

LocalTapiola Group's half-yearly report 1 Jan–30 June 2023: Results and claims paid increased – Finns' awareness of risks has grown during exceptional years

LocalTapiola Group's operating profit and total result showed positive development in January–June. The group's solvency remained strong. We paid out EUR 450 million (+13%) in non-life insurance compensations to our owner-customers in the early months of the year. The uncertain past years have increased Finns' willingness to prepare for risks.

Key figures 1–6/2023 (key figures 1–6/2022)

- Premiums written in non-life direct insurance EUR 884 million, +5.7% (EUR 837 million)
- Premiums written in term life insurance EUR 75 million, +6.3% (EUR 71 million)
- Savings net sales EUR 123 million (EUR -121 million)
- Assets under management (gross) EUR 28.6 billion (EUR 26.8 billion)
- Customer base 1,613,000 (1,578,000)
- Customer bonuses EUR 72 million (EUR 68 million)
- Combined ratio for non-life insurance 98.7% (93.9%), cost ratio 31.8% (30.4%)
- LocalTapiola Group's operating profit EUR 175 million (EUR 72 million)
- LocalTapiola Group's total result EUR 255 million (EUR -451 million)

Comment by CEO Juha Koponen:

"The first half of 2023 has been strongly characterized by elevated inflation, rising interest rates, the ongoing conflict in Ukraine, and the recovery of investment markets, albeit amidst several risk factors. This general instability has also been evident for LocalTapiola, as customers have shown an increased willingness to discuss their risks and evaluate the coverage of their insurance. Despite the risks in the operating environment, the development of LocalTapiola Group's business operations has remained favourable, and our exceptionally strong solvency has further improved.

Our customer base has continued to grow. Our goal is, in line with our ownership strategy, to provide our customers with the best service in the industry, both personally, locally and digitally. An increasing number of our customers prefer to interact online, and alongside our local presence, we have invested significantly in developing self-service solutions. Changes in customer behaviour and the emphasis on digital services are key elements of LocalTapiola's growth strategy. To advance this, in March, we acquired a majority stake in Suomen Vahinkovakuutus, commonly known as POP Vakuutus.

The claims costs we have paid have continued to rise. In addition to the increase in the number of claims, compensation costs have been boosted by general inflation and cuts in Kela reimbursements.

The significant rise in costs has weakened the Finnish economy during this year, but according to various consumer behaviour surveys, Finns are not willing to compromise on their insurance coverage. In this regard,

the LocalTapiola Group has also aimed to support its owner-customers with the most customer-friendly pricing possible.

In the early months of the year, we continued the implementation of our extensive non-life insurance product overhaul. Thanks to the excellent work of our staff, customer satisfaction has remained consistently high and even exceeded the norm in personal customer interactions. We provided guidance related to the product overhaul to approximately 50,000 customers who approached us in person or over the phone during the early months of the year. The overhaul did incur some additional operational expenses.

After several years of crises, Finns are increasingly willing to prepare for risks and secure their finances. This is evident, among other things, in the growing demand for risk life insurance. The turn of the year's social and healthcare reform, as well as the congestion issues highlighted in public healthcare, have had a positive impact on the demand for health insurance. Financial security is also being sought through savings solutions, such as investing in funds.

According to multiple surveys, the availability of skilled workforce has been identified as one of the most significant obstacles to growth and development for businesses. The need of business customers to engage and acquire skilled and professional staff is reflected in our increased demand for group pension insurance, for example. The sales of both corporate and life insurance have also grown significantly, a success that our extensive and robust sales organization has supported.

Finland's economic downturn in the second half of last year has turned into a stronger-than-expected recovery this year, but a turn for the worse in the second half of this year is possible. However, the slowing down of inflation and rising wages provide confidence in the improvement of consumer demand."

LocalTapiola Group's key performance drivers in January–June 2023

LocalTapiola Group's total result was EUR 255 million. The positive development of the total result compared to the same period in the previous year was particularly supported by the positive performance of investment activities. The investment return at fair value was 2.2%. The Group's operating profit remained strong at EUR 175 million. The solvency ratio remained strong, standing at 202% at the end of June.

Non-life insurance

LocalTapiola Group's premiums written in non-life direct insurance amounted to EUR 884 million, with a growth of 5.7% compared to the same period in the previous year. In the early months of the year, premium income development was particularly driven by payments from corporate customers, showing an 8% growth. Among the different types of insurance, the largest growth was seen in property and operational insurance, with premiums written increasing by over 7%. The growth in premiums written is supported by a strong sales activity in the beginning of the year, both through local personal channels and digitally. Online sales of non-life insurance increased by 30% compared to the same period in the previous year, with a specific focus on vehicle and travel insurance.

Claims incurred have continued to increase in the early months of 2023. The impact of claims inflation is estimated to have been around 5%, adding to the expenses. Additionally, the number of claims has increased compared to the previous period in several categories. The risk ratio, which reflects the profitability of the core insurance operations, was slightly above the long-term average at the end of June.

The growth in non-life insurance volume, inflation and investments in business development led to an increase in operating costs. Personnel costs were also elevated during the evaluation period due to a one-time increase as per the collective agreement. Operating costs for non-life insurance amounted to EUR 208 million.

The balance on technical account for non-life insurance was EUR 2 million. Balance before the change in the equalisation provision is formed from premiums earned, subtracting claims incurred and operating expenses.

Life insurance

LocalTapiola Life's result improved compared to the reference period. The operating profit was EUR 67 million, and the total result was EUR 79 million. Solvency remained strong, with a solvency ratio of 315%.

Growth in premium income continued in risk life insurance and group pension insurance. Total premium income decreased by 23% to EUR 178 million due to a decline in savings premium written. Savings premium income decreased by 55% as customers' savings shifted more towards direct fund investments. Premium income for risk life insurance increased by 6%, and for group pension insurance, it grew by 11%. The excellent risk insurance sales in the early months of the year have further strengthened our market leadership in risk insurance.

Asset management

LocalTapiola Asset Management Group's turnover was EUR 28.6 million, and the operating profit was EUR -1.8 million. The operating profit without group goodwill depreciation was EUR 1.5 million. Commission income increased by 4.5% compared to the reference period. Operating expenses were burdened by one-time items related to change negotiation processes in the early months of the year.

The assets managed by LocalTapiola Asset Management Group's companies increased by EUR 2.1 billion from the beginning of the year, reaching a total of EUR 28.6 billion (gross) at the end of the reporting period. Of these, EUR 12.9 billion were assets under management, EUR 10.9 billion were fund assets, EUR 3.1 billion were real estate assets, and EUR 1.7 billion were other contractually managed assets.

Vehicle financing

LocalTapiola Finance's growth continued during the first half of the year. The number of registered passenger cars in Finland increased compared to the same period last year, as the exceptionally high order backlog in recent years has started to ease due to the relief in component shortages. LocalTapiola Finance's loan portfolio amounted to EUR 2.4 billion at the end of the reporting period, and the operating profit was EUR 2.6 million. In terms of market share, LocalTapiola Finance has maintained its position as the third-largest car financing company in Finland.

Compensation and customer benefits

LocalTapiola Group paid a total of EUR 450 million in non-life insurance compensations to its owner-customers. Additionally, we provided our customers with EUR 49 million in benefits for concentrating their non-life insurance with us, as well as EUR 19 million in S Group bonuses from insurance premiums.

For life insurance, we paid out a total of EUR 189 million in compensations to our owner-customers, and the customer benefits from LocalTapiola Life were EUR 3.7 million.

Appointments

Joel Sunabacka started as the Managing Director of LocalTapiola Pohjanmaa on 23 March 2023.

Esa Tihilä started as the ICT Director of LocalTapiola Group on 15 May 2023.

Ilkka Herva started as the Managing Director of LocalTapiola Itä on 1 June 2023.

Mikko Lempiäinen started as the Managing Director of LocalTapiola Etelä on 1 July 2023.

Key figures 1 Jan–30 June 2023

The figures are unaudited.

	1-6/2023	1-6/2022	1-12/2022
LocalTapiola Group			
Non-life insurance			
Premiums written, EUR million	909	861	1,333
Change, %	5.6	3.4	3.1
Direct premiums written, EUR million	884	837	1,308
Change, %	5.7	3.9	3.2
Combined ratio excl. unwinding of discount expense, %	98.7	93.9	90.6
Risk ratio, %	66.9	63.5	60.4
Cost ratio, %	31.8	30.4	30.2
Life insurance			
Premiums written, EUR million	178	233	429
Change, %	-23.3	-4.8	-10.8
Group's result and solvency			
Operating result, EUR million	175	72	194
Total result, EUR million	255	-451	-470
Solvency ratio at end of review period, %	202	194	211
LocalTapiola General			
	1-6/2023	1-6/2022	1-12/2022
Premiums written, EUR million	309	291	310
Change, %	6.1	2.1	1.6
Direct premiums written, EUR million	239	228	244
Change, %	5.1	4.1	2.5
Combined ratio excl. unwinding of discount expense, %	93.1	108.9	95.5
Risk ratio, %	68.0	83.2	68.5
Cost ratio, %	25.1	25.7	27.0
Net investment income at fair value, %	2.0	-3.2	-4.0
Operating result, EUR million	64	19	18
Total result, EUR million	73	-122	-122
Solvency ratio at end of review period, %	396	316	414
LocalTapiola Life			
	1-6/2023	1-6/2022	1-12/2022
Premiums written, EUR million	178	233	429
Change, %	-23.3	-4.8	-10.8
Net investment income at fair value, %	1.7	-4.0	-5.9
Operating result, EUR million	67	46	64
Total result, EUR million	79	-119	-166
Solvency ratio at end of review period, %	315	307	321
LocalTapiola Asset Management Group			
	1-6/2023	1-6/2022	1-12/2022
Turnover, EUR million	28.6	27.3	53.7
Operating result, EUR million	-1.8	-1.5	-4.1
Expense-income ratio, %	94.6	96.3	97.9
Assets under management at end of review period (gross), EUR billion	28.6	26.8	26.5
LocalTapiola Finance			
	1-6/2023	1-6/2022	1-12/2022
Operating result, EUR million	2.6	10.3	21.0
Finance portfolio at end of review period, EUR billion	2.4	2.0	2.2