Q3 2021 Earnings Call

Company Participants

- Jan Willem Weidema, Head of Investor Relations
- Lard Friese, Chief Executive Officer and Chairman
- Matt Rider, Chief Financial Officer

Other Participants

- Andrew Baker, Analyst
- Benoit Petrarque, Analyst
- David Barma, Analyst
- Farquhar Murray, Analyst
- Fulin Liang, Analyst
- Henry Heathfield, Analyst
- Michael Huttner, Analyst
- Michele Ballatore, Analyst
- Robin van den Broek, Analyst

Presentation

Operator

Good day, and welcome to the Aegon Third Quarter 2021 Results Conference Call for Analysts and Investors. Today's conference is being recorded. At this time, I would like to turn the conference over to Jan Willem Weidema, Head of Investor Relations. Please go ahead, sir.

Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, operator. Good morning, everyone and thank you for joining this conference call on Aegon's third-quarter 2021 results. We would appreciate it, if you could take a moment to review our disclaimer on forward-looking statements, which you can find at the back of the presentation. With me today are Aegon CEO, Lard Friese, and CFO, Matt Rider will take you through the key points for this quarter. Let me now hand over to Lard.

Lard Friese {BIO 17008174 <GO>}

Thank you, Jan Willem and good morning, everyone. We appreciate that you are joining us on today's call and we look forward to updating you on our third quarter results. In my part of the presentation, I will take you through the strategic highlights and through the progress we have made on our strategic assets. Matt Rider will then go through the details of the results and our capital position. We will also summarize the actions we have taken to further strengthen our balance sheet and to manage the financial assets. Finally, I will conclude the presentation with a wrap-up, after which we will open the call for question and answers.

So let's move to slide number two. In the third quarter of 2021, we continued to drive our transformation forward by delivering on our financial and strategic commitments, and I'm encouraged to see this reflected in our results. These results are supported by the benefit from expense savings initiatives and we remain on track to deliver on the three-year target of EUR400 million expense savings. In our strategic assets and growth markets, we are benefiting from the growth initiatives that we have implemented and our asset manager business extended its track record of over nine years of positive third party net deposits. We saw an improvement in performance across most of our businesses. This was offset by adverse claims experience in the US with COVID-19 and a higher average claim size being the most important driver. As a consequence, the operating result decreased by 16%. We expect the impact from COVID-19 to abate over time.

In addition, we want to reduce the volatility in mortality experience in the US and are looking at management actions to mitigate this. In the third quarter, we remain proactive in managing our financial assets. We launched a lump-sum buyout program for certain variable annuity policyholders, which was well received by customers. Moreover, the guarantees on the remaining variable annuity portfolio are now being fully hedged against equity and interest rate risk. Furthermore, we have almost fully executed our planned management actions to reduce interest rate risk in the US, which has led to a significant reduction in our interest rate exposure. In our long-term care business, we have already achieved approval for more than $300 million worth of rate increases and consequently, we have increased our expectations for the rate increase program to $450 million. This underscores our track record of actively managing this business.

Our balance sheet remains strong and in line with our disciplined capital management framework. The capital ratios of all three main units are above their respective operating levels and our Group Solvency II ratio increased to 209%. We have also strengthened Aegon's approach towards corporate sustainability. Last week, we announced Aegon's group-wide commitment to transitioning our general account investment portfolio to net-zero greenhouse gas emissions by 2050 with an intermediate goal set for 2025. This further underpins our concrete action plans to create lasting value for all our stakeholders. Lastly, we continue to work together with the Vienna Insurance Group to close the divestment of our businesses in Central and Eastern Europe. VIG's continuing its constructive dialog with the Hungarian Ministry of Finance to clarify possibilities for a positive conclusion of the acquisition.

Let me now give you an overview of where we stand with the execution of our operating plan on slide number three. Our ambitious plan that now comprises more than 1,200 detailed initiatives is designed to improve our operating performance. We are continuously adding new initiatives to this plan to make up for any delays and existing initiatives and to capture the full potential of our organization. In the third quarter, we completed another 150 initiatives. More than 680 initiatives have now been fully implemented and are contributing to the operating results over time. Expense savings initiatives have so far delivered EUR248 million of savings, so we remain on track to deliver on the EUR400 million expense reduction target in 2023. Initiatives aimed at improving customer service, enhancing user experience, and launching new innovative products are also well underway. These growth initiatives contributed EUR29 million to the operating result this quarter. We intend to continue executing the expense and growth initiatives at pace.

Let's now turn to slide four to discuss the progress we have made with respect to our strategic assets. Our priority here is to grow the customer base and expand our margins. In the US Individual Solutions business, we have the ambition to regain the top five position in selected life products over the coming years. In the third quarter, new life sales improved by 13%, mainly driven by indexed universal life and whole life final expense products. Sales are benefiting from a 24% increase in licensed agents at World Financial Group and from funeral planning benefits for eligible indexed universal life policyholders. Whole life final expense sales increased following enhancements made both to the product and the application process. In the US Retirement business, Transamerica aims to compete as a top five player in the new middle market sales. This business continue to build momentum with fifth consecutive quarter of written sales of over $1 billion in the third consecutive quarter of positive net deposits.

So let's turn to our Dutch Strategic Assets on slide number five, we are market leaders in both mortgage origination and new-style defined contribution pensions. We saw continued commercial momentum in these businesses in the third quarter mortgage sales amounted to EUR2.7 billion as we benefit from our strong origination capabilities. About two-thirds thereof consisted of fee-based mortgages originated for third party investors through our Dutch mortgage funds. Iin our Workplace business, we saw a 6% increase in net deposits for new-style defined contribution products. Assets under management for this business increased to EUR5.6 billion at the end of the quarter underscoring Aegon's leading position in this market.

As you are aware, we want to develop our online bank Knab into a digital gateway for individual retirement solutions. In the thirrd quarter of 2021, the online bank attracted 9,000 new fee-paying paying customers. This was offset by 11,000 customers leaving Knab stemming from our decision to stop offering savings products to non-fee-paying customers as they were loss-making.

Moving onto the United Kingdom. Assets under administration remained above the GBP200 billion. Gross deposits increased reflecting stronger investor sentiment as well as the benefits from ongoing investments in the business. This led to an improvement in retail net deposits; however, this was more than offset by the termination of low margin investment-only scheme in the Workplace segment which led to net outflows in this business. Expense savings initiatives and the favorable impact from market movements on assets have led to improvement in the efficiency of the platform. This more than offsets the revenues lost from the gradual run-off of the traditional product portfolio.

Let me now turn to our global asset manager in our growth markets on slide number six. In our asset management business, the operating margin of global platforms almost doubled as a result of higher revenues from net deposits and favorable market developments. Third-party net deposits on the global platforms amounted to EUR2.4 billion, driven by inflows on the fixed income platform. Net deposits in strategic partnerships were EUR1.3 billion for the quarter driven by our joint venture in China. Continued net deposits together with favorable equity markets have led to a significant increase in management fees. This was offset by a normalization of performance fees compared with the exceptional levels seen in the same period last year resulting in a decline in the operating results for strategic partnerships to EUR44 million.

To drive further growth, Aegon asset management's wholly-owned subsidiary in Shanghai has completed its onshore investment advisory registration. This allows us to provide a range of global investment solutions including those with an ESG focus to Chinese institutions and high net worth investors. In Aegon's growth markets, we continue to invest in profitable. Sales growth in the bancassurance channel in Spain and Brazil was, however, offset by lower new life sales in China caused by an industry wide lower demand for critical illness products. New premium production for property and casualty and accident and health insurance increased to EUR21 million as a result of sales of new products in Spain and Portugal, as we continue to see benefits for sales after the redesign of our digital sales channels through our Spanish bancassurance partners.

I am now on page number seven. Turning to a topic that's -- that is on all our minds, sustainability and climate change. Our stakeholders in the wider world expect us to act sustainably as an insurer, as a manager and employer. We recognize the role that Aegon plays in society with respect to responsible investing and we continue to progress with our approach to sustainability. Coinciding with the COP26 conference in Glasgow, we announced Aegon's group-wide commitment to transitioning our general account to net-zero greenhouse gas emissions by 2050. In this context, Aegon has joined the Net-Zero Asset Owner Alliance, the United Nations convened group of institutional investors committed to transitioning their portfolios to net-zero greenhouse gas emissions.

To ensure progress towards this 2050 commitment, Aegon has set an intermediate target. By 2025, we aim to reduce the carbon intensity of our corporate fixed income and listed equity general account assets by 25% compared with 2019. On our path to net-zero, we will regularly update our group wide exclusion criteria and increase our engagement with the most carbon intensive companies in our investment portfolio to achieve real world carbon emission reductions.

Next to our group-wide initiatives, our local units are taking additional actions and are working to meet the demand for ESG products from our customers. For instance, Aegon Asset Management has joined the Net-Zero Asset Managers Initiative and our Dutch business will commit to an extended 2050 climate action plan to include separate account assets and off balance sheet investments, in addition to general account assets.

Ahead of COP26, Aegon UK in partnership with Aegon Asset Management launched its innovative Global Sustainable Sovereign Bond Fund. The fund invests in those countries that are making the best progress towards the United Nations Sustainable Development Goals and allows our workplace pension customers to align their investment objectives with the goal of a fair and sustainable future. In summary, we continue to deliver on our strategic priorities and are making steady progress in growing our strategic assets and growth markets. We will continue to drive efficiencies, while at the same time and investing in products and services that better serve our customers in our various core businesses. And with this, I would like to hand it over to Matt who will talk about the results for the quarter and update you about our actions on the financial assets.

Matt Rider {BIO 20002664 <GO>}

Thanks, Lard, and good morning, everyone. Let me start with the financials on slide nine. Our operating result decreased compared with the third quarter of 2020 to EUR443 million. Increased fees from higher equity markets and positive contributions from growth were more than offset by adverse claims experience in the US, which was mainly attributable to COVID-19 and a higher average claim size. Our balance sheet remains strong with the capital positions of all our three main units above their respective operating levels and the Group Solvency II ratio at 209%. Cash capital at the Holding decreased EUR961 million as anticipated, and now sits in the middle of the operating range. The decrease reflects the payment of dividends and use of cash for additional deleveraging. Since mid-2020, our gross financial leverage has reduced by EUR700 million and now stands at EUR5.9 billion. This puts us on track to meet our target of reducing our gross financial leverage to EUR5 billion to EUR5.5 billion.

We have also made good progress on the reduction of our economic interest rate exposure in the US. We have now almost fully executed the interest rate reduction plan that we announced at the Capital Markets Day by lengthening the duration of our asset portfolio and expanding the forward starting swap program. Together with the expansion of the dynamic hedging program for variable annuities and favorable market movements, this has led to a 75% reduction in the targeted interest rate risk since the third quarter of 2021.

Let me now turn to slide 10 to go into more detail on the expense savings, in the last four quarters, we reduced addressable expenses by EUR253 million compared with 2019. EUR248 million of these savings are driven by expense initiatives that are part of our operational improvement. This level of expense savings is comparable to what we had achieved through the second quarter. The benefit of the additional cost savings initiatives implemented this quarter was offset by higher one-time employee expenses. Our progress makes us confident that we will be able to achieve our expense savings target of EUR400 million by 2023. When we created our operation on our improvement plan, we took into account the nature and complexity of the underlying initiatives. Most of the initiatives that we have implemented so far were relatively straightforward and led to savings coming through with a short lead time. Let me give you an example. We have implemented changes in our ways of working. For instance in our risk and communications departments, we found ways for the Holding and Aegon the Netherlands to work more closely together with shared processes enabling a reduction in overall head count. Another example is in our Individual Solutions business in the United States where we have reduced the number of software subscriptions.

In the coming quarters, we expect to see a more gradual delivery of expense savings. While we will continue to execute on our expense savings initiatives, we also need to absorb expense inflation and other upward pressures on expenses. In addition, some of the larger initiatives are still in progress and will take some time to fully execute. An example is Aegon asset management's migration to a new technology platform for its global operations that will drive expenses down and make the business more scalable and client focused. Next to the expense savings, we benefited again from lower travel and marketing activities due to the impact of the COVID-19 pandemic. These benefits are starting to fall compared with previous quarters and we expect them to go to zero over time. Furthermore, we aim to profitably grow our business by improving customer service, enhancing user experience and launching new innovative products. These growth initiatives resulted in EUR30 million of expenses in the last four quarters.

Let me now turn to slide 11. In the third quarter of 2021, our operating result amounted to EUR443 million, a decrease of 16% compared with the same period last year. The apples-to-apples decrease is 13% at constant currencies when adjusted for the reclassification of the operating results of our CEE businesses to other income. The decrease in the operating result was driven by adverse claims experience in the US, which amounted to EUR93 million. Deaths that were directly attributable to COVID-19 were in line with our expectations relative to US population deaths. Furthermore, we saw a higher number of claims due to respiratory diseases this quarter. While the death certificates did not attribute all of these benefits to COVID-19, we believe that some of them are related to the virus. Deaths directly and indirectly attributable to COVID explain approximately one half of the adverse claims experience. About a quarter of the adverse mortality experience related to a higher average claim size. In line with our aim to improve our risk profile, we want to reduce the volatility in mortality experience and we're in the process of exploring management actions to achieve this. The remaining adverse mortality was from increased frequency in line with what we have seen in the wider industry this quarter. The adverse mortality experience was partly offset by EUR23 million of favorable morbidity experience in the long-term care book which included a EUR14 million release of the incurred, but not reported reserve.

In the Netherlands, the operating result increased by 8%, to EUR190 million. All lines of business contributed to the higher result supported by the benefits of expense savings, business growth and favorable disability claims experience. In the UK, the operating result increased by 47% to EUR51 million, driven by higher fee revenues as a consequence of favorable equity markets. The operating result from International decreased by 17% to EUR36 million. However, on an apples-to-apples basis and at constant currencies, the operating result increased by 18%. This reflects business growth and favorable claims experience in Spain and Portugal and a reduction in crediting rates at Transamerica Life Bermuda. Finally, the operating result from Asset Management remained stable at EUR58 million. Higher management fees offset a normalization in performance fees from Aegon's Chinese asset management joint venture compared with last year's exceptional level.

Let us now turn from operating result to net result on the next slide. As you can see on slide 12, the net loss amounted to EUR60 million of the third quarter of 2021. Non-operating items contributed to a gain of EUR9 million before tax. Realized gains on investments of EUR132 million and net recoveries of EUR7 million more than offset a loss from fair value items of EUR130 million. The latter resulted from an increase in the fair value of liabilities in the Netherlands. This was driven by an increase in inflation expectations and to a decrease in the own credit spread used to discount certain liabilities. Other charges of EUR559 million were largely driven by a EUR470 million charge relating to the expansion of the variable annuity dynamic hedging program in the United States as well as to the lump-sum buy-out program in line with prior guidance. One-time investments related to the operational improvement plan amounted to EUR64 million.

And now turning to slide 13 to go through the capital positions of our main units. The capital ratios of our three main units ended the quarter above their respective operating levels. The US RBC ratio increased by 2 percentage points during the quarter to 446%. The RBC ratio was adversely impacted by negative separate account returns in the variable annuity business. Interest rate movements during the quarter resulted in a loss on the macro interest rate hedge that was scaled up in anticipation of the expansion of the dynamic hedge program. The capital released from the lump-sum buy-out program was offset by the impact of expanding the dynamic hedge program. This led to a combined negative impact of 2 percentage points on the RBC ratio in line with prior guidance.

In the Netherlands, the Solvency II ratio of the Dutch Life unit remained stable at 172%. Negative market impacts from rising inflation expectations and credit downgrades more than offset positive impacts from real estate revaluations, mortgage spread tightening and a flattening of (Technical Difficulty). Operating capital generation had a positive impact, which more than offset the EUR25 million dividend payment to the Group in this quarter. Scottish Equitable, our main legal entity in the UK, increased its Solvency ratio to 171%. Strong operating capital generation had a positive impact and there were some benefits from a number of smaller one-time items.

Let us now turn to the development of cash capital at holding on the next slide. As anticipated, cash capital at the Holding decreased during the quarter to around the middle of the operating range. In the third quarter, gross remittances amounted to EUR99 million. These weren't part driven by capital release as a result of winding down both our Irish corporate insurance entity and our internal reinsurer Blue Square Re. These remittances contributed to free cash flows to the holding, which were EUR62 million this quarter. This brings year-to-date free cash flows EUR312 million and puts us in a good position to exceed the 2021 free cash flow guidance that we provided at our Capital Markets Day. These cash inflows were more than offset by the payment of dividends to the previously announced redemption of $250 million perpetual capital securities. Capital injections amounted to EUR53 million and were mainly driven by an injection into our Brazilian joint venture that we had flagged last quarter. Other items led to a cash outflow of EUR29 million driven by the previously announced share buyback in the context of variable compensation plans.

Let me now turn to our financial assets starting with the US variable annuities business on slide 15. We are taking both bilateral and unilateral actions to maximize the value of our US variable annuities business. Last quarter, I highlighted two of them, the lump-sum buy-out program and the expansion of our dynamic hedging program. The lump-sum buy-out program was launched in July. This program was made available to certain variable annuity policyholders with guaranteed minimum income benefit riders. The program reduces Transamerica's economic exposure at a favorable price, reduces hedge cost for the remaining variable annuity portfolio going forward. At the end of the third quarter, the take-up rate of the program amounted to 8%, which is encouraging and exceeds those of similar programs run by Transamerica in the past. We have decided to extend the program to the end of January 2022 to allow customers more time to consider the offer. We expect the take-up rate by the end of January 2022 to exceed the original expectation of 15%.

In the third quarter of 2021, Transamerica also scaled up the existing macro hedges in anticipation of the transition to a dynamic hedge program for all remaining legacy variable annuity policies. The dynamic hedging program was expanded in the first week of October and now covers the interest rate and equity risks embedded in the guarantees of our entire variable annuity portfolio. This builds on the dynamic hedging program that we have operated for policies with guaranteed minimum withdrawal benefits with a hedge effectiveness for the targeted risks amounted to 98% year to date. Dynamic hedging stabilizes cash flows and reduces our sensitivities to changes in equity markets and interest rates on an economic basis. The combined impact of extending the dynamic hedging to the full portfolio of variable annuities together with the execution of the lump-sum buy-out program was in line with prior guidance with a 2 percentage points negative impact on the RBC ratio.

Another action that was entered in the third quarter was an increase in rider fees on part of the variable annuity portfolio. Certain contracts allow policyholders to elect a step-up of the guarantee base on the policies rider anniversary, if the policies account value exceeds the guarantee base. Transamerica will increase the fees to the contractually allowed maximum when a step up is elected. This is a good example of our ongoing commitment to actively manage this financial asset. In short, the unilateral and bilateral actions to maximize the value of our variable annuity portfolio are well underway. Therefore, we have begun allocating internal resources to investigate our options for potential third party solutions. We will update the market on our progress in this respect in the first half of 2022.

Let's now go to slide 16. We have progressed well on the in-force management of our long-term care book. In the third quarter of 2021, Transamerica obtained regulatory approvals for additional rate increases of $133 million, bringing the value of approvals achieved year-to-date $309 million. This means that we have already achieved the expected $300 million benefit from this program which underscores our track record of achieving actuarially justifiable rate increases. Based on these better than expected results to date, we have increased our expectations for the benefit from the current rate increase program from $300 million to $450 million. Long-term care claims from the third quarter, it came in at an actual to expected ratio of 83%. The level of new claims has returned to pre-pandemic levels. The claims experienced reflects a $16 million release of the incurred, but not reported reserve that was previously set up for delayed long-term care claims. Excluding this release, the actual to expected claims experience for the third quarter of 2021 would have amounted to 95%, reflecting increased claims terminations due to the impact of the COVID-19 pandemic.

Let me now turn to slide 17. Our aim for the Dutch Life business is to turn it into a low risk cash generator paying predictable regular dividends. The Dutch Life business again remitted EUR25 million to the Group in the third quarter in line with it's quarterly remittance policy. Solvency II capital ratio of the Dutch Life business remained unchanged this quarter at 172% and was again above the operating range. In the second half of October, the Dutch Life business implemented an expense inflation hedge to further reduce the volatility of its capital ratio.

To summarize, we continue to actively manage our risks and our capital position. To name a few examples, we've nearly completed the interest rate risk reduction plan in the US. We extended the dynamic hedging program to our legacy variable annuities. We expect to exceed our original expectation of a take-up rate of more than 15% with the lump-sum buy-out program. We increased our expectations for the long-term care rate increase program to $450 million and we remain on track to achieve our expense savings target, and we will continue to take actions to improve our risk profile.

With that, I pass it back to you, Lard.

Lard Friese {BIO 17008174 <GO>}

Thanks, Matt. So the take away from today's presentation is that we continue to drive our transformation forward by delivering on our financial and strategic commitments through the disciplined execution of our operational improvement plan and active management of the in-force business. Adverse claims experience aside, the operating result development is encouraging and supported by the disciplined implementation of our operational improvement plan. We have reached important milestones for our financial assets as Matt just laid out. We are benefiting from growth initiatives in our strategic assets and growth markets and we have committed to net-zero greenhouse gas emissions targets by 2050. In summary, I am satisfied with how we continue to deliver on our financial and strategic commitments and I would like to open the call now for your questions. In the interest of time, I kindly request you to limit yourself to two questions per person.

Operator, please open the Q&A session.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions). Our first question comes from Andrew Baker from Citi. Please go ahead, sir.

Q - Andrew Baker {BIO 20402705 <GO>}

Great. Thanks, guys, thanks for taking my questions. So, both are actually on capital generation, first specifically to the thirdquarter. It seems like there's quite a lot of moving pieces. You have given update on your view of a normalized run rate, so I guess the comparable number to the previous EUR380 million pre-holding company cost that you provided, and maybe just talk through some of the moving parts for the quarter? And then secondly, related to the medium-term view, when can we expect an update to the EUR1.3 billion in 2023 target? And then can you also just confirm whether that included an assumption for a 15 basis point reduction in the UFR? And if so, can you just remind me what the impact of that was? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Mattt? Thank you very much, Andrew, for your questions. So, Matt, can you take?

A - Matt Rider {BIO 20002664 <GO>}

Yeah. So maybe I can walk you through the operating capital generation guidance that we have now for the full year. And I can walk through some of the moving parts here. So if you take the 3Q operating capital generation after the holding and funding expenses, that was EUR327 million, add back the holding and funding expenses and you get to EUR390 million operating capital generation again before holding and funding expenses. And then some of the puts and takes, I mean we had -- as I mentioned earlier, we had adverse claims experience on the mortality side, we had benefits on the morbidity side, but if you back that out, that's -- it adds about EUR60 million to the run rate. And then we did have some good guys that you have to back out too, so -- and then generally, you can walk through it, but it's about EUR50 million. So that leaves you with a clean run rate for the quarter of about EUR400 million.

And then as you look forward to the end of the year, we have, we -- actual year-to-date operating cap gen within the business units before the holding and funding expenses amounted to about EUR1.1 billion. Add the EUR400 million clean from the run rate for the fourth quarter and then subtract out our expectations for COVID in the fourth quarter, which amounts to about EUR40 million and then take about EUR10 million out for the impact of the dynamic hedging, remember that does reduce the operating capital generation going forward, then you get to right around the midpoint of about EUR1.4 billion to EUR1.5 billion range that we communicated last quarter and we're going to retain that for this quarter. I hope that -- I hope that helps.

Q - Andrew Baker {BIO 20402705 <GO>}

And the medium term view? Yeah and whether it includes -- whether the target includes UFR reduction? Thanks.

A - Matt Rider {BIO 20002664 <GO>}

Yeah. So you're right. So -- and so, at the Capital Markets Day we had included EUR1.3 billion target for 2023. That did not, by the way, include any impact from the 15 basis points reduction that we would now anticipate not happening in 2023, which would actually add another about EUR100 million of operating capital generation. But there -- we always remind people that there are some headwinds here. We do have still continued low interest rates, the credit impairments are likely to step up here. We're not changing the guidance at this moment in time, but in general, we're getting the benefit from headwinds and you can see it coming through in our operating cap gen guidance for 2025.

Q - Andrew Baker {BIO 20402705 <GO>}

Alright, thank you very much. Very clear.

Operator

Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. Can you -- can you talk a little bit about the take-up rate expectation, what you're seeing where we are now at the end of October or actually in November in terms of take-up and what kind of impact this could have in terms of RBC? I think at September the 8% was 3.5 and I was trying to gross it up, but I'm not very good at math. And then the other question is on the morbidity. So, understood from your comments $23 million in Q3, including $16 million the reserve releases. Are we kind of done with morbidity benefits or is there potentially still more to come or is that the $300 million pricing you've spoken about when will see that in the numbers?

A - Matt Rider {BIO 20002664 <GO>}

Yes, so let me take your take-up rate question first. So indeed the experience on the lump-sum buy-out program through September stood at 8%. If we looked at it yesterday, it was about 14% and that's, you can't really extrapolate that going forward because the program itself ended at the end of October and as you might expect, a lot of the take-up came at the very last part of it. So as of right now, it's about 14%. Now what we are going to do is extend that offer forward through the end of January in 2022. So that percent will accumulate, it we'll get it will get bigger, but probably a slower pace than what we saw in the first stage of the program. With respect to the morbidity experience. Yes, indeed we are, we are still getting morbidity benefits; however, we see that the entrances to long-term care facilities are picking up in line with pre-COVID levels. We are going to be -- you saw that we released a portion of the IBNR reserve in the fourth quarter, sorry, in the third quarter and we'll release the remainder of the $44 million IBNR reserve pretty much level throughout throughout 2Q of next year.

On the rate increases indeed we had exceeded our expectations on the long-term care price increases. So now we stand a little bit more than $300 million and we are extending that and we now put a target out there are $450 million. The $100 million of that is going to be reflected in what we say our premium deficiency ratio reserve by the end of the year and the balance of that will come in over time. You'll see it reflected in capital generation over time. The other question that you had was the -- also impact on RB -- on RBC and in the -- so the overall program impact was 3.5%. So it improved the ratio by 3.5% and we would expect that again. It will -- we're going to extend the program, but again that was based on a -- based on the 8% take-up rate. We would expect to get incremental improvements through the end of January and we'll see that come through in our -- in our RBC ratio by the end of the year and also into the -- also in the first quarter of next year.

Q - Michael Huttner {BIO 21454754 <GO>}

Great. That's helpful. Thank you.

Operator

David Barma from BNP Paribas. Please go ahead.

Q - David Barma {BIO 19957338 <GO>}

Thank you and good morning. On US variable annuities, just -- just to come back on that. In light of your high expectations for the buyouts pickup rate in your comments Matt on increases in some contracts, can you remind us what you expect for the run rate capital generation on that the line to be, please? And then secondly on US mortality, so quite high in the quarter and I assume that splitting COVID-related from the rest is a bit difficult, but any color on underlying trends would be would be helpful there? And also, you said you want to take actions to reduce the sensitivity to so mortality, how do you plan to achieve that? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yeah, thanks David. So, Matt do you?

A - Matt Rider {BIO 20002664 <GO>}

Yes, so on the VA run rate capital generation, in the last quarter we had said that we would reduce operating cap gen by about $50 million as a consequence of implementing the -- both offset program and the -- or the lump-sum buy-out program and the dynamic hedging and that we would be in a range of $250 million to $300 million operating cap gen on an annual basis and we're retaining that guidance. So we came in pretty much exactly where we thought we are going to be. So the number is $250 million to $300 million on an annualized basis. Maybe on the mortality in the US, I mean, the way that we really think about this is that we did have -- you could say the impacts of direct and indirect COVID claims that represented about one half of the adverse experience that we saw in the quarter. So if you work in US dollars, we had $111 million worth of adverse mortality experience. Part of that was directly related, so that's the case where I think it was $46 million of that was related to COVID. That's where we get a claim and we got a death certificate and it's written COVID-19 as the cause of death. But as I said in the, my opening remarks, we're also seeing elevated claims from things like respiratory illnesses, which are -- which are guiding us saying that there is a portion of other claims that are not directly COVID-related, that are more indirectly-related and then if you add those two components of them, it's -- then it's like 1.5, the 1.5 of the total amount of the deviation.

The other part of it is, we did have an increase in the overall average claim size during the course of the quarter which contributed to about one quarter or about 1/4 of the overall mortality experience. This is just what I would call normal average size claims deviation. We did see a number of higher face amount contract claims that came in during the course of the quarter. You asked the question around management actions and indeed we are going to try to take some steps here. This is typically done through reinsurance and we will be looking at that as a minimum or to reduce the amount of let's say the the claims volatility in terms of case size. And then the remainder of it is, we would attribute it to just frequency number -- there were just a higher number of claims during the first quarter, which was quite consistent with what we seen in the US industry. So I think that will come as no -- no surprise. I think that covers your questions.

Q - David Barma {BIO 19957338 <GO>}

It does it. Thank you.

Operator

Fulin Liang from Morgan Stanley. Please go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. Two questions, please. The first one is about your deleveraging plan, because if I look at the Holdco liquidity is like in the middle of your kind of target range and -- but actually there is the total leverage is still above your long-term target. Apparently used to need to go to do another further EUR0.5 billion to EUR1 billion deleveraging. Originally, I thought that was be -- would it be kind of with the CEE deal being completed that would kind of give you the cash to do that, but now with the CEE deal contending, would you actually -- can of still going ahead with the deleveraging target or your deleveraging is actually conditional on the CEE deal completion? So that is one, first question. And the second one is, I'm still a little bit -- just clarify a bit number, you kind of integrated your EUR1.4 billion to EUR1.5 billion clean capital generation guidance kind of for 2021, but your original strategic plan was EUR1.3 billion for 2023 so this seems like a bit kind of disconnection there. If you can talk me through about what's the moving blocks between the current higher target versus a slightly lower target in two years time? Thank you.

A - Matt Rider {BIO 20002664 <GO>}

Yes. Certainly, so on the deleveraging side, so we are a hair below at the midpoint of the operating range for cash capital at the holding. But I would just remind you that we typically get relatively low dividends and then remittances from the business units in the thid quarter, a lot of the remittances come in in the fourth quarter. So that's not a particular concern for us. With respect to the deleveraging target, we're committed to doing that. EUR5 billion to EUR5.5 billion whether CEE closes or not. So we are going to continue with our deleveraging plan there.

With respect to the capital generation, so what we're what we're targeting here is a EUR1.4 billion to EUR1.5 billion a operating capital generation in the business units for 2021 and that includes everything. So that includes the effects of adverse mortality. But it does include also the benefit that we are getting from tailwinds in the equity markets to a certain extent the interest rate markets as well. Whereas when we came out with our Capital Markets guidance back in December, we were anticipating some pretty nasty market, so low equity markets, we were anticipating, still the level of COVID claims although they're coming in a little bit higher and longer than what we had anticipated. So I guess the point here is that there has got to be -- if markets stay the way that they are, there will be a moment in time we will have to adjust that longer-term guidance, but for right now, we're not going to do that. We're going to stick with the guidance that we do for 2021 and go on.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay, that's clear. Thank you.

Operator

Thank you. Michele Ballatore from KBW. Please go ahead.

Q - Michele Ballatore {BIO 17318680 <GO>}

Yes, thank you. So two questions. So the first question is about the CEE, I mean what is the status there in terms of, you know, how it's proceeding? I mean there is a new probe probe on the Hungary's veto. Do you think there would be a point where Vienna Insurance Group will say, well that just not feasible? So, just an update there. And the second question is about solvency, and on solvency especially the -- so you had a positive effect on the RBC coming from the -- a better experience in mortgage -- the mortgage foreclosure. You had the negative impact in the Netherlands from inflation. I want to just have a sense on this trend, how will this will evolve in the coming quarters? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, thanks Michele. So on the Vienna Insurance Group, so we, to remind everybody, we sold the business in Hungary, Poland, Romania and Turkey to Vienna. (Technical Difficulty).

Operator

We are experiencing a momentary interruption in today's call, please standby. Ladies and gentlemen, we experienced a momentary interruption in today's conference call. Please continue to standby.

Q - Michele Ballatore {BIO 17318680 <GO>}

Thank you, guys.

Operator

Please go ahead.

A - Lard Friese {BIO 17008174 <GO>}

I apologize everybody, we had a little bit of a glitch in the line and hope all of you are still there, so Michele, thank you very much for your questions.

Q - Michele Ballatore {BIO 17318680 <GO>}

Yeah.

A - Lard Friese {BIO 17008174 <GO>}

So again, the Vienna Insurance Group is in the lead of getting all the required approvals and as they are busy doing that, we are supporting them in that effort of course. When it comes to Hungary, they are still in constructive dialog with the Hungarian government to try to find a way to resolve the situation, and we are just patiently awaiting the outcome of that. And then what it is -- when we talk about the solvency, et cetera, so, Matt, can you take that piece of the question for Michele?

A - Matt Rider {BIO 20002664 <GO>}

Yeah. So I think your first one you're thinking about how much of these points that you would raise with respect to the RBC ratio for example in the US related to that mortgage thing and Dutch inflation expectations. On the first one of the RBC ratio that mortgage thing is really a one-off. So it doesn't have any -- it's actually very small movement in the RBC ratio. On the Dutch inflation side, they ended up -- they ended up the quarter at 172% solvency and that was negatively impacted by the increased inflation expectations that they have to reflect in the value of the liabilities. But after the quarter ended in October, they did put on additional inflation hedges so now the -- the movement in own funds related to future inflation is really immunized. So that has no further impact.

Q - Michele Ballatore {BIO 17318680 <GO>}

Okay. Thank you.

Operator

Our next question comes from Henry Heathfield from Morningstar.

Q - Henry Heathfield {BIO 19760919 <GO>}

Good morning. Can you hear me?

A - Lard Friese {BIO 17008174 <GO>}

Yes, we can hear you Andrew. Good morning.

Q - Henry Heathfield {BIO 19760919 <GO>}

Great. Good morning. Thank you very much for taking my question. Actually just one question. Really on this -- just come back to that VA take-up rate that's been -- so 15% end of Jan, if you could really excuse my ignorance, I mean on reading this question, but 18% sounds like quite a low number, and so just wondering if you could go and outline how you set that number, how do you set that target and what it really relates to in the grand scheme of things? Do you understand what I'm trying to get at?

A - Lard Friese {BIO 17008174 <GO>}

No, not quite, but could you please elaborate because our take-up rate at the end of September was 8%. We have expressed that we believe that 15% would be a real success and by now -- so we are now post the quarter end, we are now as of yesterday we're at nearly 15% at 14% and we are extending the program to the end of January. So we expect actually to exceed the 15% rate that we internally regard as a success -- as a very successful one. (Multiple Speakers).

Q - Henry Heathfield {BIO 19760919 <GO>}

Yeah, I'm not disputing -- I'm not disputing the 15% wouldn't be a successful level. I'm just saying essentially in my very limited understanding 15% for me on the outside sounds like a low number in terms of your offering.

A - Lard Friese {BIO 17008174 <GO>}

Okay.

Q - Henry Heathfield {BIO 19760919 <GO>}

Buyout of 15%, buyout policyholders and then 15% of the policy -- pardon, 50% of the policyholders taking up that buyout offer. So, Just from an outside perspective, not understanding internally what kind of levels, which are normal and are normally expected. Yeah 15% (Multiple Speakers) number out, but it's quite -- quite a low number I say so, but that's not something that's unsuccessful number in anyway.

A - Lard Friese {BIO 17008174 <GO>}

So -- so, yeah, and I now understand where you're coming from. So let me start Henry and then the Matt will expand on this. This is not our first rodeo. (Multiple Speakers) In fact, this is the third time that we are doing also a program like this. Transamerica's quite let's say experienced in this. So we know how what works. We know how to -- what kind of rate uptake we can expect. We know how -- how in the entire process, the dynamic around the take-up works. So in that sense, we are experienced in this. But, Matt, you may want to expand on what the financial benefit of this is? Because we are releasing the economic value to liability.

A - Matt Rider {BIO 20002664 <GO>}

Yeah, I mean, maybe I'll just expand on what Lard said. He is obviously, exactly right. So we have hit this book before with previous offers so that many have taken it in the past. So now we're the third time after this and I think it's 15% take-up rate would be a reasonable result. We think we can get beyond that, by the way, but that's really based on the our -- setting our expectations based on prior experience also with this block. That's how we kind of set our target. Maybe to put a little bit more specific mass around this. So, the 8% take-up rate resulted in capital generation of about $80 million during the course of the third quarter and that's generally pretty linear so to the extent that we get a higher percentage than you would see commensurate levels of capital generation going forward. And I think we said earlier is that currently we are standing at 14% on the road to 15% and we'll -- we'll likely surpass it.

Q - Henry Heathfield {BIO 19760919 <GO>}

And that take-up rate is the percentage of policyholders that are offered to the extent a percentage, I mean it is take-up rightly so?

A - Matt Rider {BIO 20002664 <GO>}

Yes, exactly right.

A - Lard Friese {BIO 17008174 <GO>}

Yes, that's exactly right.

Q - Henry Heathfield {BIO 19760919 <GO>}

Okay, thank you very much. Appreciate it.

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Henry.

Operator

Benoit Petrarque from Kepler Cheuvreux. Please go ahead.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning everybody. Yeah, my question is actually on the inflation, I mean the US inflation figure, which was pretty -- pretty actually -- like yesterday and we could get more inflation in the US next year. So just wanted to understand how could play on your US business? Normally there is a kind of offset with higher interest rate, but you've hedged at a lot now. So on the US inflation, how the inflation could play on metrics like operating capital generation? I wanted to understand what you have there in terms of assumptions? And also on the long-term care business whether we should expect maybe some major wins from that and if actually the price increase you've been getting this quarter is actually an offset to higher inflation going forward? So, that's more kind of broad question, on kind of how the US inflation could impact your business going forward. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Hey Benoit, I will hand over to Matt. I mean, we all know there's a debate in the market ongoing to whether it is inflation is temporary in nature or not, but let's not speculate on that. Matt the question that Benoit just had on inflation.

A - Matt Rider {BIO 20002664 <GO>}

So maybe I can do inflation for kind of in a broader sense, but I'll come back specifically to the US in one second. So on the first thing that -- I would say there are three main areas when we think about inflation risk that we have to -- that we have to think about. The first one relates to the expense savings program that we have out there. So we have a EUR400 million expense savings program where we -- we are going to be facing headwinds from increased inflation. We did embed inflation expectations into that overall savings, but that could be a potential area where we would have -- where we would be -- where if there is more than moderate levels of inflation and we could be it a little bit of that risks, but I would say that, and you've seen it in the presentation that we are on track to hit our target here with respect to that EUR400 million program.

The other one relates, and this is more to the Netherlands and it relates to the inflation risk on the capital position. But as I said in an earlier answer, it looks like we have that one pretty much fully hedged, both from a standpoint of in the expense inflation risk within the capital, but also with respect to the contract guarantees that we have for certain pension contracts where it's been -- where a lot of that has been hedged from the very beginning. And we've expanded that program some -- so from a Dutch solvency ratio perspective, I think we've got that one -- I think that we've got that one covered off well.

And so now to get to the US. You mentioned particularly the long-term care business and that's where we are the most exposed to inflation risk. I always have to remind people that in the long-term care business, we're not thinking about medical inflation, we're talking more about general wage inflation. So there is a couple of aspects to this. I guess the first one is that the way that the benefit is constructed to the contract holder, there are maximum amounts both at the daily level and at the policy level that we would pay out. So, in a way that is a cap to our inflation risk after that the and the policyholder is really taking on that risk themselves. The other offset that we've seen happen in the long-term care business is there is more of a tendency to seek at-home care rather than to enter into a long-term care facility. We see that the expenses related to home care, at least as far as our bookers are concerned, about 25% less than that they would be in a long-term care facility. So there are just potentially some offset.

The other one is that we have -- we've gone actively to long-term care contract holders to think about reducing the levels of their daily benefits in return for a lower premium or not having next premium rate increase and by lowering that daily benefit or by lowering the policy benefit, than we have an opportunity to mitigate risk inflation going forward in that book. So it's something that -- it's something to watch out for in general if we get higher inflation where it's paired up with higher levels of interest rates, then -- then that's actually a good thing net-net for us. Even though we have closed a lot of our interest rate gap or interest rate exposure there, we do benefit -- we do benefit from higher interest rates. So it's a little bit of a mixed bag as far as we're concerned, but it's -- I think that's that.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Okay, great. Thank you.

Operator

Next question is Robin van den Broek, Mediobanca.

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

Yes, good morning everybody. Thank you for taking my questions. My first one is on remittances. Year to date, you've come close to $500 million. You alluded in the call before that before is more of an interesting quarter when it comes to remittances. So given your RBC ratio is also at very healthy levels, what should we expect there also versus your target? And I was also wondering if you could include in that comment on regulatory movements we can still expect? Are these asset charges changing -- changes finally coming through in Q4? And secondly, I guess Lard, since you first started CEO, you haven't had much -- much opportunity to travel and visit the business units, but over the last few months, I'd assume you've had some opportunities to do some and I was wondering if you wanted to share your experience from that? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, of course, more than happy to do so. So, Robin, thank you for your questions. Yes, indeed I started as CEO in the middle of the pandemic. So I did not have a lot of chance to meet many people in person so I actually been -- I've been spending a lot of my time like all of you by the way, Zooming my life away, if you will. But over the last months it certainly happened. In summer, I spent quite a lot -- quite a number of weeks in the US together with our new management team there and a couple of observations that I have there. What -- number one, I went to see a lot of distribution, actually and what I found is where -- we all want to get Transamerica back right? I mean Transamerica was a market leader in the US and has lost market share over the last year so we want to improve it. So I hired a new team, we're having all kinds of plans to turn that business and make it much better performing and growing faster and the good news that I found from all those conversation with distribution is that Transamerica is just a fantastic brand that -- and many people want Transamerica back at the top of the league tables. So I think that's one thing that I would have as a takeaway.

Secondly, I would have is take away that the new team that we put in -- that we recruited there. So, Will Fuller is the CEO and Chris Ashe is the new CFO, but also many other appointments that we have made, so we have -- we have appointed a new -- well let's say counterpart to Duncan Russell. So it's for Duncan the key person in the US to work with, Chris Giovanni, and we have also appointed a number of other financial talents and appointed Matt Keppler as the Head of Financial Assets. All people are highly experienced in this we have worked with before, and as a result, I was also quite -- quite pleased to see how they have settled in and how they are -- how they are working to increase the value creation out of the variable annuity book, but also the clear separation between what we call financial assets and the focus on growth in growth assets and growth product lines. I think that's in a much better -- much better place. It's more focused in the business and there is good excitement and enthusiasm. Of course it's part of the COVID pandemic, right? Because we still see a back and forth on how people can get back to the office.

I spent time with the sales teams in the US both in the retirement side as in the Individual Solutions side. I've spent time with WFG. Last week, I spent time with a lot of our financial distribution partners and actually next week I'm again in the US to talk to distribution to work with Will on the other plans for growing the business further. So I must say that was -- I'm spending more time on the ground with the teams. I love to do that, as you may know, but -- so that's really good and at the same time I also spend time in the UK business, et cetera. So yeah, I will not make this a travelogue, but I can tell you that -- it's just, I find it personally as you know quite a lot of fun to work hard on improving this business. But with that, the remittances. I think that's something that's on your mind. So, Matt, the question is on Robin around remittances.

A - Matt Rider {BIO 20002664 <GO>}

Yes, just as a brief reminder here that the Capital Markets Day guidance we gave for gross remittances for 2021 was something in the $600 million to $700 million range. And if you also -- also remember that we're trying to tie our cash dividend to our sustainable free cash flows and if you remember from last quarter, we had increased our dividend -- interim dividend by $0.02 a share, which gives you a little bit of an inclination where we think that free cash flow is going. So, in fact, it's right. So, we are now the minimum amount of gross remittances that will get out as the units for the full year are $750 million, again, at a minimum. I think Robin you also asked about any other regulatory movements. I would point out the one that -- the one that you had called out. We still do have a change in the risk-based capital factors for certain asset classes within the US. There is a negative impact on credit, it's a bit of a positive impact on real estate, but net-net-net, you're talking about perhaps 10 percentage point negative on the US RBC ratio and that will be reflected in the fourth quarter results.

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

That's great guys, thanks.

Operator

And we will now take our last question from Farquhar Murray from Autonomous Research. Please go ahead.

Q - Farquhar Murray {BIO 15345435 <GO>}

Just please remind us. Firstly on inflation hedge that was put on. Could I just get a sense of whether those are (Technical Difficulty) of that going forward, I'm not (Technical Difficulty) particularly with regards to capital generation. And secondly, just into the RV offer take-up, just to be precise, should I take it that essentially the (Technical Difficulty) ratio struck on the 8% level take-up that you had the (Technical Difficulty) point and I think you kind of (Technical Difficulty) give some sensitivity, but I presume it's a couple of points on extra on top of that given that we're going from 8% towards 14% or something more? Is that fair? Thanks.

A - Matt Rider {BIO 20002664 <GO>}

Yeah, so on the inflation hedge in the Netherlands, what's the impact on the capital generation? Negligible. On the take-up rate in the US, yes, the take-up rate was 8%. I think we did the math on that to say that 8% relates to about 3.5% on the -- on the solvency ratio, a little bit over $70 million in capital generation. It was strong at that moment so that we would anticipate further positive impacts as that goes forward. One thing I would mention is that you remember that we did take a charge of about US$560 million related to the combination of the the lump-sum buy-out program and the dynamic hedging. But, on that one we anticipated further movements in these kinds of things that you're not going to see that continue to bleed in over over time. So we've taken all the impacts for any future take-up rate improvements all in this quarter. So capital impacts come and then we've already taken the negatives on the IFRS accounting.

Q - Farquhar Murray {BIO 15345435 <GO>}

All right. Thanks so much.

A - Matt Rider {BIO 20002664 <GO>}

Thank you Farquhar.

Operator

Thank you. With this, I will like to hand the call back over to Jan Willem for any additional or closing remarks.

A - Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, operator. this concludes today's Q&A session. On behalf of Lard and Matt, I thank you for your interest. Should you have any remaining questions, please do get in touch with us, Investor Relations. We're happy to help. Have a good day and thank you for your participation in today's call.

Operator

Thank you, this concludes today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.