S1 2020 Earnings Call

Company Participants

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

Other Participants

- Albert Ploegh, Analyst
- Andrew Baker, Analyst
- Ashik Musaddi, Analyst
- Benoit Petrarque, Analyst
- Cor Kluis, Analyst
- David Motemaden, Analyst
- Farooq Hanif, Analyst
- Farquhar Murray, Analyst
- Fulin Liang, Analyst
- Jason Kalamboussis, Analyst
- Michael Huttner, Analyst
- Steven Haywood, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good day, and welcome to the Aegon First Half-Year 2020 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Jan Willem Weidema. Please go ahead, sir.

Jan Willem Weidema {BIO 15133400 <GO>}

Thank you, sir. Good morning, everyone, and thank you for joining this conference call on Aegon's first half 2020 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.

It is with great pleasure that I welcome our new CEO, Lard Friese for his first results conference call at Aegon. Also with me is our CFO, Matt Rider, who will take you through the financials. At the end of the presentation, we will of course leave more than sufficient time for your questions.

Let me now hand it over to Lard Friese.

Lard Friese {BIO 17008174 <GO>}

Yes, thanks, Jan Willem, and good morning everyone. Thank you for joining us on today's call. In my part of the presentation, I would like to provide my initial views on the company and the road ahead after three months in the job as Aegon's new CEO. I will then hand over to Matt, who will take you through our first half 2020 results.

Before we start with that, I will share with you how the COVID-19 pandemic has impacted Aegon and its customers and what our response has been. So let's move to slide 2. As you can see on slide 2, underlying earnings for the Group were down by 31% to EUR700 million. Higher mortality rates in part due to COVID-19 and lower interest rates have had a significant adverse impact on our US business. Earnings in our other businesses held up well supported by lower expenses.

Net income was impacted by a charge related to our assumption review in the US amongst others to reflect the significant drop in interest rates in the past year.

From a commercial perspective, the lockdowns in response to the pandemic have been a challenge, and particularly, for our agency sales channels, which led to lower Life sales. In response, we are actively managing our product portfolio and increasingly doing business virtually to serve our customers.

We have for instance, expanded on non-medical underwriting limits in the US Life business due to difficulties for paramedical examinations to take place. We have been able to do so by leveraging our existing capabilities in automated underwriting in lower face value policies and are now using predictive data sources in our underwriting process for policies with up to $2 million face value and in selected risk classes. This supported sales in our key distribution channel for the US Life business World Financial Group.

Digital business models like our e-commerce partnership in China are doing well in the current conditions. Our mortgage business in the Netherlands also continued to perform very well, while delivering record high level of mortgage production of over EUR5 billion, thanks to the highly automated nature of this business.

In several of our deposit businesses, including the UK platform, we saw increased retention rates. Furthermore, we again achieved net deposits from external third parties and asset management, which add to Aegon's track record of eight consecutive years of net deposits. Together with net deposits in our online bank Knab, has led to positive net deposits of EUR1 billion.

From an operational perspective, we have dealt well with the fall out of the pandemic. Our service to customers has continued at a high level. In some areas, we even realized a highest customer satisfaction scores ever, as we adapted successfully to servicing customers virtually and have supported our customers and business partners. I'm very proud of our employees who really delivered and have demonstrated their commitment to customer service in these extraordinary times.

Let's now move to slide number 3. Let me turn to my initial views after three months as Aegon's CEO. It is my ambition and that of my management team to transform Aegon into a more focused, high performing group with a balanced portfolio of businesses that is generating reliable free cash flows and delivering sustainable and attractive shareholder returns. This is not where the company is today and it will take time to get there.

In summary, there are four areas of focus that I believe will contribute to making Aegon a materially better, more enduring and profitable company in the coming months and years. These are the following: number one, strengthening the balance sheet; number two, creating a more disciplined management culture; number three, improving efficiency; and number four, increasing our strategic focus.

So let me take you through to four areas one by one starting with strengthening of the balance sheet.

Aegon's capital position is overall satisfactory as demonstrated by its Solvency II and RBC ratios. However, significant uncertainty remains on what the economic impact of the COVID-19 pandemic will be going forward. And we expect continued adverse mortality experience in the second half of 2020, as a number of daily infections in the US remains high. This contributed to our decision to let our US business, retain their second half remittance to the Group to strengthen their balance sheet

In addition, we believe that our leverage and the volatility of our capital ratios are too high. We will therefore take action to strengthen the balance sheet, bring down leverage and improve the company's risk profile to reduce volatility. This should lead to more consistent remittances to the Group. These remittances should be based on recurring capital generation rather than on one-time free cash flows as a result of management actions.

In this context, we announced today several steps to strengthen our balance sheet, but more will follow. The first is that we have decided to retain the final dividend for 2019. The second is that we are reducing the interim dividend from a level of EUR0.15 per share last year to EUR0.06 for 2020. We anticipate that free cash flows are sufficient to cover the rebase dividend even in reasonable stress scenarios.

From here, dividends and other means of capital return to our shareholders will be based on the regular assessment of the company's financials according to customary governance. At our upcoming Capital Markets Day in December, we will provide more detail on the outlook for future dividends.

The third step is that we are reducing our leverage. Rebasing the dividend creates room to pay down debt and strengthen the balance sheet. The announced interim dividend equals an annualized cash outflow of about EUR250 million. Together with approximately EUR300 million holding funding and operating expenses, this brings the annual cash outflow for the holding to around EUR550 million. For the time being, free cash flow that is generated above this amount will be used to strengthen the balance sheet and reduce leverage. We will, for instance, repay USD500 million senior debt in December of this year.

The fourth step is the announcement of the assumption changes in the United States. Following a rigorous process, we have decided to strengthen our mortality in premium persistency reserves for the Life business to reflect the adverse experience in recent years. We've also made our morbidity improvement assumption for long-term care more conservative.

Furthermore, we have lowered our long-term interest rate assumption by 150 basis points to 2.75 -- 275 basis points, following their sharp decline in interest rates since last year, and Matt will take you through these in more detail.

As is customary, we will conduct assumption reviews in our European businesses in the second half of this year. Rebasing shareholder dividends is not a step that we take lightly. We realize that this business should over time be able to produce more than this level of dividend by way of capital return, and we believe that it can. But for now, this is the right level of dividends, which allows us to deal with deleveraging, reduce the risk profile of the company, and navigate through the COVID-19 pandemic.

We are working on plans to improve the operating performance of the company, and increase its free cash flows, and successful execution in the coming years will put the business in a place where it can produce higher levels of capital return from dividends and share buybacks.

The second focus area is creating a more disciplined management culture. For Aegon to fulfill its potential, we need a high performance culture. Under performance will be addressed without delay, decisions will be taken timely and the sense of ownership will be fostered and complexity will be reduced to minimize the risk of negative surprises.

Let me give you some initial examples of the direction I would like to take us in. For instance, we've installed a monthly performance review system with the business units. This ensures that the internal dialog around performance with a focus on delivery will be stepped up, whereby senior leadership will be held accountable for results.

Another example. We have conducted an organizational health survey with the help of an external party to understand the underlying behaviors and patterns, which make up the current performance culture of the Group and have defined levers to change. The successful transformation will require discipline, execution focus and a renewed customer-centricity.

Another example, we will attract new talent to the company in addition to our internal talent pool. And in that respect, I'm very pleased with the appointment of Duncan Russell in the newly established role of Chief Transformation Officer. Duncan will work closely with myself, Matt, as well as other members of the management team to drive our strategy and help transform the organization. In addition, we have decided to move to quarterly results disclosures as of the first quarter of 2021 to update you more frequently on our progress in vein of the accountability that fits a high performance culture.

The third area of focus is improving efficiency. We are currently undertaking a detailed review of the operating performance of Aegon's businesses, both absolutely and relative to its peers with the help of an external party. This is a granular piece of work that will result in detailed internal targets and associated KPIs to drive down cost and improve performance. At the Capital Markets Day in December, I expect to be able to elaborate on our ambitions here.

Lastly, we need to increase our strategic focus. There is ample opportunity for Aegon to create value for its shareholders and we have strong foundations to build on. For example, the Group is well represented in large established markets, the US, the UK and the Netherlands, and in large developing markets including China and Brazil. Aegon also has very good relationships with other large and strong financial services groups such as with Banco Santander in Spain and Portugal.

And in addition, we operate a substantial asset management business, both in terms of own assets and those managed for third parties. We have many satisfied customers served by loyal and motivated employees in each of these businesses. We need to increase our execution focus in these markets and improve our performance to ensure we capture their full potential.

Having said that, we currently operate in more than 20 countries, and I believe we need to sharpen our strategic focus. This requires disciplined capital allocation and portfolio decisions by concentrating on those countries and business lines, where Aegon can create most value.

So to recap, our priorities are: number one, strengthening the balance sheet; number two, creating a more disciplined management culture; number three, improving efficiency; and number four, increasing our strategic focus. I appreciate, you will have questions and want more detail.

Let's move to slide 4. Details. We are working on our plans to transform Aegon. The transformation like this will take time. So we will update you regularly. The next moment for such an update is set for December 10, during our virtual Capital Markets Day. We have themed this event: Focus, Execute, Deliver. During this event, we will update you on our strategy and portfolio management framework, our views on the appropriate level of leverage, our plans to improve the company's financial performance and the outlook for returning capital to shareholders.

And with this, I would like to hand over to Matt, after which we will provide opportunity for Q&A. Matt, over to you.

Matt Rider {BIO 20002664 <GO>}

Thank you, Lard. On the next couple of pages, I will take you through the main elements of our financial results for the first half of 2020.

Let me start with IFRS earnings on slide 6. In the first half of 2020, underlying earnings were EUR700 million and decreased 31% compared to the same period last year. Earnings were impacted by adverse mortality and lower interest rates in United States. The US Life business reported EUR150 million of adverse mortality experience. Of this amount, we could specifically attribute EUR34 million to COVID-19 as a direct cause of death. However, we believe that a part of the remaining adverse mortality experience is likely also attributable to the pandemic.

Furthermore, low interest rates and changes in the asset portfolio drove unfavorable intangible adjustments of EUR97 million also in the Life business. This was partly offset by EUR55 million of favorable morbidity experience in Health. Somewhat more than half of this is from the closed block in long-term care where higher mortality led to an increase in claims terminations. Other health insurance products benefited from lower claims as a result of reduced non-essential medical procedures due to the lockdowns that were imposed.

Earnings in the US retirement plans and variable annuities businesses are under pressure from outflows, as well as from investments in technology to improve the customer experience. Earnings in the Netherlands were resilient. The change in the treatment of underwriting results, underlying earnings and costs related to the longevity reinsurance deal we announced last year, were almost fully offset by lower expenses.

In United Kingdom and asset management, lower expenses and growing fee income contributed to an increase in earnings. Earnings from Aegon International increased driven by fewer health insurance claims in Spain and Portugal, because of the pandemic related lockdowns.

Next to underlying earnings, fair value items contributed positively to net income. This was mainly driven by the Netherlands due to a reduction in the value of liabilities as a result of wider credit spreads. This was partly offset by fair value losses in the US, mainly from the reduced value of investments and unhedged risks, while the hedges were effective for the targeted risks. Other charges amounted to EUR1.1 billion. The lion's share of that is from assumption updates in the US, which I will explain in more detail on the next slide.

As part of our regular processes, we review assumptions for the Americas in the first half of the year. This half year, we have implemented substantial updates for key assumptions in our US business. Given the decreasing interest rates in United States, we have lowered our long-term interest rate assumption from 4.25% to 2.75% and have lowered the assumptions for separate account bond fund returns accordingly

This 150 basis point decrease in the long-term interest rate assumption, led to a total pre-tax charge of EUR473 million. The updated assumption implies that we are assuming a reinvestment yield, including credit spread of approximately 4% in 2030, which compares to the current quarter reinvestment yield of 3.2%.

Secondly, we have strengthened our Life reserves by updating our assumptions for premium persistency and mortality, leading to a pre-tax charge of EUR234 million. The pro forma actual to expected claims ratio for the last year using the new assumptions is slightly less than 100%. The adverse experience of the past years is thus well reflected with the new assumptions. We will continue to monitor claims experience and its drivers closely including COVID-19 which led to adverse experience in the first half of this year.

Thirdly, we have reviewed the long-term care assumptions. Despite evidence of morbidity improvement and our favorable overall LTC claims experience, we have decided to move to a more conservative assumption. We have reduced the morbidity improvement assumption from 1.5% to 0.75% annually over the next 15 years. This led to a pre-tax charge of EUR1 million.

Let us now switch focus and move to capital on slide 8. Here you can see that the Solvency II ratio for the Group has decreased slightly to 195%. This leaves the ratio still at the top-end of the target range of 200%. Expected return, net of new business strain had a contribution of 9 percentage points, which was more than offset by market movements of minus 18 percentage points.

Model and update -- our model and assumption changes had on balance, a negative impact of 2 percentage points on the Group solvency ratio. This included the lowering of the ultimate forward rate in the Netherlands and assumption updates in the US. Lastly, one-time items had a positive impact of 5 percentage points on balance, as management actions more than offset adverse mortality in the US.

Now let's turn to slide 9 and briefly discuss the solvency ratios of our main operating units. In the US, the RBC ratio decreased 407%. Falling interest rates were the primary driver with the US 10-year Treasury yield coming down about 125 basis points. Furthermore, the ratio was affected by lower equity markets and adverse credit impacts, as rating migration and defaults reduced the RBC ratio by 14 percentage points.

In addition, the adverse mortality experience in the US had a negative impact of 10 percentage points on the ratio.

Management actions taken in the US had a clear positive impact. We have refined the implementation of the new VA framework and restructured a captive reinsurance company. Both led to one-time gains, and more importantly, will reduce the interest rate sensitivity of the RBC ratio, going forward.

In the Netherlands, the Solvency II ratio improved from 171% to 191%. This was mainly driven by the positive impact of interest rate movements. This is due to our over-hedged position on a Solvency II basis. Credit overall had a neutral impact as the positive effect from the higher EIOPA VA was offset by the rising credit spreads on assets including mortgages.

In the UK, the Solvency II ratio decreased to 154% at the end of the first half year. The decrease was mainly driven by lower interest rates.

Next, I would like to talk about credit migration on slide 10. In the current economic crisis caused by the COVID-19 pandemic, the risk for corporate defaults is increasing. Consequently, we have seen rating agencies taking action. For an insurer in the US, RBC capital requirements for bonds are based on NAIC rating classes, which are linked to credit ratings from rating agencies.

So far the impact from rating migration has been manageable. We have seen rating actions on about 16% of Transamerica's fixed income portfolio, which led to an increase of required RBC capital of USD47 million. This corresponds to an impact on the RBC ratio of 9 percentage points.In the table on this slide, you can see that two-thirds of the impact on the RBC ratio is from investment grade bonds in NAIC classes 1 and 2, where about 94% of the US credit portfolio is allocated.

As the economic crisis is evolving, while we speak, we expect further impacts from rating migration and credit defaults in the coming months. However, it is impossible to quantify a potential impact given the current uncertainties.

Now, let me take you to slide 11, to discuss our holding excess cash position. US remittance largely came from the intermediate US holding company and was financed by affiliate notes from the Life companies, which we used for liquidity management purposes as part of our normal practice. Had the US Life companies paid these dividends directly, then the RBC ratio would have been 386% instead of the reported 407%.

Our plan entering the year was for the US Life companies to pay about USD900 million in full-year dividends to the US holding in the second half of this year. Half was intended to finance the reduction in the affiliate notes, while the remainder was expected to be remitted to the Group. However, this year we prioritized strengthening of our balance sheet also in light of the impact of the COVID-19 pandemic on our capital generation in the US.

We also faced the risk of declining equity markets as well as further rating migration and defaults. Because of these risks, the US life companies are expected to pay only USD450 million to the US holding in the second half of this year, all of which will be used to reduce the affiliate notes. We therefore expect no remittances from the US to the Group in the second half of 2020. By the time, we report our second half results, I expect that a balance of about USD200 million to USD300 million will remain under the affiliate notes, similar to the amount at the start of 2020. We expect that this will reduce over time.

Moving on, we intend to use existing holding excess cash to reduce our financial leverage. The coverage of fixed charges on our financial leverage by the remittances from our subsidiaries is not where we wanted to be. This is especially so in light of the volatility of the recurring remittances from our units and exacerbated by the current environment. We are therefore prioritizing deleveraging. We will use part of our holding excess cash, which currently stands at EUR1.7 billion to repay USD500 million of senior debt in December and do not intend on refinancing it. We will update you in December on our new leverage target, but the direction of travel is clear from the deleveraging we are announcing today.

Besides deleveraging, we also expect to cash out of EUR141 million in the second half of the year, as a result of the recently closed expansion of our joint ventures with Santander. Consequently, holding excess cash is expected to fall to the lower end of our target range, which we took into account in our decision around the dividend, which I'll discuss on page 12.

Given the impact the COVID-19 is having on our business and our desire to strengthen the balance sheet, we have concluded that it is in the best interest of the company, to not pay out the final dividend for 2019 and to re-base the interim dividend. We are reducing the interim dividend from EUR0.15 per share last year to EUR0.06 per share in 2020.

As a result, we no longer expect to meet our targeted dividend payout ratio for the period 2019 to 2021. Together with the adverse developments in our capital generation and profitability in the first half, this means that we have to withdraw our financial targets.

As Lard mentioned, from here on dividends and other means of capital return to shareholders will be based on a regular assessment of the company's financials subject to customary governance. We plan to provide new financial targets and details on our capital allocation plans at our virtual Capital Markets Day on December 10.

With that, I will pass it back to you, Lard to wrap up.

Lard Friese {BIO 17008174 <GO>}

Thank you, Matt. Let's move to slide number 14. Let me round up by underscoring once more that it is my ambition and that of my management team to transform Aegon into a more focused, high performing group with a balanced portfolio of businesses that is generating reliable free cash flows and delivering sustainable and attractive shareholder returns.

We are focusing on four areas to achieve this ambition: number one, strengthening the balance sheet; number two, creating a more disciplined management culture; number three, improving efficiency; and number for, increasing our strategic focus.

I would like to open the call now for your questions. And in the interest of time, I kindly request you to limit yourselves to two questions so that everybody gets a chance to speak.

So, operator, please open the Q&A session.

Questions And Answers

Operator

(Operator Instructions) And we will now take our first question from Farooq Hanif of Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thanks very much for your presentation. Just two questions as you said. Firstly, when you talk about countries and focus, I just want to understand a little bit, what's on the table and what might be off the table? So the obvious question is, you know, the structure of the Group with a US focused business with a totally different capital regime, maybe a bigger impact on -- from IFRS. Is it on the table where you look at the actual breakup of the Group. That's question one.

Question two is, on deleveraging, I mean, you've talked about USD500 million of senior notes, what kind of metrics that you're looking at? Where do you want to get to ultimately on leverage? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Farooq, I suggest that I take the first one and maybe you can take the second one, Matt.

So the first one, what I said today is that, you know, if I look at the total composition of the Group, we are present in 20 countries. I believe that the Group can benefit from more strategic focus and we need to take very disciplined capital management decisions and portfolio decisions, and at the Capital Markets Day, we're still working through-- our thinking there at the Capital Markets Day, we'll give you a framework, and I have to think about that.

When it comes to the US and other markets, which I mentioned, I mean, the US is a vast -- a very big, large market for us. It's an established market like the UK is, like the Netherlands is. We have a good brand there. We have a broad set of products there. We have multiple business lines in the US. And I believe that with a renewed focus on our performance on improving the commercial momentum and driving profitable sales, I think the US market for Aegon has a great opportunity to create a lot of value. Just like I said, I was talking about the UK, the Netherlands, the asset management business, in Spain and Portugal, the relationship we have with Santander, and also developing markets, large developing markets for the future growth, like China and Brazil. However, I did say, we have 20 countries. And the question is, how do you create more strategic focus to the Group to ensure that you can create longer term the -- yes, create more value for stockholders over time.

A - Matt Rider {BIO 20002664 <GO>}

Farooq, with respect to the leverage ratio. I think, the analysis behind that's really still taking place. When we guided you today to the fact that we are going to take out

USD500 million of debt in December, we're indicating really a direction of travel here. We definitely want to reduce the risk profile of Aegon, and we do want to reach this financial leverage. However, the precise implications for things like the leverage ratio target or other aspects of our capital policy are really still being worked through, so we would intend to update you in the Capital Markets Day in December.

Q - Farooq Hanif {BIO 4780978 <GO>}

Sorry, just to come back on the scope of the Group. My interpretation of what you said there, look, it's not an immediate priority to split up the US or list it, but you are looking at the number of countries around the focus, is that the correct interpretation?

A - Lard Friese {BIO 17008174 <GO>}

I believe, we need -- I'm sitting here for the long-term value creation of the Group for stockholders, and I think first half onwards, and I think it's in the best interest of stockholders to continue the activities, I just outlined, because I believe there is a lot of value to be created there. Same time, I'm saying that we're in 20 countries, and therefore, we need more strategic focus. I think the Group can benefit from that and we're working through that and we'll give you more clarity on the framework and portfolio decision framework that we're going to take at the end of this year in the Capital Markets Day.

Q - Farooq Hanif {BIO 4780978 <GO>}

Excellent. Thank you very much.

Operator

Our next question comes from Cor Kluis from ABN AMRO Bank. Please go ahead.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. Cor Kluis, ABN AMRO. Couple of questions. First of all, about the assumption review, you did the review of the Americas, of course, in the first half of the year. It's good that you align some of these assumptions well. Question is more about Europe and Asia, also an assumption review there probably in the second half of the year. Could you comment a little bit on that and might be expected that Q4 results? Or might it also be happen -- happening at the Capital Markets Day? And what are the items you're really looking at. So that's on that side.

And secondly, on the US, maybe a question for Lard, question, of course, physically, a little bit more of a challenge to -- for you to look and analyze the US business in the first half of year. But could you give your comments and views what you've learned and especially on items like long-term care and variable annuity business? What's your view on that part of the US business as well? That were my questions.

A - Lard Friese {BIO 17008174 <GO>}

Thank you very much, Cor. On the assumption updates, Matt, maybe, and then - so I'll start first with the question for the US.

Yes. So indeed, I started at the middle of pandemic, so I've been -- I was supposed to be in US for a quite a long time, actually and only was physically there for a week, after which I had to return back because of the travel restrictions that were imposed at that time. But I have been able to conduct many, many, many, many meetings with our colleagues in the US, and to get myself familiar with the US products and with the US business.

We have to remind you, first, we have changed the organizational structure of the Group to really focus more on two distinct areas. One is the workplace solutions business, which is the retirement business, retirement plans and employee [ph] benefits and the life and voluntary benefits. And then we have another division setup, which we call Individual Solutions and that's the business that offer -- that basically sells the annuity business, but also final expense, term life, whole life, universal life products. We have also decided to appoint two new CEOs in those two business lines. So the two business lines there now have new CEOs, very talented leaders that are appointed there to ensure that we drive up the performance and the commercial momentum of the company.

If I look at the product portfolio, of course, with these low rates, we need to be realistic that, the living benefit in the variable annuity book is obviously something in which quite -- is quite a pressure in terms of profitability, while still maintaining a good consumer outcomes, and as a result, we have adapted the product range in May, and we are going to continue to navigate to the product portfolio in annuity business to make sure that we redesign products, develop new products, for -- focused sales effort, for instance, more on fixed-indexed annuities and also developing other kinds of products like registered index-linked annuities and the like.

If you look at the, let's say, the other piece of the Individual Solutions business, term life, we actually were quite successful in selling -- continuing to sell term life. We basically had 20% uptick in sales, which is -- because it's certainly in this environment. Also in the IUL business and universal life business, I just alluded to the change in underwriting and mechanics that we used to allow to operate and to continue that business in this virtual environment. So that is something that we've been focusing on.

On the retirement side, we basically have seen after the COVID pandemic sunk in, is that the number of RFPs out there for new businesses or the number of employers, sponsors that have put their businesses up for RFP have really dropped quite a bit. So there is not much commercial activity there, which has actually a positive and a negative side. The first one is on the negative side, you cannot get more sales in, that's one thing. However, the positive is that the retention levels are also good, because -- so the business is more sticky as there is just less -- fewer and more responsive that are putting their business for -- up for RFP.

So I would say that the last years, there has been a lot of investments made in the retirement business. The integration of the Mercer acquisition in the retirement business and Workplace Solutions business is now behind us, that's done. So I think, we've invested a lot in digital solutions and making sure that doing business with us in the area is -- it's more flawless for our partners and we are well set to drive up growth the moment that it is possible again.

So, with that, I think, let me stop here. As for the US, we can talk a lot about the commercial activity there. But let me stop here.

A - Matt Rider {BIO 20002664 <GO>}

Thanks, Cor. The -- with respect to the assumption review, the first half assumption review as we said is taking care of the US, also Transamerica Life Bermuda, the high net worth business that we have in Asia. Now we normally do the European assumption review in the second half of the year and it's really critically important that we take the same diligent review of the process that we did for the US in first half, also taking into account the concerns of the market. So with respect to when we announce something else, it would be unlikely that we would say anything about assumption review in Europe for the Capital Markets Day in December. I think, that would be something for the year-end earnings release.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay, wonderful. Thank you.

Operator

Our next question comes from Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Good morning. Thank you. I just wanted to -- on the cash at year-end, whether you could talk me through the moving half. I heard the figures, but really I was typing at the same time, not focusing of minus EUR550 million, which is the dividend and holding costs, minus EUR141 million Santander. And I guess, minus EUR455 million for the debt repayment. So if I deduct that from the EUR1.7 billion, I get to EUR0.6 billion, and you said, you'd be at the bottom end of the range, EUR1 billion. So if you could help me on that will be lovely.

And then the second, the new colleague is a fantastic guy. Well, I remember (inaudible) his key question is always what is the number of shares. In other words, you have potential valuation to come from capital increase. I just wondered if you can explain a little bit your thinking on that. And here, I alluded to the fact that you did have a registration statement. I was sure that's kind of normal events in July. But that registration statement does have the possibility of issuing shares and are they [ph] going to be? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, I mean, Matt if you can take the -- take Michael through the numbers on the cash in the holding. But before we do that may be get to your question about -- I didn't quite hear it to be honest. So, can you please repeat your other question?

Q - Michael Huttner {BIO 21454754 <GO>}

Well, basically your new employee Duncan --

A - Lard Friese {BIO 17008174 <GO>}

It was about Duncan, I think, but --

Q - Michael Huttner {BIO 21454754 <GO>}

Yes, Duncan. He is now in the Group. And his key question is always what is the right number of shares? Now, you have a shelf registration to issue shares in Aegon NV and I just wondered if there is a risk or possibility that all these reviews will lead to a capital increase? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

I understand the question. Well, first of all, on the filing that you're referring to, the Form 3 that's actually is something quite boring, to be honest. We regularly issue dollar paper in the US market. Last year, for instance, we issued a USD925 million Tier 2 instrument under the shelf program. This is just a program that we need to maintain and perform a yearly update of a registration document. So it's actually quite a boring thing.

About your other point, I mean, can I just point out to you that should remind you that today we're announcing a dividend actually and that we're also seeing that we want to prioritize repaying debt and actually that at the end of the year, we're going to repay EUR0.5 billion of debt. I mean, that to me is a clear answer to, do you have any plans at this point for this? The answer is no. I mean, we're announcing a dividend and also prioritizing deleveraging.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you.

A - Matt Rider {BIO 20002664 <GO>}

With respect to excess cash at the holding, I'll begin with the beginning year balance. So we had about EUR1.2 billion excess cash in the holding at the beginning of the year. We will expect in about EUR830 million of gross remittances from the various business units in the -- throughout -- and that would be for the entire year, take out about EUR300 million of holding and funding expenses.

And then, the key points on the other pieces here, we did get a -- we should get the proceeds from the divestment of our Japan business, so that's about EUR150 million. We also expect about EUR250 million of capital injections into the business units, which are -- which include the funding of the Santander expansion. We have about EUR120 million in common share dividends based on EUR0.06 per share that we've announced today and then the change in the financial leverage is that USD500 million senior and that gets you to something over EUR1 billion in the holding excess cash at the end year.

Q - Michael Huttner {BIO 21454754 <GO>}

Well done. Thank you so much.

Operator

Our next question comes from Farquhar Murray.

Q - Farquhar Murray {BIO 15345435 <GO>}

Just two questions, if I may. Firstly, on the dividend rebase that you seem to have rebased to a level that you can sustain against plausible stress outcome. But could you just outline what needs to happen for Aegon to move higher from those levels? Is that just the matter of moving beyond the kind of COVID-19 uncertainties or are we looking at a more sustained recovery in US remittances you might actually take for 2022?

And then secondly on the assumption changes, please could you quantify the reductions in the headroom you referred to on the asset adequacy and premium deficiency reserve? And can you just update us on where you stand on those currently? Thanks.

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Farquhar. I will take the first question. And the Matt, you're take the second? Okay.

So on your trajectory question for the dividend, as I said during my opening remarks, we realized that we should over time -- this business should over time be able to produce more than the current level of dividend. But for now we feel this is the right level of dividend as we want to prioritize deleveraging, want to strengthen the balance sheet and we want to indeed navigate well for the COVID-19 pandemic.

We're working our plans to improve the operating performance of the company, and with that, over time to increase the free cash flows of the company, and you know, provided we're successful in executing those plans in the coming years, that will put the entire business in a place that we can produce higher levels of capital return from dividends and buybacks, for instance. But more details will come later this.

A - Matt Rider {BIO 20002664 <GO>}

With respect to -- let's say, with respect to cash flow testing headroom and PDR headroom, just in general on asset adequacy testing, this is -- it's an annual test that we run at the end of the year. We have done a number of legal entity restructuring in the US over the past several years and this has helped us to improve our capital ratio and get some additional cash flow testing sufficiency.

We also have additional legal entity mergers. We've talked about this before, the merger of TLIC and TFLIC, that is scheduled to happen on October 1 of this year. We are also collecting an embedded value captive reinsurance company at the same time and at that moment, we further plan to optimize the legal entity structure in the US. All of these things are things that benefit the cash flow testing sufficiency.

However, the assumption changes that we have made in the first half of the year, hope you wrote [ph] that to a certain extent. But at the level of interest rates that we're currently at, we do not expect to have to put up additional cash flow testing reserves at the end of the year, again assuming that we get the TLIC-TFLIC legal entity merger completed by the end of the year.

With respect to the premium deficiency reserve testing, again, this is an annual test and that's where what -- that's the one where we're going to be close. Do you need to -- so again, the change that we have made to the morbidity improvement assumption has eroded part of that headroom and we -- but we do anticipate being able to take some management action by the end of the year to be able to reduce that risk.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Just as a follow-up, do you have any sense of the magnitude of erosion you're talking about there?

A - Matt Rider {BIO 20002664 <GO>}

Yes, again, that -- this is something that we're going to defer to the end of the year because it is -- it's the full cash flow testing runs, taking into account the legal entity merger so we're going to wait until year end to talk about that.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay, that's fair. Thanks.

Operator

Our next question comes from Ashik Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Thank you and good morning, Lard. Good morning, Matt. I have two, three questions. So first of all, I mean, we are in an interest rate environment, which I would say, we haven't seen in past in US. So how confident you are that the current interest rate is not fully reflected in the stat accounts? I mean, I'm not very much keen on the IFRS, but in terms of stat accounts, do you think that if interest rate remains here for 5-years, 10-years, especially the US one, and you will not be taking charges in the future on interest rates at least in the stat account? So that's the first question, I had.

Second question, you keep on mentioning that you want to reduce the risk profile of the company. What does that mean apart from deleveraging? I mean, do you plan to reduce the credit risk, do you plan to take interest rate hedges? So, any thoughts on that would be very helpful.

And thirdly is, I mean, how should we think about cash flows -- cash -- capital generation at the moment in light of new interest rate environment in US and in Dutch businesses? I mean, in past, I think US capital generation was about USD900 million, Dutch capital generation was about USD350 million [ph] but because of falling interest rate, because of your reduction in risk profile that you are talking about, how should we think about that normalized cash generation profile going forward? I'm just trying to get a bit of sense as to what sort of free cash flows you can generate in the long run? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, thank you very much, Ashik for your questions. I will take the question that you had asked about the risk profile of the company, and Matt, I'll look for the other questions to you, if you don't mind.

So on the -- on that -- I'm not going to give any specifics at this point. But, if you take a step back, what I'm trying to do is the following. If I look at the company, I think, the performance really needs to improve, that the operating performance. Secondly, for that a number of things need to happen. I need to install a different management culture, creating a high performance environment and ensure that we are creating -- we are getting free cash flow generation that moves up as a result of better management activity, if you will. So that's number one.

Number two. I also see a lot of volatility. You see volatility in capital ratios, but then also the entire picture in my view, creates a lot of volatility, which, I want to just make more boring, if you will, maybe a weird for this, but I think I want to create a much more quiet picture, if you will and that's part of the effort that we're going to do.

The other thing is that, yes, today, we've announced a couple of things around the balance sheet because we really want to ensure that we take a step back, rebase the dividend, provide -- create room to delever the company and also to take actions to ensure that the overall profile of the Group becomes more predictable over time and focused on generating free cash flow through high performance management activity, in all -- in the markets where we operate, and further, of course, reducing, if you will, the strategic focus, ensure that you create more strategic focus, if you will, for the Group as a whole. That's what I aim to achieve now. With that, Matt, over to you.

A - Matt Rider {BIO 20002664 <GO>}

With respect to the impact of sort of the low interest rate environment on capital generation in the US, what we've said before and still holds true today is that we reinvest about USD5 billion worth of more general account, we have to reinvest that every year. And to the extent that you have a gap between your, let's say, your new money yield and your back book yield that's going to create a drag, and right now, that drag is standing at about 109 basis points for the US general account portfolio.

So just in general, call it, 100 basis point, you're talking about a USD50 million reduction in pre-tax earnings, capital generation of sort of the same thing. But then if the next year that level of interest rates persist, then it compounds, because you've got another USD5 billion that you have to reinvest, so USD50 million goes to USD100 million, goes to USD150 million and so on. So, a prolonged low interest rate environment creates a drag on our earnings.

I would also say that it's not just in the US. We do have a sensitivity to interest rates within the Netherlands, and there if you have 1 basis point drop in interest rates, you end up with about a EUR1.5 million annual impact on capital generation going forward. And just to remind you, we do have a quite a significant UFR drag, that's going on in the Netherlands, it stands at about EUR275 million annualized today, but that's just a reflection of where interest rates have come. But low interest rate environment is very difficult to us, and it's one of the reasons why we are being cautious, we are rebasing the dividend to that EUR0.06 a share, so that we can make sure that that it's well covered by cash flows out of the businesses, even assuming a reasonable level of adverse scenario.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Got. And just one question -- and one more question I had, I think I forget.

A - Lard Friese {BIO 17008174 <GO>}

Yes, on the capital generation, I answered this in a little bit different way. I mean, normalized -- you've talked about normalized capital generation, which is still quite an important metric for us and it definitely has reduced in the first half of the year given the impact of mortality on our US Life business. But normalized capital generation works better in an normalized time, and that's not where we are right now. We are in a very volatile market. We do not know where mortality is going to go. We have some estimates. We run scenarios on adverse mortality and claims experience, but also we are going to be taking real impairment losses, real defaults on bonds through the statutory accounts and that is -- that's real money, that is real cash that we have to take into account.

So I'm not going to make a comment on level of normalized capital generation, at this moment in time. It has way more to do with the real cash that is being generated out of the businesses and now it is being influenced quite a lot by tumultuous markets potential for continued declines in equity market, credit default, credit migration, additional mortality so we're going to be a little bit cautious on talking about future normalized capital generation in the US.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear, and many thanks for your answers.

Operator

Our next question comes from William Hawkins of KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, thank you very much. Matt, what you were just saying to Ashik is partly answered, and I was also going to ask about the capital generation. So I don't want to ask the same question again, but I'm just trying to get clear in my mind. Your 4.1 billion, three-year target, I mean, that was an anchor point for Aegon, and I can see why you've had to adjust your cash and leverage use. But to me, it's a little bit more fundamental. You seem to massively have wrote back from that number.

So just to be clear, we seem to be annualizing now below EUR1 billion and the direction of travel for that number is still negative. And I just wanted to make sure I'm clear the driver of that very rapid deterioration is the UFR drag that you mentioned, and then the ongoing rollover risk in America. So, I suppose, if I'm right about the question I wanted to ask, you made a couple of references, I think Lard made a couple of references to management actions also boosting figures, and you've not really talked about that so much in the past. And so I wanted to check, have management actions also been boosting your historical normalized capital generation figures in a way we haven't seen? And if so, by how much? Or is that comment about management actions more just referring to the dividend upstreams and the rest of it?

And then secondly, Matt, I'm sorry to come back to this points about rationalizing the 20 regions. I mean, just as a comment I'd like you to respond to, I respect what you're saying on that. But the three big regions, which you seem pretty committed to, even before we get onto asset management, are generating more than 95% of your operating earnings and capital generation. So, it would seem to me that anything you do in the other 15 to 17 regions is really going to be marginal to Aegon's position. And so what I just wanted to check with you is, am I missing the point on that? Do you actually think that there is stuff you can do in these smaller regions that can actually become financially material for Aegon? Or is this more just about maybe quite reasonably just wanting to reduce your distractions? You've got three big operations that you need to focus on and you don't need to be focusing on all these other areas. And so even if that's financially relevant, you need to get them off the table, so you can really focus on the stuff that matters.

A - Lard Friese {BIO 17008174 <GO>}

Yes well, good morning. Let me take that first, Matt, and then -- that last piece first. I understand your question. Yes, you're right. I mean, I think we should limit our distractions, let's be perfectly clear and focus our efforts on where it matters. And that's what, I think the real important message just I'm trying to get across today. On -- with strategic focus, I mean, do not be distracted and focus on things that moved the needle and really ensure that you drive your performance up and get better and stronger streams of free cash flows, which will provide all kinds of opportunities for capital returns and other purposes. So that's a large piece of this. And you know, more focus also on markets, management time, attention, et cetera, makes you -- makes your company with a hop in your step and that's what we need to become.

Matt, with that?

A - Matt Rider {BIO 20002664 <GO>}

With respect to the capital generation target, you're absolutely right, I mean, when we set out the 2019 to 2021 targets, we really anchored on that EUR4.1 billion of normalized capital generation and that was really supported by effectively remittances from the US and that's sort of a short-hand of saying that we talk about our payout ratio on normalized cap gen. But, really it was anchored by normalized capital generation in the US and the level of remittances that they were going to be able to pay to the Group. But again we are not in a normal situation here, so normalized capital generation is going to be eroded by things like credit defaults, things like additional mortality. So, that's really why we have to back away, that's really the reason why we have to back away from that target.

Q - William Hawkins {BIO 1822411 <GO>}

And Matt, sorry, just allow me, I guess, one core question, have the historical figures been flat, just make sure I understand.[ph]

A - Matt Rider {BIO 20002664 <GO>}

Yes, the short answer is no. Yes, the short answer is no. Management actions typically are things that would either improve a solvency ratio, will improve the headroom, something in that space, but it usually is more negative on normalized capital generation, good case in point would be the longevity reinsurance deal that we did in the Netherlands where we basically get enough [ph] on capital benefit, but it costs a bit in terms of normalized capital generation going forward. So it is a bit the opposite.

I think, what you maybe -- what Lard, I think was referring to was, when you take some management actions, and let me say, we've done this in the US business, it has allowed us to pay more dividends that what's, let's say, the normal earnings of the business would be able to afford. Good example of that, you may remember 2017 when we sold the COLI/BOLI business in US, it ended up generating about 700 million of additional capital, which they were -- which the US was able to repatriate to the Group, which we used in part to recapitalize the Dutch insurance organization.

So there is a link between management actions and remittances, but what Lard is really trying to say is, so we want to make sure that we have the remittances coming out of the US to be based on real earnings, real efficiency, real stuff that we're doing on the enforced business and then we'll be transparent on what the impacts of the management actions are going forward and sometimes they can result in a special dividend or whatsoever, but we'll be transparent on that.

Q - William Hawkins {BIO 1822411 <GO>}

That's great, gentlemen. Thank you. Good luck on the journey.

Operator

Our next question comes from David Motemaden from Evercore. Please go ahead, your line is open.

Q - David Motemaden {BIO 18818634 <GO>}

Good morning. Just a quick question for Lard, just on strategy and specifically on the UK, and just how you think this business fit into the Group. It does sound like this is strategically important. But I guess, just sort of how you think Aegon is positioned in the market there. And I guess, why you wouldn't consider doing something more drastic there in terms of freeing up capital?

Second question, just for Matt. I guess, sort of a two-part question, just in the US. First one, are you getting any indication of the impact that the Iowa regulatory review will have on capital levels in the US as we head into the end of the year when I think that review should end? And second, just on the PDR testing for the long-term care book, I guess, it sounds like it's going to be pretty close. I'm just trying to get an understanding of what exactly happens process wise when that margin is breached?

A - Lard Friese {BIO 17008174 <GO>}

I'll start first on the UK. Okay, on the UK business, David, good day to you. On the UK business, yes, I think we're -- UK business is a business that is first and foremost operating in a large market where a lot of assets need to be managed. And we have built on the back of the Scottish Equitable business. We've built a platform business, which is the platform business in the UK, and there is a lot more for us to do and we are -- the company is doing well with the movement from, let's say, the in-force book, which over time is maturing and at the same time, the capital-light business that we have with this platform, the service that we have for pension plans and the digital solutions that we offer there, we think that we're very well positioned to grow that business further and also to drive up the earnings, and as a result, making good returns. So yes, we believe there is a lot more room for improvement and for creation of value, and that's why we believe that the UK business is well positioned to capture the opportunity there.

A - Matt Rider {BIO 20002664 <GO>}

With respect to the Iowa review, that is correct. They've just begun their, as we say, Quinquennial audit once every five years. I would seriously doubt whether this thing is going to be done by the end of the year, but there is no -- there's really no update on this one. Yes, not much to say about that.

For the PDR, if you have a breach, so on cash flow testing, if you breach cash flow testing, you have to actually set up reserves, but there is a grade-in period where you do it over time. Actually on the PDR side, I don't know if that's immediate or if there is a grade-in, we will come back and check on that one. But if we were to breach it under current sort of circumstances, the amount would not be very much.

Q - David Motemaden {BIO 18818634 <GO>}

Got it, thanks. If I could just sneak one more in, just on a local capital levels across the Group. Lard, do you think that those need to be increased from the current ranges or maybe the ranges tightened up at the top end in the vein of trying to improve the financial strength of Aegon?

A - Lard Friese {BIO 17008174 <GO>}

Well, the more important thing, David, to be honest, that would be more my priority rather than the levels itself as a volatility of them, right? So if you just look back at, for instance, the Dutch ratio, the volatility of the ratio has jumped around quite a bit and we need -- we know it's a mechanical thing partly, but we need to address that to make sure that becomes more stable. So rather than the levels of capital themselves, as I've said in my opening statement, the regulatory capital levels are satisfactory. That's not the point. It's more of the volatility around it that I believe needs to be addressed.

Q - David Motemaden {BIO 18818634 <GO>}

Okay. Great, thank you.

Operator

Our next question comes from Albert Ploegh from ING. Please go ahead.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes, good morning, all. It's Albert Ploegh from ING. Yes, few questions from my end. The first one on the deleveraging. If we take one step back, so basically pre-COVID. Lard, just taking the same kind of conclusion that leverage has been actually too high, because I'd like to understand what is structural there in terms of deleveraging need, and what is, if you like, the new world now given COVID, to understand a bit there.

And the just one [ph] on IFRS as well is on IFRS 9 and 17, has it played a role or factor in the decision also with your wording for the time being? Is there also an element there? And then one question also in light of the re-basing of the dividend. Can you confirm whether the Aegon Association is completely debt free, so no leverage there? I believe, that is the case, but it would be helpful.

My final question is on the holding cash buffer. Thanks for the explanation for the second half. I mean, the buffer, I think, we can -- clearly, we still feel comfortable with the range. But should we also given the COVID situation and uncertainty [ph], you rather like to move to the higher end in, let's say, 2021, 2022 or is that not needed in the (inaudible) this is a fine level [ph] for you. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes. So I'll take the first one, and Matt, if you take the other points. Yes, Albert, on the -- well, don't forget that, let me first say, the US rates, for instance, are now more than 200 basis points lower than they were a while back, for instance, in the second half of 2018. So rates up and down. That's the thing. Rates have come down and that changes the outlook on capital generation, and therefore the views on leverage. And because if rate is down, puts pressure on the coverage of fixed charges of the financial leverage by the fixed -- by the remittances from the subs, which is not where we want it to be. And especially, in light of the volatility of the recurring remittances, which I just highlighted from the units, as we have seen some years -- in recent years, yes, we believe that the volatility is exacerbated by the current environment, and this as a result, we're just prioritizing to delever the company straight in the balance sheet. And secondly focusing on performance improvement, efficiency improvements, and as a result, getting to free cash flow generation of the business is up, as a result, the remittance level is up and more reliable in the future, and as a result we over time to create a better pool for improved capital returns, dividends and the like.

A - Matt Rider {BIO 20002664 <GO>}

Let me pick up the IFRS 9, 17 factor. I would say IFRS 9, 17 is not a direct driver of a move to delever. However, the low interest rate environment is going to make an impact on our equity under IFRS 17. So it is a bit of a consequence. In other words, IFRS 17 capital-- IFRS even under the current standard, it's really just a little bit different lenses looking at the same situation and the situation that we find ourselves in is low interest rates. So by deleveraging that will take some pressure off the IFRS 17 conversion when we do that in 2023.

With respect to the Aegon association, yes, there is no bank debt remaining on that one. So they've done a good job taking the debt out of the company over time using the dividends that we've been paying them to do so, and at this moment, there is no bank debt.

On the fourth point, are we comfortable with the level of holding excess cash, at a little bit above 1 billion. No, we would rather have it up more towards the end of -- up towards the top of the target range and we are going to try to work that up. So when Lard talks about decreasing the risk profile of the company, it also means establishing a bit more cash offer. So as we look forward, even under an adverse set of scenarios under COVID-19, we still see that that excess cash is going to be growing over the coming period. Again, even in a reasonable set of adverse scenarios.

Q - Albert Ploegh {BIO 3151309 <GO>}

Okay, thank you. And apologies for the four questions.

Operator

Our next question comes from Jason Kalamboussis from KBC Securities.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Good morning, gentlemen. Nice to see you both, Lard and Duncan, on this new challenge. I can only congratulate you by the way on the new direction you're tracing for the Group. I've got three quick questions. The first one is, we talked about exiting countries. I would like to have your thoughts on US, if you see -- I mean, we mentioned before, the BOLI-COLI, do you think that you're happy with what you have in the US or would you consider to do any disposals at some stage? Of course, now not being the time. And will it be part of your strategic review? And also within this question, how do you see the balance of the US business versus the rest of the Group? I mean, you are predominantly a US business. We already discussed about speaking to Group or other things with the previous questions. But just I would like to know as you're exiting more countries, you are increasing that imbalance, what are you thoughts?

The second question is just quickly, Matt, around the US. I think we have discussed it back in May. You have the new product launch with TCS. Maybe you mentioned an uptick, but I didn't hear it very well. How is this going on? Have you launched new products? And also Lard, you spoke about new investments. I just would like to understand it, because I understand the higher expenses, given where sales are but other new investments covering that area or not?

And the third thing is just quickly on the UK Solvency II at 154%. I know your lower end of the range is 145%. But are you happy with it?

A - Lard Friese {BIO 17008174 <GO>}

Yeah, good morning, Jason. And I'll start with the first question you answered and then, Matt, can you take the other -- can you take the others?

So let's start with your point about strategic focus. If I take a step back, what I would like to achieve over time is to build a well-balanced group, which is performing well, which has multiple pools of remittance capability, cash flow growth on the back of strong management focus and selling the right product, being efficient and strong management activity. That's what I aim to achieve over time. That's not where we are today. We realize that and I recognize that, but that's what we're going to work on, for the coming years to get right.

I wanted to create more strategic focus to allow us as management to just focus where, I said early to, well to focus on where it moves the needle and I'm absolutely convinced that where we do that well, that we will find opportunities, and also in those businesses indeed, we could review areas where we want to grow, areas where we do not want to grow. So, you will get more granular in the way you're going to deploy your strategic thinking in the market that you're -- that are your chosen markets and where you're looking into.

The purpose of it all is to create in the end a trajectory for this Group, where this Group becomes balanced with strong free cash flow generation from multiple sources of remittances, and as a result, create a more balanced Group overall. That's the thinking behind this.

So, Matt, could you take some of the other questions, please?

A - Matt Rider {BIO 20002664 <GO>}

Yes, let me pick up the new product launches in the US. So first of all, we have done some repricing to the term product, and if you look at sort of half-year over half-year that's been effective. We've been quite comfortable in repricing certain sales -- pricing sales, we say, but we saw actually term sales, even in a COVID environment, up about 30% over the prior year period. And again, due to the firm repricing. We are introducing a new guaranteed minimum accumulation benefit in our variable annuity product line to compete with, what are called, RILAs, in the second half of this year. Next year, we will introduce our own RILA again, in the -- probably in the second quarter.

Generally, these products are designed to produce a lower risk for the company, offer a bit of principal protection. But again, a lot of these products need to be a bit redesigned as a consequence of the big drop in interest rates. So like on variable annuity product, as an example, given the level of interest rates, we don't want to be selling so much of this business until we can reprice and get new product.

Your last one was the new investments and retirement plans. Yes, we are making technology investments basically to improve customer and adviser experience and those were things that were slated. As we came into the year, we're expecting to invest quite a bit in US business, which we have done on the technology side, but given the COVID-19 environment, I think, Lard has mentioned, across all businesses, including the US, we are going to have some kind of a major expense initiatives here to increase the efficiency across the board.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Finally, the point on the UK, I think.

A - Lard Friese {BIO 17008174 <GO>}

I'm sorry, the UK. The 154%, am I happy with it? You may have noticed that, the UK didn't actually pay a dividend in the first half of the year. This was, I think more prudency on the part of the work there and also the PRA has been outspoken about being very, very cautious on paying dividends. They actually did pay it by the way at the -- in the beginning of July. But, 154% is down near the -- it's near the bottom of the -- it's near the bottom of the range. We'd like to see it a little bit higher, but this is not actually a big concern for us at this point. I think, I'm more concerned about getting expenses out, making sure that we've got that co-funds integration fully locked down, and then the UK strategy going forward, that's the thing that we're working on there. I'm not so much concerned about solvency ratio in the UK.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Many thanks.

Operator

Our next question comes from Fulin Liang from Morgan Stanley. Please go ahead, your line is open.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. Good morning. I've got two questions. The first one is, just wonder, how are you going to protect your US RBC ratio? Because if we look at the RBC ratio right now, it is about your bottom range of the -- the target range of 350. But when I look at the rating migration and default being quiet, it's not fixed yet, and also your portfolio is not completely immune to equity market movements, so 386 versus 350 doesn't sound a bit of much margin to me. So just wanted to see, if the market actually deteriorates from here, what would -- could be the management actions to protect your US RBC ratio?So that's the first one.

The second one, I think that the question being kind of asked before, just want to follow up. On the point of improving the company's risk profile, could you add some color on, specifically on the liability risk profile, what do you like, what you don't like? For example, do you like longevity risk, do you like mortality risk, do you like the fee [ph] and risk in that country [ph]. Thank you very much.

A - Lard Friese {BIO 17008174 <GO>}

Hi, Fulin. Thank you for your questions. Let me take the last question, and then I'm asking Matt to take the first one on the RBC ratio. Fulin, as I said earlier to Ashik on the call, I'm not going to go into specifics at this point. What I just aim to do is create a situation where the company comes -- volatilities addressed, where debt is taken down, where the overall trajectory of the company is driven by management performance and activity to drive efficiency up, to drive commercial momentum up, to focus strategically on markets that we think we can create a lot of value in the future that we focus our attention in a very granular manner on the activities that we can undertake to improve the overall free cash flow trajectory for the company, and that -- those are the key things that I would like to highlight here. More to come on this, because I understand your question on this, but more to come on this, but give me a bit of time to be more granular about this likely more -- by the end of the year on this.

So Matt, on the RBC.

A - Matt Rider {BIO 20002664 <GO>}

With respect to protecting the US RBC ratio, so to be clear, even -- again, even in a COVID environment, we feel comfortable enough with the solvency ratio in the US to be able to take out USD450 million dividend out of Life companies in the second half of the year, so that gives you a bit of a measure of -- even under a reasonable set of adverse scenarios, we still think that, that will -- it will be possible to take out that USD450 million

So -- but let's say, and again, that's just assuming a lower level of equity markets continued and even higher credit defaults and credit migration, the continued low level of interest rates, mortality experience, definitely negatively impacted by COVID-19. But if it was significantly even worse than what our expectations would be, probably the management action that we would take is that we would have to reduce that momentum somewhat out of the US Life companies in the first half of the year. We do want -- we definitely want to protect the ratio. But given the sensitivity analysis of the -- and the scenarios that we run, we still feel comfortable that we'll be able to take out that USD450 million and still maintain the US RBC ratio at adequate level.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you very much.

Operator

Our next question comes from Andrew Baker from Citi.

Q - Andrew Baker {BIO 20402705 <GO>}

Hi guys, thanks for taking my question. Just one from me. Are you able to provide an update on the -- on your US mortality experience we've seen in the second half so far? And what are you currently assuming for year end? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Matt?

A - Matt Rider {BIO 20002664 <GO>}

Thanks, Andrew. We do have July claims experience and it looked to be actually lower than what we had seen in the first half of the year. We see actually a lower number of claims, and let's say, the average size of claims has actually reduced at this point in time. But we are definitely not out of the woods yet. I mean, COVID-19 --I mean, if you look at the -- if you look at the deaths and the way that that is tracking, it's actually in US, death rates are for COVID-19 direct causes have actually come down since April when they were peaking. But on the other side of the coin, we're getting infection rates back up. So it's very difficult to talk about what is the impact of additional mortality for the balance of the year. But yes, July was, I would say, a bit encouraging.

Q - Andrew Baker {BIO 20402705 <GO>}

Thank you.

Operator

Our next question comes from Benoit Petrarque from Kepler. Please go ahead.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning everybody. So, two questions on my side. The first one is coming back on this priority of strengthening the balance sheet. Obviously, you started to implement more conservatism on the balance sheet with asset assumption changes. Are you done there or do we need to expect still big assumption change in the second part of the year? I was trying to figure out the leverage ratio of 28.4% is a kind of clean starting point for us to calculate the kind of required deleveraging going forward.

And then the second one is on the Dutch Solvency II ratio, and coming back on this issue of volatility. I mean, how do you see the ratio today? What is the kind of the true level? And how do you want to address this volatility? Will you consider the cash injection in the Netherlands? Or just trying to figure out what is the dividend, also capacity of the Dutch business as we speak. And also trying to figure out if you're still comfortable with the re-risking [ph] plan there. Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Thank you, Benoit. Matt, take a shot at this.

A - Matt Rider {BIO 20002664 <GO>}

With respect to the leverage ratio, you say, the 28.2% where we currently are, is that a clean starting point? I think, I had mentioned earlier that this is one that we really want to revisit together with other elements of our capital policy. We will come back to you at the Investor Day in December to talk about this, but again the USD500 million that we do today is indicating a direction of travel. There may be additional deleveraging that we want to do. We also have to address quality of capital, which we will do at the Investor Day.

With respect to the Dutch Solvency II ratio, is that a sort of a normal number? We basically, look at the EIOPA VA and you say whether that's normal or not. So at the end of the -- at the end of the first half of the year, it was standing at 19 basis points. If that comes down, then we're really going to erode it. What's the average of the VA over time? Probably 13, 14 basis points, something in that space, and maybe relative to long run average whatever that is, we're a little bit high.

But as Lard mentioned, the issue in the Dutch business is really the -- it's really the volatility of the capital. So it's not going to result in us injecting -- we're not going to inject cash into the US business to solve fundamentally a volatility problem, not a level problem. So we have a volatility problem, first and foremost. So, part of the EIOPA review for 2020, is in part addressing the issue that we have with basis risk for the EIOPA relative to our portfolio. We are continuing to engage with our own regulator, the Dutch Central Bank, we are engaging with EIOPA to see if that can be fixed. That would be the primary mechanism we would do -- that we could manage that volatility. But again, we are working with the Dutch Central Bank. It is a mechanical problem that is part of Solvency II, not an economic problem and we want to solve in that manner. It will not result in an injection of cash into the Netherlands.

Q - Benoit Petrarque {BIO 15997668 <GO>}

So as I understand, the issue in the Dutch business for you, it's just a VA issue. There is no other kind of assumption issues underlying? Is that the VA problem? (Multiple Speakers) creating volatility -- the VA has been creating a lot of volatility, but we have so many other reasons for the ratio to move up and down over the past say three, four years.

A - Matt Rider {BIO 20002664 <GO>}

I would -- look, I'd just tell you, primarily, it is the disconnect between the EIOPA VA, and let's say, the credit risk that's sitting in the portfolio. The mortgage -- you have mortgage evaluation versus a basket of securities, that's basically corporate credit and government bonds in an EIOPA reference portfolio, and our portfolio looks nothing like that, and that is the -- by far the biggest driver of the volatility in ratio.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Great. Thanks.

Operator

Our final question today comes from Steven Haywood of HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you very much. You've talked a lot about, obviously, deleveraging and review of your businesses. And obviously, there'll be cash coming up with the deleveraging. But have you thought about any acquisitions going forward in the markets that you consider strategic? I assume that increasing diversification will help lower the volatility of Solvency II ratios, therefore, businesses, whether are there any thoughts about M&A in the future at all?

And then secondly, just a quick question on your dividend. Are you still going to assume a broadly 50/50 split between the interim and the final? Thank you.

A - Lard Friese {BIO 17008174 <GO>}

Yes, Steven. Good morning. I'll take the question. Yeah, I get your point about diversification. Let's say, acquisitions are at this point, not a priority for us. Secondly, the point about the dividend. Yesh, so the interim dividend is EUR0.06, as you know, usually a final year dividend for 2020, you take a decision on that, when the year is over and when the years behind you, and we're in the half year. So I think it's a bit early to talk about the decisions there. But if you look at our past behavior or historic pattern in this, usually the interim dividend represents 50% of the full-year dividend over the year and that is something for 2020 can be seen as a guidance for that.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you very much.

A - Lard Friese {BIO 17008174 <GO>}

But we'll take the decisions obviously when the year is over. With that -- Yes.

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

That concludes today's concall. Thank you for your time and interest in Aegon. Look forward engaging you in the future.

A - Lard Friese {BIO 17008174 <GO>}

Yes. Thank you very much everybody for being on the call and for all your questions. Have a good day.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.