

Non-life Insurance Underwriting Risks

Premium Risk and Catastrophe Risk Management and Control

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.

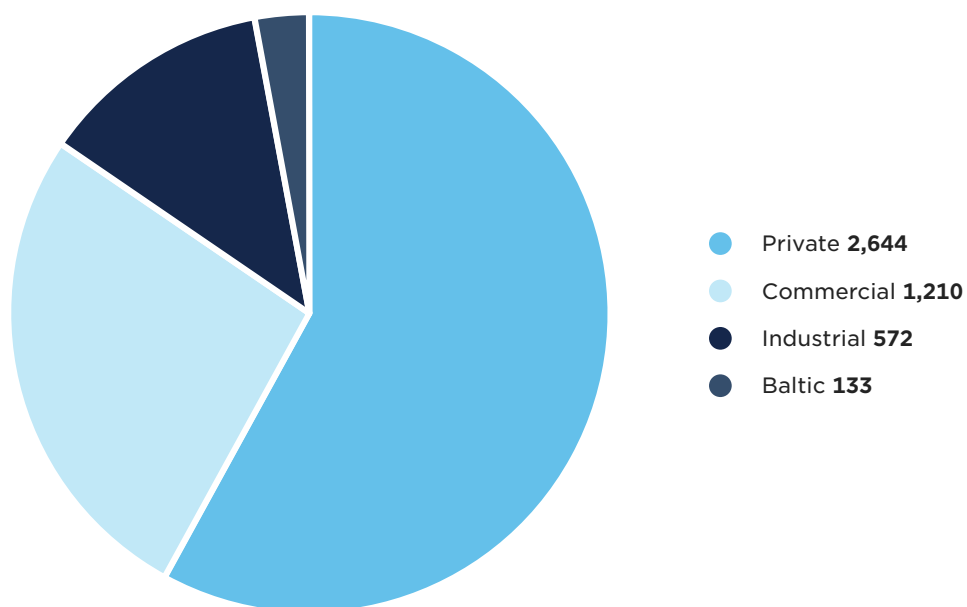
The UW Policy is supplemented with guidelines outlining in greater detail how to conduct underwriting within each business area. These guidelines cover areas such as tariff and rating models for pricing, guidelines in respect of standard conditions and manuscript wordings, as well as authorities and 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.

The insurance portfolio is well diversified, given the fact that If P&C has a large customer base and the business is underwritten in different geographical areas and across several lines of business. The degree of diversification is shown in the figures Breakdown of Gross Written Premiums by Business Area, Country and Line of Business, If P&C, 2015.

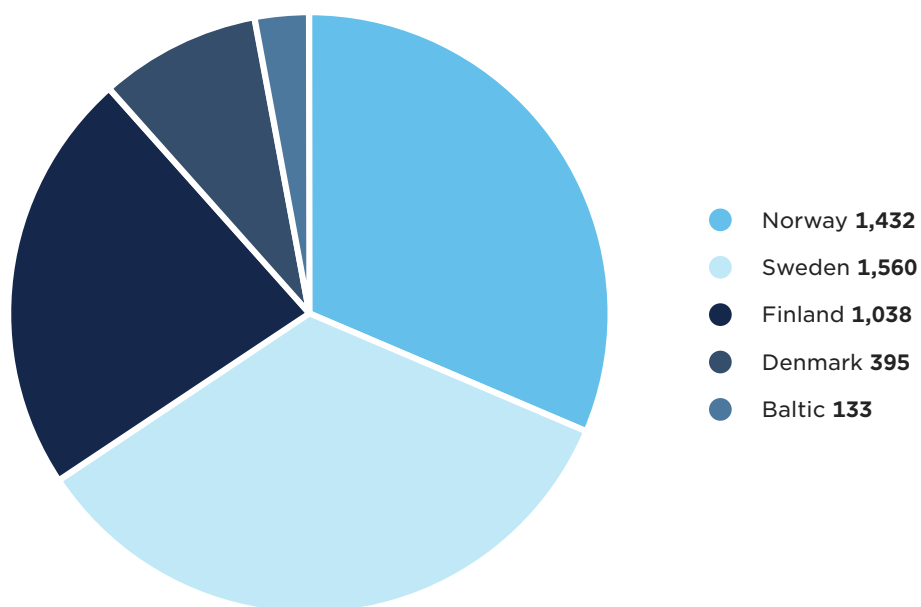
Breakdown of Gross Written Premiums by Business Area

If P&C, 2015, total EUR 4,559 million



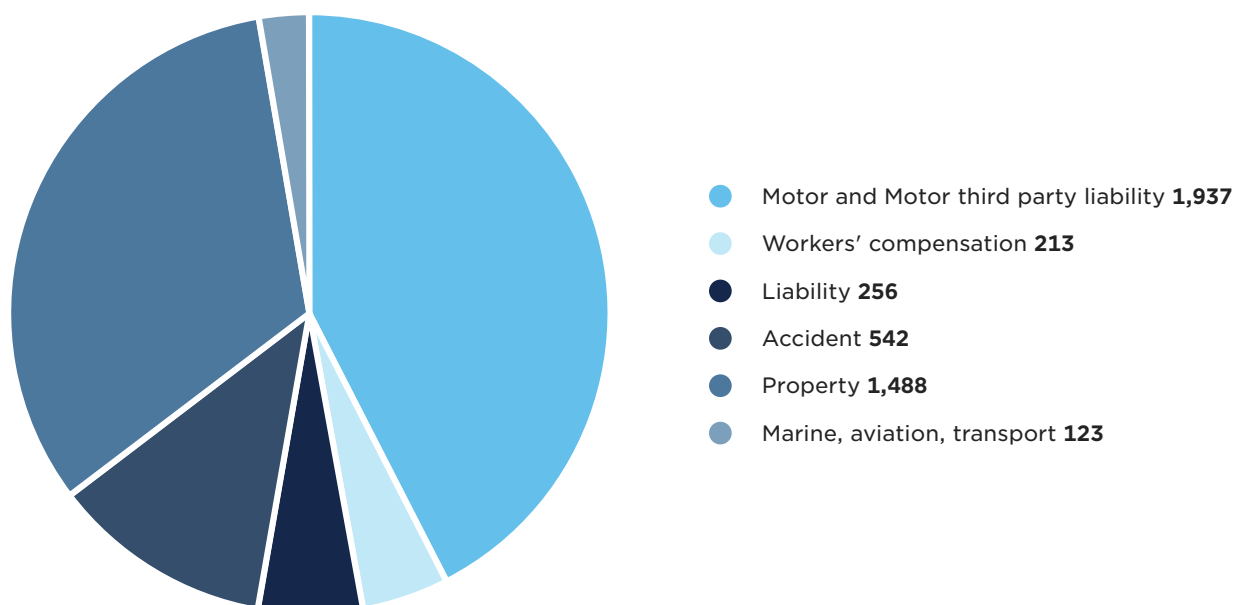
Breakdown of Gross Written Premiums by Country

If P&C, 2015, total EUR 4,559 million



Breakdown of Gross Written Premiums by Line of Business

If P&C, 2015, total EUR 4,559 million



The item Other (including group eliminations) is not shown in the breakdowns above but it 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.

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, single large claims could have an impact on the insurance operations' result. The economic impact of natural disasters and single large claims is managed using reinsurance and through diversification.

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 decreased capital

requirement. The main tool for this evaluation is If P&C's Internal Model in which small claims, single large claims and natural catastrophes are modelled.

A group-wide reinsurance program has been in place in If P&C since 2003. In 2015, retention levels were between SEK 100 million (approximately EUR 10.9 million) and SEK 250 million (approximately EUR 27.2 million) per risk and SEK 250 million (approximately EUR 27.2 million) per event.

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 2015 and 31 December 2014.

Sensitivity Test of Underwriting Result

If P&C 31 December 2015 and 31 December 2014

Effect on pretax profit,

Key figure	Current level (2015)	Change in current level	EURm	
			2015	2014
Combined ratio, business area Private	88,1%	+/- 1 percentage point	+/- 26	+/- 26
Combined ratio, business area Commercial	89,2%	+/- 1 percentage point	+/- 12	+/- 13
Combined ratio, business area Industrial	99,4%	+/- 1 percentage point	+/- 4	+/- 5
Combined ratio, business area Baltics	85,7%	+/- 1 percentage point	+/- 1	+/- 1
Net premiums earned (EURm)	4,395	+/- 1 per cent	+/- 44	+/- 45
Net claims incurred (EURm)	3,180	+/- 1 per cent	+/- 32	+/- 29
Ceded written premiums (EURm)	183	+/- 10 per cent	+/- 18	+/- 17

Reserve Risk Management and Control

The Boards of Directors of If P&C decide 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 the total provisions is sufficient. At group level, the Chief Actuary issues a quarterly report on the adequacy of technical provisions, which is submitted to the Boards of Directors, CEOs, CFO and [the ORSAC of If P&C](#).

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 provisions, the Chain Ladder

and Bornhuetter-Fergusson methods are generally used, combined with projections of the number of claims and the average claim costs.

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 Third Party Liability (MTPL) and Workers' Compensation (WC). 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 MTPL and WC, legislation differs significantly between countries. Some of the Finnish, Swedish and Danish technical provisions for these lines include annuities that are sensitive to changes in mortality assumptions and discount rates. The proportion of technical provisions related to MTPL and WC was 68 per cent.

Technical provisions and the economic durations broken down by the line of business and major geographical area is shown in the table Technical Provisions by Line of Business and Major Geographical Area, If P&C, 31 December 2015.

Technical Provisions by Line of Business and Major Geographical Area

If P&C, 31 December 2015

	Sweden		Norway		Finland		Denmark		Total	
	EURm	Duration	EURm	Duration	EURm	Duration	EURm	Duration	EURm	Duration
Motor other and MTPL	2,642	8.4	607	2.0	1,031	12.4	152	1.9	4,432	7.1
Workers' compensation	0	-	292	4.0	1,191	11.0	248	5.7	1,732	9.8
Liability	305	2.9	140	2.2	136	3.0	73	1.6	653	2.7
Accident	284	5.4	339	2.8	167	4.7	84	1.5	875	3.3
Property	441	1.5	506	1.2	206	1.2	97	0.8	1,249	1.0
Marine, aviation, transport	30	1.3	50	0.7	13	0.5	16	0.9	109	0.8

Total	3,702	6.8	1,934	2.3	2,744	10.1	670	3.3	9,050	6.7
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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, 2015.

Sensitivities of Technical Provisions

If P&C, 2015

Technical provision item	Risk factor	Change in risk parameter	Country	Effect EURm 2015
Nominal provisions	Inflation increase	Increase by 1%-point	Sweden	217.7
			Denmark	9.2
			Norway	40.0
			Finland	39.6
Annuities and estimated share of claims provisions to future annuities	Decrease in mortality	Life expectancy increase by 1 year	Sweden	33.5
			Denmark	1.5
			Finland	60.7
Discounted provisions (annuities and part of Finnish IBNR)	Decrease in discount rate	Decrease by 1%-point	Sweden	65.3
			Denmark	10.9
			Finland	283.5

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 analysed by claims years. The output from this analysis are illustrated both before and after reinsurance in the

claims cost trend tables. These are disclosed in [the Note 27 to the Financial Statements](#).