

LocalTapiola Group's half-yearly report for 1 January–30 June 2024: Difficult winter increased the number of claims, but the high volume of claim applications was overcome well

The exceptionally harsh and unpredictable winter, the difficult financial situation of households and concerns over accessing healthcare were widely reflected in LocalTapiola's results. The number of claims increased, but the high volume of claim applications was overcome well. We paid customers EUR 511 million in non-life insurance claims, up 13.7 per cent from the corresponding period in 2023.

Key figures, LocalTapiola Group	1–6/2024	1–6/2023
Premiums written, direct non-life insurance, EUR million	961	884
Change, %	8.6	5.7
Premiums written, term life insurance, EUR million	81	75
Change, %	7.5	6.3
Net sales, savings life insurance, EUR million	83	123
Assets under management (gross), EUR billion	30.5	28.4
Customer bonuses, EUR million	79	72
Number of customers, thousand	1,803	1,762
Non-life insurance combined ratio, %	102.6	98.7
Non-life insurance cost ratio, %	30.8	31.8
Operating result, EUR million	142	175
Total result, EUR million	252	255

In May, LocalTapiola Group CEO Juha Koponen announced that he would be leaving his position as LocalTapiola Group CEO at the end of June. The functions of LocalTapiola Group CEO are temporarily being discharged by Group Director Jari Eklund (chairmanship of LocalTapiola General's and LocalTapiola Life's Boards of Directors) and by Group Business Director Pekka Antikainen (operational functions). Mr Koponen will serve in an advisory role in the group until the end of 2024.

Comment by Chair of the Board of Directors Jari Eklund:

"The weak pull of the economy and delayed rate cuts by central banks have put both households and businesses under financial strain. The Government's expenditure adjustments and the increase in value added tax also weigh on economic sentiment. Fortunately, on the investment market, the year has continued well. During the first half of the year, returns from the listed equity investments of the LocalTapiola Group insurance companies totalled EUR 140 million, with the Helsinki Stock Exchange also recovering as spring wore on. Our interest income, too, has remained moderate, although uncertainty about the interest rate paths of central banks weighs on government bonds. On the real estate market, the mood is expectant: the worst is likely to be behind us, but the speed and the rate of recovery are not known yet. During the early part of the year, the LocalTapiola-managed fund capitals exceeded the EUR 12 billion mark, with many of our funds already in the

half a billion size category. During January–June, customers fetched total returns worth EUR 292 million for the assets they have entrusted to us, acting as a financial buffer also in challenging times.

Concerns over accessing healthcare infused the decisions of both individuals and employers. In operation for only a year and a half now, the wellbeing services counties have struggled under significant deficits, and whether they can make the requisite savings while protecting the quality and availability of services remains an acute issue. In Finland, the unsatisfied need for medical care is three times higher than the EU average, and health insurance cover, previously taken out mainly for children, is currently an issue that concerns the entire family. At the same time, an increasing number of businesses are insuring their personnel against illnesses and leisure accidents in order to guarantee quick access to treatment and to avoid long absences. In a customer survey, we polled the views of some 3,500 of our medical expenses insurance and accident insurance customers about public healthcare. Of them, 44 per cent said that they do not trust the public healthcare system in the event of an illness or accident, while 87 per cent regarded health insurance as a means to supplement public healthcare, which it indeed does.

After the review period, we announced that we will be divesting our holding in Mehiläinen. This arrangement has no impact on LocalTapiola's service offering – LocalTapiola customers will continue to have access to personal insurance-related health services delivered by major healthcare service providers.

In the economic downturn, the worst labour shortage has eased, but competition for talents will increase again when the employment situation improves. Should healthcare waiting lists continue to stay in the headlines, comprehensive health and accident insurance cover may become a recruitment advantage. Instead of comparing employers solely based on the wages and salaries they pay in cash, indicators measuring total remuneration are used increasingly to do that. In this area, the products LocalTapiola provides to businesses will also be developing at a rapid pace, with LocalTapiola Remuneration Services, a company offering personnel funds and other remuneration models, launching operations during the autumn.

Should the rate cuts continue and inflation recede, it is to be anticipated that the dark clouds over the economy will fade in the autumn. The same can hardly be said about the security situation and, particularly, cybersecurity. Both the public sector and Finnish businesses have been the target of continuous cyber and hybrid interference during the first half of the year. Furthermore, scams and online fraud targeting individuals have also become more common, with artificial intelligence making the attackers' work easier. The volume of scams will grow further, with no signs of slowing down in sight. To respond to customer needs, we have renewed the cybersecurity products provided to corporate customers, and anticipate the business to grow during the remainder of the year."

Comment by Business Director Pekka Antikainen:

"The difficult and varying winter, with its freezing temperatures, snow chaos and treacherously slippery conditions, increased the number of home, motor and personal injury claims across the board. Our claims expenditure remained higher than normal until May. During the first half of the year, we paid a total of EUR 511 million in non-life insurance claims. Our premiums written in direct non-life insurance stood at EUR 961 million, with operating profit at EUR 142 million.

However, we managed to successfully handle the high volume of claim applications brought about by the slippery and snowy winter driving conditions, and customer satisfaction has continued to grow. This is thanks not only to the persistent efforts of our personnel, but also to the large-scale development projects that help us serve our customers in an increasingly streamlined fashion also online and on mobile devices. Our online sales are growing in leaps particularly in investment services, and steadily also for insurance products. Furthermore, LocalTapiola's major information system reforms and continuous application updates have progressed without any major information security problems affecting transactions.

The sales figures for our voluntary personal insurance products have risen to pre-COVID-19 levels but, with the growing number of claim applications and increasing healthcare costs, maintaining profitability is challenging. During the early part of the year, the volume of claims paid under our voluntary personal insurance products increased 7.3 per cent year on year.

At the same time, the patient development of treatment chains for occupational accident and occupational disease claims is bearing fruit. In recent years, the length of work incapacity periods in our claim portfolio has decreased by a tenth and the number of pension cases nearly 40 per cent. Our mixed model, whereby we use many different producers to deliver health services to private customers, was strengthened further as a result of the introduction of the new electronic health portal.

In motor liability insurance, LocalTapiola is the market leader, and insuring and financing mobility are the strong foundation on which everything we do rests. In the playing field of mobility, a great deal is currently changing – in one big bang. The high concentration of the automotive sector, together with digitalisation and the strengthened role of car manufacturers in the new-vehicle business, are transforming the structure and practices of the automobile market as well as the transactions between car dealerships and consumers. Completely new types of vehicles are entering the market, and propulsions are shifting away from fossil fuels, while various leasing, rental and car-sharing models are emerging as alternatives. Even the question of what is a means of transport and what is not is no longer straightforward. This was made evident by the act governing the insuring of electronic mobility devices, which entered into force at the start of June.

The volume of claims involving electric vehicles, and their repairability, susceptibility to being damaged, how their batteries should be finally disposed of and uncertainty about related risks, are all issues we need to answer in order to not let the Finnish motor liability insurance system, one of the best in Europe, sour. For us at LocalTapiola, this transformation will necessitate renewal of our car and motor liability insurance products in 2025. We will intensify our cooperation with car dealerships and sectoral organisations, and will also be developing new products and services for motor vehicle finance.

Another challenge shaking the entire insurance sector is climate change, the effects of which are visible in our customers' daily life already today. Unexpected changing weather patterns make it difficult to anticipate and prevent risks, and last winter with its high claims expenditure will not remain an isolated incident. Unpredictable weather conditions particularly affect agriculture and forestry, which we insure as the market leader. The short-lived spring and the protracted dry conditions tormented the majority of farming areas, with severe thunderstorms causing damage elsewhere. LocalTapiola is a participating member in the Finnish Meteorological Institute-led PIISA project to examine the views Finnish farmers have about parametric, or event-based, insurance products, which pay compensation not on the basis of damage that occurs but for example based on the occurrence of a weather event, such as heavy rain. Similar types of insurance are part of

the everyday life in central Europe, and their arrival in Finland might also provide protection to Finnish farmers at a time when unpredictable weather conditions are becoming more common.

Adapting to climate risks and reducing emissions will require a great deal of effort from businesses, for many of which resources are stretched in the economic downturn. Thanks to a donation by LocalTapiola General, more than 200 small and medium-sized enterprises can participate in the Finland Chamber of Commerce's Climate Programme free of charge this year. The Programme provides enterprises with training, tools and expert support for calculating their carbon footprint and for impactful emission reductions. The Climate Programme was widely applauded, which is why we have directed donor funds to continue the Programme in 2025."

LocalTapiola Group's key outturn factors in January–June 2024

LocalTapiola Group's total result including the change in the valuation differences of investments was EUR 252 million. The group's operating result remained strong: EUR 142 million. In terms of the business areas, the results for life insurance, asset management and motor vehicle finance developed positively, but the margin for non-life insurance was reduced by the claim volumes, which increased significantly particularly in the first quarter as a result of the difficult winter conditions. LocalTapiola Group's investment income at fair value totalled 2.4 per cent. The group's solvency remains high, with the solvency ratio at the end of June at 199 per cent. As a mutual group of companies, we use our results to strengthen solvency, to develop the products and services provided to our owner-customers, and to increase customer benefits.

Non-life insurance

The increased claims expenditure weakened the margin for non-life insurance, which for the first half of the year was a negative EUR 28 million. Balance before the change in the equalisation provision is composed of premiums earned less the claims incurred and operating expenses.

LocalTapiola Group's premiums written in direct non-life insurance totalled EUR 961 million, representing a year-on-year growth of 8.6 per cent. The acquisition of a majority stake in Finnish P&C Insurance Ltd increased premiums written by EUR 27.4 million, with the organic year-on-year growth of premiums written in direct non-life insurance at 6.1 per cent. The growth in premiums written is supported not only by this corporate acquisition, but also by the consistently high customer retention rate and the indexation and price increases effected for 2024. Growth in premiums written was strong across all main customer groups: private, corporate and farm customers. In terms of our insurance lines, growth was highest in comprehensive motor vehicle insurance, for which premiums written grew 13.2 per cent, and in voluntary personal insurance, for which premiums written grew 12.5 per cent.

We paid customers EUR 511 million in non-life insurance claims, up 13.7 per cent from the corresponding period in 2023. The impact of inflation is estimated to be 3 per cent. The challenging weather conditions last winter increased the number of claims in January–April, particularly for motor vehicle and personal insurance. Furthermore, in property and business insurance lines more claims for catastrophes were recorded than over the comparison period. The risk ratio, which describes the profitability of the core insurance business, was 71.8 per cent, growing 4.9 percentage points year on year.

Non-life insurance operating expenses were EUR 221 million, representing year-on-year growth of 6.4 per cent. Operating expenses were increased by growth in the volume of non-life insurance and by the investments made in operational development. As a result of the strong growth in premiums written, the cost ratio improved year on year to 30.8 per cent.

Life insurance

LocalTapiola Life's results for January–June increased due to a strong underwriting result. Life's operating result was EUR 70 million and total result was EUR 53 million. Solvency also remained strong, with the solvency ratio at the end of June at 254 per cent.

The growth in premiums written for term life insurance has continued in 2024, consolidating LocalTapiola Life's market leader position in term life insurance. EUR 81 million of premiums written was generated in the first half of the year, representing year-on-year growth of 7.5 per cent. This growth is underpinned by the inflation-fuelled sums insured, while sales activity has also been lively.

In 2023, following increased interest rates, customers directed their savings strongly towards direct fund investments, and the premiums written for savings life insurance fell significantly. During 2024 the premiums written for savings life insurance have returned to a growth track, increasing 47 per cent year on year. As a result of the development of premiums written for savings life insurance, LocalTapiola Life's total premiums written increased 15.6 per cent to EUR 206 million.

Asset Management

LocalTapiola Asset Management Group's turnover was EUR 29.2 million and operating result was EUR –2.3 million. Operating result excluding amortisation of goodwill on consolidation totalled EUR 1.2 million. Following good net sales and positive market developments, net commissions increased 3.5 per cent year on year.

The assets managed by the LocalTapiola Asset Management Group companies increased 6.9 per cent over the year-end, totalling EUR 30.5 billion (gross) at the end of the review period. Of these, EUR 14.0 billion was in assets in portfolio management, and EUR 12.1 billion was in fund capitals, EUR 2.9 billion in real estate and EUR 1.6 billion in other contractually managed assets.

Motor vehicle finance

LocalTapiola Finance Ltd has continued to grow profitably. The company's operating result for the first part of the year was EUR 4.8 million, with the finance portfolio at EUR 2.4 billion. As expected, new-vehicle sales have fallen short of last year's level, and we are also prepared for our customers' solvency diminishing due to the general economic situation. In contrast, sales activity for used vehicles has been lively in the early part of the year and, measured by new sales, LocalTapiola Finance continues to be Finland's second largest motor vehicle finance company.

The company's refinancing position strengthened further. In the early part of the year, we carried out a securitisation transaction to institutions, and increased our investor base by a three-year green bond, which sold very well.

Claims and customer benefits

LocalTapiola Group paid its owner-customers a total of EUR 511 million in non-life insurance claims. In addition, we credited our customers EUR 52 million in non-life insurance loyalty bonuses and EUR 21 million as S Group bonuses on insurance premiums.

Under life policies, we paid our owner-customers a total of EUR 198 million in claims, and LocalTapiola Life's customer bonuses were EUR 6 million.

Appointments

Lasse Mäkinen started as Managing Director at LocalTapiola Remuneration Services Ltd on 18 March 2024.

Aleksi Härmä started as Managing Director at Seligson & Co Fund Management Company Plc on 25 March 2024.

Vesa Eskoli started as Managing Director at LocalTapiola Real Estate Asset Management Ltd on 1 May 2024.

As of 22 May, Deputy Managing Director Mika Makkonen has been discharging the duties of LocalTapiola General Managing Director after Managing Director Hanna Hartikainen resigned from her post. The process to recruit a new Managing Director will be launched as soon as possible.

Kari Niemelä started as Managing Director at LocalTapiola Etelä-Pohjanmaa on 1 July 2024.

Key figures for 1 January–30 June 2024

The figures are unaudited.

	1-6/2024	1-6/2023	1-12/2023
LocalTapiola Group			
Non-life insurance			
Premiums written, EUR million	981	909	1,435
Change, %	7.9	5.6	7.6
Direct premiums written, EUR million	961	884	1,408
Change, %	8.6	5.7	7.7
Combined ratio excl. unwinding of discount expense, %	102.6	98.7	85.7
Risk ratio, %	71.8	66.9	54.9
Cost ratio, %	30.8	31.8	30.8
Life insurance			
Premiums written, EUR million	206	178	333
Change, %	15.6	-23.3	-22.2
Group's result and solvency			
Operating result, EUR million	142	175	494
Total result, EUR million	252	255	628
Solvency ratio at end of review period, %	199	202	204
LocalTapiola General			
Premiums written, EUR million	317	309	322
Change, %	2.6	6.1	3.8
Direct premiums written, EUR million	253	239	255
Change, %	5.6	5.1	4.3
Combined ratio excl. unwinding of discount expense, %	105.5	93.1	67.9
Risk ratio, %	79.7	68.0	42.1
Cost ratio, %	25.8	25.1	25.8
Net investment income at fair value, %	2.7	2.0	3.8
Operating result, EUR million	68	64	176
Total result, EUR million	78	73	206
Solvency ratio at end of review period, %	363	396	376
LocalTapiola Life			
Premiums written, EUR million	206	178	333
Change, %	15.6	-23.3	-22.2
Net investment income at fair value, %	0.7	1.7	3.3
Operating result, EUR million	70	67	124
Total result, EUR million	53	79	150
Solvency ratio at end of review period, %	254	315	264
LocalTapiola Asset Management Group			
Turnover, EUR million	29.2	28.6	56.9
Operating result, EUR million	-2.3	-1.8	-4.2
Cost/income ratio, %	95.9	94.6	95.6
Assets managed at Group companies at end of review period (gross), EUR billion	30.5	28.4	28.6
LocalTapiola Finance			
Operating result, EUR million	4.8	2.6	2.4
Finance portfolio at end of review period, EUR billion	2.4	2.4	2.4