S1 2019 Earnings Call

Company Participants

- Antonio Cano, Chief Operating Officer
- Bart De Smet, Chief Executive Officer
- Christophe Boizard, Chief Financial Officer
- Emmanuel Van Grimbergen, Chief Risk Officer
- Hans De Cuyper, Chief Executive Officer, Belgium

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Bart Jooris, Analyst
- David Barma, Analyst
- Farooq Hanif, Analyst
- Fulin Liang, Analyst
- Jason Kalamboussis, Analyst
- Robin van den Broek, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Ageas conference call for the first six months of 2019. I am pleased to present Mr. Bart De Smet, Chief Executive Officer; Mr. Christophe Boizard, Chief Financial Officer; Mr. Antonio Cano, Chief Operating Officer; Mr. Filip Coremans, Chief Development Officer; Mr. Emmanuel Van Grimbergen, Chief Risk Officer, and Mr. Hans De Cuyper, Chief Executive Officer, Belgium. For the first part of this call, let me remind you that all participants will remain on a listen-only mode. And afterwards, there will be a question-and-answer session. Please also note that this conference is being recorded.

I would now like to hand the call over to Mr. Bart De Smet, CEO, and Mr. Christophe Boizard, CFO. Gentlemen, please go ahead.

Bart De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you all for dialing into this conference call and for being with us for the presentation of the results of Ageas for the first six months of 2019. As usual, I am joined in the room by my colleagues of the Executive Committee.

Hans De Cuyper, the CEO of AG Insurance, is also present in the room. And, of course, we have our Investor Relations team with us.

Ladies and gentlemen, before commenting on the six-month results, I would like to start with an update on the Fortis settlement. As you know, 28th of July was the deadline to submit claims. We do not have yet a completely finalized view as it takes time to analyze each claim, but we can give you the broad picture. We received in total 290,000 claims, which is more than we initially anticipated, but the average amount per claim was less than expected. Only 250 shareholders opted out of the settlement, representing around 1% of the total settlement amount. This reduced, therefore, our tail risk significantly. Around EUR600 million have already been paid to claimants and the remaining payments should be made by the end of the first half of 2020.

On another topic, you have probably seen the press release that we issued this morning, announcing a new share buyback program of EUR200 million. This is our ninth consecutive share buyback program, and by this time next year, we will have returned in total EUR2 billion to shareholders through share buyback programs.

Turning now to the results, the second quarter confirmed the strong start of the year, thanks to a solid operating performance across all regions and exceptional elements in UK and Asia. Consequently, our six-month net result stood at a high EUR606 million compared to EUR441 million last year. This performance gives us confidence that we could exceed this year our guidance of EUR800 million to EUR900 million Group net result, with the usual caveat that we do not know how the financial markets will evolve in the second half of the year. And this could, of course, have an impact.

We pursued in Q2 the solid sales momentum recorded in Q1, resulting in a double-digit growth since the start of the year when we exclude the sold Luxembourg entity. The increase in inflows were driven by both the Life and Non-Life activities and spread across almost all the regions.

The guaranteed margin of the Group was impacted this quarter by a strengthening of our reserves in Portugal due to the current low yield environment. The guaranteed margin also included a lower investment income in Belgium since the beginning of the year. As you know, the level of capital gains is quite volatile per quarter, especially in real estate, but we expect to reach a target level by the end of the year. The unit-linked margin was below target due to lower sales in Continental Europe.

As for the combined ratio, the impact of the adverse weather in Belgium in the first quarter was more than offset this quarter by a strong current year operating performance in both Belgium and Portugal, further supported by the positive impact of the Ogden rate review in the UK. As a result, our six-month combined ratio stood at a strong 95.7%.

Our total liquid assets amounted to EUR1.7 billion, EUR0.6 billion of which remains ring-fenced for the Fortis settlement. Capital management actions added EUR0.3 billion to Group cash position this quarter, following the debt issued in April and the internal loan to AG Insurance.

The EUR633 million dividend upstreamed from our operating companies since the start of the year covered the cash-outs related to the dividend paid to our shareholders and the holding costs and will even cover part of the share buyback announced this morning.

Ladies and gentlemen, I will now hand over to Christophe for more details on the results.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Bart. And good morning, ladies and gentlemen. As announced by Bart, we achieved a very strong year-to-date result at EUR606 million, up 26% compared to last year excluding the impact of the RPN(i) which was quite strong. The currency impact played no significant role this quarter.

As usual, I will give you some details per segment. On slide 6, in Belgium, after the first quarter marked by lower investment result and adverse weather events, we enjoyed a strong second quarter, driven by a solid operating performance with all technical KPIs, combined ratio in Non-Life, operating margin, guaranteed business and unit linked, showing significant improvement compared to Q1.

In Life, higher investment results in the quarter compensated for a lower underwriting result. The six-month guaranteed operating margin stood at 82 bps which shows an improvement compared to Q1, but which is still below our target of 85 bps to 95 bps. This is a timing issue in the real estate investment result and a significant capital gain is expected for Q4. The unit-linked operating margin at 34 bps was in line with our target.

In Non-Life, after a first quarter hit by some storms in March, we achieved in Q2 an excellent result in most business lines, with a very low combined ratio of 91.1%. The new internal reinsurance agreement, which brought positive contribution of EUR10 million in the first quarter, had no significant impact in the second quarter. In line with the presentation of our Q1 results, all the combined ratio mentioned in the press release and in this presentation exclude the impact of the internal quota share reinsurance agreement. The year-to-date pro forma combined ratio, meaning before internal reinsurance, improved to 97.6% including 6 percentage points from adverse weather, which is comparable to last year.

Since the start of the year, Belgium continued its growth path in both Life and Non-Life. Inflows in guaranteed products were mostly driven by the bank channel, while inflows in unit-linked benefited from the successful sales campaigns in Q1. Non-Life inflows increased across all business lines.

In the UK, slide 7, the result included EUR30 million reserve release relating to the Ogden rate adjustment from minus 0.75% to minus 0.25%, but this was more than offset by large claims in motor. The new internal reinsurance agreement contributed EUR20 million to the six months net result. The year-to-date pro forma combined ratio improved to 96.9% with the benign weather in household mitigating the large claims in motor.

The restructuring cost of EUR13 million was also booked in the non-technical account for this period. Inflows were down in the UK, following the decision to withdraw from underperforming partnerships and to enforce strict pricing discipline. Nevertheless the volumes are now starting to stabilize. While the broker channel remains our predominant distribution channel, direct sales through the aggregator platforms continue to grow.

In Continental Europe, on slide 8, the six-month results amounted to EUR57 million, up by 18% compared to last year if we exclude the contribution from Luxembourg in 2018. As already mentioned by Bart, the result in Life was negatively impacted by a strengthening of our reserve in one fund in Portugal due to the current low interest rate environment. In Non-Life, the result was strongly up, thanks to a strong performance in Portugal in both the bank insurance and agency channels and to the increased contribution from the non-consolidated partnership in Turkey.

The growth momentum continued in both Life and Non-Life. In Life, the higher sales in guaranteed products more than compensated for the lower unit-linked sales, while Non-Life inflows were up in all business lines.

In Asia, on slide nine, we recorded an exceptionally high result of EUR331 million. The result benefited as always from solid operating performance, but also in China from a high level of capital gain, especially compared with last year where we had impairments. China also benefited from the positive evolution of interest rates and from a favorable retroactive change in the tax regime relating to commissions. The sales dynamic continued in Asia, with Life inflows driven by strong persistency and Non-Life inflows currently up in all key business lines.

In the Reinsurance segment, on slide 10, as expected, we booked an initial loss following the implementation of the new internal reinsurance agreement. However, this is internal and has no material impact on the overall group net result.

Let's go to the general account on slide 11. So the general account generated a positive net result following the high EUR61 million positive contribution from the RPN(i). The provision for the settlement has been reduced to EUR636 million following payments already made to shareholders.

Our Group Solvency II ratio on slide 13 regained altitude at 201% after the issuance in April of EUR500 million Tier II instrument to compensate for the call of the AG Insurance debt instrument, which took place in March of this year. Nevertheless, the Solvency decreased by 14 percentage points over the semester, mainly due to the acquisition in India and to the lasting drop in the yield curve which specifically affected the solvency ratio in Continental Europe. The operational free capital generation on slide 14 amounted to EUR257 million for the first half of the year and to EUR163 million excluding the EUR94 million dividend paid by the non-European, non-consolidated participation. This figure of EUR163 million is below the guidance of EUR130 million a quarter we have indicated before and needs some further explanations.

The breakdown by segment which is given on slide 58 of the pack shows that the main gap comes from the UK where we suffered, as already mentioned, from large losses in the motor book which are seen as exceptional. The corresponding additional technical result hit the free capital generation of the UK twice, first on the Own Fund for EUR59 million and also on the SCR for EUR30 million.

Taking into account the 175% target capital applied on the SCR, these two effects resulted in a EUR111 million hit to the operating free capital generation of the Group. To a lower extent, in Continental Europe, Portugal was also slightly weak because of some re-risking on the investment portfolio, which increased the SCR and also because of the lower contribution of the value of new business due to the lower interest rates observed now in that country. Corrective measures have been taken to mitigate this.

The EUR119 million negative contribution of exceptional items come from the implementation of the internal reinsurance and the end of the stop loss between the UK and the Group, the impact is at EUR95 million. This is mainly related to model effects and from the adjustment from the final -- with the final Ogden rates at minus 0.25%, whereas our former assumption was zero percent for solvency calculation.

Ladies and gentlemen, this is the end of my presentation and I leave the room for questions.

Questions And Answers

Operator

Ladies and gentlemen, this concludes the introduction of the conference and we now open the call for question. (Operator Instructions) We have our first question from Ashik Musaddi from J.P. Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hello. Hi. Good morning. This is Ashik here from J.P. Morgan. Just three questions. First of all, on M&A. Now, clearly, one thing that we have noticed is in past three, four years, you have missed out on few acquisition expectation, like, for example, Ethias, recently Fidea; then again you missed out on Tranquilidade and you were not able to get AGI -- AG as well, the 25%. How should we think about acquisitions going forward? I mean, do you feel any pressure that you need to do an acquisition or do you remain disciplined on the M&A? I mean, clearly, you have continued to do the buyback, which is very well reflected in your share price, and I think the discipline is very well appreciated by the market, but what is the risk of you relaxing those criteria that you had for M&A going forward as well? So that's the first question I have.

Second one is on Asia. I mean, if I look at Asian earnings, EUR330 million for first half, obviously, this has a few capital gains and the China tax-related things. So even if I adjust for that, it's still EUR210 million versus your guidance of EUR275 million to EUR325 million. So how should we think about that? Do you think your guidance is low or shall we still stick with that guidance? So any thoughts on that would be great.

And thirdly, on Asian dividends, I mean, Asian earnings are going up rapidly, but in this year, if I notice, the dividend from Asia has just gone up like tiny amount, actually gone backwards. So how should we think about the dividend from Asia? So should we be expecting a pickup in dividend from Asia? Any thoughts on that would be great. Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

Okay. Thank you, Ashik, for the three questions. On the first one, on M&A, let's say with -- I would like to make a difference between Ethias and AG Insurance on the one side and then Fidea and Tranquilidade on the other side. Why? Because, let's say, Ethias has never been a real concrete file. It has not been for sale and is not a file we expect in the near future. AG Insurance is -- was a particular situation where, okay, we were prepared for both situations, having 100% or staying at 75%. And in both situations, I think we would -- could have been happy and we are happy with the outcome as it is today.

The two others, Fidea, Tranquilidade, as you point correctly, we each time look to not only strategic rationale, but also the financial conditions. And in line with our previous approach, we have decided not to go beyond a certain level of price that we're willing to pay in order to make the deal, let's say, defendable, in line with our overall strategy that we communicated since 2009 and repeated in the Investor Day last year in September. Going forward, we keep spotting opportunities, and also in line with strategy, if we don't see them, we move to the buyback scenario. So don't expect us to completely change our pricing -- our financial discipline. This is something that we keep high on the agenda.

Second question with respect to Asia, I think your analysis is spot on. So if you look, the EUR330 million and you fully exclude, for Asia, the cap gains that are mentioned on slide 20 of EUR69 million and you take out what is not an official figure, we can mention about the tax impact, but I think most analysts were very precise in what the impact was, you come to something like EUR210 million, which is indeed more than half of our guidance of EUR275 million to EUR325 million.

Two reasons why we are not bullish to immediately increase this range, is that, on one side, if there might be an impact in financial markets, equity markets, it's most probably most hitting the Asian equity book. And secondly, we always see that Q4 in Asia is lower than the first quarters due to the fact that they recruit more agents, make more costs in Q4 in order to prepare a good start of the year. But I would say, this year, in any case, we expect to exceed this guidance. That's also the reason why we are quite confident that we will go above our EUR800 million to EUR900 million net profit expectations for the Group. And I would say, let's have a look how this goes on in the coming quarters before we really, I would say, officially broaden this range.

The third question on the dividend, if you look, and I think you also see it in the free capital generation overview, we received something like EUR89 million dividends from non-controlled participations. We have a solid dividend year after year from Thailand and Malaysia, see no reason why it would change. In China itself, the dividend was last year 30% of the local results. Local result was last year higher than our IFRS result due to impairment rules. So if the evolution of the profit in China and Asia overall continues as it is now, we could expect, in absolute numbers, a higher dividend from Asia.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. That's very clear. Just one quick follow-up on that. Is it fair to say that -- do you think that the Asian earnings are trending towards the high-end of the range of EUR275 million and EUR325 million, which is just EUR125 million for next two quarters? Is it fair to say that or not really?

A - Bart De Smet {BIO 16272635 <GO>}

Let's say, it's fair to say that, for this year, we expect to exceed that range. Yeah, in any case.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Okay. Perfect. Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

And again, with the caveat there of the financial markets.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, that's very clear. Thank you. Thanks a lot. And thanks a lot for your management discipline on M&A. Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

Thank you.

Operator

Thank you. Next question from Albert Ploegh from ING. Sir, please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all. I've got three questions as well. The first one, to start on the free capital generation, slide 58, if I strip out Q1 and look in isolation to Q2 only, and also eliminating the dividends, I think there was something like a shortfall of roughly EUR100 million to reach your 125%, 135% [ph] quarterly guidance. I know there are many moving parts in the UK, Continental Europe in reinsurance. So maybe you can help us bridge that gap a little bit with the SCR impacts and the large motor losses in the UK, specifically. That will be question one.

The second one on the UK with the large motor claims, it seems in the press release, if I read it correctly, that it seems to be some kind of a one-off event, but how certain can we be? So is there any future impact from this as well on the earnings? So any views there would be appreciated.

And the final question is more, let's say, a question on the capital gain outlook. I think you -- in the opening statements, you make clear that real estate budget should still be delivered for the full year. Can you remind us again what that budget is and what we more or less can expect to flow through in the earnings in Q4? Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

I propose to pass the questions respectively to Christophe, Antonio and Hans. Christophe?

A - Christophe Boizard {BIO 15390084 <GO>}

You are right. And the shortfall is around EUR100 million. In my speech, I discussed the year-to-date approach that the shortfall is more concentrated on Q2. And you are right that we have to explain this. I will refer to the same explanation as the one I gave during the speech. So coming back on the UK, the large losses started in Q1, but the main effect was observed in Q2. And as I said, unfortunately, you have kind of double hit when you increase the reserve. You have, first, lack of result because the increased reserve directly hit your result, and so your eligible Own Fund, but then with your increased reserve, you have an additional SCR. And the additional SCR is even, in our calculation, with a 175% target capital, is amplified. So the impact is the decrease in Own Fund plus 175 time the increase in SCR. And it's the reason why I made to this rough estimate of EUR111 million year-to-date. So I don't have the same calculation on the top of my head for Q2, but most of this is related to Q2. The effect was limited in Q1. So most of it was in Q2.

And for Portugal, it was more a Q2 effect. The Portugal, so the fact that we have the re-risking, so it means that they bought slightly more equities. And the low value of new business, but something which occurred in Q2.

All in all, these are (inaudible) exceptional. On the one hand, on the UK, exceptional. On Portugal, as I said for the product, we have taken actions. The commission that have been reduced by the bank. So I think that we shouldn't to change the guidance at this stage. And today, I confirm for the future, the EUR130 million run rate for the future quarter.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you.

A - Antonio Cano {BIO 16483724 <GO>}

Hello. Good morning. Antonio here. I'll try to give you some details on what happened in the UK on the large motor claims and whether this is a trend or not. So what we have seen already starting, as Christophe was saying, towards the end of Q1, but more accentuated in Q2, is an increase of -- these are bodily injury claims involving what's called vulnerable road users where we normally have about 15 cases in each quarter. In Q2, we had well above twice that number. But as important is also the fact that the severity, so the average of these large bodily injury claims was also quite higher. So we had quite a number of claims around our EUR3 million retention level.

Now, obviously, we've gone through all the numbers and looked to any possible root cause, channel, year of underwriting, risk type, all the usual analysis. We didn't find any trends. We also asked an external third-party, an actuarial firm to take independent look. Also, their conclusion was that, in fact, there is no clear trend. It is also so that we don't get any signals from the market that this is a trend that our competitors are spotting. Nevertheless, I will still keep a bit of a doubt whether there is a trend or not. For now, we have not really detected a trend. So it might be just volatility, although an extreme form of volatility.

Okay. I appreciate that.

A - Hans De Cuyper {BIO 17991990 <GO>}

And Hans De Cuyper on your final question on the capital gains real estate. We always target a return of roughly 5% on a yearly basis on our real estate portfolio. So in euros, that would mean that we realize around EUR70 million to EUR80 million gross capital gains also every year. Due to the seasonality of these transactions because most of the time they are bigger transactions, we're not yet halfway, which is reflected in that operating margin, but we remain very confident to minimally achieve that target by the end of the year.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay. Thank you very much.

Operator

Thank you. Next question from David Barma from Exane. Please go ahead.

Q - David Barma {BIO 19957338 <GO>}

Yes, good morning. Thank you for taking my questions. The first one is a follow-up on the UK. And besides the large losses, what are you seeing in terms of claim inflations and the price development and how should we read that in the top line development, which seems to be stabilizing now?

My second question is on China. And there, could you give us your view on the potential impact of this commission change on the competitive environment, if not too early to tell. And lastly, on Belgium, could you -- what's your outlook for the Belgium Life business and especially on the guaranteed side considering the interest rate outlook and in light of the drop in the credited rate we've already seen in 2018? Thank you.

A - Antonio Cano {BIO 16483724 <GO>}

Okay, thank you. So a bit of a follow-up on the UK. So I believe that your question was more about claims inflation and development of rates. In claims inflation, I keep aside the bodily injury claims I just discussed. If we look more at the traditional damages and the material damages claims inflation, there, frankly, it's more like a positive news. We don't really see a pickup of claims inflation, although a lot of people are expecting that related also to the Brexit. We don't see that in our numbers. So thinking we are more on the positive side.

In terms of rates, the recent Confused.com and Willis Towers Watson market review showed that, during Q2, they saw a 3.5% rate increase overall in the market. I think we are more or less in that range. Going forward, I think people are adapting to the slight surprise, let's put it that way, of the Ogden rate not being at zero or positive, but still a negative. So it is somehow logic that you see this slight rate pickup.

In terms of growth of our business, as Christophe was also mentioning in his introductory speech, we're still suffering the effect of the loss of some accounts that, for various reasons, we thought were not profitable, but we see indeed volumes stabilizing, a nice growth in the direct business. And in Q2, actually, the drop on current -- with current FX rate movements excluded was only slightly negative. So -- and we are also slightly above what are our internal targets.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. With respect to China and the impact on tax of the increase of the cap on commission deductibility, so what we have taken in our results half year was the retroactive benefit for 2018. As mentioned, so Taiping Life has not published its results yet, it will come soon, and so we prefer not to disclose the precise figure, but we can always say that what we have seen that is mostly mentioned by your analysis is in reasonable estimate.

With respect to, i would say, the recurring benefit of that, so the 2019, this has not at all been taken until now in the half-year results. Also, because we are not -- it's not clear yet what the market will do. Will it be fully taken as a profit or will part of it be used to give higher profit sharing to that pricing, to change commission, so it's a bit too early. But -- so today, the only effect taken into our half-year results was the guaranteed recovery over 2018. And I'm sure that, in Q2, we will be able to tell a bit more about the future treatment of that advantage.

A - Hans De Cuyper {BIO 17991990 <GO>}

Okay. Your last question on Belgium, I assume with dividend, I think you mean the profit sharing towards our customers. Of course, we are only half the year, so we cannot tell you anything and definitely not disclose anything on the dividends on our guaranteed portfolio. The only thing I can tell you is that we always closely monitor inflows, outflows, guaranteed rate and then profit sharing to secure our investment margin in the long run. And you know our asset liability management profile, which is underneath, which we also always want to protect. And today, we have no concerns on this approach for the remainder of this year despite the low-yield environment. We always take the required measures to maintain that investment margin. But on profit sharing itself to the end customers, I cannot tell you anything at this stage of the year.

Q - David Barma {BIO 19957338 <GO>}

Thank you very much.

Operator

Thank you. Next question from Fulin Liang from Morgan Stanley. Please go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Hello. Thank you. I have two questions. The first one is regarding Asia, and especially China. And so just wanted to hear management views on the future competitive landscape, given that China is actually -- lift up the ban on the foreign investors in the life insurance space. So do you think the competitive landscape will change and will be especially for the domestic players like Taiping Life? That's my first question.

And then, second one is, so you strengthened the reserves as a result of a lower interest rate. However, the interest rate actually is keep falling. And since you strengthened, will you actually further -- have to further strengthen the reserve? So what should we think about that?

Sorry. Actually, I have three questions. The last one is, you mentioned about the Belgium is helped -- the margin improvement is helped by the investment results. So I just wonder how much of that investment result is actually recurring and we can expect -- should we expect this margin improvement to continue in the future? Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

Okay, I'll take the first question and handover for the second one to our Chief Risk Officer and to Hans for the question on Belgium. With respect to Asia, we have, since 2001, opted to enter into a joint venture with a very strong local partner, who has the knowledge of the market, the distribution capacity, being Taiping Group, and we see indeed the market opening to foreign investors. And, okay, increased competition is always helpful. We don't see the market decreasing in terms of opportunities. So we still believe that future growth is guaranteed in that margin. We will surely take our place in that. We have now something like 4.5% market share. We are on the top 6. And we see indeed that the new comers, but also a lot of local ones, take little by little a bit more market share, but that's, in many cases, due to single premiums, something we almost banned in our portfolio. I think 93% of the business we do is regular premium. And we will, together with the partner, stick to, let's say, a very prudent and, at same time, commercially strong proposal to our customers. So not really puzzled or, let's say, frightened by the fact that competition will increase.

A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

Okay. Good morning. Emmanuel. Indeed, so you are right. In Portugal, we had to strengthen the reserve in one particular front due to, indeed, the big decrease in the interest rate. And if we just look at the swap rate, the swap decreased by 60 basis points over the first six months. And since then, we have an additional decrease of 27 basis points. So we took some actions. One of the action was to strength the reserves, what we did in Q2, but we did also some rebalancing in the asset portfolio, some re-risking, what you can also see in the operational free capital generation of Continental Europe.

And finally, also, measures has been taken for new business in order to make sure that a minimum margin is kept. So in a nutshell, measure on new business and also rebalancing of the asset portfolio has been taken in the second quarter.

A - Hans De Cuyper {BIO 17991990 <GO>}

Your last question on the investment result in Belgium, indeed, we saw in Q2 -- because you asked about the quarter -- an improvement on the investment results of roughly 23 basis points, but partially offset by a slightly lower underwriting result due to mortality, which we also see a little bit as a less quarter, but nothing structurally. But when we combine everything, we always come back, of course, to our asset liability matching profile and the ambition to achieve the targets of 85 basis points to 90 basis points. And as of today, we are well on track with the caveat of the seasonality of the capital gains.

Operator

Thank you. Next question from Jason Kalamboussis from KBC Securities. Please go ahead.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Good morning, gentlemen. I had three questions. The first one is, I just want to understand -- coming back to the first question of this session, when you approach the M&A, clearly, there are a number of targets that didn't materialize. So it's great to have the discipline. But do you find that when you're approaching -- we're talking about the amounts that probably are above EUR0.5 billion, you do have also strategic elements in it. That means that, at the end of day, you look at -- it's one thing to have -- if you have the same return, say, in Portugal or in Asia, at some point, you cannot do three acquisitions of -- the sizable acquisitions. So you will be decide and you have a strategic bias that would send you more towards Asia versus Europe. So I was wondering if you have any such criteria in your mind.

The second thing is, in the UK, do you have -- I thought, by the way, that it was only higher severity, not higher frequency. If I understood it well, you had high severity and frequency. So do you find that there you have some sort of anti-selection or the recent problem in your distribution. So I can appreciate that you said that you looked into it, but it is quite striking that, if you are the only one, and especially given some problems that we have seen in the UK over the last years, what do you see on that front?

The third thing is on Asia. If there are assets that are to become available in the market, would you be happy to pay over to buy someone else's joint venture and also pay for continuing partnership agreement? Or do you prefer the model where you still have less than 50%, find a local partner and build it up from scratch? Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

Okay. On your first point, M&A strategy, whether it would send us more to Asia than Europe, again, one element that also will come to the table when we look to Asia is, of course, our promise on dividend. So we try to balance the portfolio between Europe and Asia. Also, in the context of our dividend promise. And if we go back again to the investor presentation in September last year, when we talked about opportunities we look at in Europe, we primarily look to opportunities in the Non-Life here where you have, let's say, mature activities that are cash generative, that permit us to broaden the pool of upstream cash in order to pay our dividends. So really major, major M&A files in Asia. It is not exactly what we believe will be concrete in the coming period.

And maybe then also go to your last question, whether we would be doing others than minorities. Let's say, we have today one non-minority deal in Asia, which is the Philippines where we have 50% plus one share. The other time, minorities. And one of the reasons is that we believe that we are -- I would say this is one of our strengths that we are good, solid, long-term partners that do not need the majority and where we, by teaming up with a strong local partner, have a quicker start with the distribution available, with already customer base available. But never say never. So we spot opportunities in the regions where we are interested in, but we will always keep that financial discipline that I also gave us an answer to the first question of Ashik.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

(inaudible), Jason. Coming back to the UK and its large losses, so it is indeed, as you say. We see both an increase in number of the severe cases and also the average cost of those cases is higher. So it is both.

Obviously, some people including myself have spent some time and some sleepless nights understanding what is happening here. Bear in mind, we're not talking about hundreds of cases here. It's having like 10 more cases involving what's called vulnerable road users, pedestrians, cyclists, there is no clear trend that we see. We continue to follow it up. Our current view is still, okay, there is no clear trend and there's no clear reason why the nature of our portfolio should be more vulnerable to these types of accidents.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay, very clear. Thank you very much.

Operator

Thank you. Next question from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Good morning, everybody. Just going back to low yields. I noticed that, in the second quarter the product potentially less attractive. So I was wondering what you think of your kind of outlook in a low yield environment for inflow growth in guaranteed life.

Secondly, going back to your comments about partnerships in the UK that are underperforming, can you give us some more details on what kind of partnerships are underperforming and what your ambitions are for aggregator business going forward as a proportion of your book?

And lastly, just to go back on question just asked earlier, is there any more kind of vulnerability or positivity on yields in Portugal? So the reserve increase, was that just a one-off boost? Or is there some sort of link or the swap rate that we need to be aware of? Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

Well, I can give you feedback on inflow in Belgium. Of course, we closely monitor our new money yield, which is still at an attractive level due to the mix where we invest in fixed income. You referred to second quarter that we have lower inflow, but main reason there is the seasonality of the commercial campaigns, driven by the bank. Year-on-year, we had a very strong first quarter this year. We had a very strong second quarter last year. So if you take it year-to-date, we still see a fairly outperformance in growth compared to last year.

Indeed, we closely monitor, as I said before, the inflow in the guaranteed business, but we still have adequate room for the remainder of the year to maintain the growth momentum that we have seen in the first half. So there is no real need to start pushing down sales volumes. It's mainly linked to the timing of commercial campaigns in the bank channel.

A - Christophe Boizard {BIO 15390084 <GO>}

On the UK, so the nature of the partnerships, I think we've mentioned that already in the past, it involve some MGAs, but also some affinity partnerships with car brands and some retailers. Those are one that we have stopped.

And in terms of our aggregate -- direct aggregator channel, it is still relatively small. I think it represents about 10% to 15% of our business today, but it is an area that is growing. And let's face it, we are personal lines, motor insurer in the UK mainly and the market or the customers have moved already to these aggregated channels. So we think we should have also a more stronger presence in the channel. And so far, so good. We're quite happy with the performance there.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just quickly follow-up on that one point? So is there a correlation between the vulnerable...?

A - Christophe Boizard {BIO 15390084 <GO>}

On your question on the reserving in Portugal, indeed, so we have to keep in mind that, in the first six months, there was quite a heavy drop in the yield. Then, in the swap, there was a decrease of 60 basis points. Since then, we have an additional 27 basis points.

Again, we took actions on re-balancing the portfolio in Q2, looking also for new investment opportunities. We have also to look at how will the spread evolve. So since the end of Q2, for instance, the spread on Portugal increased a little bit. So that can compensate and help also the situation. I don't believe that we will -- moving forward that we will have the same type of hit as we had in Q2. But, of course, we cannot completely exclude it, but we are following up and taking measures to reduce it. Thanks.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thanks. Can I just -- could I possibly return on the UK quickly? So is there a correlation between the large vulnerable persons claims that you're seeing and the partnerships? So can we see that this might possibly get better as you switch your mix?

A - Bart De Smet {BIO 16272635 <GO>}

No. We see no correlation there. There is no really a channel correlation.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you very much.

Operator

Thank you. Next question from Robin van den Broek from Mediobanca. Please go ahead.

Q - Robin van den Broek {BIO 17002948 <GO>}

Yes. Good morning, everybody. First question is on your payout. Last year, at your Investor Day, you changed from net insurance result to reported results. Obviously, 2019 is building up quite a bit of one-offs in a positive way. So your ordinary dividend is very likely to grow substantially year-on-year. I was just wondering, how does that change your dynamics? I think in the past, you said that one-third of the buyback basically needs to be financed from the liquid buffers. With these dynamics in place, on a normalized basis, that's probably changing. Today, you reiterated EUR200 million buyback. So short term, that's not an issue for you clearly, but how should we think of that? And just to confirm that everything will be still an ordinary dividend? You're not going to put partly -- part of that in a special?

Second question is on Asia. You mentioned that there is a one-off benefit from the rate developments in the results. Could you quantify that? And also, I'm wondering to see your thoughts going forward because it seems that your 750-day average will inflect to becoming a headwind at the end of this year. So maybe you could give some quantifications on that and also remind us how the mismatch in duration sits in Asia and what kind of risks you could see there? And lastly, just maybe a quarter-to-date update on your Solvency II ratio. Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

Okay, Robin. First of all, the question on dividend. I think we have two clear messages that we gave at the Investor Day. The first one was that we're moving now to the group result.

Starting off with a policy of a payout of minimum 50% of the group result excluding, of course, the non-cash RPN(i) effect. And in line with our tradition and our track record, we have an interest and intention to keep that promise. So we will pay out minimum 50% of the group net result. But as I mentioned earlier, we are confident that this will be outside or above the EUR800 million to EUR900 million range that we normally expect.

Second point is with respect to the buyback, we also gave a promise of a buyback of minimum EUR150 million unless there would be sizable M&A. Also there, that's a promise that we will keep. We also mentioned in that Investor Day, and I assume that's what you refer to, that looking also to the past, looking to what we normally expect in a year that a part of this buyback should be funded or could be funded by the excess upstream dividends. Like this year, you could see that's something like 125% or 120% of the upstreamed dividends is available for this new buyback. It could be that it's less next year then due to a very high dividend, but that's to be assessed at that moment. But the two promises, minimum 50% payout and a minimum of EUR150 million buyback unless sizable M&A activities, are two promises that we will keep and realize.

Then the second question, maybe it was impact from rate developments. I assume you refer to impact on the reserving?

Q - Robin van den Broek {BIO 17002948 <GO>}

Yes, the 750-day average?

A - Bart De Smet {BIO 16272635 <GO>}

Let's say, to give figures half year -- where it was last year in the first half, a positive impact of EUR5 million. This year is a positive impact of EUR18 million. So it's a difference of a bit more than EUR10 million. Most of it in the second quarter.

Q - Robin van den Broek {BIO 17002948 <GO>}

And if that changes going forward, I think Q1 next year, I think the average could be down 5 bps, while I think last year it was up 1 bps or 2 bps. I think, in the past, you alluded to EUR50 million in one quarter. Can you remind us what the swing was of the 750-day average year-on-year in that quarter?

A - Bart De Smet {BIO 16272635 <GO>}

I personally don't have that figure in mind and propose to maybe take it up with Investor Relations team. Okay?

Q - Robin van den Broek {BIO 17002948 <GO>}

Okay.

A - Bart De Smet {BIO 16272635 <GO>}

The mismatch, Christophe?

A - Christophe Boizard {BIO 15390084 <GO>}

(inaudible) is a well-known issue, the fact that there is a big duration mismatch. You have very long duration products. So very long liabilities. And available assets are as such that you cannot match this on liability [ph]. So there is a mismatch.

Two answers on this. So first, the allocation to the equity portfolio is quite large and, to some extent, you can consider that, on the long term, and we are taking very long-term product, equity -- with a lack of available assets to match this duration, equity are well suited to this kind of thing, but you have an inherent risk. But for sure -- but it is an answer.

And the second answer is that you have some big margin on this product. And at the end, this big margin gives you room to manage the interest rate risk.

So in conclusion, true, there is an issue. It is structural due to the product themselves. And two, in front of this structural issue, you have the large equity allocation, which is an answer on the long-term. And then, the fact that margin are high enough to manage the corresponding interest rate risk. Thank you.

A - Antonio Cano {BIO 16483724 <GO>}

And on your last question, to comment on the evolution of the solvency over the quarter, what I would like to do is to refer to page 55 where you have, on the right-hand side of the slide, some details explaining the increase of the solvency from 194% Q1 to 201% by the end of Q2. So we had indeed the issuance of the debt that is boosting the solvency by 13%.

And then, on the market, we have 0% impact on the market. There, you could say that's a good performance. And the way that you have to read it is we are negatively impacted by the decrease in the swap curve over the second quarter, which is in line with our sensitivities. And this negative impact is compensated by spreads, but also by FX. And the FX is due to the fact that -- you know that, at the group level, we need to have a capital for our UK -- a fixed currency capital for our UK business. And since, in Q2, the solvency of the UK decreased slightly, our capital that we have to hold is also lower. So for the market, it's a neutral evolution. Negative interest rate impact, in line with sensitivity, compensated by spreads and currency.

And then, finally, operational over the quarter is a plus 3% on the solvency there. It's probably on the low end side of the range. But there, we already give quite some insight, mainly driven by, on the one hand, the UK and the large losses in the UK. And on the other hand, also some re-risking in Portugal. And then, we have the usual share buyback and expect dividend. Share buyback, minus 1%; and expected dividend, minus 4%. Thank you.

Q - Robin van den Broek {BIO 17002948 <GO>}

Thank you.

Operator

Thank you. Next question from Bart Jooris from Degroof Petercam. Sir, please go ahead.

Q - Bart Jooris {BIO 3470300 <GO>}

Yes, hello. Thank you for taking my questions. A lot have been answered. I have quite some disturbance on the line when you were answering the Asia guidance. Could you repeat that? Did I understand it well that you do not change the guidance, but you expect it to be on the higher end?

Then continuing on Asia, could you give us more details of the underlying good performance? Are we talking about better underwriting effects, better investment result even if we exclude the capital gains? And then, on the UK, the Ogden rate became lower than what you expected. This came, of course -- the decision came very recently that take into account the further decline of interest rates. And then, when do you expect the next review of the Ogden rate?

A - Bart De Smet {BIO 16272635 <GO>}

Okay. Bart, on the first question, the guidance, so what I said is that we keep our range at EUR275 million, EUR325 million for the time being, being more the -- let's say, what you could call the multi-year provision for the next period. But we expect this year, unless unforeseen, let's say, financial markets impact, that we will end up the year in Asia, of course, out of this range and above the EUR325 million. As we're already at EUR330 million now, this should be the normal expectation.

Underlying, in the first -- the second question of Ashik, he made -- he deducted somewhere the full capital gains for Asia of the first half and also what he expects the impact of last year of tax and came to something like EUR210 million. If you would do a similar exercise for past year, also taking out or correcting for the, at that time, minor capital losses or impairments, you had last year something like EUR185 million. So this year compared to last year is something like 12%, 13% increase of the result, if you exclude impact of impairments in capital gains.

And as we are increasing the underlying technical liabilities, and you can see that somewhere on slide 5 or 6, I think -- it's on slide 5 -- with more than 10% year-after-year. So it's not abnormal that you can expect the underlying profit to follow that route. Also know that we have still some start-ups like Malaysia and Vietnam where, in the first years, we also expect better results than what we have now.

A - Antonio Cano {BIO 16483724 <GO>}

Okay. On the Ogden rate, indeed, it is what it is, it's minus 25 basis points. Bear in mind, today, now IFRS is also based on the minus 25 basis points. And that's also the case for our best estimate. So we don't have this divergence anymore. And our best estimate year-end last year was still based on a zero percent. So that has led to an increase of provisions.

When will it change? I think it is within five years. So somewhere between today and five years, we could expect the change. Don't ask me what the trigger would be to have a revision before five years as you don't have to ask me a lot of things on UK politics.

Q - Bart Jooris {BIO 3470300 <GO>}

All right. Okay. Just one small follow-up if I may, you stated that you take -- for the tax impact in China, you stated you took into effect the recuperable tax over 2018. But what about the first half 2019?

A - Bart De Smet {BIO 16272635 <GO>}

So in the half year results that we present today, there is no impact of the tax review in China for this year. So the only amount that is in the results is the recovery for 2018. And 2019, as I mentioned in one of the other answers, we are still looking on how the market will deal with that. Will it be purely taken into profit or will part of it be used for improving customer products or using it in the commercial development? It's a bit too early, but there you can expect us in Q3 to have a clear view on that. So the positive is that we did not take anything in account of the potential benefit for this year.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay. But of course, 1H '19 has already finished. So you should have an idea there? So do you just wait till the third quarter to draw your final conclusions? And can we then see a potential impact if there is one reported every quarter?

A - Bart De Smet {BIO 16272635 <GO>}

Sorry, the decision has been made in the course of Q2. So it's not that we have been ready. And I say we, it's Taiping Life together with us, to already take the final decisions. The only thing I can say that, indeed, in Q3, we should have a clear view on that.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay, thank you very much.

Operator

Thank you. Ladies and gentlemen, there are no more questions in queue. (Operator Instructions) We have a new question from Mr. Ashik Musaddi from J.P. Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Hi. Just one follow-up question on your Belgium and Central Eastern Europe and combined ratio. In Belgium, second quarter was 91% and Central Eastern Europe, and which mainly is Portugal, let's say, is 89%. This compares with your guidance of, I think, sub-96%, something like that. How much of this, you would say, is because of luck which is amazing weather and how much do you think is like continuing improvement that we are seeing in underwriting on a regular basis? So just trying to get a bit of sense. The reason I'm asking this is, similar trends we have seen from likes of AXA as well. And AXA was saying that, it's not a lot of luck, it's just like consistent pruning of the underwriting. Any thoughts on that would be great. Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

Ashik, I can answer you for Belgium indeed. We do not manage these portfolios based on luck. We do plan underwriting and pricing quite well. So I believe that I think we are now structurally in a very healthy position in our portfolios. But, of course, always be aware that, on a yearly basis, you have the cap not [ph] effect, which we have already I think consumed for this year in the first quarter. So it's normal that you have a good recovery.

Secondly, second quarter is mostly one of the best quarters we have. And thirdly, AG has a very strong reinsurance program in place, both on individual events as well as cover on a yearly basis. So I'm fairly confident on a strong performance. And please don't think it will always be 91 [ph]. But on an annual basis, we believe we can always stay within the target of the Group, the 96 [ph] including cut not [ph] effects.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Perfect. Thank you.

Operator

Thank you. Next question from Mr. Jason Kalamboussis from KBC Securities. Please go ahead.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, hi. A quick follow-up. Just in Asia, what's would need to happen -- if we put aside the capital gains, what would get you next year to the lower end of your guidance? What are the things -- what do you think would be any concern that you could have that could make you hit the lower end?

A - Bart De Smet {BIO 16272635 <GO>}

In all fairness, I believe it's mostly effect of financial markets. So impairments like in most Asian countries. The proportion of equity in the portfolios is higher than in Europe because the capital requirements are not as severe as they are on the Solvency II. So that's what we see as the major impact that could bring us to the lower end of the range.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

So in terms of the products that you're selling, how you're distributing it, any trends in the market? You don't see anything else that could come basically...?

A - Bart De Smet {BIO 16272635 <GO>}

No. Not really. Maybe for...

Q - Jason Kalamboussis {BIO 4811408 <GO>}

...could pull you back.

A - Bart De Smet {BIO 16272635 <GO>}

...business, something I should add is, like, for instance, our entity in Malaysia is already accounting under IFRS 9. So it means that you have also there not only effect of impairments, there is also value movements in the fixed income portfolio. But, okay, in the total picture, we're not talking about those amounts that completely would damage our capacity to be in the range that we put forward.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Okay, super. Thank you very much, Bart.

Operator

Thank you. There are no more questions for the moment. (Operator Instructions) As there are no further questions, I would like to return the conference call back to the speakers. Sir, please go ahead.

A - Bart De Smet {BIO 16272635 <GO>}

Okay. Ladies and gentlemen, thank you for your questions. To end this call, let me summarize the main conclusions. First of all, we achieved record results thanks to a solid operating performance across all regions and supported by exceptional elements in UK and Asia. I repeat that we are confident that we could exceed this year our guidance of EUR800 million to EUR900 million group net result, with the usual caveat that we do not know, of course, how the financial markets will evolve in the second half of the year.

Second conclusion is we enjoyed a solid sales momentum with a double-digit growth, driven by both Life and Non-Life. And thirdly, given our solid net cash position and strong solvency, we decided to launch a new share buyback program of EUR200 million above the promised minimum EUR150 million.

With this, I would like to bring this call to an end. Do not hesitate to contact our Investor Relations team should you have outstanding questions. Thanks for your time. I wish you all a very nice day. And for those who have it in front of them, very nice holidays. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you all for attending. You may now disconnect your line.