Y 2021 Earnings Call

Company Participants

- Ewout Hollegien, Chief Financial Officer
- Jos Baeten, Chief Executive Officer
- Michel Hulters, Head of Investor Relations
- Unidentified Speaker

Other Participants

- Analyst
- Benoit Petrarque
- Cor Kluis
- Farquhar Murray
- Fulin Liang
- Michael Huttner
- Michele Ballatore
- Robin van den Broek
- Steven Haywood

Presentation

Operator

Good day, and welcome to the ASR Nederland's Full-Year Results 2021 Conference Call. This conference is being recorded. At this time, I would like to turn the conference over to Michel Hulters. Please go ahead.

Michel Hulters {BIO 19111905 <GO>}

Thank you, operator. And good morning, ladies and gentlemen, thank you for joining us today and welcome to the ASR conference call on our full-year 2021 results. Now, on the call with me today are Jos Baeten, our CEO, and Ewout Hollegien, our CFO. And Jos will kick it off with the highlights of our financial results and as customary, Jos will also discuss the business performance. Ewout will then talk about the developments of our capital insolvency position, and after that, we'll open up for Q&A.

As usual, do please have a look at the disclaimer that we have at the back of the presentation for any forward-looking statements that we may make during this call. Having said that, Jos, there are no any special items to mention, so the floor is yours.

Jos Baeten {BIO 2036695 <GO>}

Thank you, Michel. And good morning, everyone. Thank you for joining us on this call. I hope everyone is doing well. We are at least really glad to see some easing of the pandemic situation, and government scaling down COVID-19 restrictions. Hopefully, we can all revert back to our normal lives. We at least are looking forward to the opportunity of meeting you in-person again soon.

Now, beyond that, 2021 was a very good year for ASR, despite the challenges coming from the pandemic. We actually recorded our best ever operating result and we have delivered on the medium-term targets, which we have set back in 2018. For these achievements, I really want to thank all of our employees, who are actually the driving force behind our performance. Ewout and I will briefly present the highlights before we open the call to take your questions. So without further ado, let's now turn to Slide number 2.

As you have seen in the press release this morning, our operating result rose 15% to over EUR1 billion, driven by a very strong performance in all our segments. The OCC increased to EUR594 million, exceeding our mid-term target of EUR500 million, reflecting the strong business performance as well as increased investment returns. Combined ratio stood at 91.8%, well ahead of our target of 94% to 96%, this is including the impact of the July floods and COVID-19, excluding COVID-19 the combined ratio is approximately roughly 3 percentage points higher. Our solvency II ratio continues to be robust at 196% still on the standard formula. This is after deducting the proposed dividend and Ewout will elaborate more on solvency later on. Based on the record performance, we offer a significant step-up in dividend, at EUR2.42 per share. This is a 19% increase and this step-up will be assumed, already know, locked in as we move to a aggressive dividend effectively this year. In addition, we announced today a share buyback of EUR75 million, which is the final leg of our previous commitment to do a 3 times EUR75 million share buyback program.

So let's now move to Slide 3 and look at our performance against the medium-term targets. As shown on this slide, four consecutive years, we have clearly delivered on our ambitious medium-term targets. The capacity of our business to deliver solid operating results and to generate capital has been very-very strong. The out-performance is driven by continued solid business fundamentals. Backed by a robust balance sheet and solvency, we were able to deploy capital profitably in organic growth, acquisitions, re-risking and absorb impacts such as the lowering of the UFR. We also delivered on all of our non-financial targets, except the employee contribution to society due to the COVID-19-related restrictions. So, looking back, our strategy was sound and we executed with discipline.

Let's go to Slide 4. Our strategic focus is on creating sustainable value for all of our all of our stakeholders. It is our ambition to be one of the leaders in sustainability. To further underpin our position as a sustainable insurer, we have recently joined the Net Zero Insurance Alliance together with our commitment to the Net Asset Manager Alliance; this means that both sides of the balance sheets are covered. To mention some examples, we acquired a significant part of the largest land-based wind park in the Netherlands from

Vattenfall. This sustainable investment in renewables provides the equivalent of the energy consumption of 114,000 households in the Netherlands.

And in our insurance portfolio, we are glad to see an increase in the adoption of sustainable repair, instead of full replacements. Almost 25% of fire claims and almost 60% of motor claims are now being repaired in a sustainable manner. As a reliable employer, we have put a great deal of effort in inclusion and diversity, providing equal opportunity for career advancement and personal development, and making sure our force remains healthy and at the same time engaged. And our achievements in sustainable value creation and ESG, is increasingly being recognized by ESG benchmarks and indices, such as the leading Dow Jones Sustainable World Index where ASR is among the top-10 best performing insurers worldwide. And of course, our number two position globally, according to the Sustainalytics risks rating.

Before moving to our different segments, let me just discuss a bit more about the recurring subject of COVID-19 on Slide number 5. With most of the restrictions recently lifted by the Dutch government, we are hopefully at the end of the COVID-19 periods, which has kept us in its grip for almost the two years now. COVID-19 has caused considerable stress on society, on individuals, both physically and mentally. The longer-term impact of, for instance lung COVID are still quite uncertain and sickness leave due to COVID related mental illness can leave long-lasting marks on people's lives and society.

We as ASR have helped our customers from the beginning of the COVID-19 period with tailor-made solutions and payment arrangements; so far fortunately we have seen only a very low number of bankruptcies and arrears in our customer base. And our employees have been able to keep customer satisfaction at a high level, measured by NPS-c, this was stable at 49 in both 2020 as 2021. Regarding our own employees, the Mood Monitor which measures our employee well-being, motivation and vitality, remains very high during the periods with a score of 7.5 out of 10 in 2021. From a financial point of view, COVID-19 had a net positive impact on our '21 results. On operating result, we see an indicative positive impact of EUR77 million, same dynamics apply as earlier results with a slightly negative impact on disability due to higher level of claims and on life mainly due to lower direct investment income. This is more than offset by a positive impact in our P&C business coming from frequency benefits in motor and lower claims in fire.

So let's now move to Slide 6 and talk a bit more of our non-life segments. In non-life, the operating results went up by EUR84 million driven by strong organic growth and lower claims in disability, lower than last year. COVID-19 had a net positive impact of EUR93 million compared to the EUR21 million, last year. This was partially offset by the reserve strengthening in the first half of 2021 as well as the floods in the south of the Netherlands, which had a negative impact of EUR20 million.

Claims related to the heavy storms this year, as we all have noticed last weekend, are currently estimated to range somewhere between EUR40 million and EUR60 million. Please note, this is a preliminary and rough estimates as it is still early days after these storms events. Up until now we recorded just over 4,000 claims, but there are still new claims coming in. As a reminder, our reinsurance kicks in at EUR35 million, and our program includes a second storm cover of EUR17.5 million.

Our combined ratio, last year improved by 1.9 percentage points to 91.8%. For P&C and disability combined beating the target of 94% to 96%. And as mentioned earlier, excluding COVID, this would be around 3 points higher. With 5.2% organic growth for P&C and disability combined, we have even surpassed the upper limit of the target range. Despite challenging market conditions, so we were able to grow the business organically. Especially in P&C, due to increased competition, this was quite a challenge. Momentarily, we do see the risk in the current market that some players are being tempted to become more actively apply the price instrument to gain market share.

Finally, in health in 2021, we saw a significant increase in gross written premiums due to commercial success of our new introduced product. And maintaining our financial discipline, and pricing our product rationally, we benefited from the opportunity in Dutch health insurance markets to grow profitably last year. And as you know, value over volume remains a key strategic principle. We have continued to remain disciplined in pricing in our health business also in the beginning of 2022, where we have seen the market become a bit softer in terms of pricing. As a consequence, not all of the customers that we won last year, will stick to our business and we assume that we will lose about half of the growth in customers last year.

Let's move to Slide 7 and talk a little bit about the life segment. Operating result of life increased by EUR33 million to EUR763 million. COVID-19 had a negative indicative impact of EUR16 million, compared to the negative Impact of EUR22 million in 2020. This impact is mainly related to lower dividends from the real estate funds and somewhat higher rental discounts. Operating result is up mainly due to a higher investment margin driven by the further optimization of the investment portfolio and the lower required interest due to the gradual run-off of the individual life portfolio. And Ewout will elaborate more on the asset optimization in his part of the presentation.

Gross written premium increased mainly due to the commercial success of our Pensioen DC product, which saw an increase in premiums of 37% to EUR634 million. The total assets under management in Pensioen DC, including the acquisition of the Brand New Day IORP increased by EUR1.7 billion to EUR5 billion, end of last year. And finally, our operating expenses remained at 45 basis points at a lower end of the target range and this 45 basis points already includes the investments in our IT systems needed to adapt the ongoing transition within the pension business.

So, let's now turn to Slide 8, for the other segments. Operating results for the two fee-generating segments, asset management, and distribution and services, combined amounted to EUR64 million, up 12% and exceeding our medium-term target as announced in 2018 of 5% growth per annum. Asset management result was driven by the continued growth in third-party assets under management, mainly related to the mortgage fund and Pensioen DC related mix funds.

Mortgage origination amounted to a record of EUR6 billion, EUR1.4 billion higher compared to last year. Out of this EUR6 billion, EUR2.1 billion was allocated to the ASR mortgage funds. Operating result of the distribution and services segment segments increased by EUR2 million, mainly driven by small acquisition and organic growth. In addition, as mentioned during the investor update, we have made the first step in increasing the effectiveness of the various distribution entities by putting them under one central management. This will be reflected in daily operations, as well as the execution of our M&A strategy in the distribution landscape. Finally, holding and other operating results improved to minus EUR130 million, mainly coming from the shift in pensions scheme for our own employees.

Let's turn to Slide 9 and talk about capital distributions. As mentioned, we clearly raised the total capital return to shareholders. This is supported by the solid capital generation we expect from our businesses and our strong current capital position. This year, we proposed a dividend of EUR2.42 per share, which is a 19% step-up compared to last year. This is the basis for our progressive dividend going forward, where we define progressive low- to mid-single-digit growth. On top of that, we will finalize our three-year share buyback program of 3 times EUR75 million to be executed in the coming three months. And as announced during our investor update, it's our intention for the coming three years to do a share buyback of at least EUR100 million, annually.

And with that, I'll part my end of the presentation and hand over with a lot of joy to Ewout.

Ewout Hollegien

Yes. Thank you, Jos. And hi to everyone on this call. It took me 4.5 years to be in front of you as CFO and present the full-year numbers of ASR. But Michel, only allowed me to talk for 15 minutes to leave ample time for Q&A. So let us agree that we make the Q&A, a good one and allow me to quickly jump into the numbers and to have a closer look at the developments on solvency and OCC.

So, let's turn to Slide 11, which shows the movements within our solvency. Solvency ratio remains strong at 196% based on the standard formula. Our organic capital creation was very strong ending 14 percentage points to the solvency ratio. And I will talk about OCC in more detail later on.

On the back of higher operating earnings and a strong solvency level, our capital returns being dividends and share buyback, reached record levels and took out roughly 10 solvency points. Our strong OCC helped us to absorb unfavorable and incidental market and operational movements of in total minus 6%. And we noticed three main negative elements in market movements. One, a negative of almost 4% due to lowering of the UFR to 3.6% level. Second, a decline of the VA with 4 basis points, which has an impact of minus 4% on the solvency ratio. Then, to remind you the VA for full year '21 was only 3 basis points. And third, higher inflation expectation on which the full-year impact was roughly between 8% and 9% negative. These negative items were partly offset by higher interest rates and favorable impact from spread tightening in mortgages. And this improves the resilience of our balance sheet. Solvency ratio remains very robust, while we increased the shareholders return to 10 solvency points and at the same time absorbed unfavorable market movements. As hashtag inflation being one of the trending topics in 2021, we felt it would make sense to shed some light on this.

As you might remember, our products are only limited exposed to inflation. Solvency ratio is impacted with 2 percentage points for every 30 basis points increase or decrease of inflation expectation. Though we are only limited exposed to inflation, we did notice an increase of inflation expectation of close to 100 basis points in 2021 and that resulted in an overall impact on our solvency ratio of around 8% to 9%. Roughly speaking, equally divided over H1 and H2.

During the investor update, we already highlighted that somewhat higher inflation is in the long run a good thing for ASR, given the strong correlation it has in normal circumstances with higher interest rates. And without making it too academical with historical data analysis points to a relevant correlation between inflation and interest rates being a 30 basis points of increase inflation, result in a 100 basis points increase of interest rates. And as we report in our sensitivities, we benefit both from solvency stock and OCC flow from higher interest rates. Something we see and started seeing by end of 2021, which brings me to OCC development on Slide 12.

The OCC came in very strong at EUR594 million and I'm pleased to see that the largest driver of this increase comes from business capital generation, which is driven by a strong non-life result and increased excess returns. In non-life result includes both the positive impact from COVID-19 as well as the negative impact from reserve strengthening and incidentals in the first half of 2021. The increased excess returns are result of the shift to illiquid assets; we did over the course of last two years. And the higher equity and real estate valuation, which more than offset the lower mortgage rates and credit spreads. The release of capital increased by EUR26 million due to higher market risked SCR release and lower new business tend due to improved non-life profitability. The undo release of capital is a technical item. The main driver of this improvement of this technical item is coming from improving business performance.

And lastly, the technical movements, which is primarily related to UFR drag were roughly stable. Interest rates were back up to around full-year 2019 level. And given our methodology in determining the UFR drag, being the average of the -- being the efforts of the beginning of the year, and the end of the year, that makes it stable at the level of around EUR200 million. The difference with 2020 is that we now have a positive view of our UFR outlook of roughly EUR40 million into 2022. All-in-all, a significant increase in OCC compared to 2020.

And I just mentioned the extraordinary incidental benefit and I can imagine you are looking for a somewhat normalized level on OCC. So let me try to help you on that. Please take the reported OCC, deduct after-tax non-life growth impact of approximately EUR70 million and add back roughly to EUR20 million reserve strengthening and the other incidentals and that brings you at a more normalized OCC level of around EUR540 million to EUR550 million.

Let's go to Slide 13 to talk -- surely about the investment portfolio. Investment portfolio remains robust and well for the first phase we've strong skew to quality. In 2021, we saw a room to further optimize the investment portfolio through increasing our allocation towards illiquid assets to EUR3.9 billion, mainly in mortgages and illiquid credits. The increase of real estate is due to revaluations. These asset classes match well with our long-term liabilities, are a good way to capture the illiquidity premium and have a strong return on SCR. So all-in-all adding premium without adding risk. And we still see room for further optimization and continue to do this in a disciplined way without losing quality, which brings me to our strong balance sheet. Slide 14, please.

To stay true on one of my predecessors, I like to look at robustness via old-fashioned metrics. The balance sheet of ASR offers ample financial flexibility. Our unrestricted Tier-1 capital represents 75% of own funds and 146% of the SCR and we can continue to have ample headroom available within the solvency II framework, EUR1 billion of restricted Tier-1 and of EUR500 million Tier-2 and Tier-3 headroom. The financial leverage decreased by 3.5% to 24.8% on a IFRS basis and that's due to an increase in equity of EUR1 billion. On a solvency basis, our leverage ratio is somewhere around 26%. The double leverage and the interest coverage ratio are also in excellent shape, which all contribute to remain safely above the thresholds of S&P single A rating which was confirmed in September. So old-fashioned can still look good in a way.

Let's go to Slide 15, the holding liquidity. The holding liquidity at the end of 2021 stood at EUR525 million in line with ASR's policy of maintaining capital at the operating companies and upstream cash to cover dividends, coupons and holding expenses for the current year. Last year, due to the COVID uncertainties, we did not permit any from the non-life entity. This year, we have limited EUR142 million from the non-life entity and EUR500 million from life with the remaining EUR57 million from other segments.

Solvency position of legal entities remained strong at 186% for life and 168% for non-life after remittance. The total level of invincibility [ph] together with the strong capitalized legal entities remains fairly stable compared to 2020, increasingly supported by the non-life segment. Our debt maturity profile, as you can see, it's very robust and the next the maturity date is in 2024. And again, we have ample financial flexibility and room to add leverage to our balance sheet. Together with the strong capitalized legal entities, this provide us ample guess flexibility.

Slide 16, please. When we look at our capital returns to shareholders since IPO, we have a very strong track record with returning over EUR2 billion of capital with the significant step-up in dividend this year to EUR2.42 per share, we remain at 45% of the payout ratio of net operating results after hybrids. This is the last year that we used the payout ratio of net operating result. As announced at the investor update, we have changed our dividend policy. This year DPS of EUR2.42 is totaling EUR329 million, which is a significant step-up of 90% compared to 2020 and really strong basis for the progressive dividend going forward, very few progresses as low-to-mid single digit. And just to confirm, the progressive dividend is all for the absolute amount of EUR329 million. So our shareholders are not paying their own buyback.

The benefit of our new dividend policy is that it becomes predictable for our shareholders and there is no uncertainty around the outcome of IFRS 15, nor being dependent on daily interest rate movements. The total shareholders return, so the cash dividend, including share buyback result in a fairly stable payout ratio of 30% of OCC and 65% of business capital generation of the last couple of years. And although this is not a metric that determines our dividends or share buyback level, it proves that we can fund the shareholder return with the capital that we generate with our business.

That concludes my part. Our solvency remains strong, the underlying business improves, which is a driver for increasing shareholder returns and future growth. And now back to you Jos for a wrap-up.

Jos Baeten {BIO 2036695 <GO>}

Thank you Ewout and not only ASR lived up to the promises, but you also lived up to the promises, you made to Michel to do the presentation in 15 minutes. So ladies and gentlemen, in 2021 we achieved strong delivery against ambitious targets. And for the next planned period, we have raised our ambition further, both for our financial and non-financial targets, which we announced at the investor update on the 7th of December. And recently, one of my seasoned CEO colleagues said that now his company feels more headwind, they have to pedal harder. Well, looking back at our results you could say that no matter which direction the wind is blowing on the dykes at a ASR we always pedal as hard as we can. And therefore 2021 ended up being our best result to-date ever, driven by strong performances in all segments and achieving all of our financial medium-term targets.

Our balance sheet is strong with ample financial flexibility and businesses generate solid organic capital. Full dividend as up by 19% and step-up is locked in by progressive dividend going forward. With today's announcement of EUR75 million share buyback, we've finalized the commitments to our share buyback program of 3 times EUR75 million, and for the upcoming three years we have the intention to do at least EUR100 million share buyback for a year. And finally, we have new ambitious targets focused on sustainable long-term value creation for all of our stakeholders.

And this concludes our presentations, and we are very happy to take all of the questions you might have after those presentations.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We will take the first question from Cor Kluis. Please go ahead.

Q - Cor Kluis {BIO 3515446 <GO>}

Hello. Good morning, Cor Kluis, ABN AMRO ODDO. A couple of questions. First of all, on cash remittance, we see now that the last two years, you have been remitting around EUR700 million from the entities in both 2020 and 2021, and that's clearly higher than the three years before, 2017, 2018, 2019 was around 500 million upstreaming.

So you are clearly higher upstream this remittance at this moment. Could you give some yeah -- feeling could we expect that kind of remittance going forward or was there something exceptional in the last two years, because it's quite a step-up? So that's my first question.

Second question is about solvency. Solvency was 196 [ph] during, of course, the end of last year, year-to-date, of course, rates went up, (Inaudible) went up, equity markets went down, which is all great for your solvency ratio. So can you give an idea of the solvency ratio at this moment? It should be higher than the 196% -- but (Inaudible) on that one.

My last question was on the OCC for 2022 and last year, you mentioned that has normalized 540-550, but interest rates are higher. You already mentioned the 40 million echo, but I think that should be a bit more because also this year interest rates rose. So there might be something extra on top of that. So, maybe with that element and also for control of the Wind Mill Park. I think that would also add to the OCC, so maybe we can get some feeling of that. So some drivers for the OCC in 2020-2022 piece. That's it from my side. Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Thank you, Cor. Ewout.

A - Ewout Hollegien

Yes. Thank you, Cor, for your question and your interest. So on your question on the remittance -- so the increased remittance of the last two years. Yes. That's reflecting the higher dividends and the share buyback program that we have executed over the last couple of years.

So given the policy that we have on the remittance, that result in somewhat higher remittance. So we keep the amount of cash in the legal entities without the exception of the policy as I earlier described. So that's on the remittance. So purely in reflection of higher dividends and the share buyback.

On the solvency ratio, I think you're right, when you look to the sensitivities, it is moving in the right direction for our solvency ratio. So, where we are today, we could expect that the solvency would be a bit higher, but I think it's fair to say, and probably I don't have to explain that to you, that it's still early days and well we see volatile markets at this moment. But when we look to where our -- to our sensitivities and where we are today on those sensitivities, I think you're right that, obviously, we can expect it to be a bit higher.

I think the last part was on the OCC, and especially on the OCC going forward. Indeed the 540 to 550 is more the normalized level. If the rates were to stay where they are today, we would expect EUR40 million higher buyback this year -- EUR40 million lower buyback this year, as a result of the methodology that we apply for the new product. So, the efforts of the beginning of the year and the end of the year.

So the UFR echo is around -- probably around EUR35 billion and there is an extra contribution of EUR5 million coming from the lowering of the UFR So, that's on the interest rates. But I think it's good to also to point towards the Investor Update, when we talk about the OCC expectation. So we aim to achieve a cumulative OCC of EUR1.7 billion to EUR1.8 billion in the next three years, based on our new business target optimization and the (Inaudible). This growth is expected to be relatively linear and around 20 million to 25 million per year. And as you know, the growth is coming from the ambitious non-life target, driven by increased profitability and more revenues and additional impact on the increased investments returned, that's driven by the third optimization of the asset portfolio and necessary on top also from the growth of the -- of our fee-based business.

If we now look to the interest rate environment, we always have said that the Investor Day targets were based on what interest rates were by the end of November. And of course, since the end of 2021, fee rates increasing -- are increasing a bit. We have provided some sensitivities on this at the Investor Update, that the 50 bps shift will lead to EUR40 million higher OCC. But given our averaging methodology, this would be half the number for 2022. And before we get too optimistic for this year OCC, we of course, also see some other elements coming in.

So, we are, of course, the strong average you've already touched upon, and we said possible impact of around EUR40 million. We have seen equity markets coming down a bit of (Inaudible) tightening. But it's all still early days and markets can be quite volatile, but this is where we are today. And maybe it's also good to mention that in December, we issued medium-term targets which are cumulative over the next few years. And we also said it's good to do that in a cumulative way, to be able to absorb these shorter-term impacts on OCC. And I think that hopefully gives more holistic perspective on the OCC going forward.

Q - Cor Kluis {BIO 3515446 <GO>}

Absolutely, wonderful. Thank you very much.

Operator

We'll now take the next question from Michael Huttner. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much and well done overall again on your target. I have lots of questions (Technical Difficulty) allowed, but just delete them. So, the first one is how much -- what can you say on deals and parts of the growth side, I like to think about it at ASR.

And the second is on pricing. So just (Inaudible) I know it's not same company, not the same country, but they were actually saying, no, they can price some more due to climate change. They have added 1% to 1.5% to the households in Belgium, and by contrast with kind of guidance, you have some softness in pricing in health, and I think in non-life. So, I just wondered whether you can get say a little bit more on that.

On inflation, I understand that you gave the inflation numbers and also the risk, but the inflation sensitivity seems huge. I just wondered if you could give a little bit more color on this. It's not that the numbers are big as rest of your peers have said these numbers. So, they be unexpected that's all, it's my point, seems high.

And then my last question is really simple, because I don't understand very well. The EUR40 million UFR drag or echo on non-drag, and you talked about averaging, So, I'm just asking do I use EUR40 added to create the 2022 figure? Or do I have to add -- just add 20 million and that EUR20 million of 2023? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Thank you, Michael, for those questions. Normally, we allow only three, but given the fact that you have been very positive on us in one of the Dutch newspapers, we will allow four.

First of all, on M&A. As you can understand, it's difficult to comment on whether there is a big or small pipeline on M&A. It's our aim on top of the targets as we have disclosed in the Investor Update last year, to be very focused on M&A. Our preference there is to do strategic M&A in the areas that we want to grow like P&C, like the Pension DC business, distribution, et cetera, and there are files, of course, but we also want to remain very disciplined. So, we're constantly on the lookout and looking at possible M&A. So that to your first question.

Then to your question on pricing discipline and in what sense it is influenced by climate change. Well, two years ago, we did together with the Dutch Association of Insurance Company, so we did an investigation on what is the long-term view on climate change, and how could that influence pricing.

Given the current coverage in our policies, today we are confident with the pricing level, including what we know up until today in terms of what could happen due to climate change. Even when the frequency of storms, hail, water-related claims, floods et cetera will go up going forward. Then, over the next couple of years, insurance pricing for mainly fire products needs to go up to roughly 15%, going forward. That's not yet the case, but I think the Dutch market is aware of the fact that given where we are in Europe, we are a water-rich country. Prices needs going forward to go up.

In general terms, pricing discipline up until the last part of 2020 month remained fairly stable and disciplined. However, during the first couple of weeks of this year, we see and that's why I mentioned it in my presentation, we see that some competitors are trying to buy market share, mainly in motor. So the motor market is becoming more competitive momentarily, and having said that we remain disciplined in our pricing.

So the question on inflation. I think that's a question for Ewout, and also your last one, the bonus question we allowed you.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. Okay.

A - Ewout Hollegien

Thanks, Michael. So, inflation your question was, it seems to be quite used in comparison to the competitors. Yeah, it's difficult for me to know where competitors are, because we didn't see that much disclosure in the market on inflation till this moment. We want to be transparent on how it has impacted our solvency ratio. So, in which products are we sensitive? It is -- we are sensitive in the value [ph] on the claim side in disability.

We have some sensitivity on claims in funeral (Inaudible). So that's the cup of coffee when someone has died. And we are sensitive on the cost in the Life business. Yes, and so, and the sensitivities that roughly spoken that if inflation expectations rise with 30 bps, then we have a two percentage impact on our solvency. Now given the fact that inflation expectations were very much higher in 2021, so 100 bps higher, that resulted in the OpEx, somewhere between 8% and 9%. So, hopefully, it helps more to also get a feel on how is inflation impacting our businesses and our solvency.

On the last question that's the UFR drag. Now yesterday you asked whether or not to take the EUR20 million or the EUR40 million. If interest rates are where they -- stay where they are today, sorry, then you can -- then you will have a positive impact on the UFR echo in 2022 of 35 billion. So, the full -- this is the full effect, and an additional 5 million is coming from lowering of the UFR, which will come down to 3.45% in 2022.

So full amount you can recognize in the OCC. And it's also a total in the back of the presentation, it's also presented. I think it's Slide 35 or something.

Q - Michael Huttner {BIO 21454754 <GO>}

That's fantastic. Thank you so much. Thank you.

Operator

We'll now take the next question from Steven Haywood. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you very much. Can I give three questions please. Firstly on the health business, obviously, it had a very profitable 2021. What do you see is the current run rate, combined ratio going forwards for the health business? I know you mentioned that they would be potentially a bit more competition in 2022?

In your presentation, I think you mentioned about disability cover in your pension portfolio, having negative impact. Can you explain a bit more what happened in the second half 2021 and whether this impact will continue going into the future?

And then finally, I wonder if you can give us an update on IFRS17, what progress you have done and what costs to implementation you're seeing? And any potential date you can set in stone for us to know more? IFRS 17 accounts would be helpful. Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Steven to your first question on health. Yes, Indeed, as mentioned in the presentation, we had a significant growth in 2021 in the health insurance business. Our portfolio grew with over, I think it's over 220,000 customers. Some of the larger competitors were not happy with that, and priced their new business as from the first of Jan this year, quite aggressive. And that's why I already mentioned, we might lose a little bit of the growth that we had in health insurance last year. Overall, since 2018, the combined growth ratio will remain above 10% and I believe it's currently even 12%.

To the combined ratio question, the target combined ratio in health is 89 -- sorry 98. And there is -- there are no signals that we will not meet this combined ratio target, and whether it will be as good as it was last year, because health was very good last year. That's to be seen. It's going to depend on how comfortable developments will be in this year. And whether better people that couldn't get any treatment last year will get it this year or that they don't need it anymore. So, it's difficult to predict for the time being, but we don't think that we will exceed the 98 -- sorry the 89. So, we will meet our target there.

A - Ewout Hollegien

On the disability cover and pensions. Yes, so what's happening there? So maybe it's good to start, so there is cover in pensions that when an employee becomes disabled, so they don't have to pay their pension premium any longer. So, that's the coverage that you get from that, and it's more or less a product in addition to the main product. So, it's a product that is well-known for fin margins. What you now see here is that COVID is also impacting -- is also the impacting the inflow of disabled people in this product, and that means that we had a negative on there. So it's almost also related to more or less to COVID.

Your question, also what can we expect going forward? Yes. I think we still have to sort out what the long-term effect of COVID will be, especially for these type of businesses. So it's something that we have a close eye on, and not fully sure how this will sort out in the coming years, but don't expect the same amount of impact as we have seen this year.

To go to your question on IFRS17. Yeah, the cost of the IFRS17 program is I think on average of the last couple of years around EUR 15 million -- it's 1-5 million, at least it was in 2021. We are working towards implementation on the 1 January, 2023, with some choices still to be made, for example, the yield where it has to sort out what the market practice will be on the yield curve and then it's really determining also the results.

As we have said, during the investor update, we are definitely going to organize a teaching session to make clear on the assumptions that we apply and how this works for you as analyst community.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you very much. And if you can get 89% combined ratio in any business line, I'll be very, very --

A - Jos Baeten {BIO 2036695 <GO>}

We keep on pedaling, despite the wind.

Q - Steven Haywood {BIO 15743259 <GO>}

Thanks Jos.

Operator

We will now take the next question from Benoit Petrarque. Please go ahead.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes. It's Benoit Petrarque from Kepler Cheuvreux, good morning. Actually three questions, and a small bonus one as well. The first one is on the non-life combined ratio may be going into 2022, just to sum up what you said there. I was wondering because at your 95% combined ratio in P&C in H2. And we were thinking at 89% in H1, so they are -- there's some deterioration into H2. I was wondering if you expect the P&C level to -- to be at 95, or maybe likely with the normalization, will be less COVID benefits into 2022, and then obviously, forget about the storm impact here.

So kind of '95, is that ritual for 2022 as well. And then also maybe looking more into the Disability combined ratio, I think it's 91% in H2, still very low. What do you expect here? Do you still expect maybe COVID to be a bit of a drag on Disability into 2022? I think that's what your competitor commented recently? So that's the first question.

The second one is more OCC [ph], so the normalized 540-550. I was looking into the unwinding of risk margin and the FCR [ph] release level in 2021. Do you expect this level to be sustainable going forward? I think it was a bit more -- it was a bit higher than what we've seen in the past.

And then maybe just the last one, the bonus one on the asset management business, which has done great in 2021. I was wondering what is your pipeline, especially in the mortgage fund portfolio, because I will assume that are you ready for creating a little bit less demand for that product. But I was wondering if that's actually true? Okay. Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

On the combined ratio question, first of all, we steer the business on the combined-combined ratio of P&C, and disability. And even if we wouldn't have any beneficial from COVID in 2022, we're not hesitating that we will meet the combined ratio target. So, between 93% and 95%.

In disability, we still face a little bit higher combined ratio, given the inflow as we have seen last year, due to the increased number of infections in the Netherlands. But we're actually not that much worried about it going forwards, because what we see is that most people that call in sick return to work within five to ten days, and that is in a lot of policies, the waiting period before we start to pay.

On your specific P&C question. I think 95 in pure P&C would be great, but we assume that it will be a little bit higher, especially now, we already are seeing the storms coming in the last couple of weeks. On average I think P&C is more around 96-96.5, and Disability in the low 90s and that will average out going forward towards the 93 to 95 combined ratio.

And on the second question, Ewout?

A - Ewout Hollegien

Yes, so I think the second question was on unwind -- on the unwind of net capital release, the question was.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, I asked--

A - Ewout Hollegien

So, the net -- sorry, Benoit -- so, the net capital release in this you can assume it remains fairly stable also in the next year. And there was also a fourth question that you raised, the mortgages. Yes or no -- sorry, on the asset managed side.

Yeah, I know -- so, we expect the mortgage to grow EUR2-EUR3 billion per annum in the coming -- in the coming year. So we believe that we have more -- there is there is more to come from growth coming from the asset managers and that's mainly related to the mortgage fund. So that can grow EUR2-EUR3 billion per annum. And in addition, we expect some growth also coming from real estate, probably somewhere around EUR1 billion level.

And thirdly, what we also described when we grow with our pension DC business, that is always a double whammy for us as an insurer, we also have the asset management side, because we can also get some growth from there. And the target that we have announced during the Investor Day was EUR 5 billion. So that's the growth expectation from -- on the asset management side.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Great. Thank you very much.

Operator

We will now take the next question from Fulin Liang. Please go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. Just two questions. The first one is from what I heard, the market is, the P&C market in different segments are getting more competitive in motor, in health. Does that mean that -- but do you still, you have like a headline growth of 3% to 5%? Does that mean that we might be more likely to be on the lower end in terms of the head -- underlying growth going forward? That's one question.

Secondly is, so if I look at the non-life, you have a very high, very good operating result, but in terms of the remittance, you're just remitting less than half of the operating results. I just wanted to trying to -- if you can help me kind of bridge the numbers between the two or are you really just keep the cash in the operating company, and instead of upstreaming to do the whole code, does that mean that the local entity would have a higher solvency in that case? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Ewout will dive into the second one, on the remittance. On your first question, whether the increased competition will bring us to the lower end of the growth -- of the organic growth, I think the clear answer is no, we don't. The only reason I mentioned is that we will remain disciplined there where we obviously being less disciplined with our position, with intermediary as well in the P&C business. As in the Disability business, it's quite strong and we believe that we will be able to meet the target and not disappoint the market there.

A - Ewout Hollegien

Yes. Thank you, Fulin, and on your second question on the remittance. So, it is a sales polity -- policy that we maintain capital at the operating companies, and that we only upstream the cash to cover dividends, coupons, and the holdings expenses for the current year. And then more your question on why not more about remitting from the non-life entity. Yes, we are actually quite opportunistic here. So, we can do it both from life and non-life given the strong capitalization both entities has. So it's more optimistic choice than really a policy.

Q - Fulin Liang {BIO 21126177 <GO>}

So are we -- should we, in fact, see a stronger solvency position in your kind of non-life entity then?

A - Ewout Hollegien

Yeah, it increased 5 percentage points. So increased by 268% and it also increased in terms of premium. So, you also see that the FCR [ph] is growing. So, on foot, it's growing even harder than the (Inaudible)

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Got it. Thank you.

Operator

We will now take the next question from Naveed Ahmed. Please go ahead.

Q - Analyst

Hi. Thanks for taking my questions. So, firstly on the combined ratio for non-life, just excluding COVID and in fact, it seems to have increased by 1 percentage point --96, 94. So, can you give more color on the drivers there, maybe that's certainly impacted, that's not in the COVID impact that you've disclosed? Then on the life investment return.

So there, can you talk about re-risking. So, just looking at the outlook for re-risking on the operating result and the OCC, I think you've provided a number previously, so can you just update on that.

And then finally, if you can talk about the opportunity for ASR on -- in the life segment on the pension reforms in the Netherlands. Would you be willing to do sort of the DBU [ph] de-risking schemes as well if the opportunity arises? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Ewout, you take the first two, then I will take the last one.

A - Ewout Hollegien

Yes. Thank you Naveed, if I understand your first question correctly, your question was, what if you strip out all the incidentals, what we can be a more or less denormalized combined ratio. I think then you're quite right that we probably end up around 94% level. So that's I think your view is there correct.

Your second question was on the -- (Multiple Speakers)

Q - Analyst

Yeah, was just on the increase -- since you have increased 1 point, if you take up all the incidental.

A - Unidentified Speaker

Yeah. No, that's correct. So, correct.

A - Ewout Hollegien

On your second question, was on the re-risking on OCC, and what's the impact of re-risking on OCC. So we expect that the impact of re-risking on OCC will probably be around the EUR10 million per annum and is part of the overall OCC target that we have disclosed during the Investor Update.

Your question might be where's the increase coming from. So, that's from finalizing the shift to the liquid [ph] credit. So we still have room for another 1 billion in liquid credit. And furthermore, the growing of the non-life book. And thirdly, we also see the opportunity to optimize within S categories and that we certainly higher expected impact obviously from re-risking.

A - Jos Baeten {BIO 2036695 <GO>}

And to your last question, it was not fully clear. But was the question Naveed, that would we be willing in terms of the new pension reforms to on-board more DB. Is that what I understood from your question?

Q - Analyst

Yes, generally the outlook for ASR in the life cycle from the new (Inaudible) and if you would look to do (Inaudible)?

A - Jos Baeten {BIO 2036695 <GO>}

Well, for DB, we already last year stopped onboarding new DB. So, given the most recent pension reforms that were announced, we don't expect that we will do any more DB, and actually DB has to transfer at least new pension build-up, has to transfer to the new pension reform and to the new pension system. And we're quite optimistic.

And as shown in the growth last year, where we were able to grow the new business with 37% going forward, we assume that we will continue to grow this business for the next couple of years and that's also reflected in the target that we have announced of 5 billion of additional growth in the asset management, assets under management. A large part of that growth has to come from the accumulation of pension DC. So, that's one of the selected growth areas going forward next to the P&C, disability and distribution business.

Q - Analyst

Okay. Thank you both. Thanks.

Operator

We will now take the next question from Robin Van Den Broek. Please go ahead.

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

Yes. Good morning, everybody. Thank you for taking my questions. Firstly, coming back to the OCC guidance. I think they're quite EUR540 million to EUR550 million as normal as base, and then adding EUR40 million for rates versus the storm sort of cancels out, I guess the storm impact is pre-tax.

So there is still a small incremental from that. And then with your linear growth from the businesses in re-risking, I think you should land that around 575 for 2022. So first of all is that reading correct? And then in connection to that, your rates implication, I think is still based on the end of last year. Of course, a large part of the rate development year-to-date is not baked into that. I appreciate what you said also on equity markets and mortgage margin. So should we assume that those factors sort of cancel out against each other?

And maybe more general, I would like to understand better how you see the mortgage margin development year-to-date? And how you embed that exactly in your OCG determination? Because I think every insurance company also here has a different way of establishing this mortgage margin. So it will be nice to have a little bit of a feel on how that moves around for you.

Then secondly, your buyback is of course in line with your promises, that's very clear. But if you could read anything into the short timeframe in which you're willing to execute that, that there might be follow-up on buybacks with the H1 results in lack of M&A.

And thirdly, and then maybe sneaking even a fourth one, quickly remind us of the remittance potential of the health business, I think in relation to the base insurance, there was somehow do you say -- you're not able to remit basically from the base insurance, but how exactly does that look for the add-on insurance and how are you acting on that last year and going forward.

And Jos, I think during the Investor Day you also mentioned the emergence of initial [ph] pack, and how they could basically use data to take the people that are easiest to ensure at the lowest premiums away from your book. Is there any update there on how you think about that, and how the political environment could look at that? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Okay. So Robin, your first question was on OCC, and whether you're reading of what Ewout has said, what's right. So Ewout, maybe a brief reflection on that.

A - Ewout Hollegien

Yeah. So, my brief reflect -- thank you, Robin. So my brief reflection will -- is that I can follow what you stated. So, I can follow what you stated on that.

A - Jos Baeten {BIO 2036695 <GO>}

And the second one was on how it flows in mortgage margins into the OCC.

A - Ewout Hollegien

I think the second one maybe to finalize on the OCC part. This was the increasing interest rates and on the other hand, the equity markets that are more harsh at this moment. I think it's when you net it now, but please be aware, it's really a daily -- it's where we are today. So, and it can be different tomorrow. But where we are today, I think it will be probably slightly positive when we add these all together.

On mortgage, your question was, if I understand correctly, Robin, but if not, please let me know how flows into OCC? So what we do on mortgages is we determine every quarter, we determine the actual scrap, and we multiply that by the balance sheet exposure. And that provides the absolute amount of contribution to the OCC.

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

Thanks, Ewout. What I meant there is I think, for example, your big competitor in (Inaudible) I think that used their own commercial rate, basically to determine the margin, which of course, is better to influence what comes out of that. And I think you are using a top-down and a bottom-up approach, which might be different from that.

So, I'm just trying to get a better sense of how the mortgage margin develops. So that -- because every time I speak to Aegon and (Inaudible), the delta in the mortgage margin is very different. So, I'm just trying to get a better understanding of that.

A - Jos Baeten {BIO 2036695 <GO>}

Yeah. No, I think it's a good question. So what we do is we apply the two second largest in the mark. So, we more apply a market approach here.

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

Okay.

A - Jos Baeten {BIO 2036695 <GO>}

And then your third question was on the share buyback, whether you should read something that we will do it in the next three months. The only thing you can read in it is that we've done it already last year and the year before in the same way and we pretend to be predictable. So you shouldn't read anything in it, other than that we do it in the same way as the last couple of years and I already commented on M&A.

As you know, Robin, we are consistently on the lookout of M&A and I never try to predict whether we will do a transaction over the next couple of weeks or in this year or in the next year. But we try to be very active in adding more value also from a shareholder perspective on M&A.

Then the remittance policy in health insurance. You already said it's more difficult to remit from basic health. It's not impossible, but our view is that we generated capital, we'll use for further healthy grow in the business, and we are able to remit from the additional health insurance, and we have done so in the past.

And as already said by Ewout, we are quite opportunistic in, from which entity we remit. And as we see that there are growth opportunities, we probably will remit from other areas where the solvency also is quite good.

Then to your last question, that's a more difficult one to answer briefly. I think you refer to an interview I had with one of the Dutch newspapers, where it was my -- the journalist asked, are you -- what is your biggest worry? And then I mentioned that, what we do see is that large international data players are coming into the Dutch market, picking the low-risk customers, and leaving the average risk customers, and the customers with larger risks to the local market.

And that could end up in the longer term in a societal separation, that there are people that are able to insure themselves against low premiums, but they actually don't need any insurance. That there is a too small group to build on your premium model and that there is a small group that isn't able any more to buy insurance.

So for the longer term, I think as a society, we should be aware that insurance company really -- companies really add value, and if the basic role of insurance company is pooling the risk and price it in a way that everybody can afford it, it's taken out of the society, that will create a society, I think nobody wants to live in. Actually that was what I stated to this -- in this interview and that's still our view.

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

Thanks a lot.

Operator

We will now take the next question from Farquhar Murray. Please go ahead.

Q - Farquhar Murray {BIO 15345435 <GO>}

Two questions if I may, and I'll try and be brief. Just going back to non-life and its relation to the OCG guidance, and this is a slight echo of Fulin's question earlier. To the degree you're seeing increased competition maintaining discipline, and shedding some volume as required. Should we see that as a headwind for full-year '22 against EUR20-EUR25 million growth element you referred to in the kind of OCC bridging exercise.

The answer seems not by just one that is apt because of the price effect is limited or whether you're offsetting it from growth elsewhere.

And then just more, generally is the renewed competition you're seeing coming from traditional competitors or entrants? And what do you think is driving it? And should we think of it as temporary or perhaps part of a longer cyclical roll-over in the market from previous levels? Thanks.

A - Jos Baeten {BIO 2036695 <GO>}

Well, to your first question, I think in P&C and Disability, the answer to your questions is clearly, no. As already said to Fulin's question. We are confident that we will be able to meet the targets as said.

In health, I already said that that we remain disciplined where some others were low balling and there we definitely see some headwinds. Having said that the impact of health in the OCC is not that large. It might be somewhere between EUR 10 million and EUR 15 million headwind in the OCC, just due to health. And we definitely as you know us, we already pedal hard and we keep on doing that and we will find if possible some compensation.

To your second question, that's hard to see. I think the reason we are mentioning it is that I think the analyst community also has a role in keeping the insurance industry disciplined.

It's not harming us yet, but we feel that some of the competitors that lost ground of the last couple of years are trying to retake that grant, and I think it would be beneficial if the whole of the industry remains disciplined going forward.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. But then just to be clear, you're saying okay within the 20 million to 25 million growth element, there is actually a headwind component of minus 10 to 15 from health within that?

A - Jos Baeten {BIO 2036695 <GO>}

No, in the health, it's profitable and will add value to the OCG. And having said that, we will lose a part of the growth of last year, that will create a little bit of lower OCG this year, just from the health business, but we will definitely find some compensation there.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks.

Operator

We will now take the next question from Michele Ballatore. Please go ahead.

Q - Michele Ballatore {BIO 17318680 <GO>}

Yes. Thank you. My questions are around your target for systemic --sustainable investment of EUR 4.5 billion. I just wanted to know at what point you are towards the target at the moment, after the windmill acquisition.

What is the split -- I don't remember if you reported this, what is the split between green bonds and actual sustainable investment, like infrastructure and things like that?

And the third question is about the relationship between this investment and the solvency. In my opinion, the treatment of the acquisition of the windmill was quite punitive, if you can call it that. So I'm wondering as you're increasing this investment, I mean what is the relationship with the solvency, what are your thoughts about how capital is absorbed by this sort of -- this kind of investment? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Yes, thank you. Let me get on that. So, let's start with your question on the -- how many of the total 4.5 billion will be in building green bonds. And so the -- from the 4.5 billion, we will do approximately 3 billion in green bonds and the other 1.5 billion will be in other type of investments.

I think on the -- your second question was on the windmills and how this is treated on the Solvency II [ph]? Yeah, what we now see, but then it becomes very technical. But what we now see is that currently these windmills are consolidated on our balance sheet and because of that we have to recognize the full amount as equity and that resulted in quite a heavy capital charge. The windmill transaction is financed with one-third of equity and two-third of leverage, one-third of leverage by ourselves and one-third of a large Dutch Bank.

And when we dig -- when we can de-consolidate and we aim to do that in 2022, you will see that the overall capital charge will be lowered and that we've still been in a very attractive return on SAR [ph] for this acquisition.

And I think the last question was on where we are today with impact investing. That is around EUR 2.5 billion.

Q - Michele Ballatore {BIO 17318680 <GO>}

Okay. So just to follow-up. So, basically, the mechanism is when you acquire something, deemed to be sustainable, like an investment deemed to be sustainable, you initially have to consolidate and then you consolidate and you reverse the negative effect of the Solvency. That's how it works.

A - Jos Baeten {BIO 2036695 <GO>}

Investor relation, we'll come back to this on that, but it's also related to the fact that it was only closer to 28 of December. And that leaves us ample time to do a good deconsolidation and that resulted in somewhat higher impact than you should normally get from these type of transactions.

Q - Michele Ballatore {BIO 17318680 <GO>}

Okay. Thank you.

Operator

If there are no further questions in the queue, I would like to hand the conference back to Mr.Hulters for any additional closing remarks.

A - Jos Baeten {BIO 2036695 <GO>}

Well, thank you operator. It's actually Jos Baeten. Thanks all of you for joining us today. Thanks for all your following up on ASR and we were quite proud and happy with the results we presented over last year, share price this morning reacted positive, that was always also good to see.

And going forward, Michel, is planning -- at least, he's trying to plan a meeting with you in person, somewhere over the next couple of weeks in London, and there we can talk further on the results of last year and what we expect going forward. Stay healthy everybody and enjoy the day.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.