2009 were EUR 53 billion, of which EUR 35 billion were competitive.

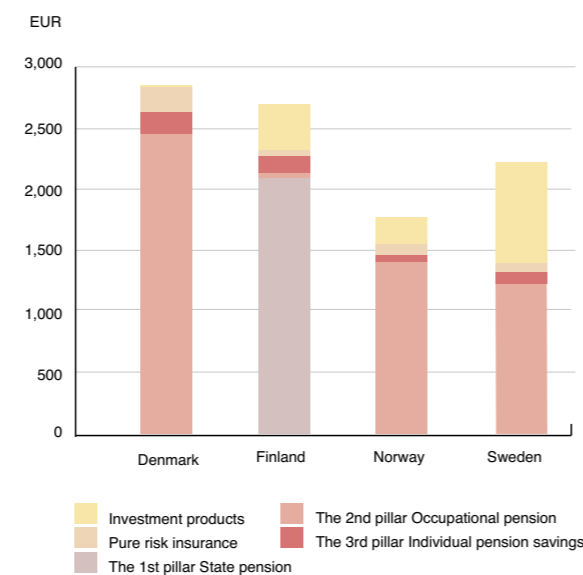
The average European pays currently EUR 1,100 per year in premiums to life insurance companies, while Nordic residents, including the Baltic countries, pay EUR 1,600.

If life insurance savings previously were largely focused on private deductible retirement savings, today's savings are more about occupational pensions deductible for companies. This development is driven by the limitations of the private right of deduction, but

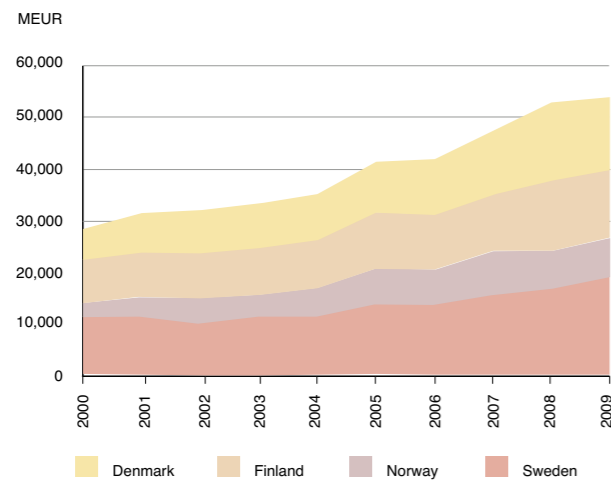
above all by the competition of an increasingly larger part of the occupational pensions market.

In all Nordic countries the competition in the occupational market has occurred as the market has evolved from defined benefit pension plans to defined contribution plans. Norway accepted defined contribution pension plans for tax as recently as the year 2000. Sweden, Finland and Norway also have a substantial endowment market that has created the need for more investment oriented insurance savings such as unit-linked and portfolio bonds. In Denmark the corresponding products, capital pension, is pension related and limited by deduction.

Life insurance premiums per capita 2009



Premium income life insurance



Life insurance premiums (MEUR) on the Nordic market 2009

MEUR	Endowment insurance	Personal pension	Occupational pension	General statutory pension	Risk insurance	Total Life insurance
Denmark	0	1,000	12,250	0	1,150	14,400
Finland	1,900	750	350	10,000	150	13,150
Norway	1,050	250	5,850	0	450	7,600
Sweden	7,200	950	9,700	0	800	18,650
<b>Total Nordic countries</b>	<b>10,150</b>	<b>2,950</b>	<b>28,150</b>	<b>10,000</b>	<b>2,550</b>	<b>53,800</b>

EUR	Denmark	Finland	Norway	Sweden
<b>Occupational pension</b>				
Contribution as pct of salary	10–15%		2–7%	4.50%
Up to amount *			109,000	38,000
Above				30%

EUR	Denmark	Finland	Norway	Sweden
<b>Personal pension</b>				
Maximum deductible income	No limit	5,000	1,800	1,175
Maximum value of deduction		1,400	500	700

\* Norwegian and Swedish base amount 2009

When analysing the competitive life insurance market excluding the Finnish Work Pension, Sweden accounts for close to half the Nordic competitive life insurance market, approximately EUR 17.5 billion, Denmark and Norway account for EUR 7.5 billion each, and Finland for EUR 3 billion. All Nordic countries now allow life insurance companies to offer portability of their insurance assets to other insurers. Norway is a leading country with regard to mandatory law for policy holders to move insurance capital. The insurance companies' moving fee is maximised to NOK 5,000.

The above comparison of the life insurance markets

in the Nordic countries clearly shows that they are moving in the same direction and that the similarities are much greater than the differences. The future will certainly involve a number of pension and insurance factories that provide financial stores in most local Nordic markets with life insurance products. There is reason for every player in the market to consider how these developments will affect their own operations, and what role or roles they want to play in tomorrow's fragmented value chain. Itello strives to be a professional partner for the players in this market.

## Itello offers a Nordic solution

In a market experiencing major change, a general business system for pension and life insurance must provide extensive configuration options and regular upgrades. In most other industries this type of IT-solution has been standard for decades.

Itello's ambition is to help our existing and potential customers with their general requirements to administer life insurance, pension arrangements and long-term savings as effectively as possible within the framework

of our offer. We work to meet their specific needs and strive to include solutions to these in general functions in the system. New products and services can easily be launched through configuration rather than extensive work on system development.

In the future, our system is more than a general business system for the Swedish pension and life insurance market. It is the solution for the entire Nordic and Baltic market.

“Players on the ever changing long-term Nordic savings market need innovative business models to become winners...”





### **THIS IS ITELLO**

Itello's business concept is to develop a general business system and provide services to make administration of pensions, insurances and fund units more efficient and versatile. For customers, benefits include a modern IT-system that allows short time-to-market and predictable costs.

Customers range from large established Pan Nordic banks and insurance companies to smaller Internet-based pension and insurance operators.

Itello has twenty years' experience, extensive knowledge and understanding of our clients' business scope, and what lies ahead, allowing us to be prepared for their future requirements. Short time-to-market is not only about effective development, but also about starting on time.

In order to provide our customers an effective solution, we continue to survey what lies ahead for the Nordic life and pension market.

“Today's Pan Nordic pension and life insurance market is ever growing and each country requires dynamic solutions. Do you have what it takes to satisfy your customers' demands ...?”

**itello**

Itello AB  
Kungsgatan 44  
SE 111 35 Stockholm  
Tel +46 8 508 922 00  
[www.itello.se](http://www.itello.se)