



High dividend aspirations with a choice of styles



COUNTRY AWARD

SWEDEN

The objective of Länsförsäkringar Liv is to achieve the market's highest dividend interest over the long term. Containing costs, along with achieving the highest possible risk-adjusted returns, are the keys to doing so.

As the life insurance arm of the Länsförsäkringar group, it benefits from substantial economies of scale by pooling resources with other funds and insurance companies within the group in areas such as systems, asset liability matching, management analysis and risk assessment. For example, securities administration is handled by VPA, a group unit that also runs the portfolio management system. Other services, such as investment management, have been outsourced to third parties since 2002.

Länsförsäkringar Liv offers pension and life insurance products to individuals and corporations (for company schemes), with 500,000 individuals with current and active insurance, and 60,000 corporate customers.

When purchasing a Länsförsäkringar Liv product, customers can choose among three different management styles. Traditional management gives a guaranteed annual return of 3% (current rates) before fees and tax on the saved (guaranteed) capital. Investment takes place primarily in quoted shares, interest-bearing securities, property and alternative investments. Any return exceeding the guaranteed 3% is distributed among the customers as dividend.

New world management is similar to a mixed fund, with a fixed division of 70% shares and 30% bonds. A basic guarantee means that the customer is guaranteed saved premiums, less fees and guarantee costs.

With funds insurance, operated by a subsidiary, customers choose the investment strategy and risk level for themselves.

Asset liability modelling

Länsförsäkringar Liv's asset liability matching model uses the Monte Carlo technique for both liabilities and assets. Random parameters for the liability side include new subscriptions, buy-back, paid-up policies, death and relocation, and for the asset side, capital return for the incoming assets, including underlying variance and correlation. Because Länsförsäkringar Liv noticed that behaviour in the comparison index often has little to do with the behaviour of active capital managers, the assumption for capital return is based not only on a comparison index, but also takes into account different management styles. Parameters then studied are primarily solvency and equity, but also dividend interest and consolidation levels for a large number of scenarios. These studies determine the risk level and allocation to the asset portfolio. Part of the ALM process also covers risk budgeting and management structure. This means establishing both which markets and instruments will be used to generate a targeted risk-adjusted return and also the type of administrative style.

Wilshire advises on ALM work and also provides input data as long-term hypotheses on issues such as return,

risk and correlation to the ALM model, and consultancy on management analysis and purchase processes.

Investment strategy

Länsförsäkringar Liv's investment process is in four parts: the ownership role, strategy, implementation, and follow-up. The ownership role describes the purpose of owning the assets, with a view to creating the maximum possible return. Strategy refers to the long-term asset distribution, in line with an ALM study. Long-term strategy is summarised in a reference portfolio, but deviations from this reference portfolio are acceptable when the market demands. For implementation, the investment assets are divided among selected capital administrators. Follow-up refers to the provision of regular information on returns and analysis internally, proposing changes when they are required.

While all strategic issues are handled internally, management is outsourced. Following an extensive search in 2001–02, ABN Amro was chosen to handle traditional investments. It has mandate-specific instructions for each type of asset and a general instruction for the total mixed task. A number of benchmark tasks have been outsourced to T Rowe Price, Alteus, CDC and Lombard.

Alternative investment has been outsourced to Nordic Alternative Investment Advisers since August 2002. Alternative investment appeals because of the way in which it increases diversification, and the risk-adjusted return of the total portfolio is higher by a greater share of alternative investment than would otherwise be the case. Länsförsäkringar's commitment to the sector is demonstrated by its strategy of increasing exposure further over the long term.

Risk management

Quantitative risks are monitored by a designated risk management function, which keeps an eye not only on general risks but also on external managers. Risk management focuses on in-depth analysis of returns, risk-adjusted returns and risks ex post/ex ante, and it continually validates the expected risks and risk-adjusted return to be used in portfolio control and risk budgeting processes. Crucial to this work are well-defined investment instructions, regular matching and meetings with external administrators, clear processing criteria and the incentive system.

Name of fund

Länsförsäkringar Liv

Type of fund

Life insurance company

Date established

1998 (merger between LF Life and Wasa Life)

Fund structure

Mutually owned life company

Members

Active members plus deferred members:	750,000
Retirees:	100,000

Capital value of fund (€m):

31 Dec 2002	9,524
31 Dec 2001	10,585
31 Dec 2000	11,593

Investment return for fund:

2002	-10.1%
2001	-4.3%
2000	0.6%

Five-year rolling investment return:

1998–2002	4.48%
1997–2001	9.46%
1996–2000	14.7%

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HIGHLIGHTS AND ACHIEVEMENTS

Länsförsäkringar Liv was the first insurance company to invest in alternative investments, in the market since 1989, and its allocation to this class of investment is greater than that of other pension fund managers.

In January 2002, equity exposure was increased in the traditional life portfolio by investment in a derivative fund. This fund consists largely

of derivatives listed on the world's major stock markets and gives Länsförsäkringar Liv exposure to stock markets corresponding to 2.5 times the investment amount – approximately 7 percentage points – with a limited risk on the down side.

Midway through the year, a share protection scheme was implemented. These strategies together

have been so successful that the share exposure was increased by a further 4 percentage points in June.