Business Update Call

Company Participants

- Barth Scholten, Investor Relations Officer
- Chris Figee, Chief Financial Officer
- Karin T. V. Bergstein, Member-Executive Board

Other Participants

- Albert Ploegh, Analyst
- Ashik Musaddi, Analyst
- Benoît Pétrarque, Analyst
- Cor Kluis, Analyst
- Farooq Hanif, Analyst
- Johnny Vo, Analyst
- Steven Haywood, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Update Generali NL Integration Conference Call. Today's conference is being recorded.

And at this time, I would like to turn the conference over to Barth Scholten. Please go ahead, sir.

Barth Scholten {BIO 21384159 <GO>}

Thank you, operator; and good morning, ladies and gentlemen. My name is Barth Scholten, Investor Relations Officer at is a.s.r., and welcome to the update on the Generali Netherlands integration.

On the call today are Karin Bergstein, COO of a.s.r.; and Chris Figee, CFO. And Karin and Chris will discuss the presentation that is available on our website. After their presentation, it's time for Q&A. And before handing over to Chris, please, as is customary, have a look at the disclaimer that we have at the back of the presentation for any forward-looking statements.

And having said that, please go ahead, Chris.

Chris Figee {BIO 18815839 <GO>}

Thank you, Barth. Good morning, everybody. Welcome to today's call hosted by Karin and myself. I will be the appetizer and the dessert, but Karin really is the main course for the day, walking you through the operational integration of Generali.

The purpose of this call today is to keep you updated on the integration, not because something is wrong because something is off-track, but really because after the elimination of our quarterly trading updates, the time between the full-year numbers and next reporting date would be six to six plus months. And we felt that it would be too long a period of silence, which is not good IR to keep the analysts and investor community uninformed on the progress of such an important transaction. So we wanted to walk you through where we are.

This call will be about the operational performance and operational integration. We'll touch upon the capital spend on Generali so far, but we'll not talk about the earnings contribution of Generali in the first half year or the future outlook. That is because the first half year has formally not yet ended. We've got two more days to go to keep you informed on the financial contribution during our half year numbers call and the long-term implications in our Capital Markets Day in October. Today, we'll focus on the operational integration, though it's fair to say that financially, we are fully on track.

Slide 2 gives our key messages, integration ahead of plan, financial targets on track and absolutely delivering on the original investment case.

And the original investment case is referred to on slide 3, the slide you will probably remember. This is the recap of what we committed to in September 2017 when we announced the acquisition, a three-year integration plan and initial impact of nine solvency points eventually going down to about €200 million fungible capital commitment, after the full integration has been completed and cost synergies have all been consummated.

And though not on this slide earnings contribution moving up towards €30 million per year and cap generation of €25 million per year after integration has been completed. But, again, that was the commitment in September. Today, we're going to talk about how we fared and how we steamrolled our way into the operational integration of Generali.

With that, I hand over to Karin for what has been achieved so far.

Karin T. V. Bergstein {BIO 17036723 <GO>}

Yeah. Well, thank you very much. Well, as COO, I'm heading the a.s.r. integration team. And maybe to give you some background on the major challenges we had, we have done a lot of single-line acquisitions. So we have acquired an integrated (00:03:41) and other single line business lines. I think, for Generali, the major challenge we had was this is a multiline insurance company and we had to make it as simple as possible as quickly as possible.

So what we did in the preparation between signing and closing is that, well, we said, first of all, we have to make plans line by line. So every business line has made their own integration plan and we have to make sure that these business lines can act independently as quickly as possible.

And a major lever to make business lines as independent as possible is that – and that sounds a bit harsh but to integrate, let's say, the staff departments as quickly as possible. So we decided that all, let's say, staff departments like legal, compliance, et cetera, would report to the a.s.r. management as of closing.

So from a personal perspective, the integration of the, let's say, the finance risk, all the overhead departments was done at closing. And I think this is the reason why we are today ahead of plan because there is a single communication coming from all the staff departments towards the operations teams. As we have to apply with DNO, we had a long time. You see in the slide from, say, mid-September to the beginning of February, you have over 18 weeks to prepare yourself. So at closing, it was clear and we have – it was clear who would be the management, and in this case, we decided that a.s.r. management would take lead. So we had discussions with all the five Directors that were present whether what would be their role as of closing and most of the directors decided that they would resign at closing.

This made it possible that as of closing, the a.s.r. management took control of the operations and of the whole integration process. Secondly, we focused on a legal merger of the holding company. So on May, 7, the holding companies were merged. This was mainly important for aligning the labor conditions. So as of May 7, all staff of Generali has received a new proposal for the labor condition under the a.s.r. labor conditions. Aligning these conditions reduces the complexity enormously. So all of the staff is now under the a.s.r. labor conditions. There's only one exception, that is the pension contract which will expire at January 1, 2019, which is in line with the expiration date of the pension contract of a.s.r..

Another important thing which was done is that at signing, we already announced in September that the premises in Diemen would be closed down so that all staff would be relocated to Utrecht. And as a lot of the staff of the Diemen of Generali lives in the north of the Netherlands, we already had the impression and the experience from moving people before that a lot of the staff would decide not to join us, not to join and come and work in Utrecht.

As you have seen in slides, which come afterwards is that we are ahead in the staff reduction. We are ahead of plan. To be honest, it gives us at the moment a serious pressure on the existing staff of a.s.r. because they have to do all the work on top of their normal work. The good news is that we are able to do that. People are making long hours, but the job is done. So it's a lot of extra work but we have the assurance that the people are not – who didn't move to Utrecht in the 1st of June that they already have left. And that we know for sure that we will reach our target operating model in terms of FTE staffing.

So basically if we look on the integration, if we want to create value, we always see three important levers for success. First of all, clarity on management structure and the target operating model, and we were able to get that at closing. And this is crucial both for the staff but also for our business partners. All the business partners intermediaries with whom Generali is working are also business partners of a.s.r. And we made clear at closing that we made clear to the intermediaries that it would be the a.s.r. products, which we would continue to sell, and that the similar Generali products would be taken out of production.

Secondly, a second lever which is important is clarity on IT platforms. Well, it was clear from signing that all contracts would migrate to the IT systems of a.s.r. So instead of having discussions between signing and closing, we could already start making detailed integration plans on migrations because it was a clear choice what platforms would be the end state.

The third lever is, I think, the cultural integration Moving the teams to Utrecht the 1st of June is very important for bringing the people from Generali in the a.s.r. culture, which is no-nonsense culture, short lines, quick decision making and move on. And I think the teams are happy now to be here. They started 1st of June and we see happy faces because they have a future. I think that is also important to understand that in the Generali environment, it was very unclear what the future of the company would be and for these people who decided to move to Utrecht, they are happy to work for a.s.r., which is, well, a company who was growing and doing acquisitions. And you see it in the culture that there is positive vibe.

So to wrap up, on slide 3, we have discussed most of the items with you. I think one of the things to touch upon is the legal merger of the operating companies that is planned for the 29th of June. And that is very useful because after the legal merger of the operating companies, we can start the migration of the funeral portfolio. So it's all – is interdependent. And so far, this was the schedule which we planned to happen. And so for, all the steps are realized.

So I go to slide 5. You see a bit more detail on the different lines of business and the portfolios, which have to be migrated. Well, as said, funeral is slightly ahead of plan. In the plan, we had an idea to migrate the 1st of October, but it was – we were able to migrate the portfolio the 1st of July. And that is the reason why we – well, the reason why we decided to do it earlier is because we were ready to do so. And the second reason is because we bought small other funeral portfolio, which will now be migrated the 1st of October.

If you look on the P&C business line, which is in turn over one of the biggest lines of business, it was very important for us that co-assurance portfolio was – the debt team was integrated as quickly as possible. These are very specialized people with high value. And in our team, these people are located in Amsterdam. So that's very close to Diemen. So we were able to contain all the specialists, and they were happy to join the team of Corins, which is now really a mixed team. It's half – 50% former a.s.r., 50% former Generali. These people know each other from the markets, and we have been able to have now in the combined operation. We have a market share of 10% and €70 million of turnover in this co-assurance portfolio.

And when we acquired Corins a couple of years ago, it was our ambition to grow towards a level of €100 million. So we are now well on track to have a really good position in this market. The biggest chunk of the P&C portfolio is the mandated broker portfolio, that is about 70% of the total, and that will be integrated the 1st of January 2019.

Then the last bit is the portfolio, which is sort of the intermediaries. That will be migrated in a commercial way. So that will take one year starting from November. So P&C is well on track. I think they have a clear communication towards the market, how we will do it. And sales, as said before, is stopped with Generali products, so we're only selling a.s.r. products at the moment.

Disability, that will move in November this year, so that is as planned. And for Individual Life, we're slightly ahead of plan and that is – the reason is that because of IFRS 17, we decided to speed up the process because we wanted to be ready with the migration of all the portfolios of Individual Life before the 1st of January 2020.

And the team has found a way to migrate all of the Generali portfolios in combination with one of the last portfolios in the service book strategy. So you see three migrations plans in the beginning of 2019. Well, pension is the most complex portfolio and that will take slightly longer, but the only portfolio which has migrated after the 1st of January 2020 is a portfolio that under IFRS 17 will have a different classification.

So in the whole migration planning, we did not only look on Generali integration as a single project but we also combined it with the requirements from IFRS 17. So I think the team is well on track. IT will be the final, sort of – they have to shut down all the contracts we have with current suppliers of the old Generali platforms. But each time when a migration is finalized by business line, the IT team will finalize that the historic data are kept and that the contract is ended. So this will be a very clear agenda for IT as well.

Then I shift over to slide 6. Well, as mentioned before, a lot of the workforce of Generali have opted for social plan with moving the premises – moving of the premises to Utrecht. We were able in good cooperation with the Works Council to already send a personalized letter to all of the staff in the beginning of January, so people have time to decide do I want to work for a.s.r. and Utrecht or will I opt for a social plan. And this only applies for staff who has more than 90 minutes of travelling time.

And on top of that, because of – we knew from signing and the bid before that that the Generali acquisition was coming, we kept a lot of vacancies in our own a.s.r. staff. And as the labor market is tightening in the Netherlands at the moment, we do have a lot of vacancies, and we were able to fill these vacancies with staff of Generali. And that's a little bit the best of both worlds because in this way you keep the historic knowledge, but you do realize the cost benefits earlier.

So we are well ahead of plan in terms of staff. And we were able to keep some of the crucial workforce, one manager – a crucial finance manager, a crucial IT manager. They are now in a.s.r. position so we have kept the historic knowledge of Generali.

And as mentioned before, I think for the 150 people who have decided to come over to Utrecht, they are motivated to work for the a.s.r. company, and they are now part of the a.s.r. family.

Then I turn to the final slides to give you some flavor of the different lines of business. And I would like to start with the investment portfolio on slide 7. I think what we did at closing, immediately the investment portfolio was managed by the team which is reporting to Chris. So we have sold our Italian bond exposure. We partly re-risked the portfolio, but I think what is the most important message we took control, and this was possible also because Generali was managing this portfolio from Paris. So there was not an extensive team in Diemen who was managing it. So we could immediately take control of the investments.

Then I go to the top hand left corner P&C. We have increased prices. This is a normal pattern what you see if a company is for sale. Normally, a turnover is boosted the year before by lowering the prices. So at closing, we decided to bring the prices back to normal levels. And we have also started with the preparation of the migrations.

Disability, we've visited all of our business partners and inform them on how we would migrate the portfolio. And I think there is understanding of how we want to do it, and the people who are working on disability as of the 1st of June they are now part of the disability team. So I think that is also a general remark which I made before.

As of 1st of June, the people who are working on P&C are now working with the a.s.r. colleagues and are reporting to the a.s.r. management, same for Disability, Individual Life, and Pensions. And for Funeral, there were only three people working on Funeral. They have not followed the portfolio to end today (00:20:38) because that is really too far away. And today, (00:20:44) we'll hire one or two extra staff and they can manage the portfolio.

So I think all in all, there is work to be done for all lines of business, but all lines of business have migration experience. P&C is migrating portfolios towards a new system anyway, and the portfolio of Generali is planned in that schedule. The same goes for Disability and Individual Life. So we also had discussions with the Dutch Central Bank who wanted to follow up on how are we dealing with this integration, and we said, well, as soon as 1st of June, more or less, we can follow this by following the lines of business because we have no holding anymore. Lines of business now what they have to do.

Migrating portfolios is part of their regular business, and this is just another portfolio to migrate, and customers to serve, and customers to inform about the migration.

So it sounds very simple. To be honest, it's a lot of hard work. But having done it before, we know what to do, and we know what decisions have to be made, and everything is –

yeah, we're business as usual for the lines of business.

Then I hand it back to Chris for maybe some of the capital deployment and the investment case.

Chris Figee {BIO 18815839 <GO>}

Yes. Karin, thank you. So I guess you all picked up from Karin that operationally the integration is fully on track. Actions in some areas I've tracked are going faster than planned with a shift to FTE reduction and a shift to integration.

When it comes to the capital side, the investment case is completely conformed plan with some upside potential. At this point, we have injected – we have paid our cash price of €143 million. We injected capital in the business and realized capital synergies for that. Especially, the legal merger, of course, is important. We're very pleased the legal merger actually happened quite – they're ahead of plan. It's only the 29th of June. Within the formal time period we were able to complete the legal merger for a net capital injection and capital synergies of €140 million, which is completely in line with the plan that we presented so far.

Underlying, of course, there are always movements. We saw some increased volumes on the Generali side that consumed some capital. We reviewed reserving. We felt in some areas that reserving was slightly optimistic and we have a more prudent approach, so we strengthened some areas of reserves. We dealt with some increasing valuation of assets. At the same time, we benefited from higher diversification benefits. (00:23:47) level two to level three diversification benefits with a slightly higher not eligible DTA on the Generali book that became eligible subsequently, and we had some increase LAC DT recoverability that will manifest itself upon the legal merger. So capital-wise, some flow, some movements, net-net in line with the €140 million that we committed to. We are almost exactly on the level that we projected in September.

On the cost synergies reflected in our best estimates, of course, they will be reflected if and when the integration is realized and consummated. We don't want to be ahead of the music. We want to be delivering upon delivery, so we'll recognize when they're delivered. But as you can see or interpret from the presentation Karin gave, operational integration is going on track or even ahead of track, so that actually could potentially provide a little bit of upside.

And furthermore, when it comes to upside potential, we see some upside Generali will probably likely be included our mass lapse reinsurance arrangement. That's a 2019 thing, but something we had not yet included in our business case, but they're eligible for inclusion. We are selling the Generali offices. We actually have an offer on the table that we think will close in September that might provide a bit of upside, and there are a few other things as well.

So on the capital side, on track with some upside potential, if indeed, the integration goes as we planned, faster and deeper than we foresaw. So comfort and relaxed on the capital commitment, and actually the final ROE of this transaction might prove to be better than we planned also because we spend less E on this – equity on this deal.

It brings me to the closure of this presentation on page 9, again, running a good insurance business is at the end all about good underwriting and a good effective efficient operation is where it all starts. We hope to give you a flavor on the integration and how we are steamrolling into the integration.

Points to remember from my side. This is done by a team of a.s.r. people, not just the board, but a team of business managers that are together running this integration very committedly and very firmly. Lesson learned, we moved to the a.s.r. target operating model. This actually is not so much an integration. It's an IT migration and a business integration.

It's pretty clear, the target model is the a.s.r. operating model. The management team is a management team that knows a.s.r. operating model so you migrate IT and then you integrate the business. This is not a best of both worlds model, it's just move to a.s.r. world model, and that allows us to move pretty quickly, pretty swiftly, and pretty decisively. It has been a quite a few intense few weeks as Karin said it was the largest transaction we've done so far, the first real multi-liner, so there were some learnings on how you do things in here, but I think we've actually cut out with a very comfortable plan and comfortable execution and very strong progress, on track to achieve our targets and possibly more.

And to close up, before we go to questions, when it comes to operational performance, we tend to think that in contrast to investment management, historical results are often a good indicator of future results.

So with that bombshell back to Barth and to questions.

Barth Scholten {BIO 21384159 <GO>}

Thank you. We now can take your questions please.

Q&A

Operator

We will now take our first question from Cor Kluis from ABN AMRO. Please go ahead.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. Cor Kluis, ABN AMRO. I got a few questions. First of all, about the cost reduction. You mentioned that it goes faster and there is some upside potential in the slide 8. Could you give some indication about size? Is the arrow that you see in the graph indicative of the upside potential? So I think it's around €35 million for French book capital deployment or it might be lower. Or is that just – yeah, can we not relay that?

And related that, why are you not yet adjusting it because based on what you talk about, it sounds that it's quite likely that there will be upside potential on this French book capital deployment? Why not yet given an indication on that? So that's my first question.

Second question is about the co-assurance deal. You explained it somewhat. How many FTE in Amsterdam – or how many FTEs are now from Generali now moved to the a.s.r. business?

And last question is about TAMs. You're doing the cost reduction faster or the FTE reduction faster than expected after you see that you have to hire some extra people to do that. Is that resulting into extra cost and might we see that in operating result? Or is that like you indicated during the call is (00:29:14) are just working harder? That is my question.

A - Chris Figee {BIO 18815839 <GO>}

I'll take question one and three, and Karin will talk about the co-assurance answer. Yeah. It was to be expected that someone would put a ruler on our slide and like how much – what does actually this represent. I think we're looking at 10% to 20% potential. 35%, probably a bit optimistic. I can't rule out the 10% to 20% is probably more realistic at this point in time.

Why not say today, well, I think as our policy is, we recognize capital synergies when we achieve them. And so you recognize these costs in your best estimates once they're fully completed and once the costs are really out. So we think we'll just stick to our policy. You will see it in the numbers when it's actually there.

So we don't book in a future management gain that has not yet been realized. So 10% to 20% is the upside that we see and that will gradually come forward. Unfortunately, after the legal merger, by the way, it's going to be very hard for us to track it because there will no longer be (00:30:20) or Generali Life.

So it's going to be embedded in the overall a.s.r. figures, but it means that is the upside that we see and that also confirms in the ROE. When it comes to externals, yes, Karin said actually some more Generali people left faster and quicker than we assumed. There may be some externals that we hire to compensate, but really nothing material to show up in the results.

We've got €500 million plus cost base. You'd need to hire a lot of external people for that thing to move. So, yes, I think it's more a question of a.s.r. people making longer hours and making more – being more efficient, and otherwise being focused on doing stuff that really matters.

So actually it also allows us to be very efficient and very focused. When you've got so much on your plate, you can't spend time on stuff that's less useful. So (00:31:16) it's like an unexpected side benefit. So this will not mess up the a.s.r. cost base. Actually, it's a saving. And to my sense, I'd rather have the risk of Generali people leaving further and faster than slower and later.

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Yeah. Maybe to add to that, I think, where we had to hire temporary staff, the benefit of that is that they are more – it is more normal for them to leave after the work is done. So you will have less of reorganizations. And that is good for your culture because reorganizations always have a lot of uncertainty for staff and what we have mentioned to all the staff of Generali is that they are very welcome to work with us. We have given you highlights about 200, 300 new staff every year. So the 150 people who are coming over are very welcome to join a.s.r. And I think the major benefit is that there are not a lot of reorganizations following in the coming years. It's more like a natural way.

And maybe for your second question, I think Corins was a team of roughly 12 to 14 people. I don't know it by head. And approximately 12 people from Generali joined this team. So it's now a team of roughly 25 and very nicely mixed. So it's 50/50, and they have been really mixed because there was more knowledge on certain asset types from Generali side, which was very nicely adding to the knowledge, which was based, which was already there from Corins.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Very clear. Thank you.

Operator

We will take our next question from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thanks very much. Could you please elaborate a little bit more on re-risking? I know that you've done some initial re-risking of the investment portfolio as well as some de-risking, obviously, taking out the Italian bonds. But just – it seems that there is probably more to come and if you could talk a little bit about that that would be interesting.

Second question is on further capital benefits. So I'm guessing there are things that you will be more able to look at once portfolios are actually legally merged. So does the active actually legally merging portfolios in themselves? For example, create extra diversification benefit. And what other things do you think you'll look at to help reduce capital intensity of the portfolio? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Hey, Farooq. It's Chris. Thanks. In terms of the investment portfolio, indeed, on day one, or the first few days, we sold the Italian government bonds. From our perspective, they are not risk-free, so we sold those relatively early.

We did spend a bit of money on re-risking, which is not on our capital plan, because we set ourselves. This transaction needs to stand on its own two feet. It does not need to be dependent on re-risking. This is an operational integration that should drive our ROE and the re-risking is something that could come on top of it. So it's not (00:34:42) embedded on page 8.

Since the beginning – since we owned the business and to control, we spend about 2 points of solvency, €50 million to €60 million of SCR market risk on the Generali portfolio. We risk it to some extent in mortgages and credits. We're not done there yet. But we felt at some point that the market became wobbly. The return on market risk capital became less convincing. So we've done – yeah, I think we've done half of it. And we could do more, but we're not in a rush, not in a hurry because we need to be very mindful on the return on this allocated capital. And if you look where its spreads were, the reward for risk was in the first half of the year before the market start to turn, everything becomes really, really expensive and not really convincing. So group-wide, one to two points. Think about €50 million, €60 million of capital spend on re-risking corporates, credits, and mortgages.

The next wave will be around real estate. There is a portfolio held by Generali, which has a fiscal revaluation reserve, which basically say there is a tax window to reinvest this money into real estate and benefit from a tax opportunity. That's something we'll probably close in the next three to four months, because it would be a shame to forgo on that capital and tax saving. And that's what we'll do. And that will add to earnings and that will consume a bit of capital. But that was – to me, re-risking has to follow its own business case, let alone separate from the operation of business case.

When it comes to further capital benefits, from a post-legal merger, there's always more to do. I think the legal merger itself will drive the diversification benefit. So post-legal merger, we don't see lot of more room for diversification, because that's already embedded in the legal merger. We do see, however, room to optimize the portfolio.

For example, if you have a book in which you have to reflect the combined ratio of the business in your best estimates, but you really can start to work on improving the combined and claims ratios, that will ultimately show up in your liabilities. That's something we haven't yet included in the plan. There are a couple of things, we estimated due diligence. Officially, there was noneconomic assumptions or mortality assumptions, cost assumptions, lapse assumptions. Post-legal merger, those will be aligned. That's a process that typically takes place in Q3. I mean, we generally in Q3 update our non-economic assumptions in our liabilities, and we'll take Generali on border as well. So there's a little bit of upside from that. And, clearly, there was upside from selling the building the markup (00:37:37) reinsurance.

So in summary, yes, some upside there. Diversification is already reflected really when it comes to the legal merger. The refinement of the best estimate and the reflection of your business decisions into the best estimate, that will take place after July.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. And just to follow up on that, when you – again, we can't look at the chart on slide 8 and measure arrows and stuff like that, although we always try. But presumably all of what you've just said is kind of part of that chart.

A - Chris Figee {BIO 18815839 <GO>}

I think yes. So 10% to 20% upside is part in that – is reflected in that little arrow.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

A - Chris Figee {BIO 18815839 <GO>}

And I would say 10% to 20% less consumption of fungible capital.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

We will now take our next question from Albert Ploegh from ING Bank. Please go ahead. Hello, sir. Your line is open. If you can just make sure that it's not muted on your end, you can now ask your question.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all. Yeah. Three questions from my end. And the first question is on slide 7 on P&C where you referred already to price increases in termination of some loss-making contracts. Can you maybe quantify what kind of size of price increases have been pushed through in the mandated broker channel and you had gross written premiums of the loss-making contracts to have a bit of an idea.

Then, on the slide of the – slide 8, on the net capital injection up to €140 million, you made already some comments on underlying movements, some further reserve strengthening and modern disability, but also some further diversification benefits. Is it possible to get some quantification on the magnitude of the positives in the minds just to get a bit of feeling what happened there?

And finally, maybe a bit outside of scope of this call, but now there's communication before the blackout start, can you maybe help us out a bit in general on the Solvency II market movements that you might have experienced or anything you can share on, let's say, on the group level compared to the full-year number of 196% Solvency II ratio that would also be helpful. Thank you.

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Okay. Let's start with the P&C question. I think what is important to realize is that in Generali the book was managed as a Non-Life book. So it's a combination of P&C and disability. And what you see is that the management target was a combined ratio towards 98% on a Non-Life book. The result of that is that the disability portfolio was managed at a combined ratio of roughly 80%. And the P&C portfolio had a combined ratio of roughly somewhere between, I think, 103% and 105%, so loss-making.

While management was saying, okay, well, I'm at target. We split this responsibility. So we're happy with the 80% of disability, and we started, and we differentiate. If you look on the mandated brokers, it was the usual suspects. So we already have a relationship with all of these mandated brokers, and we're starting to reprice these portfolios. And having a bit of more, let's say, a turnover than we had expected, we have more headroom to increase prices, and we know that we will lose some turnover. So we could immediately switch to a value over volume strategy.

You can reprice it for new products straightaway. For existing portfolios, it's mainly done 1st of July, 1st of January in the mandated broker market. But, yeah, that is normal business. We've had pricing and repricing done. And the mandated brokers, they will try to find other insurance companies who will do it for low pricing, then we will lose some volume, but it will be the loss-making volume. And we are not – well, we are not too afraid to say goodbye to these kind of volumes.

Q - Albert Ploegh {BIO 3151309 <GO>}

That's a helpful color. Thank you.

A - Chris Figee {BIO 18815839 <GO>}

When it comes to the move – he had two questions. On the movement in the capital, a bunch of moving parts and (42:35) not always easy to separate them out because some of those – for example, we added some prudency to the reserves. Part of it is also captured in the reinsurance arrangements. So there's a growth (00:42:47) there's no point in singling them out individually.

Together, they actually cancel out and become effectively flat, and that is something – and with that, we are able to move the reserving of Generali to our own more prudent fashion. So individual bits and pieces, there is individual point, then there's correlation diversification on the reserve strengthening. So there's a reinsurance element in that. So singling them out individually has little added value to my perspective. The whole point is the 140 is the 140. (00:43:23)

When it comes to solvency movement this year, to some extent, you'll have to wait until the 29th of August. We'll get to keep you very excited on your toes for two more months. However, it's safe to say in the beginning of the year, the UFR for the entire industry moved to 405 as per our sensitivity. That will shave off of about 3 points of our solvency. The VA, the Volatility Adjuster, (00:43:51) number tells me – I estimate the VA today at about 7 basis points. So it moved from 4 basis points to 7 basis points for end of last year – 7 basis points at the end of last week. So that would add another 3 points back. So the VA movement will probably cancel out the UFR movement.

And then Generali after legal merger who would use our solvency by 9 solvency points, which is the cash out and the fact that you merge a large solvency business into a higher solvency business and there's some small dilutive effects. And on top of that, there will be capital generation by the business. I will not speak ahead of the half-year results, but there's capital generation by the business. There was a storm in January, which is €30 million, which is fairly close to 1 solvency point.

And there was some wobbly markets. But overall, if you put and do a mix, I guess, you can make a reasonable forecast of where our solvency is with effectively the main mover being the Generali integration, Generali investment, so to speak, and UFR and VA at this point cancel out.

Q - Albert Ploegh {BIO 3151309 <GO>}

Thank you, Chris, for at least – to give some color. Thank you.

Operator

Our next question comes from Johnny Vo from Goldman Sachs. Please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Hi. Thank you very much. Just in terms of the potential upside that you're talking about, can you quantify how quickly you can upstream this to your holding company if it can be achieved?

And then, the second thing is also in terms of the spot solvency of the Generali entity itself, I noticed year-on-year it's gone down and given the fact that you've now removed the Italian bonds, can you give us not for the group movement of the solvency but just Generali's movement of solvency? Obviously, it's benefited by the cash injection. So can you just give us a feel for what's going on in that entity alone?

And then just the final question is, in terms of the re-risking that you spoke about before and it's consuming capital, therefore, any benefit that you get, is that necessarily going to be consumed by re-risking on your book? Thank you very much.

A - Chris Figee {BIO 18815839 <GO>}

Yes. Johnny, on the on the upstream ability, if it's recognized our solvency is upstreamable, I mean, our Life and Non-Life entities last year ended the year with 185%, 180% mark Solvency II level, well above our own hurdles, well above the minimum. So there's no limitations as to upstream ability. So anything you add here can be upstreamed, which will always be very prudent. The €80 million of capital synergies will be reflected once the integration is completed and once the costs are actually all out.

But after we think in principal upstreamable the next morning, bearing in mind the policy that we tend to keep cash in OpcCs rather than HoldCo, but there will be no limitation to upstream those because the starting solvency of a.s.r. Life and a.s.r. Non-Life is sufficiently strong to upstream that to the group.

So effectively, for all intent and purposes, this is cash once we realized it's cash and decided to keep the cash at the holding companies.

So when it comes to the year-on-year movement of the solvency of Generali entity itself, I think as you and I discussed in Frankfurt, we did see that the Generali end-of-year solvency was a bit less than we planned that was because the auditor of Generali reflected or forced or demanded the reflection of our due diligence filings already in the year-end solvency. So some elements that we wanted to have included in our solvency capital injection was already in the year-end numbers. So the starting point was lower, but the ending point is the same. It just brought forward some of the changes.

So during the year, you would see the Generali legal entity is at 120%, 130% solvency mark after our injections. But, again, as of tomorrow, that will be redundant because they will no longer exist and no longer be tracked. They will be just dissolved into the a.s.r. businesses.

But the way this thing works is we made our plan – our capital plan to inject cash into the Generali entities after the removal of the – for example, the quota share that existed between Generali Netherlands and Generali Italy. At the end of last year, the auditor put some of our division's findings in the closing solvency figure, which basically means it brought forward some of the deltas but it didn't change the final outcome. And as of tomorrow, the numbers will be what we planned to be. And during the first of the half year, the Generali entities which were effectively closed for business will run at around 120%, 130% of Solvency II.

When it comes to re-risking, we have spent in this year-to-date about €50 million to €60 million of capital. Mentally, I don't connect them to the upside potential. It's a nice connection to make. One might say the re-risking becomes – comes in free, because the money we spend as a group is earned back from fast integrations. They roughly equal out in terms of the amount of capital involved. But that's kind of an interesting mental connection to make, it's not the way we think. We think re-risking has its own business case. And the fact that it's roughly the same numbers, that's a nice coincidence, but not as part of our capital. We don't need to outperform the fungible capital targets to be able to spend more money on re-risking. And more the question is, do we think re-risking itself will deliver the benefits delivered to return on capital that is commensurate to our targets.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Thank you very much.

Operator

We will now take our next question from Kunal Zaveri from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi. This is Ashik here, I'm using Kunal's line. Just a couple of questions. First of all, on this cost synergies reflected in best estimate liability, the upside potential you mentioned 20% of the €60 million, (00:50:22) if I'm not wrong, its present value. So we are talking about €1 million, €1.5 million of additional cost saving possible. So that's one question that I'm looking for. Is my understanding correct or are we expecting more?

Second thing is, can you just remind us as to the time line of the €30 million of earnings you're expecting from Generali. I remember you mentioned a third, a third, a third over 2018, 2019 and 2020. Is that still the case? Or are we expecting a bit more front-end loaded now compared to more back-end loaded because your integration is going very fine.

And thirdly, is there any thoughts on the local solvency ratios? Does it impact the Life solvency ratio of a.s.r. or Non-Life model, is it more or less similar impact on both the businesses when you integrate Generali? Thank you.

A - Chris Figee {BIO 18815839 <GO>}

Okay. Ashik, when it comes to the upside potential in our solvency, it's a function of deeper and faster cost savings, but it's also a function of other elements building (00:51:30) So if you think about the additional cost savings and you work back the NPV into an annual number, it could be around €2 million to €3 million mark. That's the best estimate I have today. But you have to strip out – the €30 million contains more than just cost savings. So it's €2 million to €3 million mark a year.

(00:51:53)€10 million to €20 million to €30 million, so €10 million in year one, €20 million in year two, €30 million in year three, we'll go faster than planned. There is a bit of upside for this to just to go faster. So I'm okay with accelerated (00:52:08) to get there. But it's probably actually more a 2019 thing.

So the €10 million to €20 million, €30 million, we'll rather move the €20 million will probably move up a bit. So this year, we think that €10 million is actually fully feasible. We can't rule out outperformance of that to some extent. But the real benefit of the fast tracking of the integration would become in the first full year when Generali is part of the group. And the first full accounting year where all the benefits are realized is next year. So the fast tracking of the earnings, if it happens, it's a 2019 thing because that's when we actually get the full year benefit of the faster cost savings.

Loan-to-solvency-ratio of a.s.r., yet the 9 points spend is a group thing. The €143 million comes out of (00:52:58) companies. The capital injection came out of a.s.r. Life predominantly. Does it say much about the group developments? This is kind of where we are. And I think afterwards, we see the most of the capital benefits actually in the Life side rather than the Non-Life cycle. That's one thing I can tell you about that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Capital benefit is in the Life side, but a large part of your cap – the 9 points impact is a Non-Life side. Yeah. Well, because all the benefits are coming on the Life side.

A - Chris Figee {BIO 18815839 <GO>}

The capital injection was in the Life side because that where we – because the Generali Life entity was supported by quota share between Generali Netherlands and Generali Italy. The quota share was removed and replaced by the capital injection. The same like the capital synergies are also on the Life side. That's where the NPV-ing of cost savings plays a role. That's where the (00:53:52) plays a role. That's where you usually have the biggest capital synergy in that simply because the Life – the maturity of Life products is much longer, so you got more NPV (00:54:05) impact.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Just one more last question is with respect to capital generation that you guided for €25 million a year. Can you give us an indication about how much of that would be capital release and how much of that would be earnings related?

A - Chris Figee {BIO 18815839 <GO>}

The majority of it is – there are some capital release. There are some, of course, SCR release, but Generali is two-thirds – Generali was two-thirds a P&C business, one-third a Life business. And Life was more term life than DC. So really the majority of it is earnings and not just release of SCR.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. That's good. Thank you.

Operator

Our next question comes from Steven Haywood from HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning, everyone. Only had one question left. It's about the integration process. Does the integration process of Generali Netherlands, does it limit a.s.r.'s ability to do any further deals in the short to medium term? Thank you.

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Well, that's a yes and no answer. I think if I look, for example, in the funeral business line, they will have finalized all of their migrations this year. So there's potential for further even migrations next year. If I look for Individual Life, it takes about half a year of preparation, so if we would do a deal, say, this year and you have to go for DNO, et cetera, 2019 would be a year of preparation and you could migrate in 2020.

So I think the real answer is no. I think the preparation period is a different set of people who is doing that than the people who do the migrations. So all in all, yes, we have a lot of work to do especially in 2019. But let's say, the thinking work, the rationalization and thinking out how the migration should happen and all the discussions and preparations you have to do between signing and closing, which is normally a four months or five months period – now, that's done by a different set of people. That would be my comments.

A - Chris Figee {BIO 18815839 <GO>}

Yeah. Steven, if you look at page 5, the timeline, there is no process ongoing today at least as far as we know, so perhaps we're kept in the dark. But we are not aware of any sales process taking place today. But suppose we started one tomorrow, the earliest signing date would be like October, November. The earliest closing date would be somewhere mid next year for any deal that we start to work on today.

So at the – the earliest date in which you could close something would be Q2 next year. If you look at the chart the Q2 next year, funeral is done, P&C is halfly done, disability would be done, and you would be nearly focused on the integration with Generali Individual Life. Only the pension integration would last a bit longer. So in terms of management bandwidth, there is work to be done, but it does not preclude us from running further transactions. Especially if you look at the timeline of any potential deal and the integration time line.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. That's very helpful. Thank you.

Operator

We will now take our next question from Benoît Pétrarque from Kepler Please go ahead. Hello, Benoît. Your line is open, if you'd like to ask a question.

Q - Benoît Pétrarque

Yeah. Hi. It's me. Hi. Sorry for that. Good morning, all. I was wondering if you could give us the pro forma local Solvency II ratio post-merger on Life and Non-Life. (00:57:59) anymore. And then on the €80 million cost synergies, do you have a breakdown on how much is coming from FTE cuts and how much is coming from IT and also maybe from the building, for example? So a bit of breakdown on the €80 million to get a feeling on the timing of realization of the cost synergies. Thanks.

A - Chris Figee {BIO 18815839 <GO>}

Well, on the legal – on the solvency of the legal entities, a.s.r. post-merger, have to wait until August because that's when we have – we'll give you the full numbers on the a.s.r. legal entities. I think it's fair to say that that's a half year number. The legal merger will take place tomorrow. The month has two more days so – and half year, we'll give you full clarity on that solvency level. But to give you a rough estimate, we ended the year for Life and Non-Life both on the 180% mark. We spent 9% on solvency in Generali. Most of it was funded in the end by the Life business because that's where a.s.r. Life transferred its cash into Generali Life. So that's where you can add that number to or integrate number to, but rest – Benoît, for that number, you have to wait until August and we'll give you full clarity on that number in our formal disclosures.

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

Yeah. And the question on the cost base, how it is roughly divided? I think, roughly, let's say, housing is something between 5% and 10% of the total. I think more towards 5% than 10%. IT is 30% to 40%, and, say, 50% to 60% is more or less related to personnel staffing.

I think a remark on IT, having a clear guidance that all contracts will migrate to the IT platforms of a.s.r. has had two effects on IT. First of all, most of the changed portfolio, Generali have planned will stop. And secondly, I think, it goes for IT that the cost really go away when the last contract is removed from the system. So those are more general remarks on the cost.

Q - Benoît Pétrarque

So it's fair to assume like a large part of the IT will be realized really probably in 2020 or something like that, pretty late in the...

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

No. It depends. Yeah. It depends. It is more towards the end, but there are certain systems, which can be shut down earlier. For example, in the P&C and the Non-Life business because P&C is moving more swiftly that will be towards the end of 2019. And on the Life side, there are three to four systems. Some of them will be 2020. That's the non-contributionary portfolio. But the other three systems will be closed down earlier.

And as I said before, let's say, there are no systems anymore for all the staff units, finance, risk, legal, et cetera, HR. And there is no change portfolio anymore, and that also reduces IT also a little bit along the way.

Q - Benoît Pétrarque

Right. Just maybe a follow-up...

A - Karin T. V. Bergstein {BIO 17036723 <GO>}

The good news I see from IT perspective to add to that, most of the – they have – Generali had contracts with suppliers. And the good thing about that is that you know what it is and you know how to make sure that you have no, let's say, sticky costs because it simply end the contract, and I think sticky costs are normally the most difficult to get away. Yeah.

Q - Benoît Pétrarque

Now, just on the €80 million, so the additional upside potential from cost synergies. (01:01:57) the faster pace of integration does not matter because it just – it goes, faster but it does not impact your whole figure. So what will impact your whole figure is more like the higher FTE reduction, right? So how much are you planning to reduce more than what you were paying before? I was trying to understand that.

A - Chris Figee {BIO 18815839 <GO>}

Well, in principal, faster doesn't help when it comes to NPV-ing stuff, a tiny bit it brings the discount one year faster. Faster does actually help you freeing up your own bandwidth and staff to do more. In terms of going deeper, I think, the initial plan, I think, we'd expect the number of employees at Generali obviously to decline to around 180, 190 by the end of this year. Today, we think we're going to be staffed 150 at the end of the year. So that gives you a feeling for how much further we can – I mean, that's the key, 20%, right? 40 people last out of the 190 target, we were at 20% below where we wanted to be at the end of the year. So faster doesn't help you, deeper helps you. So that ultimately will show up. Faster gives us more headroom to do other stuff and to move forward with the rest of the business.

Q - Benoît Pétrarque

Great. Thank you very much, guys.

A - Chris Figee {BIO 18815839 <GO>}

But on your first question, Benoît, is actually we'll fully disclose the solvency of our operating companies. Please note there were no issues so far this year with upstream ability, for example. We did upstream our regular cash upstream this year. Before the summer, we'll give you more color in August.

In the upstream assessment of our a.s.r. Life and a.s.r. Non-Life, of course, you'd look forward onto the implications of the legal mergers. You take it to account setting your upstream ability and there will be no blocking issue whatsoever in terms of upstreaming cash. So you'll see the integration reflected where a.s.r. Life, we'll have the biggest investment in terms of solvency, simply because a.s.r. injected capital, the Generali Life then was relatively lowly capitalized. At the same time, the a.s.r. (01:04:10) is also the area where the biggest capital synergies are. But we'll show you more in the August half-year figures.

Q - Benoît Pétrarque

Thank you.

A - Chris Figee {BIO 18815839 <GO>}

With that, I think there are no further questions. I'd like to thank you all for joining us in this call. I would like to thank Karin for her contribution. Points to remember from my side, this is a – with an intense process, we're not done yet, and it was an intense process. I hope you get a flavor that we're doing this institutional a.s.r. style which is a pretty no-nonsense. a.s.r. is a target operating model. We see towards that operating model and don't spend time debating it but spend time doing it.

With that, we're able to show you that we're expediting and fast tracking the integration process with more results delivered earlier and comfortable that we will meet our business case and probably meet it a bit faster than we planned, and possibly we'll keep the option open of meeting a bit better than we had planned.

With that, thank you for your attendance. I wish you all a great summer. Good luck to everybody who'll actually be playing in the World Cup. And we'll talk to you again in August.

Operator

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