Investor & analyst deep-dive webinar

Company Participants

- Bernhard Kaufmann, Chief Risk Officer & Member of the Management Board
- Jelmer Lantinga, Head of IR
- Maurice Koopman, CEO of the Non-life company
- Tjeerd Bosklopper, CEO of Netherlands Non-life, Banking & Technology and Member of Management Board

Other Participants

- Ashik Musaddi, Analyst
- Benoit Petrarque, Analyst
- Cor Kluis, Analyst
- Farooq Hanif, Analyst
- Farquhar Murray, Analyst
- Steven Haywood, Analyst
- Unidentified Participant, Analyst

Presentation

Jelmer Lantinga {BIO 20384884 <GO>}

Good afternoon. Welcome to NN Group's DeepDive Webinar. I'm Jelmer Lantinga, the Head of Investor Relations. About a year ago, we presented our targets and strategy at our Capital Markets Day. Since then, we were able to talk to many of you. Today we have two presentations on two topics that came up during many of those meetings.

We start with a deep dive on Non-life, which will be presented by Tjeerd Bosklopper and Maurice Koopman. Tjeerd Is a management Board member and responsible for Non-life, banking and technology. Maurice is the CEO of the Non-life company, and has 20 years of Non-life experience and is able to tell you all about the day-to-day work in the Non-life business lines.

After that, we continue with a presentation by our Chief Risk Officer, Bernhard Kaufmann. He will present on interest rate risk management. Finally, we have a Q&A session, which allows you to ask all your questions that you have from Tjeerd, Maurice and Bernhard. Now let's get started, and let me hand over to Tjeerd to start his presentation on Non-life.

Tjeerd Bosklopper {BIO 20235210 <GO>}

Well thank you, Jelmer. Good afternoon, everyone. Looking forward to presenting an update on the Non-life business, together with Maurice, who is the CEO of the Non-life company since about a year. Now last year, I introduced myself with a passion for cycling. Now the main update there is that I've seen lots of wind and rain with the weather in the past months in the Netherlands. However the good news for you today is that this is fortunately not the case for the story that we have to share on Non-life today.

So what we will talk about today? Well first, I will talk you through the overall strategy and the progress we've made and later Maurice will do more of a deep dive on the product lines. So let's start with an overview of the Dutch Non-life market. After the acquisition of Delta Lloyd and VIVAT, NN is now the clear market leader in Non-life with about 3.5 billion in gross written premium. Now the Non-life market itself is sizable with about 18 billion in gross written premium and moderately growing at a low to mid-single digits. The market itself is still hard, and we expect this to continue in the coming one to two years. A lot of players have become more rational in pricing in recent years. Now we expect the combined ratio of the Non-life market to remain attractive at about 97%. After the consolidation, NN is now in a good position to benefit from scale and to optimize margins.

We have a strong track record in improving performance in recent years. We started in 2017 above 100%, but recently, in the past two years, we have posted a healthy combined ratio of about 95%. There, we really benefited from a well-diversified product portfolio, where the negative impact on D&A was offset by more positive results in P&C. I'm also proud to say that it is not only due to our position, but also we really benefited from completing the Delta Lloyd integration, rationalizing a lot of products and systems, restoring profitability of loss-making products to strict pricing and underwriting measures.

On the left, you can see some indicators: a healthy combined ratio, operating profit and gross written premium growth but also OCG and remittances. They were slightly depressed in 2020. And for OCG, this was mainly due to a one-off effect due to the lapse of the Movir reinsurance which accounted for about 65 million. So consequently, also our remittances in 2020 were lower. But the overall picture is a strong track record in improving both scale and combined ratio over the past two years.

Now not only our product portfolio is well diversified. We are also the only player in the Dutch market that has a strong position in all relevant distribution channels. So in bancassurance, we do exclusive business with four out of the five largest banks in the Netherlands. We are number one in the broker and mandated agent space, where we also own our own brokers (inaudible). Of course we have our own direct label, ORA, where we are number three in the market. But it's also important to realize that this world is not static. So trends we observe are a large consolidation in the broker and mandated agent space, the rise of specialized service offerings and embedded insurance. That's why in our strategy, we are also investing in these spaces to sustain our strong position in the future.

Examples such as HES, ABW, but also the platform in the campus where we participate. These are new engagement platforms that allow us to introduce new propositions and distribution options. Now Camper and Indy campers are both examples of embedded insurance in midsized e-commerce platforms, focusing on e-bikes and campers. And Maurice will later on explain more about HES and ABW in his piece. But combined with the National-Nederlanden brand, which has the highest brand awareness in the Dutch market and our large customer base, this gives us really a unique distribution position in the Netherlands.

Now our strategy is to benefit from our leading position along five priorities. The first one, sustain our strong distribution position, brand and have an above-average satisfaction for both brokers and customers; invest in digital and data to improve efficiency and pricing and underwriting is the second priority; the third, agility of our workforce to be able to attract and develop our talents; the fourth, of course to financially deliver on our targets and to sustain our financial strength; and the fifth priority, I believe, is the fundament of our Non-life company and its contribution to society. This is, of course our core business in handling customer claims in adverse situations, but also examples such as stimulating safe driving and burnout prevention. And again later on, Maurice will give a couple of examples to bring this more to life to you.

So let me share with you a short update on where we are in the execution compared to our CMD commitments of last year. I will do this by looking at the OCG development from 2020 to 2023 and what drives this improvement. The first underwriting there, we have established a central team for pricing and underwriting, pooled and standardized data from all our labels in the Netherlands and attracted data scientists that took numerous actions based on these insights.

On the SAA, the strategic asset allocation, we've shifted the portfolio more towards credit and mortgages with already an uplift in OCG of about 15 million that we can report today. For VIVAT, the integration we are ahead of plan. So the legal merger was completed for the 1st of January. We already completed more than 80% of the migrations if you look at the premiums. We had in 2020, EUR 45 million of contribution to operating results and both the expense reductions and the investments are ahead of plan.

On Delta Lloyd, of course the integration was completed, and now the focus is more on further expense reduction in the remaining business lines, which are to come from digitizing processes. We've started these programs in all major product lines, and all of them are well on track.

Key issues that we are addressing, the individual disability portfolio of Movir, the effect of the low interest rate on group D&A, investing in future capabilities to stay ahead in the market. Now my take on this is that we are well aware of these issues, we've acted on them and with a price increase of 10% in individual disability per the 1st of January, repricing of group D&A on the lower interest rate, but also investing in new capabilities for our strategy. So overall, I'm really proud on the progress that we have made in the past year.

Now let me hand over to Maurice to do a bit more of a deep dive into the business lines. But before I do that, let me quickly introduce my rise. Now Maurice has about 20 years plus experience in financial services with a vast majority, all kinds of different roles in non life. And he brings, especially very relevant experience from our direct label ORA on digital pricing, but also all the nice frictionless processes that we have there, and I'm very happy that he is now bringing that to the rest of the Non-life business. Maurice, it's over to you.

Maurice Koopman

Thank you, Tjeerd. Good afternoon to you all. In the next 15 minutes, I will explain what we are doing in the Non-life company and how we are transforming into a future-proof business. Tjeerd just explained how NAND strategic commitments are reflecting in our strategy. Now I will explain how this translates into the strategy of NN Non-life. Our strategy is centered around simplicity and agility. This will ensure that our business is ready to anticipate and respond to any change coming our way. As a former football coach, I taught my players that if they want to succeed on the pitch, they had to play on the toes. Resting on your heels means that you're always too late. If you're on your toes, you will be ready to respond to every change in the game.

On the following slides, I will explain what this means for our product lines as well for our organization. One of the enablers of this strategy is the integration of free fold Non-life. As a former head of the integration, I'm very proud to achieve what we do so far. We welcomed 400 talented VIVAT employees to NN. We've successfully migrated around 90% of the VIVAT premium to NN systems. And more than half of expected cost synergies have been achieved by the First Quarter of 2021. We expect to migrate VIVAT Non-life to partial internal model in the first half of 2022. Results of the VIVAT Non-life in 2020 were better-than-expected and the contribution of VIVAT to operating results was, as Tjeerd already mentioned EUR 45 million. We are confident that we are able to achieve the envisioned cost savings and free cash flow.

Let's now take a close look at the product portfolio of our Non-life company, starting with the P&C portfolio. Within P&C, our largest portfolio is, of course the fire portfolio. NN is market leader in the fire market, with more than 30% market share. This is a very healthy, stable portfolio with annual premiums of more than EUR 1 billion. And bearing some volatility in the SME portfolio, the results are generally solid.

As Tjeerd mentioned, we have a unique, diversified distribution mix. With the larger mandated brokers, we are working on co-creation of products, for example, by offering affinity business. This allows some moderated but profitable growth. In the retail business, fire insurance is typically sold when a customer moves to a new house and leaves a mortgage. Fire insurance is, therefore, a typical bancassurance product. In which we have a very strong position with partnerships with ING, ABN AMRO, S&S and, of course NN Bank. The other attractive part of the fire insurance is the price tag is relatively modest, resulting in relatively sticky business. In recent years, we have complemented our traditional insurance offering with services to help customers manage their risk. We're focusing on fixing the damage, instead of paying the damage, solutions instead of money. This leads to a higher customer satisfaction, lower claims expenses and higher customer retention.

Let me show you how our technical expertise works in practice. In 2017, the SME fire portfolio was structurally loss-making. We saw too many claims coming in. We set up a task force to scrutinize the portfolio, and starting with the large risk, we work down the list and reevaluate each object For specific types of objects, our in-house technical experts revisit the object on site. And by visiting objects, you can truly inspect the risk of our demand additional prevention measure. It took -- in total, we took more than 8,000 measures renting from price increases to cancellations of policies, and thereby decreasing the claims ratio.

At the same time, we launched two new fire products for the SME market, a low-cost package solution and a bespoke solution for more complex risk. The combination of reversing the negative trend and the new proposition proved to be very successful. The portfolio is profitable again but also growing in size. We are now ready for additional selective growth of the business.

Let me now touch on the motor portfolio. NN is the number two in the motor market with EUR 900 million of annual premium and more than 20% market share. We have made good progress improving the profitability of this portfolio, thanks to applying strict underwriting criteria and very strong risk selection. We are now working to further strengthen our data and intelligence capabilities, and this will further improve our underwriting. With our experience and knowledge of this market, we see pockets of growth in certain segments. For example, in the SME business, the smaller car fleet segment is quite an attractive segment. These are car fleets up to 250 vehicles, and we're building up our presence in this market with ABW, a specialized broker in this segment, as well as, a provider of training to car fleet owners. This combination helps us to play a relevant role in a large part of the value chain by offering driver assistance tools and security training next to our traditional insurance. And besides reducing claims, there is also a limit to the number of accidents, and therefore, makes the Netherlands a little bit safer.

In the retail business, we're focusing on attracting the right risk in this mature and highly price-sensitive market. To show you in practice how we price our products, on this slide, you can see enhanced various labels in the Dutch market. All labels are very well positioned and attract different kind of customer profiles, depending on the average value of the car and the age of the customer.

Our largest portfolio, ORA, has, on average, one of the higher price positions in the market, which is unattractive for new business. However for our preferred and targeted risk segment, ORA has the lowest price. While maintaining our profitability, the portfolio grows and lowers our expense ratio due to low marginal costs.

Let's now continue with the second segment in the Non-life company, which is Disability & Accident business. Within D&A, we basically have two different segments, group income and individual disability. Group income is a product aimed at employers. The product cover the mandatory payment of salaries for employees that have fallen ill or are permanently disabled.

In summary, we offer two types of cover: sickness benefit cover for the first two years that the person is ill and benefit for work over for the following 10 years. These products are typically distributed by brokers. Individual disability is a product aimed at self-employed professionals, such as lawyers, accountants. But most notably, we have a very strong position among medical professionals. Our specialized label Movir is market leader in this segment. This product covers the risk that the professional is unable to work for a longer period of time, and the policy pays out until the insured person recovers or retires.

D&A is a very attractive segment of the market as margins are generally good, the value chain is relatively long, and a long duration of liabilities gives an opportunity to earn on investment margins. And barriers for entry are relatively high. It requires very specific expertise and experience, as well as sufficient skill.

Let's now look at the profitability of these products. Our D&A portfolio earns around EUR 1 billion premium per year. Traditional margins in D&A have very attractive. However 2020 was a different year. In the group income portfolio, we faced pressure on results mainly due to COVID-19 and the reduction of the IFRS discount rate. We expect that claims experience will normalize when COVID-19 is behind us, and the reduction of the discount rate is likely to be priced in these products over the coming years.

As most of you know, for a while, the individual disability portfolio has been facing elevated inflows. This is the result of two factors: the first is the trend visible in the society as a whole, leading to an increased focus on mental illness such as burnouts. However this trend is intensified by the composition of our portfolio. Due to strategic choices in the past, the portfolio is now -- is not as diversified as we want it to be. We are over exposed to medical professions, and this led to higher claims in 2019 as well in 2020. Part of the claim was covered by our research agreement, which lapsed at the end of 2020. Going forward, all new claims will be fully reflected in the Non-life results.

And to restore profitability, we have taken strict measures. Effective from January, we increased our premiums up to 10%. I and in addition, we have made actual investment to prevent disability. We have launched a new product with updated terms and conditions, and a legacy portfolio has been placed in runoff. It is encouraging to see that we already see early signs of improvement in the First Quarter of 2021. This confirms our belief that we can restore the profitability of both portfolios sustainably.

On the next slide, I will show you how we complement our insurance offering in D&A with recovery and well-being services. Similar to P&C in our D&A portfolio will also offer a combination of insurance with complementary services, and this works very well. By offering prevention and reintegration services we avoid as well reduced claims. But maybe even more important, we increased engagement with our customers. In addition, certain servers are offered for a fee, which creates an attractive source of additional capital-light fee income. And for our group income business, we have entered in a strategic partnership with HES.

This is a leading and growing one-stop shop in the field of vitality services. HCS offers reintegration service to NN, but also to competitors. And for individual disability, the wellbeing services are instrumental in their offering. These services help professionals to excel in their career, but also in their personal life. Our focus is, for example, on professional development coaching, but also on me and my family or advice on overcoming sleeping problems. Our experience shows that professionals taking out prevention services have a much smaller chance of suffering from example, burnout. With that, let me now pass you back to Tjeerd for the wrap-up.

Tjeerd Bosklopper {BIO 20235210 <GO>}

Well thank you, Maurice. Let me now quickly wrap up for the key takeaways. So the Dutch market is sizable growing moderately and has healthy combined ratios. In this market, we have a unique and leading position in Non-life in the Netherlands in both size and distribution profile. Where we believe that there is further potential to benefit from our scale in both efficiency and underwriting. We've made good progress, and we have a good track record in delivering on our strategy, and our targets of a combined ratio of 94% to 96% and OCG of EUR 225 million and above and an admin expense ratio of below 10%.

And I hope our presentation today was helpful in your understanding of our Non-life business, and I also hope that you share my enthusiasm and confidence in the delivery of our strategy and targets. Thank you.

Bernhard Kaufmann {BIO 18347993 <GO>}

Hello, everyone. One year ago, soon after I joined NN Group, we presented our new strategy at the Capital Markets Day and I gave you an overview of our risk and solvency position and how we optimize risk and return profile. Today I want to come back to one of the more complex risk categories, which is very much in the spotlight these days, which is interest rate risk, and I want to give you more insight into how we manage interest rate risk at NN Group.

Now what are the key points I want you to take-home with you from this presentation? First, our plan to shift to higher-yielding assets is progressing well, and there is room for further risk return optimization in our investment portfolio. Second interest rate risk is no problem for us as our strict cash flow matching leads to low interest rate sensitivities. If interest rates go up or down. Third, our remittance capacity is not impacted by changes in interest rate. And fourth, the cash flow matching approach for our pension business in the Netherlands supports the growth in operating capital generation over the next years.

The presentation is now structured in the following way. I will summarize our approach to manage market and credit risk. Then I will point out how we hedge and manage interest rate risk on an economic basis. And finally explain what is the impact from interest rates on our Solvency II balance sheet and especially on operating capital generation, or OCG.

As you all know, we have a strong solvency position. Our solvency ratio end of year 2020 is at 210%. Now if you compare our risk profile to peers, you see that we are relatively underweight market and credit risk. The main reason for this is our conservative approach to investment risk and especially to credit risk. Another reason is that due to our business model, we have a large exposure towards longevity risk that is dominating our insurance risk profile. We started to mitigate this risk and have the possibility to take additional steps. As we have seen last year, this has a very, very positive impact on our risk-return profile. An essential part of our NN Group strategy is to maintain a strong balance sheet. To ensure this, we will continue with our conservative approach to investment risk. But there is room for further risk return optimization.

Last year, we announced that we expect at least EUR 200 million increase in OCG from the shift to higher-yielding assets. In 2023, and we are very well progressing on this route. How do we do this? We shift out of government bonds to more illiquid assets and corporate bonds, as indicated on the chart of the left-hand side of Slide 5. On this path, we will gradually continue also in the next years.

The main difference comparing our portfolio with the portfolio of other insurance companies is the allocation to Dutch mortgages. The risk return profile of this asset class is very attractive, and there is room to further increase the allocation over the next years. This will continue having a positive impact on our risk-return profile.

That already leads to the first takeaway but our plan to shift to higher-yielding assets is progressing well, and there's room for further risk return optimization also in our investment portfolio. So now let's deep dive into interest rate risk management. What is our steering philosophy related to interest rate risk? The pension business in the Netherlands delivers a very stable and predictable liability cash flow. We apply strict cash flow matching and match our best estimate liabilities with fixed income assets up to year 30, so there's hardly any interest rate risk resulting from net cash flow over the next 30 years.

After year 30, we keep a small open position due to illiquidity, availability of instruments, with some tactical leeway for active management and risk return consideration. In principle, we see interest rate to be a non rewarding risk, and therefore, we do not make interest rate bets. Please be aware that our focus already for some years is on writing life protection business or defined contribution business without guarantees. Therefore, our very long liabilities from our pension business in the Netherlands will run off over time.

The cash flow matching approach is in place since many years. In addition, manage the remaining interest rate risk very closely. Though there are limits, tolerances for all maturity buckets in place, and we also are well within our limits. Which leaves room to react to certain market developments. The example on the right-hand side, Slide 8, illustrates that we were managing the remaining position on an opportunistic basis. For example, we replaced derivative positions with long-term government bonds after yields became more attractive in the beginning of this year. The 1 basis point sensitivity for the resulting economic position as estimate liabilities versus matching financial instruments was below EUR 10 million at the end of April 2021. So this also illustrates the limited impact of interest rate changes, given our technical provisions for this business are above EUR 100 billion.

To summarize our approach and relating to the takeaway two and three, economically, we are very well matched, especially if we put this into perspective with our own funds, the resulting economic sensitivity is low, a 50 basis point interest rate shift at year-end 2020 led to 0.6 billion positive impact on our economic position. Also the result in Solvency II ratio sensitivity is low. So lvency ratio goes up by 3percentage points if rates rise by 50 basis points. Why is this? Even so the overall impact on the Solvency II own funds is negative. If rates go up, solvency capital requirements are decreasing as well. That means that in Solvency II, there are stock and flow effects coming through that impact, and they impact their own funds, but they also impact the capital requirements and OCG.

But very important, the remittance capacity of the group is not materially impacted by interest rate movements as we take both stock and flow into account into our dividend decision-making. This leads to sustainable and predictable cash return to shareholders. So this is great. To understand now the impact on operating capital generation and our solvency ratio, especially if interest rate changes, I have to make some more general remarks first.

An essential part of the business model of life insurance is to earn from investments spread over time and this is a spread above risk-free interest rates. But the valuation of the liabilities in Solvency II and the Solvency II balance sheet is based on risk-free interest rate curves. So therefore, Solvency II trials in the solvency assessment to capture this essential part of the business model by introducing long-term guarantee measures and uses an ultimate forward rate (inaudible) for the long-term interest rate curve to allow for partly recognition of spreads earned in a real-world environment and liquidity of markets for longer maturities.

As a consequence, there is a benefit coming from these measures and the valuation of liabilities compared to blindly using the swap curve, leading to a positive contributions in Solvency II own funds. This benefit to the own funds for NN Group mainly relates to the long-term liabilities and the introduction of the ultimate forward rate, and therefore, we refer to this as the UFR benefit. You can see this on the left chart, the orange part of the runoff pattern on Slide 12. These are the liabilities that are mainly impacted. As our long-term liabilities run off over time because we write this kind of business no longer, the UFR benefit for our own funds reduces. That means every year, there is a reduction of this benefit related to our long-term liabilities that are running off, and we have a negative contribution coming from this referred to (inaudible).

To illustrate this, we are showing the development of the main drivers over time on Slide 13. In because of the runoff of the liabilities of this specific book of business, we have every year a lower UFR drag over time. In addition, a reduction in risk margin, a reduction in the solvency capital requirements and the investment return we earn. All of these items are developing in line with portfolio developments. The relevant point now is that the UFR drag runs off faster compared to investment return and risk margin and SCR reduction. This means, in total, we have a positive resulting net contribution to operating capital generation over the next 10 to 15 years due to the runoff.

We expect, based on year-end 2020 numbers to have an average -- to have, on average, an increase of OCG of around 40 million per year until 2025, which is a bit higher in earlier years and flattens out over time. That means just because of the runoff of our long duration liabilities from the pension book in the Netherlands over time, we reduce UFR benefit in our own funds and have a positive contribution to OCG every year coming from the net effect of this runoff. Therefore, our asset liability matching policy pays off as we have a tailwind for OCG over the next years.

And as a final point, which is the master class section of this presentation. Now what happens if interest rate moves? On Slide 14, the impact relating to a 50 basis point upward shift is shown. This mainly reflects what the impact from rising rates will be until today. And as I mentioned before, if interest rates go up, the impact on Solvency II own funds is negative. But solvency capital requirements goes down as well because we have less interest rate risk. That means solvency ratio is impacted in a modest way. It's even positively impacted rates go -- if rates go up for us, for NN Group. In addition, there's an immediate impact on OCG, which is positive. This is a shift from stock and flow in practice that I referred to before.

In the Solvency II mechanics language, the ultimate forward rate benefit in our own funds, but I showed on Page 11, become smaller in a higher interest rate environment as a difference in discounting between Solvency II interest rate curve and the actual swap curve is smaller. Therefore, the UFR drag is lower for the coming years, and therefore, positive OCG contribution goes up. Therefore, we expect for 2021 with an interest rate increase of 50 basis points and an immediate positive impact on OCG of EUR 245 million. And for the coming years until 2025, on average, EUR 20 million annual contribution to OCG as a result of the runoff.

What does it mean now for the OCG contribution to our EUR 1.5 billion target for 2023 coming from this? Well OCG support from in force pension business in the Netherlands is one of the locked in drivers to reach the EUR 1.5 billion target. In addition, main contributors are regulatory annual UFR step-downs until 2022. The inclusion of NN Bank based on solvency contribution instead of remittances, which were 0 last year following COVID-19 restrictions, but also the full effect of the shift of -- to higher-yielding assets from 2020 investments will come through. All of this is contributing positively to OCG growth over the next years, which sums up to more than half of the OCG growth we are targeting in the next years. In total, the locked in drivers will deliver more than half of the additional 500 million step-up of OCG from 2020 to the planned 1.5 billion in 2023.

Other additional operating levels reflect business improvements. That will come from the operating segments like what Tjeerd and Maurice pointed out for Non-life business in the Netherlands, but also from the other segments.

Operating capital generation depends also on markets and market movements. And as markets move on a daily basis, year-to-date, we saw an increase of interest rates supporting OCG in line with the sensitivities I just showed but please note that we have also seen a material tightening of spreads, especially Dutch mortgages, which negatively impacts the investment return.

So to summarize, our shift to higher-yielding assets is progressing, and there's room for further risk return optimization. Our strict cash flow match up to year 30 leads to low interest rate sensitivities. If interest rates go up or down, the remittance capacity is not really impacted by interest rate changes and our asset liability management of the pension book in the Netherlands, support OCG growth, especially in an environment with rising interest rates. I hope I have convinced you that interest rates are really no problem for us. With this, I hand it back to Jelmer.

Jelmer Lantinga {BIO 20384884 <GO>}

So thank you, Bernhard, and thank you, Tjeerd and Maurice, for your presentations on Non-life and interest rate risk. We will now start with the Q&A session.

Questions And Answers

A - Jelmer Lantinga {BIO 20384884 <GO>}

Can I kindly ask you to focus your questions on the topics of the presentations and to limit yourself to two questions so that everybody gets a chance to participate? And if you wish to ask a question, you can now virtually raise your hand. So the first question is already there. It's from Cor Kluis from ABN AMRO. Cor, please go ahead. Great to see you.

Q - Cor Kluis {BIO 3515446 <GO>}

Just a few questions. First of all, on the VIVAT acquisition, the VIVAT Non-life acquisition. I think based on the local reporting, VIVAT Non-life in 2019 at a gross written premium of around EUR 800 million, that's 790 or something. I think there are some cleaning in the portfolio like you presented today which you have been doing. What is the current premium of the acquired business. So basically, the question is how much now -- which amount of premium did you remove or cleaned or became more selective in that respect? So that's my first question.

My second question is on the departure internal model, so that you want to have a partial internal model in the second half or the first half of 2022. Could you give some for the Non-life business, could you give some idea behind the technicalities and then maybe already some indication of contribution to the solvency ratio of the Non-life business. Because it should probably be quite material or material else you would not spend your time and effort on that. And my last question is on the risk side. It's a technical presentation, but very well explained, thank you for that. The question is on the stock and flow part. You basically said that if interest rates go up 50 basis points, that's minus EUR 0.9 billion for the own funds. If you only take stock a flow element is minus 1.5, could you also have this split out for the OCG part? Because the OCG part was plus 245. What is only the stock and flow element if you would isolate that? Probably larger, but could you help us with that figure as well? That's it from my side.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Cor. So let us start with the question on VIVAT. I think Maurice, you are probably best placed to answer that question. You were the former lead of that integration. Then maybe, TJeerd, you can follow-up on the Non-life question on the PIM. Bernhard, you could end with the question on OCG.

A - Maurice Koopman

Thank you, Cor, for your question. Yes. Of course it's a big topic. Of course if you move portfolios to other systems. Then it's all about retention. We are very pleased with the retention rates so far. We see that we have 700 or 800 already in the NN systems at this moment. The remaining is the coming months, of course. We, of course see some small outflow because, yes, it's changing, which are offset by some growth in other lines. But on balance, broadly, it's neutral. We are pleased with the progress, especially because we have a lot of experience with the delta migration, and we're now following with the VIVAT migration, we are very pleased with the retention so far.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you. Tjeerd, on PIM?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes. So thanks, Cory. So on the PIM, partial internal model. So you're indeed correct that VIVAT was on standard formula and still is, and we're in the process of bringing VIVAT to our partial internal model. This is a process with the regulator where you go through various steps of assurance, interactions. Then once you submit it, the regulator has six months to come with a formal approval. So is typically, yes, a process that takes a bit longer because it's so technical. We indeed expect a positive impact from this major model change, bringing VIVAT to the partial internal model. The magnitude of that impact is too early to disclose as it is obviously dependent on the final conclusion that we reach in this process with the regulator and the other stakeholders.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. Cor. On your last question on OCG, stock and flow related to a 50 basis point upward shift. In 2021, if interest rates stay as they are, so really this 50 basis points upward shift, the expectation is that we see in the OCG of 2021, a positive contribution of EUR 245 million. Then in the following years from the regular runoff and also because the UFR benefit is reduced, we will also then see a 20 million on average, positive impact until 2025. So that is the, let's say sensitivity always compared to end of 2020, if interest rates go up 50 basis points.

Q - Cor Kluis {BIO 3515446 <GO>}

The question was more focused on this stock and flow part because I think on Slide nine of C9 you show the stock and flow parts separately. Because the total on the own reference is minus 0.9, the stock and flow part is minus 1.5. So that's good. We never see the figures. But also, do you have that for the 2 45 if you would only take the stock and flow part without the other elements?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Well yes, yes. So the 245 is really coming from this fundamental shift in the year '20-plus. So it's really a one-time impact that would then go through OCG or we would show in the P&L. But I think that is a, let's say the stock part you're looking for because this is really the equivalent to the minus 0.9 billion million own funds movement. Then the flow part is really about this EUR 20 million annual on average until 2025, I was referring to that would come then in the later years.

A - Jelmer Lantinga {BIO 20384884 <GO>}

The next question is from Robin van den Broek from Mediobanca. Robin, good to see you. Please go ahead. Let us then maybe try again in a minute with Robin and move forward to the next question from Michael (inaudible). Michael, good to see you and good to hear you. Yes. Go ahead.

Q - Unidentified Participant

Yes. Just two quick questions on the Non-life side. I guess the first one would be a follow-up on the PIM. Maybe too early to disclose the total impact. I guess assuming that it's a material impact, can we discuss a little bit on how we should think that perhaps influences remittances or benefit to Holdco cash? Or is it likely whatever the impact would be to stay within in the nonlife Dutch legal entity? That's question number one. And question number two, wanted to go back to the slides around the motor portfolio. I think you showed a 96.5% combined ratio for 2020. Obviously there's a COVID frequency benefit in that number. Therefore, that to me, without knowing the actual impact, suggests that the combined ratio probably underlying was still at best 100 or possibly above that. So that to me doesn't sound like a part of the book that is performing that great yet. So how can we think about the performance of that improvement there going forward? And why are you, therefore, looking to grow the car fleet portfolio? Because if I remember correctly, that was a problem book maybe seven, eight years ago, where you aggressively pulled away. So maybe you can give some color around that.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Good questions, Michael. Maybe Tjeerd, you can maybe start on both. First, maybe on the PIM and then on the motor segment. Then probably Maurice can add some color from your view on motor --

A - Tjeerd Bosklopper {BIO 20235210 <GO>}

Motor and car fleet model, yes. Yes. So let me start with the first question on the partial internal model. So indeed, we expect a positive benefit coming from the PIM, but obviously too early to indicate the magnitude. Typically, we have the Non-life company capitalized at a very efficient level. With the current reported Solvency II level of 124%. So yes, normally, if there are, let's say minuses, as you've also seen in '19 and '20, for instance, we were anticipating the VIVAT acquisition. So VIVAT was partly lower or there was the lapse of the internal reinsurance, that could affect remittances. Now this could be one that is more on the positive side.

So there we would upstream more to the group and then obviously it's within our group capital policy that also Bernhard has explained how much we distribute to shareholders.

But if indeed, there would be a positive then -- and there is room for the, yes, local business unit remittance or dividend recommendation to support such remittance to group, then that is something that indeed could be expected as a one-off. Whether that will be distributed at the shareholders is a different question, right? So that is in line, I think with what Bernhard could comment on. Yes. On motor. Then, yes, maybe specifically on car fleets Let me cover that one. Then you can give some color on the motor portfolio, Maurice.

So car fleets, we indeed aggressively pulled away from the unprofitable segment. We were in large car fleets that, yes, we're moving from one insurer to the other, and they were not very profitable. We didn't believe that there would be a good path to continue. So we're still of the same view today. However we have embarked on a new approach towards midsized car fleets up to 250 vehicles, where we combine the expertise of ABW, which is a broker where we have a minority participation that specialize in this segment as prevention services knows the good risks. There we're selectively seeing how we can participate in that growth. So it's not a shift in strategy. It's just a new profitable segment that we believe that we are well positioned for to capture, yes. So in general, on the motor portfolio, Maurice, maybe you can share some color on the health of the motor portfolio.

A - Maurice Koopman

Yes. Good question, Michael. Of course motor is always a challenging market in the Netherlands. We see, however that if you're focusing on pricing, especially on data gathering and pricing on the right segments, then there is room for profitability in the motor segments. You see, of course that the market is from -- is a hard market. So it's more room for price increases. But also our own actions strict underwriting, and we learned a lot, of course from our direct label OHRA. We take that into the other labels, we are well positioned to have structurally good profit on the motor portfolio. Especially if you combine it, you see that with the SME portfolio with prevention, and of course servicing, that helps a lot in improving our motor business. So that's why we believe in the profitable portfolio.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Michael. Then next question by e-mail from Michael Huttner from Berenberg. I think three questions. (Operator Instructions) First question from Michael is on the DNA business. How quickly we would expect it to return to profit, pricing or portfolio problem? And do we need to acquire a business to diversify away from the concentration in the medical sector? Good question, I think focused on individual disability.

Then secondly, a question on inflation. If higher inflation is structural, what is the impact from back book reserving, what actions can you take? And maybe also a question on Non-life, but maybe Bernhard also interesting for you if your perspective from a group level on your view on impact of inflation?

Then thirdly, from Michael, the question on the current levels of profitability of Vivat's DNA and Non-life in the First Quarter of 2021? Well we obviously have not disclosed our numbers. For the First Quarter, we will disclose our first half year numbers in August, but maybe Tjeerd, you can maybe add some color on what we've seen in 2020 already in the trends. Tjeerd, do you want to start on individual disability?

A - Tjeerd Bosklopper {BIO 20235210 <GO>}

Yes. So first question, disability and accident, how quickly will it turn to profit? So we always separate the disability and accident business in group and in individual. So with regards to group, which is about 2/3 of our portfolio, the main impact that we've seen there in 2020 is COVID, specifically related to the sickness portfolio and the effects of the lower IFRS discount rate. Both of which, we would expect to return to the normal healthy profitability levels rather quickly because COVID, we would expect to go away and also return to normal stickiness levels in companies. The lower IFRS discount rate, we've priced in group D&A also again per the first of January. So there, we would see the recovery of group D&A to be rather quickly.

For individual disability, so this is 1/3 of our portfolio, where in the end portfolio, we had exposure to specific medical segment, where the burn out rates were higher than in other parts of the portfolio. So there, we've taken actions, as Maurice explained. So we had a price increase of 10%. We launched a conversion product. We did stricter underwriting criteria. There, we see already the first signs that we believe that we can restore profitability over the longer term. So we're very happy to see that progress. However for this 1/3 of the portfolio, it takes longer to return to the healthy profitability levels. That is more a couple of years then, let's say the shorter-term for group D&A to recover.

One last question, so should we diversify way by acquiring another book, we did. So we acquired Viva business. So VIVAT had a similar-sized portfolio as ourselves, and they were not exposed to the medical segment. So much, they were much more in white color. So that diversification benefit in the D&A is obviously also helping ourselves, and there's no need from that perspective to acquire an extra book that's already in the current book.

So the second question was on inflation. Inflation yes, the impact on the backlog preserving for Non-life business is typically priced in. So it's a very short term business. So we renew contracts rather quickly. Most of them in one year or in three years. And for the longer term is typically priced is in. Yes. So maybe Bernhard on inflation, you can say something on the rest of group, but for Non-life, yes, this is not a very material problem.

And last question. Last question was on the current profitability level, indeed, of the First Quarter. So indeed, as Jelmer said, we do not disclose the First Quarter. So the second half results will, of course follow. So what I can say is that in 2020, we had the D&A business at a combined ratio of 102.6. And let's say P&C, much lower and the overall combined ratio we had was 95.3 with the effects on D&A that I just explained to my first answer. So this is partly elevated and P&C, especially the motor business obviously had lower claims frequency, where we ended up with a healthy 95.3. Now for the First Quarter, we would expect, let's say the trend on D&A to improve with the measures that we've taken and that we have announced. And for the First Quarter, as COVID is still in place, you could expect claims frequency to be similar in -- than we saw in the COVID quarters of last year. Post-COVID, we would expect the claims frequency to also normalize for the motor business. Obviously the continued effects on the improvements, actions that we've taken on. So that gives you a bit of color on how we see this year developing.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Tjeerd. Maybe Bernhard, could you share your views on the inflation risk from a group perspective?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. Two or three remarks from a group perspective.

So first one, looking at our Life & Pension business, most of the liabilities are nominal liabilities, defined benefit kind of liabilities that are not exposed to inflation and inflation risk and where we have books of business where there is a link to inflation, we explicitly hedge it. So from Life & Pension, there's no exposure coming through and in general, higher inflationary environment also means higher interest rate environment, typically, there, I think I pointed out that this is an environment which is also supporting our business model, especially Life & Pension business because then certain products are then more profitable. Also, there are more business cases that are depending on interest rate level. So that is favorable for us.

Being the Chief Risk Officer, of course I have to point out to the risks. They relate to expense risk that we have to manage, but which, again we have in our hands, and the economic environment may lead to suppression of risk premiums of investments for some time. So that would be then the economic outlook that may be than on the negative side. But in general, again higher inflation -- or higher interest rate environment is a positive for us.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Bernhard. Okay. Then the next question from Benoit Petrarque from Kepler.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Now, basically, two questions on my side. The first one was on the comments you made around data analytics in Non-life. I mean this is a tool used to improve the underwriting. I was trying to understand how much potential do you see in terms of potential impact on combined ratio, how much potential you see in the future? And how much you've achieved so far on that. So have you done a lot already? Or you consider that you still room to go in terms of analysis -- on data analytics. That's the first one.

And the second one, it's moderating to the risk. I think you mentioned that there's room for rerisking and you've got this kind of EUR 200 million uplift in OCG, and just wanted to get a feeling about how much is still left, you think on the kind of 2-, 3-year time horizon? And you touch based on this margin on mortgages. I was wondering if -- clearly, there has been some pressure recently, and whether you see that as temporary or that's something we should kind of plug-in the model for the longer run, if you're happy to still be on the -- on this market with much lower margins on mortgages.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Thank you, Benoit. Clear questions. Tjeerd, would you like to start on data analytics? Maybe, Maurice, you can add your color on specific experience you might have from OHRA and then Bernhard, would you like to take the question on rerisking? Tjeerd, would you like to start?

A - Tjeerd Bosklopper {BIO 20235210 <GO>}

Yes. So thanks very much, Benoit, for your question. So as you can imagine, we were an end, we acquired Delta Lloyd with a Non-life business. We acquired Feedlot with a Non-life business within an end. We already had a direct label with bancassurance labels. So we, in our strategy, identified a real potential to pull all the data from all the different labels from direct, from bancassurance, from brokers and Richard also with external data. Then when you have all the data combined in one pool with a data scientist analyzing it and then coming up with either retention models or looking at bodily injury specifically, there are a lot of different things that you can do with it. It's really a core capability for a Non-life company, always has been. But with new technologies and these new data capabilities. We believe that this is our largest driver for value creation on the Non-life side. So if you see our OCG improvement slide towards the target of EUR 225 million (inaudible) this is the first one we mention, and there's a lot of actions that we have already taken. And Maurice mentioned some of them in his presentation.

So have we started with this? Absolutely. So we did lots of actions, I think it's really 100 and sometimes even thousands of small actions that we take on different product lines. So yes, we have started, and we see already some of those acts bearing fruits in our portfolio. But we also believe that towards 2023, there's a lot of further value that we believe that we can capture to reach, of course the target of EUR 225 million with OCG. And Maurice, you could give a few couple of examples and then maybe quickly go to Bernhard.

A - Maurice Koopman

Yes. A good question, and it's for Non-life, of course a key topic, a very important from OHRA, I've experienced that data is the foundation of your company. Within OHRA, we did a lot of data analytics, especially on behavior of customers, especially if they use the portals you can buy analytics, you can predict customer behavior. That's crucial, for instance, to increase your retention rates, but also topics like fraud detection, pricing is, of course the main topic. So data and data analytics is here to stay. We see a lot of opportunities in different kind of segments. And as for us, as a Non-life organization crucial, we have a lot of experience, but the developments go so fast that there are a lot of opportunities in this area.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, both, very clear. Bernhard, on the rerisking.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. On your rerisking question, Benoit. First, well, rerisking as part of our strategy to achieve the EUR 1.5 billion target in 2023. We are well on track, like I pointed out. And from the EUR 200 million that we targeted, we have achieved already EUR 170 million that will contribute in 2021 fully to OCG. That means EUR 120 million were already reflected last year and EUR 50 million in addition, also now are coming through in 2021. But please be aware that in 2020 was a special year. We were able to take advantage of the market -- the turmoils and the market developments to especially invest in the more liquid public markets. This year, we are continuing with a more gradual, slower shift of our assets into more the illiquid space, mortgages, real estate. That, of course will not have the same pace as we have seen in 2020 and the beginning of this year.

Now on mortgages, we still see that this is a very attractive asset classes even so spreads have tightened. You're right, they have tightened really materially in the beginning of this year. But given the low risk profile, our very strong sourcing and underwriting capabilities, the spreads are still attractive from a risk-return perspective. We also see that after the client rates have stayed stable over the last month, while interest rates went up, so spreads went down, now client rates start to move. Typically, there's a timing effect between interest rates moving and clients rate moving. So we expect that the spreads will also catch up and that we will also get back to better spread levels also in the next time.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Thank you. Very clear. Then the next question, I think is coming from Ashik Musaddi from JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

I have like a couple of questions. You can help me. First of all, I want to understand that OCG interest rate sensitivity point again. So what I want to understand is EUR 1.5 billion is your guidance. Then interest rates this year have moved, let's say by 45 basis points, let's just say 50 basis points. So how do the numbers move for next year, year after? So are we talking about EUR 1.5 billion becoming EUR 1.75 billion and then moving EUR 20 million from there on, or are we talking about EUR 1.5 billion becoming EUR 1.75 billion and then dropping again back to EUR 1.5 billion and then moving EUR 20 million. So just need a bit of clarity that extra EUR 245 million that you mentioned, is that going to stay here? Or is that going to drop off? So that's first question.

Second thing I would say is, how do we think about the P&C business? I mean -- sorry, longevity reinsurance. I mean clearly, you mentioned that longevity reinsurance is a topic that you would consider going forward, but what needs to happen for you to do longevity reinsurance? I mean your capital position is good. If you do longevity reinsurance, at some point, you have to put money on the table for the taker as well. Why would you do that? So that's the second question I have.

And thirdly is you mentioned that OCG benefit from higher rates will be offset by tighter spreads on mortgages now possible, that's possible mortgage spreads would have tighter, but that should also benefit the solvency ratio as well. So can you give us some clarity on what has happened to mortgage spreads so that we can understand what has happened to Solvency II ratio as well this year because of spreads.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Yes. Very clear. Good point, Ashik. I think all questions for you, Bernhard. So that is also easy. It's to you how you want to take it in each order.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Thank you, Ashik, for the questions. I'll start with longevity. Because longevity risk is still one -- not one, it's our peak risk in insurance and business -- the business risk, so in our risk profile. From a strategic point of view, it makes sense to reduce this peak exposure over time. This mainly is, if you look at risk/return consideration then it is attractive for also shareholders because simply the amount of capital that we can set free. So that is relieved is disproportional to the return that we give up for the reinsurance premium.

So -- and that is still -- we are not still in the sweet spot where this was changed. Therefore, this is the main consideration behind it. Are we under time pressure? No? Because we have the risk-bearing capacity, we have the solvency, so we can take it really also slowly and opportunistically, we can look at the portfolio and see where there are interesting opportunities, and that's exactly how we do it and how we are progressing with longevity risk.

Maybe then linking it to the last question on solvency. Yes. There are some moving pieces, but expectation is that currently, our solvency ratio is at around 210%. So the main -- so mainly the same number as year-end 2020. There have been share buyback and step-down of ultimate forward rates that were negatively positively was the rise in interest rates, but the spread tightening you mentioned is also in the market developments, a negative position. But if you take all of them together, then more or less, they all level out so that we are estimating that we are around the same solvency position that we were end of 2020.

And now the first one, on the impact of a 50 basis point interest risk rate shift. Well first of all, we have a target, which is EUR 1.5 billion for 2023, and that will not change. So that's our target. The impact of interest rates going up now is what I would summarize as part of market development and no spreads as they have negative imparity in the First Quarter is compensating. So these are the moving or fluctuating parts around, let's say our path to the EUR 1.5 billion that we see. This -- maybe now to the point of how to interpret the EUR 245 million. If you see this as a contribution because it's lowering the UFR drag mainly, and that means the -- in the -- through the runoff, there's a higher contribution every year, positive coming through, well, then, it's really a positive contribution to be expected as a onetime impact, which helps in 2021.

Then in the next years, this EUR 20 million I indicated are then the positive impact coming through on an annual basis. But what you have to deduct are the EUR 40 million that I showed the over the expectation end of year 2020. That was the base case that we had end of last year. These EUR 40 million per annum, they would -- you have to deduct from the kind of projection in the coming years. So it's really to interpret as a fluctuation around this growth path to the EUR 1.5 billion coming from market developments, interest rate and spreads that you see. And unless we are really seeing a substantially higher interest rate environment for a longer time, I would also see no need to reconsider here any kind of target.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Maybe Ashik, we are also able to catch up after this call to walk through all the details in more detail through all the numbers. Okay. Then we go to the next question, which is a question by e-mail from Robin van den Broek. Apologies, Robin, that apparently the connection was not up to standards to make it work. Your first question, are you able to increase remittances or dividends to shareholders now that OCG is increasing on the back of higher rates? That is very much in line with what we just discussed with Ashik. Then secondly, what is the impact of tighter mortgage spreads on OCG? I think again two questions for you, Bernhard. I think we kind of touched upon?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. I think I can be quick, but I think very much to the point that the remittance capacity now I tried to show that this is not really impacted by interest rate changes, interest rates going down. That's mainly because of these moving bits and pieces between stock and flow that we already take into account in our dividend decision and in our projections to be sure that we have the reliable paybacks.

If spreads or if interest rates are really higher for longer, and if the environment is in a way that we see a higher interest rate environment, then again it's positive for our business model, and therefore, then in the long run, also higher OCG will translate into a higher potential for remittances and our remittance capacity will be strengthened. So I think that's it in a nutshell.

And tight -- the impact of tighter mortgage spreads on OCG. While we have a sensitivity that we also published the 50 basis points sensitivity of mortgages is around EUR 120 million impact on OCG. So around this order of magnitude, I would assume is the impact just from tightening. If you compare this to the EUR 245 million of interest rates, then you get to a good estimate of the total market impact that we saw until year-to-date.

A - Jelmer Lantinga {BIO 20384884 <GO>}

We have a short follow-up question from Robin, which is with higher Solvency II ratio than peers and interest rates going up. When does this become more fungible? Well I think at our Capital Markets Day we talked about the priority of having a strong and resilient balance sheet. But maybe, Bernhard, if you can add some color?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. I think you summarized it already very well, because the again the environment that we are in and also the sensitivities that we see this environment makes us comfortable with our current position. If we are entering another economic environment and there may be changes, and this would be something to reconsider, but I would also see for the next time that we have no additional aspects that we will take into account coming from just this kind of interest rate movements.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thanks, clear. Okay. Then we go to our next live question from Farquhar Murray from Autonomous.

Q - Farquhar Murray {BIO 15345435 <GO>}

Just two quick questions from me. Just starting on the Non-life side. So to Maurice, I think with regards to this kind of disability legacy portfolio, I just wondered if you could give us some color around the scope of that size of it, and also maybe perhaps how the duration of that runoff exercise and the reserving around it? Then secondly, just a Bernhard, on the interest rate side. You mentioned a kind of move from swaps into long bonds during the quarter. I just wondered if that had any impact at all in term modeling of solvency or capital generation until I presume not.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Okay. Maybe on the D&A, Tjeerd, would you like to start with some views on portfolio of individual disability.

A - Tjeerd Bosklopper {BIO 20235210 <GO>}

Yes. Yes. So any individual disability, policy conditions are up to retirement. So in that sense, it's quite comparable to individual life policy. So there is a right of the policyholder to keep that policy in place for that period of time. Obviously there are some rights on the insurer side to increase prices and introduce new products, reflect underwriting criteria. But this is the way that individual disability is structured.

Now in practice, of course these are a lot of freelancers and people that are not covered by the government scheme of disability and excellence. So it's a private choice to have such a policy in place for this target market. Yes. We do also see if people switch jobs or their employment conditions change that people cancel their policy. So the average duration, I would say is more sort of six or seven years, but there can be somewhat longer tail, especially for smaller book of business. And especially, if there would be yes, let's say a more problematic part probably other runoff can take longer in such a situation. But normally, it would be in that range.

A - Jelmer Lantinga {BIO 20384884 <GO>}

And the total size of the portfolio is around EUR 300 million to EUR 400 million, I think?

A - Tjeerd Bosklopper {BIO 20235210 <GO>}

Yes. The total individual disability is around EUR 300 million, and the Movir book is about half of that. And Movir is the book where medical professionals are represented.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Okay. And maybe for you, Bernhard, the question on the actions that you took on the interest rates risk?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. There are mainly two impacts on, yes, solvency or on OCG. First one is moving into government bonds has a positive contribution to OCG. It's in the order of a low 2-digit million number. But on the other side, the credit spread risk goes up, so the SCR consumption goes up. So that means solvency capital requirements are impacted, but also in a not really material way but in a way that you see it but not really changing our position.

Q - Farquhar Murray {BIO 15345435 <GO>}

Just adding all those elements together, so higher interest rates, narrower spreads and obviously that kind of shift into longer bonds. I mean that at EUR 1.5 billion target in 2023? Is it easier or more difficult? I get the sense, it's kind of a much, much.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

I think especially from the impacts we discussed around market credit investments and interest rates, there we are really well progressing. I think that is right that you got this notion, but there are some parts in the strategy where we are working on, where we have to deliver, which will take 2021, '22 and '23, like for Non-life, but also in the -- in some of the elements I was pointing to, like the tailwind coming from the runoff in OCG from interest rates. Also, this is an impact that comes through every year, contributes every year. So it's -- well, 2021 will be, especially compared to the base 2020, really a good step forward. But then still, of course there's a lot of homework to do.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Then the next question is also by video from Steven Haywood from HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

Two questions. One on Non-life and one on solvency. You mentioned right at the beginning that it's a hardening market, I think and I would like to know more specifically what level of price increases are you putting through in the major fire and motor lines, what sort of average price increases and how much claims inflation is coming through. So we can get a sense of what the delta is between the two.

Then on the solvency, I'd like to know what Bernhard's view is on the risk margin. Whether you'd like to see this change in the future, whether you -- whether the IOP can potentially look at adjusting it somehow, what would you like them to do to the risk margin?

A - Jelmer Lantinga {BIO 20384884 <GO>}

That is potentially a nice conversation that you could have, Bernhard with Steven, on the risk market, try to keep it short.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. Yes. Yes.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Then Tjeerd, can you then afterwards talk about the hardening market in Non-life? Would you like to start Bernhard?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. Very much. Steven, that really goes to the heart of the discussion around the Solvency II 2020 review and what is now under review. Because there the risk margin is now also on the table and up for discussion, there are some suggestions that would lower the risk margin, and I think that's very welcome by the industry but also by us.

Also in my view, if I just look at our balance sheet for our longevity risk, we have a stand-alone SCR of EUR 5 billion, and we have a risk margin of EUR 8 billion. So it's an amount of capital. If it's solvency capital requirement or if it's an additional reserve that we hold, it's very high now and to recalibrate this and to come to a regime where this is more in line with really what is risk adequate, now I could not welcome it more.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Okay. Then Tjeerd, would you like to say something about the hardening market?

A - Tjeerd Bosklopper {BIO 20235210 <GO>}

Yes. So thank you for your question, Steven. So indeed, the market has been hard over the past two years. We were very pleased with that because having to complete major migrations from Delta Lloyd and VIVAT in a harder market is, of course easier than if there is a lot of (inaudible) going on so that made it helpful to keep the retention rates up and not to take action on portfolios where we saw the need. We don't have a cross book approach where we say well, let's increase prices across all books. We have quite a segmented approach. So for instance, for individual disability, we did a maximum increase on that particular book of 10%.

On mandated agents, it's not been just price increases over the past years, but also discussions on commission and, of course on expenses. So yes, in motor, we've indeed increased prices. So the average rate of increase was around 5% in past years on motor, for instance. So in general, I think you're trying to get at sort of what is the improvement that you could expect on the combined ratio coming from price increases. So I would rather put it as the target of 94% to 96% that we have envisioned for the Non-life company in 2023. Through the cycle, this is the range that we are targeting, and that includes underwriting improvements, the OCG rerisking, price increases, all the benefits from data. So all of that combined brings us into the range of that target. But yes, we do expect the market to be hard.

Still, in the coming one to two years, we see also other players to be rational and disciplined in pricing. Yes. I think on a longer outlook, Non-life is typically a cyclical market that is hard to predict, and nobody has a glass ball for, but that will be sort of my guidance for you.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Tjeerd. That's very helpful. Just a small note from my end. We aim to finish in around 15 minutes. So let's try to answer as many questions as possible. One of our peers is also starting with the presentation at, I think 4 p.m. CET. So let's aim for another 15 minutes approximately.

Next question is from I think Hadley Cohen from Deutsche Bank by e-mail. Two questions I can see. The first one is on the assumptions that we included in the EUR 245 million uplift from OCG relating to higher interest rates, whether there's anything else in that scenario apart from interest rates impacting that number? Then secondly, the question on remittance capacity. If that remittance capacity is not affected by interest rate changes, what about the link between OCG and free cash flow, which we also talked about at the CMD. Bernhard, would you be able to talk about them?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. So the first question on the assumptions behind the EUR 245 million, it's interest rate only. I already pointed to the negative impact I expect from developments coming from tightening of the mortgage spreads in the Netherlands or the Dutch mortgages of around EUR 100 million to EUR 150 million. So this is what you would have to take into account to come to the full market developments. If you look at the year-to-date changes on our OCG. So that are the main two drivers to consider coming from market developments.

Now remittances, I tried to point out that I would always differentiate between a short- and longer-term horizon if it comes to interest rates. The short-term impact is where I said, well, this has no impact on our remittance capacities because the short-term impact very much relates to just being able to digest market volatility, market developments, interest spread moves and not to react with this in our dividend or share buyback policy. I think that is one of our strengths, and that is also what our solvency position is signaling and is also enabling. Longer term, again if interest rate rises and we are in a higher interest rate environment, then there will be additional contribution to OCG it will take some time until this then come through in also the ability to really pay out the cash and have the remittances going forward. But that is mainly then the question on sustainability of the interest rate level for the time to come and then also the time lag until this really is showing up into free cash flow on holding level that we can then use for potential remittances.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Okay. That's makes total sense. Let's then move to a follow-up question from Robin van den Broek by e-mail. Impact of higher rates on excess return of real estate and equities. Will the full absolute yield make its way into OCG? Indeed, use assumptions for both as categories? Then the second question is, what is the saturation point of mortgages in your asset mix? Does potentially low LTV on your current book help? I think relating to higher house prices. Are you able to talk about --

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. Yes. Yes. Robin, so to the first question, the -- for real estate and equities, we have risk premium assumptions that we get are long-term looking back over some years. Those we are not changing frequently but that would really be a more fundamental shift in the market that would trigger to revisit them. So therefore, they are stable and they are not impacted by interest rate level, meaning also that has no impact on the contribution on OCG, just beside the market value of the respective positions.

Now saturation point for mortgages. So yes, the loan-to-value ratio is coming down, which is good. In the Netherlands, we are now at 65% to 66%. So it's -- that's really good. That makes the asset class from a risk/return perspective, even more attractive. What we do is that in our strategic asset allocation in the optimization, we look at what our percentage allocations in the different asset classes. And here then Dutch mortgages with this development are getting more attractive because they simply consume less risk capital if loan-to-value goes down. That is, let's say implicit effect that via this route, we take them up into our allocation. And for the next years, we see also additional possibility to grow in this asset class.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Okay. Thank you, Bernhard. Then the next question is from Andrew Baker, also by e-mail. The first question on Non-life. Are you still open in the M&A Non-life sector? Or does your high market share prevent this? Then a second question on the current spread levels, can you give a sense of the difference in return on SCR for corporate bonds, mortgages and (inaudible), maybe qualitatively, Bernhard, you could add some color on that. But Tjeerd, would you like to start on M&A in Non-life, yes?

A - Tjeerd Bosklopper {BIO 20235210 <GO>}

Yes. So we are very pleased with the two acquisitions we've done in Non-life. So Delta Lloyd and VIVAT very substantial acquisitions in the Non-life part that we're currently integrating. So Delta Lloyd, of course already being completed, and VIVAT, we're making a lot of progress. So building that scale and exploiting that skill in our strategy, as we have explained today is what we're doing for the coming two years. That also made us the number one. Yes, if you are the number one, then obviously if you would look at other, let's say Non-life manufacturing opportunities, yes. Compared to M&A, we're always disciplined and rational. We would look at it. But really, our base case is organic. We're very happy with the position we're in. We're happy with the acquisitions and our strategy yes, is to obtain the value from those two acquisitions. So yes, an opportunity comes by, we will look at it, but we're very pleased with the position we have.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Okay. Yes, Andrew. On your question, the difference in risk return view on the asset classes. Clearly, Dutch mortgages stand out because of the low-risk profile and for very good reasons, with the whole institutional framework that we have in the Netherlands, but also our underwriting capabilities that we can use in sourcing our own bank LTV we just discussed. So it's -- that's the main driver that this is outstanding.

Then it's to jump from the leader in risk/return to the one that we are most concerned with, that's mainly government bonds. So to move out of government bonds so if you look at this on a longer time horizon the way we want to go, and that's mainly also simply because of once being not attractive from a risk/return profile. And corporate bonds as a whole spectrum in between, where last year's spread levels were very attractive for, especially investment-grade single head, for example, investment-grade corporate bonds, but they have tightened again. Now other niche segments are still attractive from our perspective. But this is where we are more selective, and therefore, also, it takes more time to build up exposure, and there we are taking now the, let's say smaller steps in being a little bit more selective building up the portfolio.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Okay. Very clear. Then the last question of the session today is from Benoit Petrarque, which is hopefully a video question.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes. Just coming back on the Solvency II ratio, you just mentioned that it was kind of stable to 10. I looked at it end of April, maybe something happened in May but at the impression that the mortgage spreads tightening was very positive at about 8percentage points and also large positive on equity. Then you have the capital generation. I mean you add also the payment, the share buyback and the (inaudible), but it's -- I'm a bit surprised that it's actually flat given the mortgage spread is a big positive on the stock. Did you see anything special on the government bonds, spread in the month of May? Or trying to understand why it's actually flat since the beginning of the year in Solvency II?

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Thank you, Ben. Thanks, Bernhard. Final question for you.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes. We -- you're right, the negative impact I was referring to was the OCG. So -- and if we now switch to Solvency II, the tightening is positive. Also equity developments, they also contributed positively, but there were other market developments on government bonds. Now you saw a tightening of the spreads in corporate bonds a little bit. So smaller movements, but adding them all up leaves to small positive impact from market developments, and then I pointed to the other ones, like share buyback inclusion, ultimate forward rate step down, which were negative.

Then on the positive side, in addition, business development until now, also positively contributed to the ratio. So these are the main contributors to the kind of flattish development.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Benoit. Thank you, Bernhard. Okay. So I think we are now about to close this session. We have come to an end of the webinar. Thank you, Tjeerd. Thank you, Maurice. Thank you, Bernhard. Of course all of you for attending this webinar. Stay safe and healthy. We hope to see you all again soon -- and then hopefully in person. Thank you.