



# First quarter report 2001

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## IF P&C INSURANCE FIRST QUARTER REPORT 2001<sup>1</sup>

- If continued to improve its technical result and combined ratio compared to the same period last year. The improvement is mainly due to previous years' individualised premium increases and favourable large claims development. The expense ratio declined to 23.1% (23.6%). The first quarter 2001 combined ratio was 110.8% (112.5%).
- Strong positive cash flow from operations of MSEK 887
- The operating result of MSEK -770 was due to volatile equity markets
- The operating result based on normalised investment result was MSEK 34 (-28)
- The investment result was MSEK -154. Total investment return -0.4% and statutory investment result MSEK -200 (705)
- Equity markets developed adversely during the first quarter. A capital contribution from the owners of MSEK 600 and issuance of hybrid capital strengthens solvency
- Change in investment mix with reduction in equity investments
- All regulatory approvals for the acquisition of Volvia have been received. The integration is proceeding according to plan. Synergies from cross selling and cost reductions will be captured and If's position on the Motor market in Sweden is strengthened. If's overall market share in Sweden, including the Volvia portfolio, was 24% in 2000 (21%)
- E-Service award for Private web-site Sweden

	Q1 2001	Q1 2000	2000 <sup>2</sup>	1999 <sup>3</sup>
Gross written premiums	8 997	6 710	20 474	19 057
Operating result including normalised investment result	34	-28	247	-1 293
Operating result	-770	158	-989	-557
Combined ratio	110.8%	112.5%	110.2%	120.0%

<sup>1</sup> All SEK figures are expressed in millions. The Volvia portfolio is included as from 2001.

<sup>2</sup> Excluding Q2 2000 one-time launching expenses of MSEK 170. Including such expenses the expense ratio for 2000 was 24.4% and the combined ratio 111.2%.

<sup>3</sup> Pro forma numbers Jan-Dec 1999. For accounting purposes, If started operations from March 1, 1999. There is no comparable statutory investment result for full-year 1999.

## **Comments from Bo Ingemarson, CEO of If**

“The first quarter of 2001 has been an eventful quarter. An acquisition and a hybrid capital issue have strengthened our position as the leading property & casualty insurance company in the Nordic region. The Volvia motor insurance portfolio has improved our position within Motor insurance and has also proven to contribute to potential synergies and transfer of best practices.

We had a better combined ratio in the first quarter 2001 than the first quarter last year. The reduction in combined ratio represents an earnings improvement of approximately MSEK 85. During the first quarter we have continued to selectively increase premiums to those customers that formerly have not paid for the risk they contribute. The individualisation of pricing improves the risk profile in If's portfolio. We had a growth of 17 per cent in premiums earned as compared to last year, half of which is attributable to the Volvia portfolio.

All Business Areas except Marine & Energy had a positive claims development during the first quarter. Therefore the claims ratio improved compared to the first quarter last year. This was despite the exposure to the oil platform Petrobras 36 that sunk outside Brazil in late March, affecting the Group's combined ratio by almost 3 per centage points.

The expense ratio improved compared to the same period last year. We will maintain the focus on operating expenses and on improving the expense ratio further. The cost synergies develop as planned. However, the increased expenses are due to several costs such as running expenses in relation to Volvia being incorporated in If, e-commerce initiatives, transformation of distribution channels, reinsurance commissions and the set-up of the Finnish branch.

During the first quarter we also continued to streamline our distribution network in Norway through the reduction of 17 sales offices and mergers of another 6. The remaining 55 offices in Norway continue to make efficiency improvements. The transformation of the distribution channels shall be seen in the light of changed customer behaviour and a demand for more call centre services instead of personal sales within the mass-market and for small sized commercial clients.

The equity markets continued to be characterised by weak performance in the first quarter of 2001. Due to the volatile market conditions the owners have decided to contribute MSEK 600 of capital in order not to let short term fluctuations in the equity markets affect If's strategy.

I am confident that If has great potential to successfully take further advantage of skills transfer and best practices opportunities available to us through our pan-Nordic organisation.”

## **Group results**

Premiums earned for the first quarter 2001 were MSEK 4 940 (MSEK 4 215). Claims incurred were MSEK -4 335 (MSEK -3 745) and expenses were MSEK - 1 141 (MSEK - 996). The statutory operating result before tax was MSEK - 770.

The claims ratio was 87.7 per cent (88.9) and the expense ratio was 23.1 per cent (23.6). The combined ratio was 110.8 per cent (112.5).

Group result highlights (MSEK)	Q1 2001	Q1 2000	2000 <sup>2</sup>	1999 <sup>3</sup>
Premiums earned	4 940	4 215	17 545	15 674
Claims incurred	-4 335	-3 745	-15 220	-14 988
Operating expenses <sup>2</sup>	-1 141	-996	-4 115	-3 835
Underwriting result	-536	-526	-1 790	-3 149
Normalised investment result <sup>4</sup>	604	519	2 145	1 948
Operating result including normalised investment result	34	-28	247	-1 293
One-time launching expenses Q2 2000	-	-	-170	-
Statutory investment result adjustment	-804	186	-1 066	736
Statutory operating result	-770	158	-989	-557
Claims ratio	87.7%	88.9%	86.8%	95.6%
Expense ratio	23.1%	23.6%	23.4% <sup>2</sup>	24.4%
Combined ratio	110.8%	112.5%	110.2% <sup>2</sup>	120.0%

## Cyclicality

Property and casualty insurance is subject to cyclical variations. When the economy is at its peak one often sees an increased frequency of claims and higher average cost of claims. It is thus subject to the business cycle in the countries in which it operates. In addition, spring and summer usually have a lower claims frequency than winter.

Furthermore, because equity investments are fully marked to market in the profit and loss account, short-term fluctuations in equity market returns affect the statutory operating result. Equity investments have historically outperformed fixed-income investments.

## Business area comments

**Private** had net earned premiums in the first quarter 2001 of MSEK 2 557 (MSEK 2 042). The combined ratio was 109.6 per cent (111.5), with an expense ratio of 21.0 per cent (26.4).

The result for the first quarter 2001 was driven by successfully implemented individualised premium increases from previous periods, in particular within Motor in all countries and in Home insurance in Norway. The overall gross written premiums showed a growth of MSEK 569 of which Volvia represented MSEK 308. Volvia also contributed positively to the combined ratio.

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<sup>4</sup> In addition to the statutory results, If shows an operating result based on a normalised investment result as well as the statutory investment result. This approach is taken because as equity investments are fully marked to market in the profit and loss account, short-term fluctuations in equity market returns affect the statutory operating result, making comparisons between years less meaningful. In calculating the normalised investment result for Q1 2001, a total return of 6% was used, based on If's applicable investment mix, and assuming a bond yield of 5.2% and an equity risk premium of 3.5%.

The main focal point in 2001 is to refine the portfolio through selective activities to retain valuable customers and extend the relationships to them. Private has already completed several successful pilot projects that are now being implemented on a broader scale. To further improve the impact of the refinement of the portfolio, a new Sales & Service centre was established in Malmö, Sweden.

During the period there was a slight change in the claims frequency trend, implying that the number of claims has stabilised in all countries. The average claims expenses remained at a stable level, except in Sweden where costs in car repair shops increased.

The expense ratio has improved compared to the same period last year, and also on a rolling 12 months basis. The effects of implemented manning reductions will gradually become visible.

The customer demand for more call centres support the transformation of distribution channels within Private, which continued during the first quarter. The preferred channels are customer friendly, cost efficient and support profitability. Internet sales increased in Sweden in the first quarter and accounted for 3 per cent of total sales. In Denmark, the contacts with the customers are gradually transferred from the tied agents to the call centre. This was successfully implemented in the first quarter.

The number of customers in Norway declined slightly, which was partly off-set by an increased number of customers in Sweden. In Denmark Private had a strong growth of customers, which is projected to continue throughout 2001.

The focus areas are further refinement of the portfolio together with customer satisfaction actions.

**Commercial** had net premiums earned of MSEK 1 636 for the first quarter 2001 (MSEK 1 466). The combined ratio was 108.7 per cent (114.6), with an expense ratio of 22.9 per cent (22.1).

Commercial significantly improved its combined ratio compared to last year. This was driven by somewhat fewer large claims, which neutralised the seasonal effect of the first quarter as a winter quarter which usually implies more claims. 12 per cent higher net premiums earned compared to the first quarter last year, following selective premium increases, also contributed to the combined ratio improvement. Commercial had a small net reduction of the number of customers, which is expected to stabilise going forward.

The expense ratio was lower than full year 2000 and in line with the same period last year, despite the development and implementation of the new production base system. Commercial's distribution channels are moving towards call centres for small sized customers. One step in this direction was the transfer of small customers in Denmark from Skandia Marknad AB to Commercial's customer centre, as previously done in Sweden.

The claims ratio improved significantly, mainly due to higher premiums and also due to claims cost lower than normal within Property. This was partly off-set by a large claim in Motor, but the underlying development in Motor is positive. The claims frequency development stabilised at an acceptable level.

Workers' compensation continued to improve. The profit gap was reduced considerably over the past year and profitability is expected to break even during 2001.

The revenue improvement projects continued according to plan in the first quarter. Six of them were finalised and implemented in the daily operations. 63 per cent of Commercial's claims are now handled in the claims centres, and 20 per cent of all claims are handled within 48 hours. This has led to a quicker turnover of claims and thus efficiency has improved within the five claims centres.

For the next quarter, the focus is to continue customer satisfaction monitoring and actions, to develop claims handling on the Internet and to continue to develop the new base system.

**Industrial Risk Solutions, IRS**, had net premiums earned of MSEK 524 for the first quarter 2001 (MSEK 496). The combined ratio was 108.8 per cent (107.8), with an expense ratio of 26.5 per cent (21.7).

The combined ratio was slightly higher than for the same period last year. Property, the largest line of business within IRS, had a combined ratio below 100. The individual premium increases that were imposed at the end of last year have been successfully implemented with a maintained market position. IRS had a net gain of customers during the first quarter.

The claims ratio improvement was driven by increased premiums earned and by fewer large claims than normal. Nevertheless, IRS was hit by one large claim for which the net expense amounted to MSEK 77. The overall frequency in claims was favourable.

The increased operating expenses were driven by expenses connected to the establishment of the branch in Finland and lower commissions related to the increased retention under the 2001 reinsurance programme.

During the first quarter the focus on improvement of captive profitability was intensified.

During the first quarter IRS has also seen progress within its Industrial Client System. The focus going forward is the development of a new pan-Nordic IT platform and the implementation of several e-business solutions.

**Marine & Energy** had net earned premiums in the first quarter 2001 of MSEK 216 (MSEK 211). The combined ratio was 170.9 per cent (118.5), with an expense ratio of 38.1 per cent (19.6).

At the end of the first quarter, Marine & Energy suffered from a large accident outside Brazil when an oil rig sunk. Among the syndicate partners Marine & Energy had a 12 per cent share. The total cost of the claim, including costs for reinstatement of reinsurance, amounted to MUS\$ 15.

Apart from the large claim, the combined ratio was close to 100 per cent.

## **Structural changes & Capital contribution**

Per January 1 If acquired Volvia's motor insurance portfolio. In connection with the acquisition If received a capital contribution of MSEK 500. In March If made a hybrid capital issue of MEUR 200 which strengthened the financial position.

Skandia and Storebrand have further contributed in total MSEK 600 to If in a capital contribution to strengthen If's solvency.

## **Investments**

The first quarter was characterised by strong fixed-income returns and weak equity markets performance. The investment result for the first quarter was MSEK -200, corresponding to a return of -0.6 per cent. The total return, including changes in unrealised gains/losses on fixed-income investments carried at amortised cost, was MSEK -154, corresponding to a return of -0.4 per cent. The total portfolio split excluding assets in the run-off operations as of the first quarter was 77 per cent fixed-income and 23 per cent equities.

In light of the volatile conditions in the equity markets, the Board of Directors of If P&C Holding has decided to change the group investment policy. The new policy implies a lower target share of equities, with 17 per cent versus previously 23 per cent, and a corresponding higher target share of fixed-income investments. The Run-off investment portfolio is 100 per cent allocated to fixed income investments.

## **Changes in Net Asset Value**

The Net Asset Value increased from MSEK 8 237 to MSEK 8 252. The result for the period was offset by the capital contribution of MSEK 500 on February 8, 2001.

## **Interim result for If P&C Holding AB**

If P&C Holding AB is a pure holding company with no business activities. The pre-tax result for the first quarter 2001 was MSEK -54, mainly from currency hedging of equity capital in foreign group companies.

This interim report has been compiled using the same accounting principles as in the Annual Report for 2000, except in relation to IT expenditures and deferred tax assets, as described in the appendix.

Solna, Sweden, 9 May 2001  
Bo Ingemarson

President and CEO

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## **Reports 2001**

H1 report                      Aug 3, 2001

Q3 report                      October 30, 2001

## **Appendices**