

Close  
to you  
throughout  
your life



LocalTapiola's  
service quality  
is higher than  
that of any other  
large insurance  
company. We are  
also number one in  
terms of customer  
satisfaction.





## Close to you throughout your life

LocalTapiola employs enthusiastic drivers, mothers, fathers, athletes, pet owners, boaters, house builders, world travellers, investors and entrepreneurs. Therefore, we offer the same solutions we want and use ourselves. We handle your most important matters with competence and genuine care.



LocalTapiola Group's annual report and corporate responsibility report are included in the online report at [www.vuosiraportti2013.lahitapiola.fi](http://www.vuosiraportti2013.lahitapiola.fi)

# Contents

<u>LocalTapiola in brief: vision and business idea</u>	<u>1</u>
<u>LocalTapiola's proven good service, actions and results</u>	<u>1</u>
<u>LocalTapiola in 2013 – progress on the merger continues</u>	<u>2</u>
<u>Success stories in 2013</u>	<u>4</u>
<u>Foreword by the CEO</u>	<u>6</u>
<u>Strategic summary by management</u>	<u>8</u>
<u>Regional companies and local presence</u>	<u>10</u>
<u>A great grey future</u>	<u>12</u>
<u>Products and services</u>	<u>14</u>
<u>Product and service development</u>	<u>16</u>
<u>Social responsibility</u>	<u>20</u>
<u>Personnel</u>	<u>23</u>
<u>Finances</u>	<u>24</u>
<u>LocalTapiola's annual reporting</u>	<u>32</u>

## Reported herein

The "Close to you throughout your life" annual brochure provides an account of the key events and figures of the LocalTapiola Group companies in 2013. For non-life insurance and regional companies, the reported figures take into account the merger of Local Insurance and Tapiola. The figures are pro forma: the figures for Local Insurance and Tapiola have been combined.



## LocalTapiola in brief

LocalTapiola Group is a mutual group of companies owned by its customers. It serves private customers, farmers, entrepreneurs, corporate customers and organisations. LocalTapiola's products and services cover non-life, life and pension insurance, as well as investment and saving services. We are also professionals in corporate risk management and welfare in the workplace.

LocalTapiola officially began operating on 1 January 2013. In addition to LocalTapiola General and the regional companies, the Group comprises LocalTapiola Life, LocalTapiola Bank, LocalTapiola Asset Management and LocalTapiola Real Estate Asset Management. The Group's statutory employee pension insurance partner is Elo. LocalTapiola's network of regional companies consists of 19 regional mutual insurance companies along with a business in Greater Helsinki that operates in the same manner as the regional companies. LocalTapiola employs approximately 4,000 people, half of whom work in the regional companies. The number of owner-customers is nearly 1.6 million.



## Proven good service

We are proud to state that we are the best large insurance company in Finland. EPSI Rating, a respected comparison of insurance companies, ranked LocalTapiola among the top companies in several categories and the quality of our service for private customers was higher than that of any other company. Our self-employed customers are among the most loyal in the sector and large companies consider our products and services to be the best in the sector.

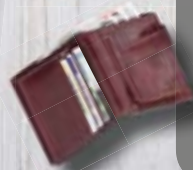
The quality of insurance companies is put to the test when something happens. In 2013, we received more than 600,000 compensation claims. This means that we handled an average of 50,000 claims per month at our offices, over the phone and online. And we were quick: our life insurance company processed 80 per cent of all compensation claims within three days.

We paid out over EUR 0.6 billion in compensation over the year. And although the Eino and Seija storms kept us busy, we were able to serve customers quickly. Perhaps that is why almost 70 per cent of our home insurance customers said that they have recommended our claims handling service to friends.



## Vision and business idea

LocalTapiola's vision is to be the leading insurance, welfare and finance partner in Finland, close to our customers. The business idea is to safeguard customers' everyday lives and prosperity. We are trusted advisers to our customers and we take care of their most important business with expertise and genuine care. LocalTapiola is close to you throughout your life.



## Action and effect

Annual reports in our sector are packed full of numbers, one after the other. Among these numbers, it is easy to forget that LocalTapiola is full of expertise and passion.

Numbers are important, but we would also like to explain what goes on behind them. We hope that our "Action and effect" stories will shed some light on how and why a particular thing was done as well as on the effects of this action.

# LocalTapiola in 2013 – progress on the merger continues

**LocalTapiola officially began operating at the beginning of 2013 and the structural reorganisation was finalised when the voluntary non-life insurance policies were transferred to the regional companies. In 2013, cooperation was agreed with S Group and the formation of the new S-Bank was announced.**

**L**ocalTapiola Group officially began operating on 1 January 2013. The objective of combining Tapiola and Local Insurance was to bring services as close to customers as possible. For this reason, 19 regional mutual companies were established, along with LocalTapiola Greater Helsinki, which operates in the same manner as the regional companies.

Towards the end of 2013, the regional businesses took on an even greater role within LocalTapiola Group, as accounts for private customers, as well as micro, small and medium-sized enterprises, were transferred from LocalTapiola's non-life insurance company to the regional companies, along with voluntary non-life insurance policies and investments.

### The Duo partnership was dissolved

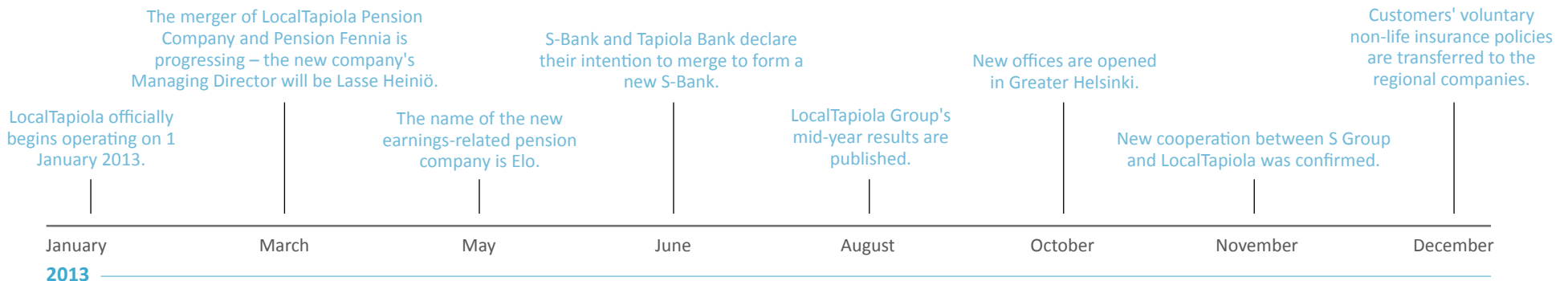
Tapiola had a life insurance company before the merger, so the new LocalTapiola Group also has a strong personal insurance offering. Duo's life insurance products had

previously been an important addition to Local Insurance's service portfolio. However, when LocalTapiola was formed, the Duo partnership could no longer be continued, so the Finnish Savings Banks Group and LocalTapiola Group agreed to terminate the partnership.

### S-Bank and LocalTapiola Bank merge as part of a wider cooperation agreement.

In June, S-Bank and LocalTapiola Bank declared their intention to merge to form a new S-Bank. S Group and LocalTapiola Group own 75 per cent and 25 per cent of the new bank, respectively. The new S-Bank will begin operating on 1 May 2014.

The bank merger will bring secured loans to the offering for the customer-owners of retail cooperatives. Correspondingly, the customers of LocalTapiola will have access to a more comprehensive range of banking services within a service network that is significantly more extensive than the current one.



Work on integrating Local Insurance and Tapiola has taken place in over

# 50 projects.

## Events in 2014:

Preparations for strategic cooperation between LocalTapiola and S Group began in January 2014.

The new S-Bank will begin operating at the beginning of May 2014.

LocalTapiola Asset Management Ltd becomes an investment services company.

Bonus cooperation and related customer communications will begin in June 2014.

### The creation of S-Bank resulted in changes to LocalTapiola Asset Management

As part of the merger of the banks, LocalTapiola Asset Management's asset management operations and mutual fund operations will diverge. Mutual fund operations will be transferred to S-Bank's future subsidiary, FIM Asset Management Ltd.

LocalTapiola's asset management company will continue under the 100% ownership of LocalTapiola, and no

changes will occur in the position of its asset management customers or the services offered to them. LocalTapiola Asset Management will continue to be responsible for the portfolio management of LocalTapiola's mutual funds after the merger.

### Strategic cooperation and bonus partnership begin

S Group and LocalTapiola have agreed to extend their strategic cooperation. Preparations for the strategic cooperation began in January 2014.

## A great deal of work was done behind the scenes



At the turn of the year, 1.5 million active non-life insurance policies were transferred to the regional companies. This required a lot of work behind the scenes. Approximately 50 projects involving hundreds of people have been set up to work on the merger, with the aim of successfully transferring business operations and ensuring that LocalTapiola works in the manner agreed upon during the merger. "This has been one of the most significant structural reorganisations in the sector," says **Petri Pitkänen**, who led the project.

As Tapiola and Local Insurance were using different systems, LocalTapiola has

extensively developed its ICT systems as a consequence of the integration. One of the greatest efforts was the large-scale clearing project. When the voluntary non-life insurance policies were transferred to the regional companies, the insurance premiums had to be directed to LocalTapiola Mutual Insurance Company's new regional companies. The project has ensured that non-life insurance premiums can be invoiced just as easily as before.

Although a great deal of internal work has been done within the last year, our personnel have constantly ensured that customers are served at least as well as before.

### Background:

Although the majority of the integration projects have focused on ensuring that various different systems are compatible, 2014 will see the completion of projects with a high level of customer visibility, such as new joint products and new websites.

S Group and LocalTapiola concluded a letter of intent in 2013 to relaunch the bonus partnership that had been discontinued a few years earlier. Bonus cooperation means that customer-owners will receive S Group bonuses for LocalTapiola's insurance products. Bonus cooperation and related customer communications will begin in June 2014.

### Tapiola Pension and Fennia Pension merged – Elo began operating

Pension Fennia and LocalTapiola Pension joined forces in January 2014. Elo, the new company formed by the merger, is Finland's third largest earnings-related pension company. Elo will continue to collaborate with LocalTapiola, acting as its earnings-related pension partner.

# Success stories in 2013

**For LocalTapiola, 2013 was spent in finalising the merger. Although a great deal of integration work was done within the organisation, the objective throughout was to serve customers at least as well as before. We were successful in doing this, as LocalTapiola obtained a good result for 2013 in EPSI Rating's comparison of insurance companies.**

**I**n terms of satisfaction among private customers, LocalTapiola performed better than any other large insurance company.

According to respondents, the quality of service that LocalTapiola offers to its private customers is the best of all. LocalTapiola was also ranked among the best insurance companies in terms of brand image for private customers, customer loyalty and the feeling of added value.

In terms of loyalty among corporate customers, LocalTapiola has improved more than any other company compared with the

previous year. Respondents indicated that LocalTapiola's brand image and the quality of its products and services are among the best of all large companies that provide corporate services. Our self-employed customers are among the most loyal in the sector and large companies consider our products and services to be the best in the sector.

## Praise for compensation services

The quality of insurance companies' services is put to the test when something happens. In 2013, LocalTapiola received more than 600,000 compensation claims. This means that we handled an average of 50,000 claims per month at our offices, over the phone and online. And we were quick: our life insurance company processed 80 per cent of all compensation claims within three days.

We paid out over EUR 0.6 billion in compensation over the year. And although the Eino and Seija storms kept us busy at the end of the year, we were able to serve our customers quickly. Perhaps that is why almost 70 per cent of our non-life insurance customers said in a survey measuring service experiences that they have recommended our claims handling service to friends. The quality of the claims service remained good throughout the year, despite numerous changes. Last year, the quality of LocalTapiola's claims service was



## Integration reached its goals

We have been successful in our integration work: we have transferred 1.5 million voluntary non-life insurance policies to 19 regional companies. All of the tasks involved in transferring the policies were successfully completed on schedule.

## Asset management was successful

The asset management result for 2013 was exceptionally good. The number of institutional, private banking and fund customers grew significantly.

## Sales went well in the life insurance company

Premium income grew by 30 per cent.



## Good customer benefits

The overall value of the benefits distributed to LocalTapiola's owner-customers (General and Life) remained high, amounting to EUR 97.9 million including customer rebates, loyalty discounts and service benefits.

## Appreciated by customers

We achieved good results, both in the EPSI Rating and in our own customer surveys.





# 1.

## The best responsible investor

measured using various customer surveys and the results were good.

For example, almost 57,000 questionnaires were sent by text message to Local Insurance customers after their claims had been processed. The text messages asked customers to rate the claims service on a scale of 1 to 5. 20 per cent of customers who were sent the survey responded and the average grade was 4.4.

Our new customer feedback system measures customers' willingness to recommend LocalTapiola to their friends. A pilot survey showed that nearly 70 per cent of home insurance customers had recommended LocalTapiola to their friends.

The electronic claims service can now be used to file claims for most personal life insurance types. Based on the electronic claims service, 94 per cent of users would recommend LocalTapiola to a friend.

### Premium income increased

LocalTapiola Life's premium income increased by over 30 per cent in comparison with 2012. Cooperation

between the regional companies was the main reason for the success in sales.

We were also highly successful in getting statutory workers' compensation insurance transferred to us. The annual objective of the Large Companies unit was a net transfer gain, which turned out to be one of the best results in its history. We acquired more than 70 new corporate customers.

### Award-winning asset management

LocalTapiola Asset Management continued to be showered with awards. It was named the best responsible investor in 2013 by Scandinavian Financial Research (SFR). It was the first time that the prize had been awarded. All asset management and banking companies operating in Finland vied for the title. In addition to this, fund ratings agency Morningstar named the LocalTapiola Europe fund as the best equity fund in Finland.

### LocalTapiola improved its corporate responsibility image

A TNS Gallup survey has revealed that LocalTapiola is one of the most successful companies in terms of promoting an image of corporate responsibility. According to TNS Gallup, the significance of corporate responsibility as the cornerstone of a company's reputation has increased.

### Top rating for LocalTapiola General

A.M. Best Co. granted LocalTapiola General a rating of A (excellent). A.M. Best has rated LocalTapiola General (formerly Tapiola General) since 2006 and the rating has remained unchanged since then.

# Award-winning asset manager

The success of LocalTapiola's investment operations is based on its own view of market movements. This requires our portfolio managers to have strong experience and the skill to pick out relevant information from an enormous mass of data.

The return on investment funds depends on increases and decreases in the value of the fund's investments, as well as any interest and dividends paid to investors. The portfolio manager's decisions play an essential role in determining the returns that the fund can expect.

LocalTapiola Asset Management Ltd's portfolio manager **Tommi Äikäs** says that good portfolio managers do not follow large crowds in the markets. Instead, they make their own decisions with careful consideration on the basis of the chosen investment strategy and criteria. "Everything is based on the portfolio manager's own analysis and perspectives on market trends. If necessary, the portfolio manager should be bold enough to make decisions that go against the tide."

Portfolio managers filter an enormous amount of information from various sources in the process of analysing the markets. They monitor companies' financial

statements and other financial information. Information can also be gained during company visits and discussions with company managers.

Portfolio managers also monitor several international sources. For example, large investment banks such as Deutsche Bank, Credit Suisse and UBS produce useful market analyses, as do other international partners. "There is plenty of information available. Success depends on whether the information can be correctly applied to investment decisions."

Äikäs highlights the significance of teamwork in successful investment operations. The core of LocalTapiola's investment philosophy is that investments should be steadily successful over the long term. The objective is to achieve as great a return in relation to risk as possible over the long term.

The portfolio managers continuously try to identify weak signals that may enable them to predict future changes in their investment targets. Prediction poses its own set of challenges as companies' own forecasts are not always accurate: outlooks can change within the space of a few weeks.

### Background:

LocalTapiola Asset Management has received numerous awards year after year. Over the years, LocalTapiola has been highly disciplined in realising its investment philosophy, which is based on its own way of thinking. The asset management company's own analyses provide the basis for its company selections and this, combined with responsible investment and the company's own economic research, are the key to the company's success.

# The successful merger reinforces competitiveness

**2013 was a very successful year for LocalTapiola. The strategy took its final shape, the organisation was rationalised in the summer and customer retention improved. Competitiveness was strengthened by agreeing on strategic cooperation and the S Bonus partnership. The decision was also taken to create a new S-Bank by merging LocalTapiola's bank business and the current S-Bank.**

**T**he transfer of insurance policies, which was successfully completed at the beginning of 2014, reinforced the regional company structure, which emphasises LocalTapiola's regional nature. The merger of the earnings-related pension companies also deserves a mention as it will provide economies of scale. The pension insurance company, Elo, which was formed by the merger of LocalTapiola Pension with Pension Fennia, began operating at the beginning of January 2014.

Our strategy consists of four objectives. The first of these is to provide the best customer benefits in the sector and the partnership with S Group is an important part of this. There are also other customer benefits on the way. Our benefits

programme will be adapted to suit the S Bonus partnership.

We took the first steps towards realising our welfare and health strategy in 2013 by buying approximately 10 per cent of Pihljalinna, a health service business. Life-cycle products will also play a part in ensuring that we provide the best customer benefits in the sector. The first of these products will be launched in 2014.

## Growth over the long term

The second cornerstone of our strategy is growth. In selected areas, we require our growth to be faster than the sector as a whole. The decisions to merge LocalTapiola Pension Company with Pension Fennia, to strike a partnership with S Group and to form a new S-Bank by



## Growth and economies of scale

- 1 Investment services have shown good growth
- 2 The S partnership creates new opportunities
- 3 The mergers of the banks and earnings-related pension companies will create economies of scale.

**” As a mutual group of companies owned by our customers, we must take particular care to ensure long-term profitability.**

Erkki Moisander, CEO



merging the old S-Bank with LocalTapiola's banking services will all contribute towards this. A key element in achieving growth is active sales and customer care, which is one of the Group's themes for 2014.

As a mutual group of companies owned by our customers, we must take particular care to ensure long-term profitability, which is the third objective of our strategy. Our cost level is significantly higher than that of our competitors. In order to maintain our competitiveness, we must cut costs and make our operations more efficient. However, LocalTapiola's goal is not to have the lowest expense ratio in the sector, but to make a permanent adjustment to increase profitability.

### The merger has been completed

Regeneration and successful integration is the fourth objective of our strategy. We were able to enjoy the results of the integration at the turn of the year as nearly 150 of our experts successfully completed the largest transfer of insurance policies the sector has seen, along with numerous other projects covering ICT systems related to the integration.

Thanks to these changes, the merger was declared officially complete and, as of the beginning of 2014, our companies have been structured in accordance with the foundation agreement signed by Tapiola and Local Insurance on 7 February 2012. The LocalTapiola brand has also become familiar to our customers.

### Growth in investment services and life insurance

Investment services have been a growing part of our business operations. Both

private banking and asset management have shown good growth, even though the Group underwent major changes in 2013.

Many of our investment products are based on life insurance, which has helped the life insurance company to increase its premium income. The life insurance company's premium income grew by over 30 per cent, showing that we were also successful in selling other life insurance products.

The tough competitive environment is reflected in our non-life insurance business, which lost a small amount of its market share. Our success in corporate insurance was particularly pleasing. One success story worthy of mention was our net gain in terms of the number of statutory accident insurance policies transferred to us, which was one of the best results of all time.

### Stepping up a gear in 2014

In 2014, we aim to increase the pace of changes in our business. We will focus on sales, which include agile operations. We will require an entrepreneurial, result-oriented attitude as well as a culture of achievement and activity.

2013 was a demanding year for LocalTapiola's personnel. In addition to their normal duties, many staff members were involved in projects related to the merger, but this did not affect their work for customers. According to the EPSI Rating, LocalTapiola's customer satisfaction was the best of all large companies. This speaks volumes of the competence and expertise that will also see us clear in 2014.

## The S partnership will strengthen LocalTapiola's position as a leading insurer

On CEO **Erkki Moisander's** initiative, LocalTapiola and S Group commenced negotiations in winter 2013 to establish cooperation. The objective of the S partnership is to safeguard the prerequisites for successful operations in the long term. The background to this was the need to strengthen LocalTapiola's strategic position in relation to financial groups that are heavily bank-oriented.

S Group is a natural partner for LocalTapiola as both hold the same fundamental values of customer-ownership and have a similar background. Both groups had small banks in comparison with their other business operations, despite the strategic importance of banking. The extensive regional cooperation opportunities were also an important factor when the partnership was agreed.

For LocalTapiola's partnerships, key factors are customer-ownership and an extensive regional service network that offers customers a wide range of service channels. It is also important to ensure that customers can receive personal service if they want it. From the point of view of the regional companies, it is essential to tailor services according to local needs. As cooperation in banking expands, the partnership must produce clear customer benefits.

### Aiming for easy access to services as part of daily life

At the heart of the S partnership is new added value for customers, which is built through cooperation. The new, joint S-Bank has superb customer potential. It creates the possibility of offering new types of services, products and benefits to more than two million customers.

A wider range of customer benefits can be provided and they will be better targeted to customers' needs. The cooperation with S Group will diversify the opportunities for building benefits and service packages that suit customers in various life phases. The cross-sectoral partnership will lay the foundations for offering customers new service experiences.

As a result of the S partnership, LocalTapiola will gain new ideas and insights as the regional companies and regional cooperative stores begin cooperating during 2014. This is not simply cooperation; it is the creation of new operating methodologies. The cooperation between S Group and LocalTapiola will represent a regional, customer-owned alternative to banking-centric financial houses.

### Background:

As part of the strategic cooperation with S Group, LocalTapiola Bank and S-Bank will merge to form a new S-Bank on 1 May 2014. LocalTapiola Group and S Group own 25 per cent and 75 per cent of the bank, respectively. LocalTapiola and S Group have agreed to begin cooperation on bonuses, which will enable customer-owners to receive S Bonus for LocalTapiola's insurance products.



# The cooperation with S Group will improve customer retention.

**Jari Sundström and Harri Lauslahti, Group Directors, describe what happened in 2013. It was an extraordinary time as extensive structural reorganisations took place. At the same time, a partnership was formed with S Group and other strategic moves were also made.**

**A large number of structural changes were made at LocalTapiola in 2013. What was the year like all in all?**

**Jari Sundström:** A great deal of work was done in 2013 to organise the Group's structure in accordance with the objectives. This work was crowned by the successful transfer of insurance policies from the central company to the regional companies, as well as transfers between regional companies.

**Harri Lauslahti:** The transfer of insurance policies at the turn of 2014 was particularly visible within ICT and development services, for which several large projects had to be conducted at the same time. I would like to thank all LocalTapiola employees for their flexibility – the integration created a great deal of work. While we had our noses to the grindstone with integration work, we also completed a new strategy related to LocalTapiola's development and ICT matters.

**Jari:** Last year was highly unusual due to the changes that occurred. Although the integration kept us busy, it is particularly pleasing that we were able to serve our customers well. Our success in the EPSI Rating was excellent. The results demonstrate that our customers are highly satisfied with LocalTapiola. As LocalTapiola is a mutual company, our customers mean everything to us. Our compensation ratio for non-life insurance is another achievement that we can be proud of. It remained good, even though the storms that hit Finland at the end of the year gave rise to significant compensation expenses. In addition to this, life insurance showed strong growth.

“ We will continue to be a financial group. We own a bank jointly with S Group.

**The strategic cooperation agreement made with S Group was one of last year's most visible pieces of news. How will this cooperation benefit LocalTapiola and its customers?**

**Jari:** In November, we concluded a partnership agreement with S Group.

The S cooperation will create numerous opportunities for us to strengthen our future success. Our new, joint S-Bank, with its comprehensive range of services, will create the basis for growth. Cooperation on S Bonus, which will begin in June, will provide our customers with genuine added benefits.

This cooperation will also form the basis for growth in our insurance operations by offering new product innovations and improved distribution channels. We estimate that 70–80 per cent of our customers have an S-Etukortti card. In addition to the

benefits offered by the S Bonus cooperation, I believe that our customers will benefit when insurance policies become a closer part of their daily lives.

**Harri:** The cooperation includes forming a new S-Bank by merging the old S-Bank with LocalTapiola Bank. LocalTapiola owns 25 per cent of the new S-Bank.

**Why were the banks merged?**

**Harri:** The two banks, which both have good reputations, will together form an even stronger bank. The new S-Bank will be more appealing to customers than the old banks were separately.

**How will the new S-Bank become a visible part of LocalTapiola's operations?**

**Harri:** S-Bank will become highly visible to our customers. The new S-Bank will



begin granting loans to customers. Loan negotiations and other loan management matters will be handled at LocalTapiola's offices. In the future, our offices will display our own logo and also that of S-Bank.

### What are LocalTapiola's business objectives as a bank owner?

*Harri:* The most important objective is to rapidly increase the number of registered S Bonus customers at LocalTapiola. In the future, the most important thing will not be whether all of our customers have a green S-Etukortti card. Instead, our objective is to turn every S-Etukortti cardholder into an active banking customer, which is to say a customer whose salary is paid into an account managed by S-Bank.

### How will the merger with S-Bank affect LocalTapiola Asset Management?

*Harri:* As part of the merger, LocalTapiola Asset Management's asset management operations and mutual fund operations will diverge. The share register of LocalTapiola's funds was transferred to FIM Asset Management Ltd in March 2014, but portfolio management for the funds will remain at LocalTapiola Asset Management. LocalTapiola Asset Management will continue under our sole ownership and LocalTapiola's institutional asset management, along with asset management for private banking and the Viisas and Vauras services, will continue as before.

LocalTapiola Asset Management, which has previously operated as a fund company,

#### Jari Sundström, Group Director

Jari Sundström's areas of responsibility include life and non-life insurance, customer management for LocalTapiola Group, group steering, group sales and customer service.

#### Harri Lauslahti, Group Director

Harri Lauslahti's areas of responsibility include banking and investment services for customers, new businesses, development and ICT.

Group director in charge of investment operations and group services

**Jari Eklund** describes the investment operations in their entirety on pages 24 and 25.

will become an investment services company. The company will handle investments for LocalTapiola Group's insurance companies and it will also offer its services to other customers, such as institutional investors and private banking customers.

### Will LocalTapiola Group continue to be a financial group?

*Jari:* Yes. We will continue to offer non-life and life insurance as well as a range of wealth management services. S-Bank will also provide banking services.

*Harri:* We will definitely continue to be a financial group. The only difference is that, instead of having our own bank, we will run one jointly with S Group. It is important to understand that we will be more than just an insurance company; we will continue to offer banking and investment services.

### What will be the business focus in the near future?

*Jari:* The most important matters are business growth and cost-efficiency. We began employee co-operation negotiations in March 2014. One of the strategic goals of LocalTapiola is to improve profitability in order to reach an expense ratio that is

comparable with our main competitors. This requires annual cost savings of EUR 50–60 million, which can be achieved by rationalising ICT processes, exploiting synergy benefits from the merger and reducing staff expenses.

### LocalTapiola took some steps in a new direction last year. What is this new direction?

*Harri:* LocalTapiola has finished preparing its health and welfare services strategy. We are determined to integrate health and welfare services into our insurance companies' processes.

We took the first tangible step in our strategy by announcing our new TerveysHelppi service. We intend to use this to improve the compensation service for voluntary personal insurance policies.

### How have customers reacted to the changes?

*Jari:* Very well. The feedback we have received has indicated that customers are satisfied with LocalTapiola's chosen policy, which brings services closer to customers. The regional companies' branches serve customers all over Finland but, in addition to these, we also have good telephone and Internet services.

# Regional companies and local presence

The mutual LocalTapiola Group believes in local accessibility. The regional companies offer personal service to their customers in matters related to life insurance, non-life insurance and investment services at over 280 locations across Finland.

The objective of combining Tapiola and Local Insurance was to bring services as close to customers as possible. In order to realise this objective, 19 regional mutual companies were founded. In addition to these, customers in Greater Helsinki are served by LocalTapiola Greater Helsinki, a business that operates in the same manner as the regional companies and is part of LocalTapiola General.

Towards the end of 2013, the regional businesses took on an even greater role within LocalTapiola Group, as accounts for private customers as well as micro, small and medium-sized enterprises were transferred to the regional companies, along with voluntary non-life insurance policies and investments.

As a result of the transfer, the regional companies took on more than six million voluntary non-life insurance policies, EUR 328 million in premium income, EUR 630 million in capital and 457 employees. The

regional companies have taken on the form agreed upon in the merger and they are serving customers locally and personally in all channels, in whichever way the customer desires. LocalTapiola Group is operating as agreed in the merger.

At the turn of the year, the operating model took on its final form, which is based on a local presence and combines the strengths of Tapiola and Local Insurance. Tapiola had previously been highly centralised, whereas the Local Insurance associations had operated independently under a decentralised model. The objective of the merger was to combine the best practices of both companies. At the beginning of 2013, LocalTapiola started using an operating model based on regional companies. As the best practices of the companies are combined, 2014 will see the operating model strengthen significantly.

LocalTapiola Group has a common strategy and some of the services will be

## New offices for Greater Helsinki.

LocalTapiola is expanding its services, opening new offices and shop-in-shop sales outlets in Greater Helsinki.

LocalTapiola operates in precisely the opposite manner to many other companies in the financial sector, which have cut personal services and closed offices in recent years.

LocalTapiola opened a new office in the Iso Omena shopping centre in Espoo in 2013. Personal and corporate customers have access to LocalTapiola's entire range of insurance, banking, savings and investment services. In 2014, a new office will open in Espoontori (Espoo Centre).

LocalTapiola will also open permanent sales outlets within other shops or shopping centres. The first shop-in-shop sales outlets have been opened in Iso Omena, Espoo and Myyrmanni, Vantaa. LocalTapiola will increase the number of such sales points across Greater Helsinki.

The shop-in-shop concept will bring personal customer service and sales closer to people. "Our objective is to be close



and present in our customers' day-to-day lives. The new sales outlets suit our service development plans perfectly," says director **Heikki Pelkonen**.

"Many customers would like to have the opportunity to handle complex financial matters by discussing them face-to-face with an expert. For this reason, we are investing in accessibility and we will increase the number of offices we have," he states. In addition to the offices and sales outlets, LocalTapiola offers a comprehensive range of online services and a telephone service.

### Background:

LocalTapiola's regional companies offer comprehensive insurance and banking services. In addition to Greater Helsinki, new offices have also been opened by the regional companies. LocalTapiola has nearly 280 offices in every part of Finland.



# Compensation decisions close to customers

The island of Ohla, just off the coast from Kalajoki, suffered the rage of the Eino storm. **Ilpo Penttilä** received a text message and a couple of pictures of the damage from the occupant of the cottage next to his.

## Consequences of damage

The storm was so powerful that the sea had washed the sand off the beach and felled trees with a total timber volume of 15 cubic metres. A forestry company representative evaluated the extent of the destruction. Penttilä contacted LocalTapiola's compensation advisor, Tapani Honkanen, and filed a compensation claim. The matter was processed and he received a response the same day.

## Preventing damage

Accidents happen. Penttilä advises customers that it is a good idea to take out both forest insurance and home insurance to cover incidents such as this. Clearing trees felled by storms is the work of professionals, so forest insurance makes it possible to hire an external lumberjack. It enables customers to avoid any accidents that may occur if they try to clear the trees themselves. It is a good idea for customers to ensure that their home insurance policies are valid as storms often cause structural damage.

## Compensation

Penttilä's forest insurance will compensate him for some of the impairment of the value of the trees and his home insurance will cover the costs of clearing the fallen trees. As the damage was relatively minor overall, the decision was taken to leave the damaged trees for use as firewood.



” Regional companies handle claims close to customers.

The regional companies handle claims in their own regions, so decisions are made close to customers. LocalTapiola's network of branch offices is denser than that of any other insurance company and it uses all available modes of communication to contact its customers.

"If necessary, we go and visit our customers at home if they are not able to make a compensation claim in any other way. I have actually just got back from making an initial damage assessment at a customer's house."

## Background:

LocalTapiola is investing in local compensation services. This means that compensation decisions will be made close to customers by insurance professionals who know their own areas. The entire network of LocalTapiola Group's experts is available to the regional companies in matters relating to compensation.

provided centrally. For example, the regional companies all have the same joint products and customer benefits but are largely free to decide how to handle their customer relationships and local marketing. The regional companies can also choose to procure any centralised LocalTapiola Group services that they need.

The prevailing practice in the sector is to transfer customer service and compensation services to telephone and online channels. However, LocalTapiola has chosen the opposite direction. Personal customer service and compensation services are provided at the regional companies, as close to insurance customers as possible.

LocalTapiola's customers have access to all service channels. Personal service is required alongside the electronic compensation service, particularly if extensive damage occurs. LocalTapiola is also investing in personal service for matters related to compensation. When it comes to customer service and compensation services, a person who is familiar with the local customers and conditions is able to offer the best, most suitable service. As other insurance companies close their offices, LocalTapiola Group is announcing new openings.

In order to guarantee the best customer service in 2014, LocalTapiola Group will update its telephone system.

As a result of this, the regional companies will receive their own customer service and claims service numbers. Customers will also be able to use our updated Internet pages to search for their own regional company's contact details and familiarise themselves with its operations in more detail than before.

## A local operator owned by its customers

The regional companies are an inseparable part of the local economy and day-to-day life in their regions. They employ local professionals, cooperate with companies in the region and use local services. The regional companies play an important role in economic life in their areas of operation. They take their share of responsibility for development and security in their regions. LocalTapiola's regional companies support local people and businesses in many ways.

LocalTapiola Group is a mutual group of companies that is owned by its customers. In a mutual insurance company, the policyholders are also shareholders. Customer-owners are able to influence the company's operations at open annual meetings where the company's most important matters are handled and the Supervisory Board is elected.

The local supervisory boards, which are made up of people who represent a broad range of local views, make major policy decisions and appoint the boards of directors, which have a maximum of 12 members. The boards of directors appoint managing directors. The boards manage their regional companies independently and support their managing directors.

# A great grey future

**Sometimes it is good to look into the future. LocalTapiola's future will be affected by the baby boomers retiring, online shopping and the arrival of electric cars. What are the trends of the future and how can LocalTapiola respond to these challenges?**

## **Trend 1: An ageing population – Finland to become the centre of the elderly economy?**

The baby boomers are retiring. Finland's population is ageing. It is not just a challenging care ratio that we have on our hands; it is a trend full of new opportunities. Today's pensioners differ in many ways from previous generations of old people. They have more free time, longer life expectancies and more purchasing power. Societal and economic researchers have begun to call this group "grey panthers".

"Retirement is a milestone at which many things in life change. There are a lot of opportunities in this, especially for service businesses," says futurist **Elina Hiltunen**, DBA and MSc (Tech.).

Elina Hiltunen has written a book with her husband, PhD (Techn.) **Kari Hiltunen**, entitled *Teknoelämää 2035* (Technological Life 2035) to be published by Talentum in the spring of 2014. The book describes how technological development could change our lives. Technological innovations may provide entirely new solutions for the elderly economy. Hiltunen is not talking about automation for elderly care; rather, she discusses how technology and science may enable human welfare to improve.

"Finland could lean on its IT and design expertise to build itself a great success story out of the elderly economy as there are plenty of customers. Ageing is a global trend."

In the Philippines there are many companies in the care sector that offer care services to aging people who can afford them in various parts of the world. Why couldn't Finland try to do the same? We have a functioning infrastructure, our society is safe, our environment is clear and our beautiful nature offers plenty of opportunities.

“ We searched for three future trends and gave the story to managing directors Minna Kohmo and Jukka Kinnunen to read through. How will LocalTapiola prepare for the future?

When Finnish technology and design expertise is added to the mix, the elderly economy could well become a successful new sector. "The world's first elderly city could well be Finnish."

## **Trend 2: Shopping in the future – how will insurance be sold online?**

Shopping online has become an everyday activity but what will consumers' daily lives be like in the future? LocalTapiola has researched this. A TNS Gallup survey conducted in October 2013 revealed that 75 per cent of Finnish residents of active age have bought a product or service on the Internet.

"Using electronic channels is no longer a question of the user's age; it is more a question of the type of user. Some people want to handle everything independently online whenever it suits them, while others would prefer to chat face-to-face," says **Anne Pallaste**, who has researched consumer behaviour at LocalTapiola.

Pallaste considers it more important than ever for retail and service developers to listen carefully to their customers and other consumers. At the same time, she admits that the task has become more difficult.

"Ordinary consumers find it difficult to imagine everything that technology will enable in the future. If we want to fulfil customers' wishes in the long term, we



cannot just listen to them. We must also predict upcoming events and monitor what is happening in other sectors," Pallaste notes.

At this stage it is easy to state that online stores have made the breakthrough as regards books, music and electronics, as well as for clothes and shoes. The next breakthrough will be food stores, but we can only guess the pace of this development. A survey recently conducted by Itella revealed that more than half of the users of online stores would be prepared to buy food online. Up until now, only four per cent of Finnish residents have tried this.

The growth of online stores will inevitably change the nature of physical stores. Anne Pallaste hopes to see new solutions that will enable shops and offices to remain open despite the shift in emphasis towards the Internet. There are already some examples of such solutions. Physical stores can become demonstration premises where customers can pick over items, try on sample products and place an order. "We could also offer other services at our offices," Pallaste says.

LocalTapiola is also preparing for insurance to be affected by customers using different communication channels and different devices before long.

### Trend 3: Feeling electric – how will new cars be insured?

The car of the future will be significantly greener and better at communicating than its driver. The future of motoring excites visionaries and large sections of society as cars have become one of the cornerstones of our Western way of life. Under pressure from climate change, even cars have to

” Electric cars will change motoring, making it more environmentally friendly. Smart traffic solutions, cars that communicate with each other and better use of location information will increase traffic safety. This will reduce the pressure on insurance premiums.  
Managing Director Jukka Kinnunen



” People can live on for up to forty years after retiring. One good solution to this would be developing an additional lifetime pension with a one-off payment. An additional lifetime pension would mean that people do not need to begin saving money for a bigger pension ten years before they retire. A retiree could pay a sum of EUR 20,000 upon retirement and withdraw a proportion of it every month for the rest of his/her life as an additional pension payment. Managing Director Minna Kohmo

show their green credentials. Set against this background, it is not surprising that hybrid cars and all-electric cars are making an entry. At the same time, the "old-fashioned" combustion engine is undergoing development.

The International Energy Agency (IEA) maintains figures on the number of electric cars worldwide and that number is yet to make anyone feel giddy: 180,000 vehicles at the end of 2012. But, but: in the same year, 110,000 electric cars were sold. "In the long term, electric cars are certain to gain ground," states VTT's research professor **Nils-Olof Nylund**.

According to him, the dramatic growth is explained by the fact that the major

manufacturers – such as Toyota, Nissan and Ford – have only just begun offering such vehicles. The big car makers' muscle ensures that electric cars will not remain the preserve of hobbyists.

LocalTapiola's service director **Tapani Alaviiri** notes that whether the future of motoring is electric or something else, there will be no turning back. As regards Finland, the changes will be felt, regardless of the slow adoption rate. There are 2.3 million cars in the country and the average age is 11 years – renewal can take time as only about 100,000 new cars take to the roads every year.

But if greenness is put to one side for a moment, what other features will the

car of tomorrow have? One strong trend for the future is towards cars that drive themselves. Google's self-driving cars have travelled over one million kilometres in California without suffering any accidents of note. "We have only just seen the first phase in the self-driving breakthrough," believes Alaviiri.

LocalTapiola's traffic safety manager **Markus Nieminen** believes that there will first be intermediate developmental stages during which cars do not move totally independently but communicate with one another. This will enable cars to notice each other, read each others' speeds and distances and prevent crashes from occurring.

# Products and services

LocalTapiola offers non-life and life insurance services as well as investment and saving services. Companies and entrepreneurs are offered service solutions for employee welfare, insurance of property and operations, and risk management. We offer asset management services for our private, corporate and institutional customers.

LocalTapiola's non-life insurance policies were updated in spring 2014. Personal and travel insurance policies are now life-cycle products and continue with respect to several types of cover even as the customer reaches the age of 100. Customers can choose their insurance cover entirely according to their own needs.

For the most comprehensive home insurance policy, **Loisto Kotivakuutus**, the age reductions are particularly lenient. Loisto also provides cover for recovering

documents and luggage without any overseas excess. All new home insurance policies have a maximum limit to the excess for damage due to leakage.

The new **insurance policies for veterinary costs** and liability insurance policies are valid for the entire life of the animal. Our highly regarded direct compensation service applies to all new dog insurance policies. Our **farm and forest insurance policies** will be updated in 2014.

## Asset management services grew in popularity

LocalTapiola offers life and savings insurance policies as well as complementary pension insurance solutions to individuals and companies. Asset management services such as private banking and institutional asset management continued to grow in popularity.

**Viisas** is the newest wealth management service. Customers can begin with a monthly saving sum of EUR 50 or a lump sum of EUR 600. As customers' wealth accumulates, they can switch to the Vauras service, for which the minimum investment is EUR 30,000.



**30%**  
Almost one third of entrepreneurs are LocalTapiola customers.

LocalTapiola **Asuntosijoitus Prime** generated much interest. It enables companies, organisations and individuals to invest in a diverse range of targets on the Finnish residential real estate market and benefit from the expertise of professional real estate investors. The number of investment units in Asuntosijoitus Prime was restricted to the value of EUR 30 million. They were quickly sold out.

LocalTapiola launched a **fairer mortgage insurance policy** that insures holders against the permanent loss of working

capacity or death due to accident or illness. Customers can choose the coverage that suits them best and the insurance is valid for the entire repayment period of the loan. There was intense demand for the **Korko-Omavara** savings-based life insurance policy due to low market interest rates. Customer rebates have remained competitive in recent years, at a level of approximately four per cent, despite the challenging investment environment.

LocalTapiola launched investment deposits and index-linked loans last



” Personal insurance and travel insurance have become life-cycle products. They can continue to provide customers with cover up to the age of 100.

year. They are a capital-protected way of investing in uncertain market environments.

### New services for corporate customers

LocalTapiola offers comprehensive insurance and personnel risk management services for companies. We are the market-leading insurer for entrepreneurs. Through its international partners, LocalTapiola also provides insurance for companies operating outside Finland. We also provide earnings-related pension insurance.

**Helppo Henkilöstöpaketti** offers services for companies to enable them to identify and reward employees and increase employee engagement. The benefits package for senior management enables motivating, engaging solutions to be tailored for management groups. **Yrittäjän Omaturva** covers entrepreneurs, their families and the company's finances.

LocalTapiola has built a new service for its corporate customers to help them manage working capacity and respond to day-to-day challenges related to working capacity. An online course entitled "Welfare and results by managing working capacity" received an enthusiastic welcome from customers.

The new service concepts include a day's training for companies that work in shared premises. During the training, the

various working communities sit around the same table and plan measures to promote safety and welfare in the workplace.

### Visit us online

LocalTapiola's website will be updated in spring 2014. Particular attention has been paid to visual usability and making it easier for customers to visit the site. It is easy to find services that suit different life stages, as well as local contact details and matters of local interest. The site has been optimised for tablets and it is also easy to visit on smartphones. Customers were involved in planning and testing the website. LocalTapiola also makes use of social media. LocalTapiola has cost-free online services for corporate customers and individuals. Users can log in to these services using their online banking credentials. For example, the electronic claims service has been our private customers' favourite service for many years. 98 per cent of users would recommend the service to a friend.

Companies can use the corporate online services to handle salary notifications and annual declarations, and they can also make compensation claims. The online services also offer a tool for improving welfare in the workplace and risk management.

# Wise Group: Success is down to people



**Wise Group is a consultancy and service company in the construction sector. It employs over 200 people. The company has decided to take welfare in the workplace very seriously. Why?**

"If people are absent from work, we can't do work for our customers and we can't send invoices. This has an immediate impact on the company's turnover and profits. Success is down to people," says Managing Director **Aki Puska**.

Although the extensive occupational healthcare and comprehensive insurance cover cost money, they pay for themselves many times over.

"The better a company is at preventing employees from being absent due to illness or helping people to regain their working capacity, the more profitable it is in terms of business. Looking after ill people is more expensive than looking after healthy ones."

### Action is taken if something unusual occurs

Wise Group systematically monitors employee absenteeism. If anomalies arise, Wise Group intervenes immediately.

### Background:

Employee absenteeism and losing key personnel can cost dearly. LocalTapiola can help to ensure that all of an employer's statutory welfare obligations are in order. There are many methods of inspiring commitment. For example, personal insurance is relatively inexpensive for companies but, for employees, the coverage has tangible benefits. For a little over EUR 100 per year, a forty-year-old employee can receive life insurance cover worth EUR 50,000.

Work atmosphere surveys are conducted regularly. People discuss the progress of their work in small groups and in private conversations. Wise Group tries to take into account people's wishes as regards factors such as flexible working hours.

### New challenges for supervisors

Young people want to work differently to older people. To put it bluntly, young people want to work together and older people are used to handling things in peace.

Wise Group is attempting to ease the situation by training its supervisors. The company has received help from LocalTapiola, among others, to organise this training.

"If supervisors are not supportive or employees do not get along with them, people switch jobs."

Puska expects the results to become more visible in the long term. Something can already be concluded based on the low employee turnover.

"We have even had one incident of an employee deciding to leave but returning soon after. It is also good that our group gets along well in their spare time."

# Product and service development

As a mutual company, we aim to involve our customers in product and service development. We are experimenting with new, more effective methods for doing this. Superb customer service is our greatest competitive advantage and it becomes particularly important when customers make claims.

**W**hen claims are made, the insurance that the customer has purchased becomes tangible. As regards individual customers, compensation claims are the processes which have the greatest bearing on the customer's impression of the insurance company and the services it offers. Superb customer service is, in other words, the most important source of competitive advantage.

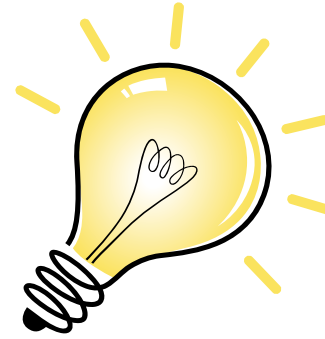
In accordance with LocalTapiola's research, customer satisfaction with the claims service is affected by the speed of the service and the nature of decisions in terms of whether they are favourable to the customer. A great number of customers provide positive feedback if the service is quick and negative feedback is most often related to slow service. Customers have varying expectations with regard to the speed of the service, but attention must also be paid to the efficiency and consistency of the process.

## Customers help to develop LocalTapiola's services

Customers are involved in developing LocalTapiola's services. An online panel named Suunnannäyttäjät is helping to make our products and services even better. The panel members regularly receive questionnaires. By responding to these, they are able to influence what happens at LocalTapiola. The panel has been in operation for several years.

At the end of 2013, an experiment began in which LocalTapiola's service developers worked in direct collaboration with customers. The experiment will continue until spring 2014. During this time, three service development projects involving customers will be underway.

The objective of planning services jointly with customers is to gather information and gain experience regarding the results that can be attained from such a process and the resources required of LocalTapiola



# 31%

Compensation claims for non-life insurance policies are made either by telephone or online.

and its customers. Based on the first jointly completed project, it can already be stated that LocalTapiola's service developers and its customers are willing and enthusiastic about the process. It appears that working over matters and solving them together is motivating and rewarding. The end results have also been good.

The customers who have participated in the experiment so far have appreciated seeing their perspective become a strong element of development work. If the experiment results in a more permanent

operating model, they hope that the national extent of LocalTapiola's operations is taken into account. In other words, they hope that LocalTapiola will ensure that customers' opinions become a part of the development process all over Finland.

## Targeted communications represent good service

LocalTapiola has invested in making its customer communications more personal by improving multi-channel customer contact processes. We aim to be present

## These services appealed to customers

### 1 ELECTRONIC CLAIMS SERVICE

98% of electronic claims service users would recommend the service to a friend.

### 2 ASSET MANAGEMENT

Asset management with foresight from LocalTapiola. For as long as we have been insuring people, we have also been investing.

### 3 PERSONAL INSURANCE

Our objective is to shorten the treatment chains following illnesses and accidents.

### 4 YRITTÄJÄN OMATURVA

The continuity of the company is not under threat if the entrepreneur has to spend some time away from work due to illness or injury.

### 5 LOCAL SERVICE

Local service means accessibility, proximity and decision-making close to the customer.

## Insurance and services for entrepreneurs, companies and organisations

We partner companies in the management and insurance of property, operational risks and personnel risks. We also offer financing, investment and banking services.



## Insurance and services for agriculture and forestry customers

Safety and care visits to farms, insurance services to safeguard property and operations, personal insurance, forest insurance and banking and investment services.

## Savings and investment services for private customers

Solutions for insurance saving and retirement planning, mutual funds, capital-secured investment products, asset management, private banking services and security brokerage.



## Banking services for corporate customers

For private customers, LocalTapiola provides accounts, debit and credit cards, loan services and deposit products. The online service is easy to use and recommended by customers.

## Insurance services for private customers

LocalTapiola offers services for insuring family members, property, vehicles, pets and forests. Service is available at the offices, over the phone and online. We can also send an employee to visit you at home.





## Telephone service that exceeds expectations

Almost 500,000 telephone calls and nearly 150,000 electronic messages – all this is handled every year by LocalTapiola's three customer service centres. The cornerstones of our expertise are outstanding professionalism and low personnel turnover.

The customer service centre does important work by contacting LocalTapiola's customers directly. Based on the most recent survey, 72 per cent of customers rated the service as excellent.

The centres, which are located in Espoo, Kokkola and Kuopio, employ over 200 customer service professionals. Every week, an average of 9,000 telephone calls and about 2,700 online messages are responded to.

When customers contact us by telephone or online, the objective is to handle the matter first time. Customer advisers can also notice gaps in a customer's coverage, so the service can exceed expectations.

A considerable proportion of LocalTapiola's telephone calls and online messages are handled at the customer service centre. The number of customers choosing to contact us electronically has risen steadily.

The customer service centres in Kokkola and Espoo employ their own special experts. As is to be expected, the majority of telephone calls in Swedish are handled in Kokkola, as it is home to many people whose mother tongue is Swedish. Outgoing telephone calls are handled in Kokkola in addition to other regular work and calls requiring language skills.

Examples of the Espoo customer service centre's areas of specialisation include insurance matters concerning companies and entrepreneurs, support for the online services and outgoing calls for Greater Helsinki.

in our customers' lives and develop our customer relationships on a customer-by-customer basis, at the right time, in the right manner and with the right message. From the customer's perspective, this is a service that feels good and up to date. At the same time, customers can be told about the LocalTapiola services that they are most likely to need.

The customer feedback system for the claim service was updated last year and this year. Customers who make claims will automatically receive a feedback questionnaire in Finnish or Swedish by email or text message when their claim has been processed. The feedback questionnaire requests customers to provide a grade on a scale of 0–10 to describe how likely they would be to recommend LocalTapiola's claims service to a friend.

The previous customer feedback system had functioned well. The response rate to questionnaires sent by email was more than 50 per cent, while the figure for the text message channel was 24 per cent. Customer retention and interest in our other services has risen among customers who received the feedback questionnaire. Critical customer opinions are particularly important as they are the key to developing the company's operations.

To ensure that it is easy for customers to contact LocalTapiola, their email addresses and mobile phone numbers are checked whenever they use the company's services.

good. In the future, customer feedback will be collected, utilised and reported on more systematically. This also applies to spontaneous feedback.

The new customer feedback system measures customers' willingness to recommend LocalTapiola to their friends. The results of the surveys conducted last year were very good. Over half of the customers who responded said that they had already recommended us to their friends. The customers who had suffered damage to their homes, cars or buildings were most likely to have recommended us.

### Objective: shortening treatment chains

LocalTapiola aims to shorten the treatment chains in the healthcare sector by improving its cooperation with its front-line care-providing partners. The objective of this cooperation is to ensure that the correct treatment is selected at the correct time and that patients are rehabilitated in a manner that enables them to return to work as early as possible.

Everyone is a winner when treatment chains become shorter – the patient can get back to work more quickly and minimise lost earnings, the company can save on the costs of employing a substitute and LocalTapiola benefits from lower expenses due to lost earnings. In the end, society also benefits as people spend longer in employment.

As regards voluntary personal insurance, LocalTapiola aims to move away from the operating model in which the insurance company's role following an illness or accident is restricted to handling

### Background:

We have continuously increased the number of personnel at our customer service centre who handle electronic messages from customers in separate specialist teams. The number of customers contacting LocalTapiola electronically is expected to increase by 30 per cent in 2014.

### Spontaneous feedback is utilised

LocalTapiola has measured the quality of its claims service using several different customer surveys. The results have been

” Customers are now more involved in the development of products and services than before.

the claims process. Customer testing revealed the need for discussion with a healthcare professional before making a doctor's appointment.

LocalTapiola's new telephone service, TerveysHelppi, crystallises these objectives and needs. TerveysHelppi is a cost-free service for LocalTapiola's customers who are covered by Omavara health insurance, children's accident insurance, private accident insurance and children's insurance. When customers fall ill or suffer an accident, they should first contact TerveysHelppi. This service helps customers to initiate the claim process, receive health advice and, if necessary, make a doctor's appointment.

TerveysHelppi is provided by LocalTapiola's partner, Dextra, which belongs to the Pihlajalinna group of companies.

### TyökykyHelppi for SMEs

Since last autumn, small and medium-sized enterprises in Greater Helsinki have been offered a new personnel insurance package known as TyökykyHelppi. This cover includes comprehensive personnel insurance and the healthcare services provided by our partners. Company managers can also consult us on matters related to employee working capacity, occupational health and safety, and welfare in the workplace.

The company's personnel can install a mobile card on their phones that provides information on the insurance policies included in TyökykyHelppi, LocalTapiola's customer service numbers and contact information for the occupational healthcare provider. Then, if they ever need help, they have a comprehensive range of information in their pocket.

TyökykyHelppi's occupational healthcare services are provided by Dextra and Diacor. Customers have given the service a very enthusiastic reception. The intention is to expand the service to other regional companies in phases.

### Customer benefits and bonus cooperation

LocalTapiola's customer benefits will be overhauled in 2014. Tapiola's Omaetu programme will be overhauled to ensure that it is suitable to become LocalTapiola's new customer benefit programme.

LocalTapiola and S Group have agreed to begin cooperating on bonuses as of 1 June 2014. From that date on, customer-owners will receive S Bonus for LocalTapiola's insurance products.

LocalTapiola's customers will also receive benefits from the new S-Bank, jointly owned by LocalTapiola and S Group, when it begins operating in May 2014.

LocalTapiola's other benefits include extra services provided free of charge and benefits provided by local partners.

### Entrepreneur's evening school

LocalTapiola arranges an annual lecture series that tours Finland. In 2014, the highly anticipated entrepreneur's evening school was arranged for the sixteenth time.

### Direct claims service

When your pet needs to see a vet, turn to one that uses LocalTapiola's direct claims service. You will only pay the excess, rather than the full cost.

### Video bulletins on traffic safety

We brought our traffic safety training into the YouTube age. Our video bulletins have encouraged motorists to consider traffic safety.

### Emergency service

The emergency service is an added benefit for LocalTapiola's travel insurance customers. You can receive help and advice in Finnish no matter where you call from, whenever you call.

### Sijoitustalous.fi

Insights from LocalTapiola at Sijoitustalous.fi. Our investment operations are based on our insight into market movements.



# Social responsibility

**LocalTapiola's corporate social responsibility begins with the Group's various roles and the key impact of its operations on major stakeholders. Responsibility finds form in actions that have a tangible impact on local communities and society in promotion of sustainable development.**

LocalTapiola's corporate social responsibility is based on the social responsibility principles approved by the Group's Board of Directors. Practical deeds guide the pledges made in favour of customers, personnel, the environment, local communities and society as a whole. The main theme of social responsibility is promoting the security, welfare and prosperity of people, with young people and seniors as special target groups.

LocalTapiola's regional companies actively operate as local trend setters, researchers and developers. Regional corporate social responsibility actions enable LocalTapiola to bear influence and maintain a presence in local cooperation in each region in an important and appropriate manner. During 2013, LocalTapiola had a positive influence on people's safety by promoting fire and evacuation safety, electrical safety on farms and traffic safety by means of national and local projects and actions. The regional companies arranged hot work courses and fire extinguisher inspections for their customers.

LocalTapiola was again involved in a national campaign targeting young people, known as Nou Hätä! This campaign brought fire safety and life-saving skills to secondary school classrooms. During the Viisaasti vesillä tour, safety was promoted with a donation of lifebuoys to the campaign, while LocalTapiola's new traffic videos are successfully disseminating information about safe traffic culture.

In 2013, LocalTapiola created a new operating model to promote customer welfare. This model shortens the treatment chain for healthcare services and changes the role of the insurance company from compensation payer to treatment expeditor and customer helper. The telephone service known as TerveysHelppi enabled LocalTapiola to rapidly guide its customers towards the correct treatment and, if necessary, rehabilitation. The service was deployed in phases in different parts of Finland. TerveysHelppi is part of LocalTapiola's health and welfare strategy.

## Responsibility is the product of practical actions.



**LocalTapiola's social responsibility is national and local in scope. Our reputation as a responsible operator is the best in the sector, according to a survey by TNS Gallup.**

- 1 LocalTapiola Asset Management was named the best responsible investor in 2013 by Scandinavian Financial Research (SFR).
- 2 Of the electricity consumed in real estate owned by LocalTapiola, 20% is produced using wind turbines.
- 3 Regional cooperation and local influence are becoming more visible parts of our regional companies' operations via more than 200 responsible actions.
- 4 Social responsibility partnerships have expanded in scope and cooperation has been developed to reinforce local operating models and the role of local communities.
- 5 Societal debate on the future of the welfare society was successfully held as part of the Master Class – Hyvä Yhteiskunta programme, run by LocalTapiola and the University of Helsinki.

LocalTapiola provided support for training people to work in the Friendship Programme run by the Finnish Red Cross

1,500  
volunteers.



### Stability is the basis for responsibility

LocalTapiola's significance and role in society is large. The Group has tasked itself with promoting people's safety and welfare, which makes its operations significant. When LocalTapiola's regional companies began operating in 2013, locality and regional influence became even more important features of the Group.

The insurance and finance sector generates stability in society and enables financial activity by providing customers with various ways to protect themselves from risk. Ensuring solvency and long-term business operations forms a stable basis for the work of LocalTapiola's personnel. One result of such long-term work was the Scandinavian Financial Research (SFR) award received by LocalTapiola Asset Management, which was named the best responsible investor.

### Added value for society via partnerships and practical deeds

Partnership projects are an important part of LocalTapiola's corporate social responsibility activities. Long-term

cooperation with partners has enabled new and different activities that benefit society and the environment. LocalTapiola's main partners in corporate social responsibility are the Finnish Red Cross and the Finnish Association for Nature Conservation.

The partnership with Finnish Red Cross focuses on the Friendship Programme, which helps more than 25,000 people every year in different ways. The Finnish Association for Nature Conservation helps to disseminate knowledge on energy efficiency and the benefits of saving energy via the Negawatt advice project. This cooperation benefits individuals, the organisations involved and society as a whole.

Cooperation with the Martha organisation has aimed to promote financial know-how and the ability to manage finances among young people. In addition to this, extensive local cooperation is carried out with educational institutions and organisations that provide emergency services.

In spring 2013, the University of Helsinki and LocalTapiola ran a programme entitled Master Class – Hyvä yhteiskunta, targeted at students and young trend

## LocalTapiola's responsibility pledges



## LocalTapiola uses its own wind power.

setters in society. This programme used new methods to seek solutions to promote sustainable welfare and to respond to the challenges facing the welfare society. Experts from nearly 60 different fields were involved, along with representatives from businesses and students. The programme broadened the participants' understanding of the challenges facing the Finnish welfare state and the role of insurance in society.

LocalTapiola's personnel ran a national fundraiser that resulted in almost one thousand Christmas presents being donated to children in low-income families all over Finland. The LocalTapiola merger resulted in corporate gifts becoming out of date. Instead of destroying these gifts, they were sold to personnel and the proceeds were donated to seniors in Espoo on the initiative of the personnel. The money paid for karaoke machines that will grace the city's old people's homes. LocalTapiola is also involved in supporting the construction of a new children's hospital.

### Employing young people demonstrates social responsibility within local communities

In 2013, LocalTapiola was involved in the national youth guarantee programme. The regional companies around Finland employed a total of 300 summer workers and interns in the spirit of the youth guarantee and the Tienaa Tonni ("earn a grand") programme. The jobs varied from

office assistant jobs to demanding customer service work.

### Wind power for the future

LocalTapiola Real Estate Asset Management, which belongs to LocalTapiola Group, is investing in energy efficiency and renewable energy production. The objective is to invest EUR 100 million in Finnish wind farm projects so that, by 2016, the electricity consumption of all of the properties managed by LocalTapiola, which amounts to 100 GWh annually, will be covered by renewable energy.

LocalTapiola and TuuliSaimaa Oy signed a cooperation and investment agreement concerning the construction of wind turbines for the Muukko wind farm in Lappeenranta in 2012. The wind farm came online in August 2013 and was able to produce 20 GWh of electricity in 2013, which equates to 20% of the electricity consumption of properties managed by LocalTapiola. In 2013, an agreement was made concerning the Vartinoja wind farm in Siikajoki.

As of the beginning of 2014, LocalTapiola is acquiring electricity for its offices from its own Muukko wind farm. LocalTapiola's headquarters, located in Tapiola, Espoo, will also use wind energy in the future.

LocalTapiola's investment activities comply with responsible investment principles.



## Beware of fire

In the old town of Rauma, there are about 600 houses in an area of less than 30 hectares. The houses function as homes, shops and restaurants. The 18th-century houses breathe old culture, which is why UNESCO made the old town a World Heritage Site in 1991.

As LocalTapiola insures many of the properties in the area, it works with the Satakunta emergency services to arrange events for the residents and entrepreneurs in Rauma's old town to teach them about fire safety in the area.

As the skill of handling fire is gradually disappearing and the number of electronic devices is increasing, it can almost be considered strange that Rauma's old town has not yet suffered a major fire. LocalTapiola's director of marketing **Esa Nummi** says that a lot has changed over the centuries. Methods for extinguishing fires have developed, as have the buildings themselves.

Metal has replaced shingles as the roof material of choice. Oil lamps are no longer in use and buildings are generally heated using electricity. According to Suonpää, many houses have been subjected to major overhauls behind the façades that have been listed by the National Board of Antiquities for protection.

"Various structural techniques exist to prevent fires from spreading rapidly. For example, non-combustible materials are placed behind the building's cladding and attention is also paid to how tightly-packed cables and pipes run from one space to the next. The fires in Norway's wooden towns in January reminded us that major fires are still possible nowadays.

"We always visit the site when we estimate the insurance value of a house. We must take account of the fact that if a house burns down, a similar-looking one must be constructed in its place, complete with decorative wood carvings," says Nummi.

### Background:

LocalTapiola takes care of its customers' fire safety all over Finland by providing services such as inspections of fire extinguishers. In 2013, LocalTapiola arranged fire extinguisher inspections in 220 municipalities and over 46,420 customer fire extinguishers were inspected free of charge.





# Responsibility for personnel

LocalTapiola is investing in responsible leadership and competence development. The focal areas for personnel competence development are innovation and influence.

In 2013, LocalTapiola's HR systems and processes were standardised. The Group's payroll systems were also updated. As of 1 January 2014, the entire LocalTapiola Group uses joint HR systems and outsourced payroll services. LocalTapiola Group's salary and bonus policy (including employee benefits) was approved at the beginning of 2013. Investments were also made in performance-based incentive schemes for senior management. When the organisational change was implemented in summer 2013, competence development within LocalTapiola Group was reinforced with the foundation of the LocalTapiola Academy.

The HR organisation's activities focused on supporting the integration of the regional companies. The most important matters were creating negotiation processes for salary models concerning field agents in the regional company organisation, updating job requirement classifications to meet the requirements of the new organisation and creating an operational family for the regional companies. Bonus models and processes were standardised as regards sales transaction payments and bonuses. Decisions were made within the regional

companies regarding the employee benefit packages to be taken into use. A new operating model has also been sought for cooperation with educational institutions taking the regional nature of the operations into account.

LocalTapiola aimed to encourage its personnel to participate in the development of its management and culture. LocalTapiola Group conducted a personnel survey at the beginning of 2013. Based on the results of this survey, Group- and company-specific development plans were drafted.

The regional companies have focused on supporting the employment of young people, who have been offered internships and summer jobs. LocalTapiola had approximately 200 summer workers. LocalTapiola has worked in cooperation with educational institutions by participating in their fairs and events. LocalTapiola has also been involved in a project initiated by the president of Finland to prevent children and young people from becoming isolated from society. As part of this project, bank employees have provided financial advice to young people.

We have a total of  
**4,000**  
experts serving our  
customers.



## Expertise and supervisory skills were reinforced

Joint operating models have been reinforced by developing sales and customer service competences and by investing in product and service expertise. LocalTapiola has improved the work of its supervisors and senior managers by focusing on reinforcing its joint leadership principles and company culture, along with change leadership in the aforementioned fields. In addition to this, investments were made in the construction and efficient utilisation of the Group's competence development work as a way of supporting competences.

## Welfare in the workplace will be developed systematically

The development of welfare in the workplace is part of LocalTapiola's strategic business development. Planning for the related measures is based on the same factors as other business planning. Support for developing welfare in the workplace is provided by the occupational health and safety operating programme and the personnel development, diversity and occupational healthcare plans. The workplace welfare theme in 2013 was a "We" spirit for day-to-day effectiveness. As a result of the investments made by HR and occupational healthcare in workplace welfare development measures, it has been possible to decrease the number of absences due to illness.

# Finances

## – Investment framework



**How can LocalTapiola ensure that customers are able to receive compensation? The investment operations handle enormous sums with great care. At the end of last year, the insurance companies belonging to LocalTapiola Group had approximately EUR 7 billion in investment assets. This figure may be difficult to grasp, but one comparison is this: the sum could be used to pay out a lottery jackpot every single Saturday for more than one hundred years. Although the investment operations are not directly visible to customers, they are one of our key activities.**

**T**he basic duties of the company's investment operations are to secure its solvency and maximise return on investment.

Assets received from customers must be invested profitably and securely. Investment operations are not normally a tangible part of customers' daily lives but they are one of the key activities of an insurance company. Ultimately, the invested assets are intended to secure customer benefits in order to enable insurance policies to pay out compensation to customers or, for example, savings-based life insurance policies a decade from the day on which the customer concludes a contract with the company.

### A hundred experts handle investment operations

LocalTapiola invests most of the funds paid by its customers in shares, real estate and bonds. Group director **Jari Eklund**, who

is a member of the Board of Directors, says that decisions related to investments are made by the investment operations management group and the Board.

"The investment operations management group is responsible for the practical organisation of investment operations and the operative monitoring of market risks. The management group consists of the investment directors, the managing director of LocalTapiola General, the managing director of LocalTapiola Life and the managing directors of three regional companies," says Eklund.

The management group ensures that the targeted return on investment is achieved in line with the long-term requirements imposed by the Board of Directors.

### Companies are responsible for their own investments

Approximately 100 professionals work in LocalTapiola's investment operations. LocalTapiola Life and LocalTapiola General employ a group of personnel who focus on balance sheet management, capital investments and financing. All of the insurance companies in LocalTapiola Group purchase investment services from LocalTapiola Asset Management and LocalTapiola Real Estate Asset Management.

In daily practice, the investment director considers the companies' investment allocations together with other experts to examine how the assets are divided between different investment instruments. Individual decisions, such as buying or selling shares in a specific company, are made by LocalTapiola Asset Management. The investment director and the investment operations management group take care of the bigger picture.

LocalTapiola's investment activities have a particularly important responsibility. In its investment operations, LocalTapiola uses asset managers who have signed the United Nations' Principles for Responsible Investment.

According to Eklund, LocalTapiola has succeeded in this. Last year, LocalTapiola Asset Management was named the best responsible investor by Scandinavian Financial Research (SFR). The prize was awarded for the first time this year. All asset management and banking companies operating



# Return on real estate investments requires the portfolio manager to have an active grip

LocalTapiola invests in Finnish real estate via LocalTapiola Real Estate Asset Management. The factors that affect the return on real estate investments are careful selection of investment targets and good maintenance of the properties throughout the investment period. LocalTapiola Real Estate Asset Management's portfolio manager plays an essential role in this. In principle, real estate investment is a simple business. The company responsible for asset management acquires investors for the fund, buys investment targets from construction companies, searches for tenants and begins charging them rent.

Every fund managed by LocalTapiola Real Estate Asset Management has its own nominated portfolio manager. **Tuomas Rämö** is responsible for the LocalTapiola Asuntorahasto Prime Ky real estate capital fund.

While the buildings are being constructed, the responsibility is largely borne by LocalTapiola's construction organisation and the project managers responsible for the projects. Preparations for acquiring tenants begin approximately six months before the building is complete. Residential units are let in cooperation with LocalTapiola's partner, Realia Asuntovuokraus.

## Background:

A decision was made to acquire new apartment buildings for the LocalTapiola Asuntosijoitus Prime fund. These buildings are located in Greater Helsinki in specific growth centres with good transport connections. The buildings were subject to a strict screening process to ensure that they provide the expected level of return on investment. LocalTapiola analysed approximately 200 sites for the fund, of which 25–30 projects will eventually become part of the real estate fund.

in Finland vied for the title, alongside Nordic banks. Responsible investment means that the investment portfolio's risk and return profile is promoted in terms that take into consideration environmental matters, factors related to social responsibility and matters of management methods.

"Responsibility is an integral part of LocalTapiola Asset Management's investment operations; it is not a separate issue. The investment philosophy involves taking responsibility into consideration when selecting investment targets."

"To generate stable returns it is important to pay attention to tenant selection. Each tenant's ability to pay rent is analysed. The tenants who have made it through LocalTapiola's screening process have been good, but this is a matter that requires continuous attention."

The portfolio manager responsible for real estate investments must also be prepared for surprising events. Rämö says that it was necessary to investigate whether buildings sustained any damage during the riots that followed the independence day festivities in Tampere. In the wake of the storms that ravaged the country towards the end of the year, it was again necessary to investigate whether any damage had been caused to buildings.

The portfolio manager must also constantly monitor general trends in the economy.

The uncertain economic climate is reflected in the construction sector. As a consequence, when selecting investment opportunities, it is important to attempt to ensure that the construction company is able to discharge its obligations and that the buildings will be completed on schedule, Rämö emphasises.

## Top-class return on stock market investments

According to Jari Eklund, LocalTapiola was successful in its investments in 2013. "In relation to expectations, it was an excellent year. The return received on stock markets was particularly good. Despite the problems in the global economy, share prices continued to rise, especially in the emerging markets. They rose by over 20 per cent in Europe and by over 30 per cent in the US," he says.

Every year, the return on investment operations constitutes a significant part of the overall business result. The result of the non-life insurance company was EUR 234

million in 2013. The company's investment operations returned approximately EUR 158.1 million in the same period. Last year, the investment operations produced a return of 4.0 per cent. At fair value, the net return on investment operations in the life insurance company was EUR 121.6 million or 4.6 per cent.

## The merger was also reflected in investment operations

Last year saw significant changes in LocalTapiola's investment operations. The transfer of business to the regional companies at the turn of the year was connected to this. A total of 1.5 million voluntary non-life insurance policies were transferred, along with investment assets worth EUR 660 million.

## Why can money no longer be diverted from investment operations to activities such as development operations?

In recent years, investment operations have been significantly affected by economic problems and pan-European financial regulations. The Solvency II regulations are based on the intention that the solvency of insurance companies should correspond more closely to their actual risks. In practice, this means that insurance companies making high-risk investments will face stricter solvency requirements than companies investing in low-risk targets. Therefore, long-term return expectations decreased.

As a consequence, profitability can no longer depend on investment operations. Instead, the business must be profitable without the help of its investment operations.

"When Solvency II comes into force, we will need to concentrate on customer benefits and preserving solvency in our investment operations."



# Financial summary

The results of LocalTapiola's insurance companies have been good and premium income has increased. LocalTapiola Bank, LocalTapiola Asset Management and the LocalTapiola Real Estate Asset Management Group improved their results. The integration gave rise to additional non-recurring costs, says Finance Director Timo P Laakso.

**W**e had several successes in 2013. It was particularly pleasing that the formation of LocalTapiola Group was legally, operationally and financially completed in accordance with the objective set two years ago. The final step was the transfer of insurance policies and business at the turn of the year. We can also be satisfied with the improvement in solvency and the results but our cost levels are too high in relation to the competitive environment and general economic outlook. In March 2014, we initiated employee cooperation negotiations related to the need to increase the efficiency of our operations and reduce the overlap that is present in the Group's activities.

One of the strategic goals of LocalTapiola is to improve profitability in order to reach an expense ratio that is comparable with the main competitors. The expense ratio is descriptive of the company's efficiency. This requires annual cost savings of EUR 50–60 million, which can be achieved by rationalising ICT processes, exploiting synergy benefits from the merger and reducing staff expenses. However, as a mutual group and one that now operates close to our customers, the goal is not to achieve the lowest expense ratio in the sector. Instead, we are aiming for better base profitability by rationalising our operations.

## Non-life insurance premium income increased

The comparable premium income of LocalTapiola Group's non-life insurance operations – LocalTapiola General Mutual Insurance Company and its 19 regional companies – increased by 2.2 per cent to EUR 1,055.8 million (EUR 1,033.0 million). The comparable combined expense ratio, after eliminating the effect of changes to the calculation basis, was 97.1 per cent. The risk ratio stood at 62.6 per cent and the operating expenses ratio was 34.4 per cent.

The most significant change of the year for LocalTapiola General was the transfer of the voluntary non-life insurance policies taken out by private customers, small companies and medium-sized companies from LocalTapiola General Mutual Insurance Company to the 19 regional companies on 31 December 2013. Local

Tapiola General Mutual Insurance Company will continue to handle all of the statutory non-life insurance policies taken out with LocalTapiola anywhere in the country, as well as all of the non-life insurance policies for customers in Greater Helsinki. All of the non-life insurance policies for large corporate customers will also be controlled by the company.

LocalTapiola General's operating profit increased to EUR 234.1 million (pro forma\* EUR 179.0 million). After eliminating the effect of changes to the calculation bases and the integration costs, the comparable operating profit was EUR 183 million (EUR 178.0 million).

Premium income increased by 1.3 per cent to EUR 903.6 million (EUR 892.0 million). The growth in premium income from direct insurance was 1.2 per cent. The comparable growth in premium income from direct insurance was 2.3 per cent.

## Strong growth in life insurance premium income

In 2013, LocalTapiola Life's growth and solvency were in order but operating costs exceeded the budgeted level.

Operating profit amounted to EUR 37.0 million (EUR 30.4 million) and the overall result was EUR 44.9 million (EUR 119.5 million). LocalTapiola Life's premium income continued to grow at a strong rate. The year-on-year growth in premium income was excellent. This led to LocalTapiola Life's premium income increasing by 30% to more than EUR 400



# These were our financial success factors in 2013:

- 1 THE INSURANCE COMPANIES GREW AND INVESTMENT OPERATIONS WERE PROFITABLE**  
The results of LocalTapiola's insurance companies improved and their premium income increased. We also progressed in the right direction as regards improving the profitability of the risk model for non-life insurance operations.
- 2 INVESTMENT OPERATIONS**  
The insurance companies' investment operations were successful in relation to the surrounding market environment.

- 3 INVESTMENT SALES**  
Investment sales grew by 150%, which was part of the reason that the bank's overall profitability improved and the number of customers increased.
- 4 THE RESULTS OF LOCALTAPIOLA'S ASSET MANAGEMENT AND REAL ESTATE ASSET MANAGEMENT COMPANIES WERE GOOD**  
Both companies grew profitably. The number of customers increased, as did the value of assets under management.

million. Cooperation between the regional companies was one of the reasons for the success in sales. Some of the growth can also be attributed to the merger of Tapiola and Local Insurance when, at the beginning of July, the insurance portfolio was partially transferred from the Duo life insurance company to LocalTapiola.

## Asset management spearheading the banking group

Low interest rates have reduced the bank's net interest income, which served to weaken the result. The LocalTapiola Bank companies succeeded as an entity in increasing their operating profit despite the low interest rates and uncertain economic environment.

The operating profit of LocalTapiola Bank Group was EUR 7.5 million (EUR 5.9 million) and the result for the accounting period came to EUR 7.0 million (EUR 5.9 million). Turnover amounted to EUR 80.6 million (EUR 79.2 million). The bank's net interest income decreased to EUR 18.9 million (EUR 19.3 million). Commission income for the Group increased by 24.4 per cent to EUR 40.4 million (EUR 32.4 million).

LocalTapiola Bank's profit totalled EUR 4 million (EUR 6.5 million). The result was burdened by the extraordinary systematic depreciation due to the merger.

## Asset Management succeeded in increasing its assets

LocalTapiola Asset Management's result for 2013 was good: EUR 3.6 million (EUR 0.3 million). Turnover amounted to EUR 22.1 million (EUR 15.1 million).

The customer funds managed by LocalTapiola Asset Management grew by 10.7 per cent to EUR 8,593.4 million (EUR 7,763.2 million). Positive development in the private banking service and institutional investment contributed to the growth in capital under management. The recovery in equity markets also increased the value of assets in LocalTapiola's funds and other customer assets. Our objective for 2014 is to strengthen our position in the asset management market. LocalTapiola's expanding customer base offers good opportunities for us to achieve this.

## Success in investment operations

LocalTapiola General's net investment income at fair value amounted to EUR 158.1 million (EUR 287.2 million), or 4.0 per cent (8.1%). LocalTapiola Life's net investment income at fair value amounted to EUR 121.6 million (EUR 229.3 million), or 4.6 per cent (9.2%).

## CASE STUDY: RETURNS FROM AROUND THE WORLD – TAX FOR FINLAND

The financial sector paid well over EUR 1 billion in taxes in 2013. Companies in the financial sector pay corporate tax as levied on deposit banks, insurance companies, fund management companies and investment service companies, as well as insurance premium tax. Annual tax payments are very large: last year, LocalTapiola paid EUR 31.6 million in income taxes and EUR 192.3 million in insurance premium tax.

The amount of tax paid by companies in the financial sector occasionally offers pause for thought. Although LocalTapiola pays its taxes in Finland, tax-related matters can give rise to questions. One of these is investment management. For example, LocalTapiola Asset Management manages its investments via Luxembourg. This is due to international market practices in investment operations.

Luxembourg has become a major international fund market because of its efficient and consistent policies. All investors receive the same treatment.

Operating via Luxembourg eliminates the risk of double taxation and fund investors are treated in the same manner as people who invest in instruments directly. Everybody pays the same capital income tax on their returns. Investments cannot be made if the taxation practices are unfamiliar. However, investment decisions are guided by estimates of risks and returns rather than by taxation.

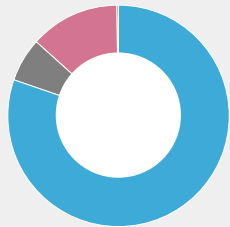
And when returns are made, LocalTapiola pays taxes in Finland.

<sup>1</sup> LocalTapiola General: The comparative figures presented in parentheses for the items on the income statement are pro forma figures. As regards the items on the income statement and the key figures, these figures show what the items would have been if the merger of Tapiola General and Local Insurance, which occurred on 31 December 2012, had taken place at the beginning of the previous financial year.

# Financial review

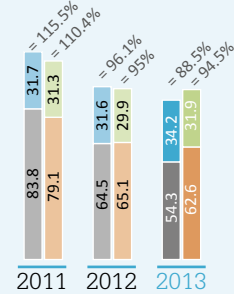


LocalTapiola Group's customers by category, 31 December 2013 <sup>\*)</sup>



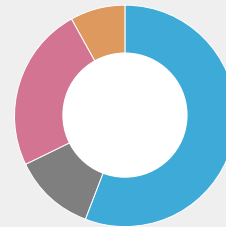
Households	1,287,714
Farms	103,602
SMEs, entrepreneurs and other forms of company	208,537
Major customers	2,715

LocalTapiola General's combined ratio, excluding the unwinding of discount expenses, % <sup>\*)</sup>



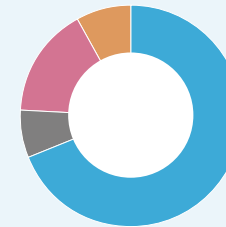
Risk ratio (official)	83.8
Cost ratio (official)	79.1
Risk ratio (operational)	31.7
Cost ratio (operational)	31.3

LocalTapiola General's premium income by customer category, 31 December 2013, % <sup>\*)</sup>



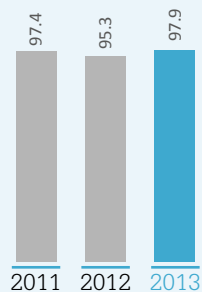
Households	56
Farms	12
SMEs, entrepreneurs and other forms of company	24
Major customers	8

LocalTapiola Life's premium income by customer category, 31 December 2013, %

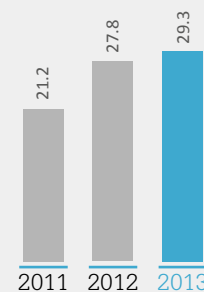


Households	69
Farms	7
SMEs, entrepreneurs and other forms of company	16
Major customers	8

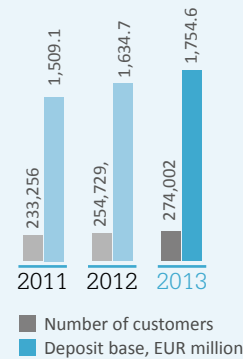
Customer benefits distributed by LocalTapiola, (General<sup>\*)</sup> and Life)



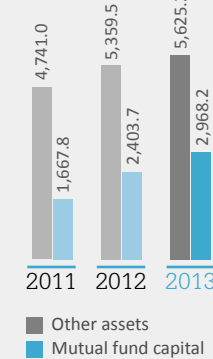
LocalTapiola Pension's transfers to customer bonuses and rebates, EUR million



Number of LocalTapiola Bank customers



Customer assets managed by LocalTapiola Asset Management



<sup>\*)</sup> For non-life insurance, this is a pro forma figure from 2011–2012 (combined figure for Tapiola General and Local Insurance Mutual Company). Pro forma figures have been calculated for 2011–2012. The figure also includes benefits granted by LocalTapiola.

# Key figures



<b>LocalTapiola Group companies' turnover (EUR million)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
LocalTapiola General <sup>*)</sup>	1,096.8	1,080.0	989.2
LocalTapiola Group's non-life insurance operations	1,344.2	1,317.1	1,191.5
LocalTapiola Life	644.5	572.7	343.3
LocalTapiola Bank Plc	60.4	65.6	67.1
LocalTapiola Asset Management Ltd	22.1	15.1	15.5
LocalTapiola Real Estate Asset Management Group	12.7	10.8	11.5
<b>LocalTapiola Group companies' premium income (EUR million)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
LocalTapiola General <sup>**)*)</sup>	903.6	892.0	873.3
LocalTapiola Group's non-life insurance operations <sup>**)*)</sup>	1,120.7	1,097.2	1,084.7
LocalTapiola Life	423.3	326.5	282.9
<b>LocalTapiola Group insurance companies' investment income at fair value (%)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
LocalTapiola General <sup>*)</sup>	4.0	8.1	2.7
LocalTapiola Life	4.6	9.2	3.7
<b>LocalTapiola Group companies' operating result (EUR million)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
LocalTapiola General <sup>*)</sup>	234.1	179.0	-45.4
LocalTapiola Group's non-life insurance operations	248.6	196.2	-48.1
LocalTapiola Life	37.0	30.4	25.5
LocalTapiola Bank Plc	3.4	6.4	4.5
LocalTapiola Asset Management Ltd	4.8	0.4	1.3
LocalTapiola Real Estate Asset Management Group	2.5	1.5	2.9
<b>LocalTapiola Group companies' solvency</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
LocalTapiola General's capital base (%) <sup>*)</sup>	234.6	210.9	194.3
LocalTapiola Life's solvency capital, % of technical provisions	23.7	23.0	19.5
LocalTapiola Bank Plc's solvency ratio, Tier 1 capital, %	16.3	12.2	11.8
LocalTapiola Bank Plc's solvency ratio (Basel II), %	17.2	13.9	15.3
LocalTapiola Asset Management Ltd's solvency ratio (Basel II), %	17.9	21.9	22.6
LocalTapiola Real Estate Asset Management Group's equity ratio, %	75.2	74.9	74.0
<b>LocalTapiola Pension's key figures</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Turnover, EUR million	2,066.5	1,924.9	1,735.8
Premium income, EUR million	1,602.7	1,561.6	1,490.5
Net return on investment at fair value	5.4	9.0	-3.1
Total result, EUR million	70.2	464.1	-521.2
Solvency margin, % of technical provisions	25.1	27.0	22.3
Loading profit	74.9	72.3	76.9
Solvency margin in relation to solvency limit	1.9	2.7	3.6

<sup>\*)</sup> Figures for 2013 before business was transferred to the regional companies. The comparative figures for 2011–2012 are pro forma (combined figures for Tapiola General and Local Insurance Mutual Company).

<sup>\*\*)\*)</sup> 2012 comparable.

# Non-life insurance

## Regional companies' key figures 2013

	Lapland	Kainuu-Koillismaa	Pohjoinen	Pohjanmaa	Etelä-Pohjanmaa	Keski-Suomi	Itä	Savo	Savo-Karjala	Kaakkois-Suomi
Premium income, EUR million	4.0	4.3	17.5	18.4	18.2	8.7	14.5	13.3	0.9	7.5
Claims paid, EUR million	2.9	3.7	11.5	11.8	12.4	5.3	7.7	8.5	0.6	4.0
Total result, EUR million	-0.2	-0.2	1.2	2.1	1.8	-0.07	3.0	1.8	0.05	1.3
Operating profit/loss, EUR million	-0.3	0.0	-0.1	1.5	1.0	-0.1	2.3	1.6	-0.1	1.1

The table above provides four key figures for LocalTapiola General and all of LocalTapiola's 19 regional companies: non-life premium income, claims paid, profit and overall result.



The objective of combining Tapiola and Local Insurance was to bring services as close to customers as possible. For this reason, LocalTapiola has established 19 regional mutual companies, along with LocalTapiola Greater Helsinki, which operates in the same manner as the regional companies.

The most significant change of the year for LocalTapiola General was the transfer of the voluntary non-life insurance policies taken out by private customers, small companies and medium-sized companies from LocalTapiola General Mutual Insurance Company to the 19 regional companies on 31 December 2013. LocalTapiola General Mutual Insurance Company will continue to handle all of the statutory non-life insurance policies taken out with LocalTapiola anywhere in the country, as well as all of the non-life insurance policies for customers in Greater Helsinki. All of the non-life insurance policies for large corporate customers everywhere in Finland will also be controlled by the company.

### LocalTapiola is now ready

The integration of Local Insurance and Tapiola was completed at the end of the year, when 1.5 million non-life insurance policies, comprising personal insurance and insurance for micro, small and medium-sized enterprises, were transferred from LocalTapiola General Mutual Insurance Company to the 19 regional companies. These policies represent EUR 353 million in premium income and EUR 660 million in investment assets. 457 employees were also transferred to the regional companies.

LocalTapiola Group is now operating in the form intended in the agreement made by Tapiola and Local Insurance when the two companies merged.

### Managing Directors' reviews state local goals

The regional companies' managing directors talk about the outlook and business objectives in their own regions in their reviews, which are included in LocalTapiola's electronic annual report. More information on the regional companies (in Finnish) is available at [www.vuosiraportti2013.lahitapiola.fi](http://www.vuosiraportti2013.lahitapiola.fi).



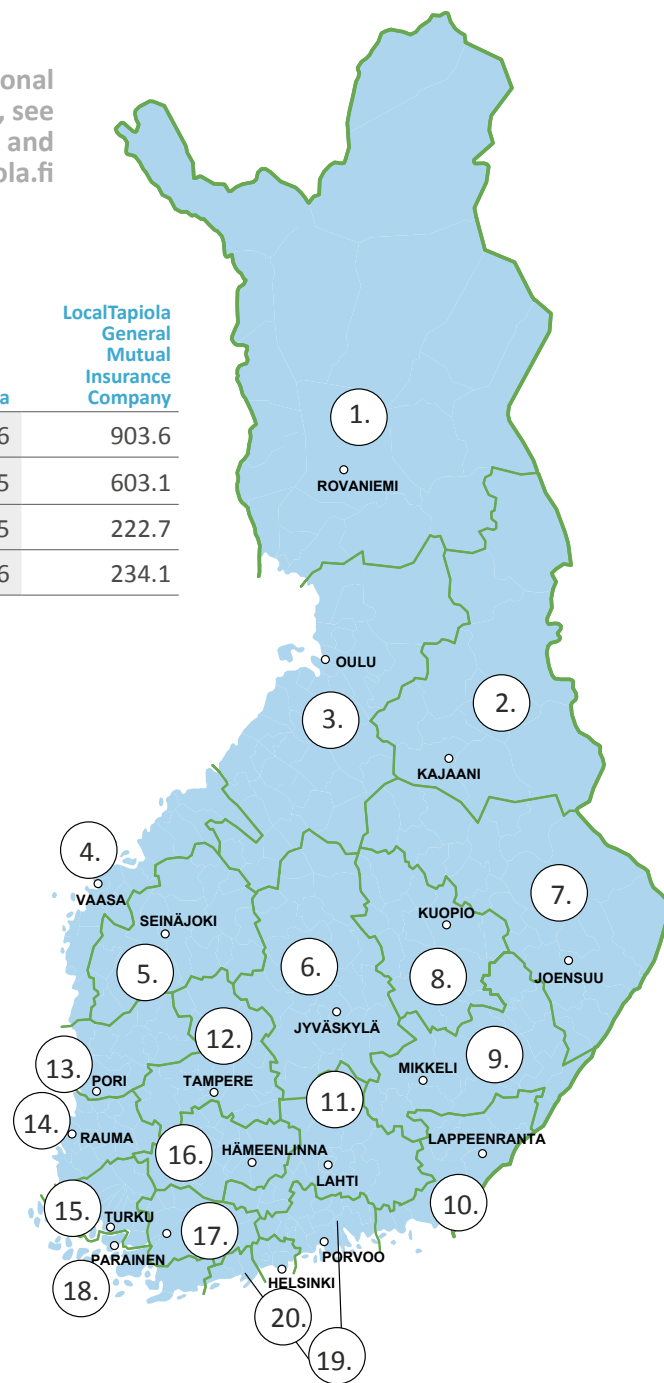


For more information on the regional companies (in Finnish), see [www.lahitapiola.fi/alueyhtiot](http://www.lahitapiola.fi/alueyhtiot) and [www.vuosiraportti2013.lahitapiola.fi](http://www.vuosiraportti2013.lahitapiola.fi)

Vellamo	Pirkanmaa	Satakunta	Lännen	Varsinais-Suomi	Loimi-Häme	Etelä	Etelärannikko	Uusimaa	LocalTapiola General Mutual Insurance Company
14.2	12.4	7.0	18.3	14.6	7.6	17.7	0.7	11.6	903.6
9.9	7.5	3.9	12.5	9.7	6.4	9.7	3.9	8.5	603.1
0.2	0.5	1.8	1.7	2.9	1.1	5.3	0.3	0.5	222.7
-0.7	0.1	0.7	1.7	1.6	0.3	3.7	-0.4	0.6	234.1

- 1 Lapland
- 2 Kainuu-Koillismaa
- 3 Pohjoinen
- 4 Pohjanmaa
- 5 Etelä-Pohjanmaa
- 6 Keski-Suomi
- 7 Itä
- 8 Savo
- 9 Savo-Karjala
- 10 Kaakkois-Suomi

- 11 Vellamo
- 12 Pirkanmaa
- 13 Satakunta
- 14 Lännen
- 15 Varsinais-Suomi
- 16 Loimi-Häme
- 17 Etelä
- 18 Etelärannikko
- 19 Uusimaa
- 20 LocalTapiola General Mutual Insurance Company



# LocalTapiola Group's annual reporting

Read more about LocalTapiola Group in 2013 in the online annual report (in Finnish) at [www.vuosiraportti2013.lahitapiola.fi](http://www.vuosiraportti2013.lahitapiola.fi).

## Annual reports of Group companies



LocalTapiola Group companies' annual reports (in Finnish) are available at [www.lahitapiola.fi/talous](http://www.lahitapiola.fi/talous) and in the online annual report at [www.vuosiraportti2013.lahitapiola.fi](http://www.vuosiraportti2013.lahitapiola.fi). The annual reports contain financial statements as well as reports by the Boards of Directors.

## Insurance companies' investment reviews



Investment reviews by LocalTapiola General and LocalTapiola Life are available (in Finnish) at [www.lahitapiola.fi/talous](http://www.lahitapiola.fi/talous) and in the online annual report at [www.vuosiraportti2013.lahitapiola.fi](http://www.vuosiraportti2013.lahitapiola.fi).

## Further information

Further information on LocalTapiola Group's annual brochure, the online annual report, company annual reports and investment reviews is available from LocalTapiola Group's communications unit. The email address is [tiedotus@lahitapiola.fi](mailto:tiedotus@lahitapiola.fi).



## Annual report online



LocalTapiola Group's annual report and responsibility reporting are included in the online report. The online annual report covers the Group's responsibility issues and LocalTapiola Group companies' and regional companies' financial results in more depth than this annual brochure. A Swedish-language report is also available online, as is a link to the English-language report in PDF format.

[www.vuosiraportti2013.lahitapiola.fi](http://www.vuosiraportti2013.lahitapiola.fi)

# LocalTapiola is close to you everywhere in Finland.

Our regional companies offer comprehensive insurance, savings and investment services. We also provide banking services. We are your partner in matters related to security, welfare and the economy.

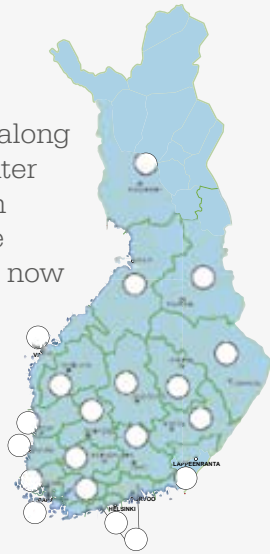
Welcome to the new LocalTapiola.



**Design and concept:** Kreab Gavin Anderson Oy  
**Photographs:** Mari Nevanperä-Hyvönen,  
Tomi Parkkonen, Emilia Ikäheimo,  
Shutterstock, Kuvatoimisto Gorilla  
**Printing:** Libris Oy  
**Paper:** Cover: Galerie Art Silk 300 g/m<sup>2</sup>  
Inside pages: Galerie Art Silk 150 g/m<sup>2</sup>

# 20

19 regional companies, along with a company in Greater Helsinki that operates in the same manner as the regional companies, are now serving customers in 280 offices all over Finland. LocalTapiola differentiates itself from its competitors with its local, personal service.



The Bank Group's investment sales grew enormously,

# by 150%

# 600,000

In 2013, LocalTapiola received more than 600,000 compensation claims.

## LocalTapiola Group companies' turnover (EUR million)

LocalTapiola General	1,096.8
LocalTapiola Group's non-life insurance operations	1,344.2
LocalTapiola Life	644.5
LocalTapiola Bank Plc	60.4
LocalTapiola Asset Management Ltd	22.1
LocalTapiola Real Estate Asset Management Group	12.7

For LocalTapiola, 2013 was spent in finalising the merger. Throughout this process, the most important objective was to serve customers as well as before. We were successful in doing this, as LocalTapiola obtained a good result for 2013 in EPSI Rating's comparison of insurance companies.

We answer to our

# 1.6

 million owner-customers.

## LocalTapiola Group's customers by category

