

Non-Life Insurance Underwriting Risks

As a universal non-life company If P&C underwrites various risks for both individuals and corporations mostly in Nordics and Baltic countries. The Insurance operation in the Nordic region is organizationally divided into Business Areas by customer segment - Private, Commercial (small and medium sized companies) and Industrial (large corporates). Insurance operations in the Baltic countries are organized in one Business Area, Baltic.

If P&C is one of the leading insurers in Sweden, Norway and Finland with market shares of 18.2 per cent, 21.0 per cent and 23.6 per cent respectively. In the Danish market If P&C is the sixth largest insurer (by market share) with a market share of 5.7 per cent.

The Nordic P&C (property and casualty) insurance market is relatively concentrated. The four largest players account for approximately 70 to 90 per cent of the markets in Norway, Finland and Sweden (by

market share) and are often established in more than one Nordic country. However, If P&C is the only company with a remarkable market share in all Nordic countries. In Denmark the market is less concentrated. Among the six leading P&C insurance companies in the Nordic market, two are mutually owned and the other insurance companies are publicly traded.

In the Nordic region customer retention is high, with renewal rates of approximately 80 to 90 per cent. The market is characterized by low expense ratios in the range of 15 to 20 per cent.

In addition to traditional distribution channels, the internet continues to grow in importance both as a distribution channel as well as a service channel. Additionally, distribution through partnerships (e.g. with banks and car dealerships) is increasingly important.

Underwriting Performance and Risks

During 2016, Business Area Private delivered strong results with a positive net inflow of customers. The strong focus on customer experience was evidenced by a strong Net Promoter Score improvement, due to initiatives like digital health declaration and self-service options.

Business Area Commercial's performance was somewhat better than in 2015, partly affected by low interest rates with an 86.3 combined ratio.

Business Area Industrial delivered an improved technical result compared with the previous year, largely driven by lower large claim costs more-than-offsetting the effect of internal portfolio transfers and a challenging macroeconomic environment.

Business Area Baltic delivered a lower technical result than the year before, largely due to competitive market and decreasing share of broker sales due to the Net Pricing strategy that provides transparency on broker fees.

At the moment all four Business Areas are responding to customers' increased demands to incorporate modern digital solutions into the insurance services process. The Business Areas remain committed to the target of being the market leader in the digital channels and they are continuously developing their web-sites, claims handling and service interfaces, while at the same time utilizing benefits from Big Data analytics.

The table If P&C Underwriting Performance, 31 December 2016 presents the development of If P&C's premiums, claims, operating expenses, reinsurer's share and technical result per Solvency II Lines of Business. The figures are segmented in accordance with Solvency II defined Lines of Business, which differ from the insurance class segmentation according to local GAAP or IFRS requirements that are used in other tables.

If P&C Underwriting Performance 31 December 2016

EURm	Premiums written	Premiums earned	Claims incurred	Operating expense	Reinsurers share per LoB	Total underwriting performance
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						direct insurance
Underwriting performance by SII LoB (EURm)						
Medical expense insurance	122.3	129.6	72.4	32.6	0.2	24.3
Income protection insurance	359.9	358.0	242.7	77.2	2.1	35.9
Workers' compensation insurance	189.2	193.6	53.0	40.6	7.3	92.8
Motor vehicle liability insurance	599.6	604.7	267.6	176.2	0.8	160.1
Other motor insurance	1,268.7	1,239.4	828.7	246.8	6.1	157.8
Marine, aviation and transport insurance	115.0	116.5	59.8	24.1	29.4	3.2
Fire and other damage to property insurance	1,390.3	1,399.2	861.1	300.3	168.9	68.9
General liability insurance	253.4	254.7	154.8	49.9	26.3	23.7
Assistance	14.6	15.3	12.1	2.6	0.0	0.5
Other life insurance	33.9	32.2	6.1	6.9	3.5	15.8
Annuities stemming from non-life insurance contracts and relating to health insurance obligations	0.0	0.0	65.0	0.0	0.0	-65.0
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	0.0	0.0	50.9	0.0	0.0	-50.9
Total	4,347.1	4,343.1	2,674.2	957.2	244.6	467.1

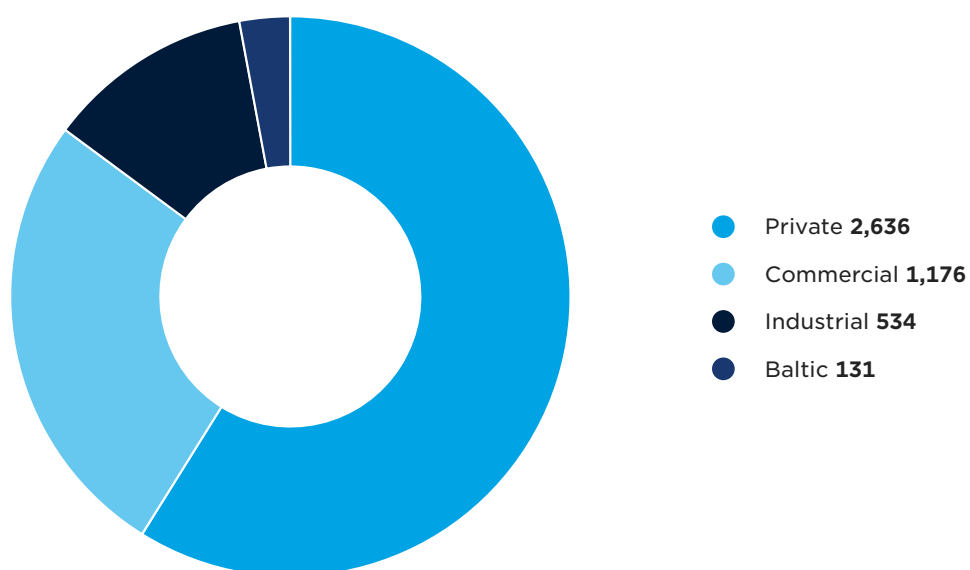
Premium and Catastrophe Risk and Their Management and Control

As shown in the below figure Breakdown of Gross Written Premiums by Business Area, Country and Line of Business, If P&C, 2016, the If P&C insurance portfolio is well diversified across Business Areas,

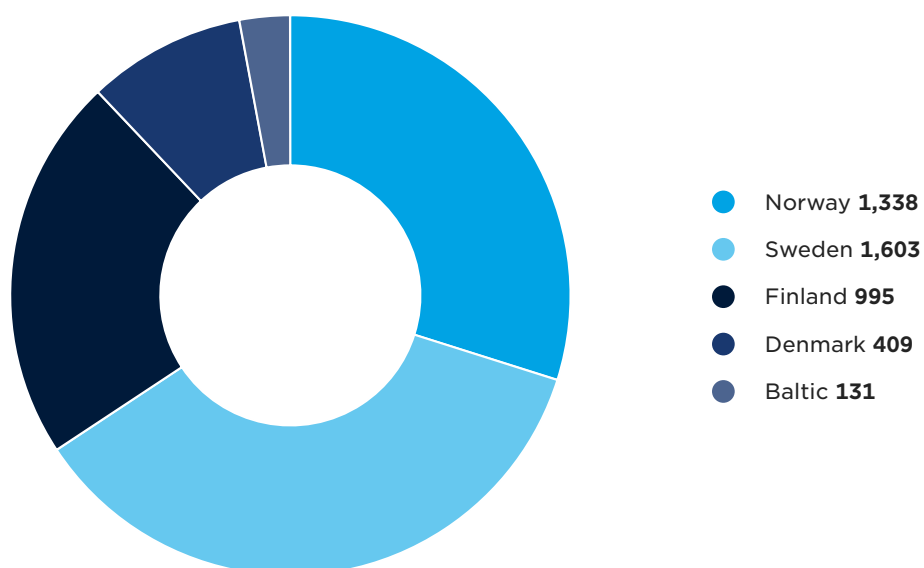
Countries and Lines of Business. The six Lines of Business are segmented in accordance with insurance class segmentation used in IFRS.

Breakdown of Gross Written Premiums by Business Area

If P&C, 2016, total EUR 4,476 million

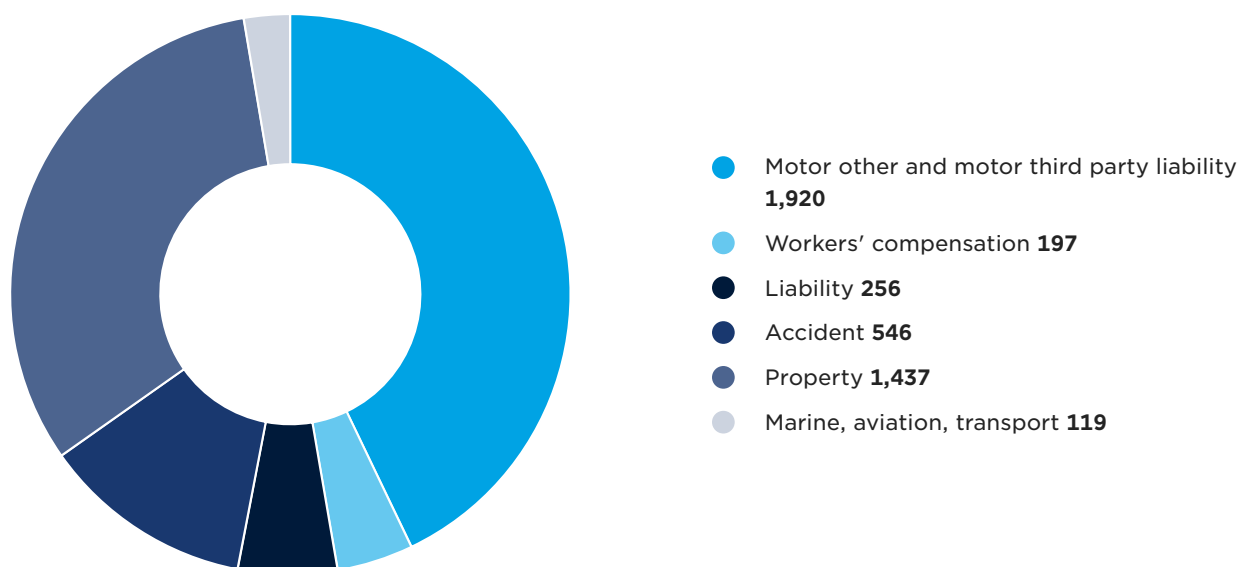
**Breakdown of Gross Written Premiums by Country**

If P&C, 2016, total EUR 4,476 million



Breakdown of Gross Written Premiums by Line of Business*

If P&C, 2016, total EUR 4,476 million



* The following adjustments from IFRS Line of Business to Solvency II Line of Business are made:

- IFRS Line of Business Motor other and motor third party liability (1,920) includes Solvency II Line of Businesses Motor vehicle liability insurance (617) and Other motor insurance (1,303).
- IFRS Line of Business Accident (546) includes Solvency II Line of Businesses Income protection insurance (370), Other life (35), Medical expense insurance (126) and Assistance (15).

The item Other (including group eliminations) is not shown in the breakdowns above but is included in total gross written premiums. There are minor differences between the figures reported by Sampo Group and If P&C due to differences in foreign exchange rates used in consolidation.

Private and Commercial business areas (which are by nature diversified) dominate new sales. From the geographical angle gross written premiums are highly diversified as well. In regards to Line of Business the three major lines are Motor other and motor third party liability, Property and Accident.

Despite the diversified portfolio, risk concentrations and consequently severe claims may arise through, for example, exposures to natural catastrophes such as storms and floods. The geographical areas most exposed to such events are Denmark, Norway and

Sweden. In addition to natural catastrophes, single large claims could have an impact on the insurance operations' result. The negative economic impact of natural disasters and single large claims is effectively mitigated by having a well-diversified portfolio and a group wide reinsurance program in place.

The sensitivity of the underwriting result and hence underwriting risk is presented by changes in certain key figures in the table Sensitivity Test of Underwriting Result, If P&C, 31 December 2016 and 31 December 2015.

Sensitivity Test of Underwriting Result, If P&C

31 December 2016 and 31 December 2015

Key figure	Current level (2016)	Change in current level	Effect on pretax profit, EURm	
			2016	2015

Combined ratio, business area Private	83.2%	+/- 1 percentage point	+/- 26	+/- 26
Combined ratio, business area Commercial	86.3%	+/- 1 percentage point	+/- 12	+/- 12
Combined ratio, business area Industrial	88.6%	+/- 1 percentage point	+/- 4	+/- 4
Combined ratio, business area Baltics	89.8%	+/- 1 percentage point	+/- 1	+/- 1
Net premiums earned (EURm)	4,286	+/- 1 per cent	+/- 43	+/- 44
Net claims incurred (EURm)	2,904	+/- 1 per cent	+/- 29	+/- 32
Ceded written premiums (EURm)	168	+/- 10 per cent	+/- 17	+/- 18

The Underwriting Committee ("UWC") shall give its opinion on and propose actions in respect of various issues related to underwriting risk. The committee also considers and proposes changes to the Underwriting Policy ("UW Policy"), which is the principal document for underwriting, and sets general principles, restrictions and directions for the underwriting activities. The Boards of Directors of If P&C approve the UW Policy at least once a year.

The Chairman of the UWC is responsible for the reporting of policy deviations and other issues dealt with by the committee.

The UW Policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each Business Area. These guidelines cover areas such as tariff and rating models for pricing, guidelines in respect of standard conditions and manuscript wordings, as well as authorities and limits. In accordance with the Instructions for the Underwriting Committee, the Committee monitors compliance with the established underwriting principles.

The Business Areas manage the underwriting risk on a day-to-day basis. A crucial factor affecting the profitability and risk of non-life insurance operations is the ability to accurately estimate future claims and

expenses and thereby correctly price insurance contracts. The premiums within the Private Business Area and the premiums for smaller risks within the Commercial Business Area are set through tariffs. The underwriting of risks in the Industrial Business Area and of more complex risks within the Commercial Business Area is based to a greater extent on principles and individual underwriting than on strict tariffs. In general, pricing is based on statistical analyses of historical claims data and assessments of the future development of claims frequency and claims inflation.

If P&C's Reinsurance Policy stipulates guidelines for the purchase of reinsurance. The need and optimal choice of reinsurance is evaluated by looking at the expected cost versus the benefit of the reinsurance, the impact on result volatility and impact on capital requirements. The main tool for this evaluation is If P&C's internal model in which frequency of claims, large claims and natural catastrophes are modelled.

A group-wide reinsurance program has been in place in If P&C since 2003. In 2016, retention levels were between SEK 100 million (approximately EUR 10.5 million) and SEK 250 million (approximately EUR 26.2 million) per risk and SEK 250 million (approximately EUR 26.2 million) per event.

Reserve Risk and Its Management and Control

In the table Technical Provisions by Line of Business and Major Geographical Area, If P&C, 31 December 2016 below, If P&C's technical provisions and durations are presented by Line of Business and Major Geographical Area. When the breakdown of technical provisions is compared to the breakdown of gross written premiums it can be seen that Finland's and Sweden's share of technical provisions is larger than the share of gross written premiums. This is mainly due to Sweden and Finland having a long duration of

Motor other and motor third party liability and Finland also having a long duration of Workers compensation. The long duration is mainly due to annuities in these lines of business, which increases the amount of technical provisions. The duration of the provisions, and thus the sensitivity to changes in interest rates, varies with each product portfolio. The weighted average duration for 2016 across the product portfolios was 6.5 years.

Technical Provisions by Line of Business and Major Geographical Area If P&C, 31 December 2016

Sweden	Norway	Finland	Denmark	Total
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	EURm	Duration	EURm	Duration	EURm	Duration	EURm	Duration	EURm	Duration
Motor other and MTPL	2,533	7.5	611	1.7	1,026	13.3	157	1.5	4,328	7.9
Workers' compensation	0	0.0	277	4.0	1,181	12.6	258	6.9	1,716	10.5
Liability	317	2.7	136	2.1	132	3.4	67	1.7	652	2.6
Accident	303	5.0	387	2.8	156	3.9	92	1.3	938	3.5
Property	418	1.2	526	1.1	219	0.8	102	0.8	1,266	1.0
Marine, aviation, transport	24	1.6	50	0.7	11	0.5	17	0.8	101	0.9
Total	3,596	6.1	1,987	2.0	2,725	10.9	694	3.0	9,001	6.5

Reserves are exposed mainly to inflation and discount rates and to some extent to life expectancy. The sensitivity of If P&C's technical provisions to an

increase in inflation, an increase in life expectancy and a decrease in the discount rate is presented in the table Sensitivities of Technical Provisions, If P&C, 2016.

Sensitivities of Technical Provisions If P&C, 2016

Technical provision item	Risk factor	Change in risk parameter	Country	Effect EURm 2016
Nominal provisions	Inflation increase	Increase by 1%-point	Sweden Denmark Norway Finland	181.7 10.5 41.8 39.3
Annuities and estimated share of claims provisions to future annuities	Decrease in mortality	Life expectancy increase by 1 year	Sweden Denmark Finland	24.0 1.7 61.6
Discounted provisions (annuities and part of Finnish IBNR)	Decrease in discount rate	Decrease by 1%-point	Sweden Denmark Finland	67.3 14.0 279.7

From 2014 onwards the estimated share of claims provision to future annuities are included in the life expectancy increase sensitivity.

If P&C's technical provisions are further analyzed by claims years. The output from this analysis is illustrated both before and after reinsurance in the claims cost trend tables. These are disclosed in the [Note 27](#) to the Financial Statements.

The anticipated inflation trend is taken into account when calculating all provisions and is of the utmost importance for claims settled over a long period of time, such as Motor other and motor third party liability and Workers' compensation. The anticipated inflation is based on external assessments of the inflation trend in various areas, such as the consumer price index and payroll index, combined with If P&C's own estimation of costs for various types of claims. For lines of business such as Motor other and motor third party liability and Workers' compensation, legislation differs significantly between countries. Some of the Finnish, Swedish and Danish technical provisions for these lines include annuities which are sensitive to changes in mortality assumptions and discount rates. The proportion of technical provisions related to Motor other and motor third party liability and Workers' compensation was 67 per cent.

The Board of Directors of If P&C decides on the guidelines governing the calculation of technical provisions. If P&C's Chief Actuary is responsible for developing and presenting guidelines on how the technical provisions are to be calculated and for assessing whether the level of total provisions is sufficient. On If P&C group level, the Chief Actuary issues a quarterly report on the adequacy of technical provisions.

The Actuarial Committee is a preparatory and advisory board for If P&C's Chief Actuary. The committee secures a comprehensive view over reserve risk, discusses and gives recommendations on policies and guidelines for calculating technical provisions.

The actuaries continuously monitor the level of provisions to ensure that they comply with the established guidelines. The actuaries also develop methods and systems to support these processes.

The actuarial estimates are based on historical claims and existing exposures that are available at the balance sheet date. Factors that are monitored include loss development trends, the level of unpaid claims,

changes in legislation, case law and economic conditions. When setting property and casualty provisions, the Chain Ladder and Bornhuetter-Fergusson methods are generally used, combined with projections of the number of claims and average

claims costs. For life provisions, the IBNR calculations are based on the estimated claims cost (risk premium) over the average time from claim occurrence to reporting.