Q3 2021 Earnings Call

Company Participants

- Antonio Cano, Managing Director Europe
- Christophe Boizard, Chief Financial Officer
- Emmanuel Van Grimbergen, Chief Risk Officer
- Filip Coremans, Managing Director Asia
- Hans De Cuyper, Chief Executive Officer

Other Participants

- Benoit Petrarque, Analyst
- David Barma, Analyst
- Fulin Liang, Analyst
- Michael Huttner, Analyst
- Michele Ballatore, Analyst
- Nasib Ahmed, Analyst
- Robin van den Broek, Analyst
- Steven Haywood, Analyst

Presentation

Operator

Welcome to the Ageas Conference Call for the First Nine Months of 2021. I am pleased to present Mr. Hans De Cuyper, Chief Executive Officer; and Mr. Christophe Boizard, Chief Financial Officer. For the first half of this call, let me remind you that all participants will be in a listen-only mode and afterwards there will be a Q&A session. Please also note that this conference is being recorded.

I would now like to hand over to Mr. Hans De Cuyper, and Mr. Christophe Boizard. Gentlemen, please go ahead.

Hans De Cuyper {BIO 17991990 <GO>}

Good morning, ladies and gentlemen. Thank you all for dialing into this conference call and for being with us for the presentation of the nine month results of Ageas. As usual, I'm joined in the room, by my colleagues of the Executive Committee, Christophe Boizard, CFO; Emmanuel Van Grimbergen, CRO; Antonio Cano, Managing Director Europe; and Filip Coremans, Managing Director, Asia.

As you know our activity faced significant headwinds this quarter with devastating summer floods in Europe and the continued negative impact of the adverse interest rate evolution in China, not to mention the resurgence of the COVID pandemic in many Asian countries. Faced with this difficult environment, Ageas has once again demonstrated the resilience of its diversified business model by achieving an excellent commercial and operating performance. Our net result amounted to EUR161 million in the third quarter, including a EUR67 million negative impact related to the RPN(i) revaluation and we enjoyed a strong underlying performance across all entities.

In the consolidated entities, the Life operating margin reflect the excellent operating performance. The guaranteed operating margin over nine months was even slightly above target range, reaching 96 basis points. Thanks to a solid investment result supported by the realization of net capital gains. It's also worth noting that the real estate revenues in Belgium are gradually recovering from COVID-19 impacts. The Group Unit-Linked operating margin stood at 34 basis points at the end of September and reached the target range both in Belgium and in Continental Europe. In Non-Life, the combined ratio of nine months stood at a solid 95% in line with our target despite the severe flood suffered in Europe which had a negative impact of around EUR70 million on our Group net result split between Belgium, U.K., and Reinsurance. This solid operating performance is all the more remarkable considering that the claims frequency in motor has now returned to pre-COVID levels as restrictions on mobility have been lifted across Europe.

Our non-consolidated entities in Asia also contributed significantly to the net result this quarter. Indeed, despite the continued unfavorable impact of the discount rate evolution in China, our Asian operations recorded a strong performance driven by a positive underlying trend further supported by the contribution of net capital gains. On the commercial front, as mentioned, the trend was extremely positive as Ageas recorded a double-digit growth amounting to 11% over nine months, driven by a solid performance across regions. Life inflows were driven by new business in Asia and Unit-Linked sales in Belgium and Continental Europe. While Non-Life inflows benefited from a strong performance in Belgium and Portugal and the inclusion of Taiping Re in Asia.

Moving now to our cash position. Our cash position amounts to EUR1.3 billion, which gives us great financial flexibility. Since the beginning of the year, we have received EUR697 million dividends from our operating companies, which is a record amount for us. These dividends more than cover the holding costs and EUR485 million dividend paid to Ageas shareholders in June.

In conclusion, and before handing over to Christophe, I would like to add thanks to our strong third quarter results, we are confident in our ability to achieve our profit guidance of EUR850 million to EUR950 million for the full year. As usual, this guidance is excluding the RPN(i) impact. We are also fully on track to reach all the targets of our strategic plan Connect21, which comes to a close this year and are ready to kick-off Impact24, our new strategic plan for 2024.

And now, ladies and gentlemen, I will give the floor to Christophe for some more details on the results.

Christophe Boizard {BIO 15390084 <GO>}

Thank you, Hans. And good morning ladies and gentlemen. As you can see on Slide 5, our nine months Group result amounted to EUR568 million. If you exclude the EUR123 million negative impact from RPN(i), you will come to a net result of EUR691 million. As mentioned by Hans, we recorded a strong performance year-to-date despite some severe headwinds and I will now give more details by segment.

In Belgium Slide 6, the combined ratio at 97.5% year-to-date reflects the impact of the devastating floods of July. As you may remember, given the exceptional severity of this event, the total gross claim cost of the pension market largely exceeded the cap of the intervention of the insurance sector forcing [ph] in the legislation. Ageas, along with the sector made an additional effort for both its legal obligation to make sure that the victims of the flood be fully and timely compensated. The adverse weather had an overall impact of 8 percentage point on the combined ratio of Belgium over nine months. Excluding these exceptional weather impact, the combined ratio recorded a strong underlying performance in all business lines.

In Life, we recorded a solid performance with a guaranteed operating margin amounting to 93 bps over nine months in the high end of the target range. This was due to a solid investment result, especially from real estate where we realized in Q3 some capital gains. Furthermore, the Unit-Linked operation margin reached 35 bps at the top of the target range. Inflows recorded a robust growth in both Life and Non-Life. Life inflows grew strongly in Unit-Linked as much as 46% over nine months, supported by commercial campaigns in the broker and banks channels. Non-Life inflows achieved an excellent to 9% growth with increases in all business lines.

In the U.K., Slide 7, claims costs in motor have broadly returned to pre-COVID levels with lower frequency no longer compensating for the continued increase in claims inflation. Despite the impact of the July floods and a prudent reserving in motor, the nine months combined ratio amounted to a solid 95.7%. The net result EUR49 million after internal reinsurance was further supported by a change in tax regulation. On the commercial front, inflows have proven resilient in the COVID context. The pressure on price and volume observed in the motor market in the context of the pandemic was compensated by continued growth in household. Therefore overall inflows remained stable scope-on-scope when excluding the contribution from Tesco Underwriting in 2020.

In Continental Europe on Slide 8, we enjoy a satisfactory performance in both Life and Non-Life. In Life the guaranteed operating margin amounted to a strong 115 bps, thanks to as usual a solid underwriting performance. The improvement in the Unit-Linked margin, which now reaches the target range result from the change in product mix and the increased volumes of inflows. Additionally the new Turkish joint venture AgeSA has performed very well and contributed EUR7 million to the Life result since its consolidation in May 2021. If you compare the Life result to the one recorded last year, you have to keep in mind that the 2020 result was inflated by EUR20 million reserve release coming from Portugal. In Non-Life the combined ratio of the nine months stood at remarkable 86.1% with claims frequency back to pre-COVID levels since the second quarter. The contribution from AKSigorta in Turkey was impacted by adverse claims experience, and of course by inflation.

This strong inflows growth was driven by higher sale in both Life and Non-Life. Life inflows were significantly up with a marked shift toward Unit-Linked products, which more than doubled over nine months and accounted for 57% of the Life inflows. Non-Life inflows increased by 15% at constant exchange rate driven by a strong performance in accident and health.

In Asia, Slide 9, the Group continued to record a solid performance. In Life, the underlying trend has been positive and the continued unfavourable evolution of the discount rate in China impact of EUR436 million versus EUR85 million last year on a year-to-date basis has been partly mitigated by realization of capital gains. In Non-Life, the result was strongly up, thanks to a solid performance in Malaysia and Thailand, further supported by Taiping Re's contribution. The commercial performance in Life and Non-Life has been resilient with scope-on-scope growth at constant FX despite the continuous challenges of the pandemic in several Asian countries. It is worth mentioning that the growth in China was driven by strong new business focusing on high value regular premium products.

The Reinsurance results on Slide 10 now, amounted to a solid EUR14 million this quarter, despite the impact of adverse weather in both Belgium and the U.K. Please note that the additional effort made by Ageas in Belgium to compensate the victims of the floods was not shared with our internal reinsurance as in the context of transfer pricing policy, it followed market behavior, the Reinsurance market behavior.

Moving now to our solvency and free capital generation, our Group Solvency II ratio Slide 12 stood at 187% at the end of Q3. The decrease over the quarter was mostly driven by a market impact resulting from the RPN(i) revaluation and also inflation. Additionally, we have pursued the revision of the strategic asset allocation in our core markets by investing more in equities, and to a lower extent, more in real estate assets. As you know this evolution of asset allocation weighs on our solvency in the short term as it increases the SCR. But in the longer-term higher returns on investment are expected and creating additional own funds. Lastly, the exceptional floods of the summer saw in a period where Cat event are not frequent, obviously impacted our own funds. The expected dividend remains however strong as it is based on the IFRS results, which included important realized capital gains.

The operational free capital generation in Slide 13 amounted to EUR455 million year-to-date. It benefited from a strong EUR177 million dividend contribution from non-controlled participation. The operational free capital generation, generated by entities of the Solvency II scope has been also impacted by the ongoing evolution of the strategic asset allocation in Belgium and also in Continental Europe. This had a drag of around EUR100 million on our operational FCG. So if you exclude the impact of our asset management actions, the operational free capital generation of the consolidated entities would amount to around EUR380 million, which is in line with our cost of the run rate of roughly EUR130 million.

And now I have reached the end of the presentation. Thank you.

Questions And Answers

Operator

Thank you (Operator Instructions) Thank you. The first question comes from Fulin Liang from Morgan Stanley. Please go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. Okay, thank you very much for the results. And I -- okay, two questions. I think my first question would be related to the capital gains you have in Asia, when I spoke to the IR team earlier today, I understand that capital gain is the fact that the local companies actually write down their real estate holdings in China, but because you don't report the unrealized capital loss, so you actually reverse what they have done on the local accounting basis. I'm actually, I think I'm fine with that accounting, but just curious that, will there be in the future, at some stage, if economically the local entities continuing writing down the real estate investments, and then it will trigger some impairments from your side on the accounting as well, and how far away we are from that impairment figure? I guess the kind of general theme is that, so are you really concerned about the real estate investment in China? So, that's my first question.

And the second one is, while you confirm the guidance, the Group earning guidance, but then if we -- if I look at the guidance before the, Group guidance EUR850 million to EUR950 million goes together with Asia results guidance of EUR350 million to EUR400 million. But now Asia is already like more than EUR300 million, but you actually stick to your Group guidance, does that mean that you going to change the Asia guidance or you actually think of the fact that you stick to the Group guidance because you don't have confidence of Asia results in 4Q? Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

Thank you. Questions are mostly related to Asia. So, I give them to Filip.

A - Filip Coremans {BIO 17614100 <GO>}

Thank you so much Fulin. Thank you Hans for handing the question to me. First and foremost on capital gains Asia and the real estate situation in China. I think we have to make a distinction there between the capital gains and other accounting adjustments that we make. So, what you're referring to is our valuation rule which differs indeed from what China adopting this on real estate. The fact is that we keep a real estate also in China at historic amortized cost. That means we never take revaluations and we never took revaluations on real estate through the profit and loss account, which in the local accounts does happen now. So that means that over the years, of course there is a quite significant buffer in between valuation of real estate as it appears in China by (inaudible), which we have not recognized. That obviously is a shield to volatility in real estate valuations. That is a fact. But to be clear, the real estate sector, like Evergrande and other names that have been circulated, there is no exposure of Taiping Group and none of our other entities in

Asia region on these names. The main real estate exposure at Taiping lies is actually quite limited, and mostly is related to their own buildings. So that is a quite different situation mainly own use. So we do not expect and certainly not in the short-term any impacts from the real estate turmoil directly on our, certainly (inaudible) but even not at the end of China Taiping. Of course indirect impacts in future of macro is a different story, that everybody will have to deal with.

Talking about the outlook. Yes, indeed, on Asia, we had a good result as and I would say a bit in line with what we expected to be announced at half year, we have EUR303 million year-to-date. But of that incorporate EUR136 million risk, and indeed the capital gain realization of EUR94 million net our share, which is not fully compensating the risk. So we do not change our outlook for the end of the year for two reasons. First and foremost, the fourth quarter in Asia is every year seasonably low, it's definitely a quarter and you can re-check the previous two years to give you a feel, that does not add so much. And the reason being that in China from the month of November onwards, they start to prepare for the traditional opening year campaign in the next year, which reduces new business sales. But also adds already commercial costs and that's always puts pressure on the fourth quarter result.

Secondly, there is still some real impact to come. At the half year we indicated a range between 170, 180 for the full year, and till further notice because rate change every day, but that is unchanged. And this is still what we expect. So that means there is still an additional real impact, which is quite significant around EUR40 million, EUR45 million to come in the last quarter. And rather we will again compensate that partially or entirely by capital gains remain to be seen. So in terms of guidance, I would say, we stick to what we said at half year. We are in a range EUR350 million, EUR400 million certainly with our underlying results. If I take out fixed and the capital gain, which was at EUR345 million year to date. But we guide towards the lower end of that range and we stay there for the time being.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay, thank you. Can I -- Filip, thank you very much, and just confirm that I, my understanding is correct. Are you saying that in China, your -- the market value of the Re assets is actually still kind of above the historical amortization cost. So...

A - Filip Coremans {BIO 17614100 <GO>}

Absolutely. Let's not -- certainly in our case, but even for our partner they are -- the type of real estate, the Evergrande story is really about retail exposure to apartment building et cetera, et cetera. That is not what we're investing. We have some office space, but the majority of our real estate exposure in China is our own buildings. And we have them at historical cost even amortized.

Q - Fulin Liang {BIO 21126177 <GO>}

Understood. Thank you. That's helpful.

Operator

Thank you. Next question from Michael Huttner from Berenberg. Sir, please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Yes, thank you. Thank you very much for the clear presentation. And the -- I am going to ask the same question as Fulin. Okay, you haven't raised your targets in China, but why did you raise them for the Group, (inaudible) beat, and it's almost like saying, yeah they beat, but the Q4 is going to be rubbish, it's not a great message. I am not exaggerating, I am trying to make a -- to make it more punchy. But any comments on that would be very helpful.

And then the other is a more analytical question. Belgium Non-Life volumes up 9% in I think nine months you said, I think that's right. And how much of that is pricing, and how do you see the relationship with inflation? Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

Okay. On overall guidance well, I think you have already gotten the response on Asia where traditionally the fourth quarter is always, I think a little bit less to our bottom line because the commercial campaigns are starting. And will impact, I think Filip was clear on this. Also be clear, we're talking about the range EUR850 million to EUR950 million. Remember that in the half year, we said it would rather be to the bottom end of the range, that's what we have said in half year. Now, we say it is within range. So, I don't think that here, we don't want to be too aggressive on the outlook, we are confident to be within range, which would also mean that we would deliver on all our KPIs that we have set for Connect21.

For Belgium, I'll give the word to Antonio.

A - Antonio Cano {BIO 16483724 <GO>}

Thank you, Hans and good morning, Michael. I'll give you a short answer and a simple one. And it's 50-50, 50% volume, 50% prices. Having said that, it's not 50-50 for all product classes obviously, but it's about 50-50.

Q - Michael Huttner {BIO 21454754 <GO>}

And how does that relate to inflation?

A - Antonio Cano {BIO 16483724 <GO>}

Of the -- I think the inflation would be mainly in our household book, which is running at 2% to 3% so far and higher towards the end of the year. So that will be the part that's linked to inflation in household. But not all rate increases are linked to inflation.

Q - Michael Huttner {BIO 21454754 <GO>}

Form 2% to 3% the inflation in household.

A - Antonio Cano {BIO 16483724 <GO>}

Yeah, to be complete, expect it is, the so called ABEX index, which is actually construction price inflation, which drives the household indexation is 5.6%.

Q - Michael Huttner {BIO 21454754 <GO>}

And the pricing is about 4.5%.

A - Antonio Cano {BIO 16483724 <GO>}

Sorry?

Q - Michael Huttner {BIO 21454754 <GO>}

And the pricing you said is about 4.5%, half of 9%.

A - Antonio Cano {BIO 16483724 <GO>}

Half of the -- yeah, for the total book. (Multiple Speakers) But inflation impacts directly and mostly the household books. Well, actually it's not really a price increase, also the insured value goes up as the construction price of a house increases, in fact your insured amount goes up. So, yeah, we tend to call it (inaudible) of an inflow for inflation, it is true, but bear in mind that, also the insured amount goes up.

A - Hans De Cuyper {BIO 17991990 <GO>}

Michael, to be complete with Antonio's comment. This is looking forward there. So, it's not an explanation for the increase you have seen in Belgium until now, this is forward looking impact. I think the increase you have seen now is strong commercial performance both by broker as well as bank. The bank has put the development of Non-Life business in bank assurance high on the agenda, and there we also see some affects of it.

Q - Michael Huttner {BIO 21454754 <GO>}

Brilliant. That's helpful. Thank you.

Operator

Thank you. Next question from David Barma from Exane BNP Paribas. Sir, please go ahead.

Q - David Barma {BIO 19957338 <GO>}

Thank you. Good morning. My first questions are on Life and coming back on commercial momentum in Belgium, but on the Life side this time. Is the bounce we're seeing in Q3 just a bounce back post lockdowns? Or are you seeing structural trends in the Unit-Linked new business? And then in Life as well, a lot of your peers are talking about that in force management and the growing opportunity to optimize capital allocation on traditional books. Is this something you look at for your European Life books? And then if I may quickly on solvency, you mentioned the impact of inflation updates in the quarter, how much was that please?

A - Hans De Cuyper {BIO 17991990 <GO>}

I'll take the question on the growth of Unit-Linked, where we see this strong momentum. I am not sure that's really very much linked to the COVID pickup, there might be some of it, but it's genuine customer preference that is switching to Unit-Linked. You also see for example in Belgium the amount in savings books dropping at retail banks and that goes to mutual funds and unit-linked. So it's about the genuine demand shift, and there is no reason for us to believe that, that will stop. And that is also the case in Portugal where we've also seen a very strong growth in our unit-linked business.

A - Christophe Boizard {BIO 15390084 <GO>}

We are gaining market share in Belgium.

A - Hans De Cuyper {BIO 17991990 <GO>}

And indeed as Christophe was saying, we are gaining market share in Belgium also in unit-linked.

A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

Okay, and I'm Emmanuel. I'll take the question on inflation. So it's the impact on a year-to-date basis is close to 3.5% negative on solvency. And on the quarter Q3 is a negative impact of 2%. So we -- it's about market inflation and you have to be aware that we update this every quarter when we are doing our solvency calculation. So, 3.3 year-to-date, 2% over the quarter.

You had also a question on if we're active on back book deals. We're not active, so we try to manage that on a say a continuous basis, you will see a shift both in Belgium and in Portugal, shift of funds under management away from guaranteed business towards unit-linked, which is gradual, but steady.

Q - David Barma {BIO 19957338 <GO>}

Thank you.

Operator

Thank you. Next question from Steven Haywood from HSBC. Sir, please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you very much. In your Solvency II, obviously there was quite a notable impact from inflation in the quarter. Can you give us more detail here, what is your current inflation assumption? What is the change from in the quarter. Can you give us a sensitivity related to inflation changes or should we just take today's impact sort of the sensitivity we should use going forward. And also on your asset allocation, in your core entities, can you tell us what's changed on the underlying sort of asset management strategy you've adopted. How are you re-risking, how much further have you got to go on this and what the investments you are moving into? And also on this, can you explain why this sort of re-risking process has been put into the operational bucket of your operating capital generation and not into the market bucket for your capital generation process?

And then finally from me, on the interest rate impact in China in the third quarter. Obviously, you said that it's going to be about EUR40 million to EUR45 million in the fourth quarter, can you give us any expectation for interest rate impact in the next year for the whole full year 2022 please? Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

So I'll take the first one on your question on inflation. So as I just mentioned, we update on a quarterly basis the market inflation. And to give you a sense of the evolution in 2021 of the marketing inflation, I will give you two points, the 1 year inflation and the 10-year inflation. And so, the 1 year inflation, year to date we have an increase of 1.65%, and on 10 years we have an increase of 72 basis points on market inflation. And over the quarter, the one year inflation it was a plus 1%, so you can see there that it was quite heavy over the quarter. And the 10-year inflation was 32 basis points. That is something that we again and I think it's important to highlight that is something that we update and reflect on a quarterly basis in our Solvency II calculation.

Now of course the question is moving forward, but that's of course, that's a difficult question. But everything being equal, and inflation remaining stable, okay the impact of inflation on solvency is zero then because we have already captured the impact of inflation in our solvency.

A - Antonio Cano {BIO 16483724 <GO>}

With that I can -- we can add that, you have to look at in combination also with the evolution of the swap rate. The swap rate did not move, if it would have long lasting inflation, we would assume that the swap rate in the model would also move and that will mitigate the impact on solvency. But with our current sensitivities going forward, I think we see that solvency would remain well comfortably within above our target range, regarding inflation. But we already took some of the effect, well most of the effect in this quarter.

I think on asset and free capital generation, Christophe?

A - Christophe Boizard {BIO 15390084 <GO>}

So the re-risking is long lasting thing, it is not the first time we mentioned this because it's progressive trend towards quote unquote 3Q [ph] asset. But this is carefully monitored, we are still well within our risk appetite. And since we are well above the target, our solvency target of 175, we consider that we have room for maneuver. And we intend to use this cushion to optimize the asset returns.

Having said that, what is the underlying trend? We are investing more in equities. And if I refer to AG, which also the biggest equity portfolio, we invested EUR140 million last quarter for instance. But then having said that, I have to mention other asset classes like loans or where it enters into the same category and the re-risking we. So, we are heavily investing in loan infrastructure, you'll remember this very popular theme of Dutch mortgages, we now investigate other countries. We invest in France in social housing, so a lot of things like this. But this quarter, the equity move stands out with EUR140 million, I have just mentioned.

Interestingly, so far we have only mentioned Belgium, but we have the same trend in Portugal now. And the reason is very simple, in the past when the country was in a difficult situation, the rates on government bonds were high enough. But now in Portugal, they are in the same kind of low interest rate environment. So with the same problem they come up with the same solution. So, more and more the asset allocation of Portugal converts to the one of AG, meaning that they have started to invest in equity. We have set up real estate departments there and we invest leveraging our -- the Group knowledge, it should coming from AG real estate in Belgium. And so this is something new I think for you. The fact that, Portugal participate to this move.

Then on your last question you ask why it's operational and not the market in the free capital generation framework? If we come back to the definitions of marketing that, it was more to address productizing. And what we -- in the framework what we have is in operational, we account for equity and real estate, with a standardized global return, 5% for real estate, 7% for equity. And all the differences are go-to-market. And so for instance this quarter where we have very strong equity performance, we still limit the contribution to (inaudible) view in operational to the normal 7% contribution and all the rest go to market.

And so, in summary, we have a standardized approach in the operating impact, all the other or under-performance is recognized in the market. And it's the reason why you have this mechanical effect when we shift the asset allocation toward more asset-like equity and real estate, we mechanically create additional own fund under the operational component in the future. I hope this is clear enough.

Q - Steven Haywood {BIO 15743259 <GO>}

Yeah, that's very helpful. And just on the Chinese interest rates for next year.

A - Hans De Cuyper {BIO 17991990 <GO>}

Now on the expectation on impact of valuation interest rate for the next year. I'm going to give you part of the answer and part not, but it comes with a lot of caveats. But I give you some guiding information. So, at this moment first and foremost let's talk about valuation interest rate itself, the end of last year it was 3.29%, that come down over the year, this moment to 3.12% and I am only talking here about the 10-year rate. And by the end of year, if everything stays as it is, that is the big question there, it will trend towards 3.09%.

If rates don't move, then by the end of next year, and this is mechanical you could calculate it, it will further go down to close or slightly below 3%, 2.97%. Now what the effect exactly will be on the results last year -- next year depends on many factors, first and foremost indeed on the evolution of the curve, but also on the development of the assets under management in the different product categories because you are aware, this is only related to the non-participating books. And so, I'm not at this moment going to give guiding figures, but this gives you a feel of the negative impact that can be expected next year because, you know what it is this year, you can see what the AUM development is. But we will come with more adequate guidance at the moment of our result announcements full year.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

Operator

Thank you. Next question from Michele Ballatore from KBW. Sir, please go ahead.

Q - Michele Ballatore {BIO 17318680 <GO>}

Yes, good morning. Two questions. So first on capital generation. I mean capital generation was on the quarter, I mean weaker compared to 3Q '20 in Belgium, in U.K., you were just, if you can add more color I believe in Belgium, the lower result in P&C might have contributed to that. (inaudible) a little bit of more details on the different country contribution? And the second on Taiping Re, if you can give a little bit more color on the performance on the quarter and also on the update on the future strategy for Taiping Re in terms of expansion of its operation? Thank you.

A - Antonio Cano {BIO 16483724 <GO>}

So I can start with the operational free capital generation in Belgium. So it is -- so we have discussed the Group consequences of asset shift, it is especially good for Belgium and most of the effect is concentrated on Belgium. So, in Belgium I indicated the shift, the EUR140 million equity investment, that this is one element among others, we have this continued investment in loans, socializing [ph] Dutch mortgages, all this rate under the free capital generation of Belgium through the increase of SCR, which is, as you know, multiplied by 1.75, because of free capital is the difference between own fund and the target capital.

So any movement on the SCR is multiplied by 1.75. So, you have this amplification effect. Then we have to admit that the storm as an impact. We put in exceptional, the EUR48 million of I would say the real gesture [ph] what is completely outside of a legal contractual commitment, but there is still noticeable impact of the floods in a period Q3 where very often the natural event are (inaudible) but should be -- the quarter with the lowest risk in natural event and the difference. I think these are the two main things. Asset and exceptional natural event not expected in a summer period.

A - Hans De Cuyper {BIO 17991990 <GO>}

And on the floods, I would like to add that, remember that this is an extra contribution made by AG above the legislation, which means, this was not in the reinsurance cover. Of course going forward, as every year, AG will do an update on its reinsurance program going forward. So we should not extrapolate that event automatically into the future, because we will update our reinsurance program, assuming that in the new negotiations that are going on with the government on new legislation, that the contribution by the sector, I think will increase in the future, which is not a bad thing as such, because it is also an opportunity for premium evolution and building adequate (inaudible).

So this was a one-off intervention by AG and by the sector.

A - Filip Coremans {BIO 17614100 <GO>}

Yes, maybe a few words on Taiping Re. So the contribution to results is obviously positive with Taiping Re, having said that maybe slightly below what we were expecting, but given the fact that they've been hit by various weather related events in Asia and in Europe is, remember Taiping Re is not just focused on the Asian continent, although that's the biggest market, they were also to some extent exposed to say that the German flood. So the combined ratio was around 100%. But overall the contribution was positive.

Looking forward, as we said when we introduced this joint venture, the idea is to help Taiping Re grow outside their main market, which is Mainland China and Hong Kong. So in the other Asian regions, but also to help them further develop many of the European business. And so far we're very pleased with your cooperation, albeit, and it has to be at a distance given the COVID restrictions in Hong Kong. But overall, I must say that very pleased about the cooperation.

Q - Michele Ballatore {BIO 17318680 <GO>}

Thank you.

Operator

Thank you. Next question from Benoit Petrarque from Kepler Cheuvreux. Sir, please go ahead.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning. I've got three questions. Yeah, the first one is on Taiping Life. I was wondering if you could update us on the duration mismatch of Taiping Life. So just average duration of assets versus average duration of liabilities. I'm asking because you have a well, a most sensitive -- more sensitivity to low interest rate on embedded value and NBC [ph] as well in Taiping Life. So I was wondering if you could update us on these duration mismatch.

Second one is on the PIM ratio, which was down 13% Q-on-Q. And I was just wondering here that was moving parts, and also on the inflation sensitivity, if you could just provide us sensitivity to kind of one percentage point increase of inflation, how much impact that will have on the Solvency II ratio? And the third one is on the combined ratio in Belgium, it's very strong 87, excluding the impact of the waiver. It's well below your target, and I was wondering if, what you expect in the coming quarters, if you think this level is sustainable going forward? Thank you.

A - Filip Coremans {BIO 17614100 <GO>}

Yeah, I understand your question on Taiping Life sensitivity duration mismatch to interest rate, but this is not something that we can disclose, this is something that is upto CTIH to disclose at will. But whether we are definitely more sensitive than peers, I'm not convinced. There is one thing you have to keep in mind, yes, there is of course some duration mismatch in China. But the interest rate assumptions are still quite conservative, Taiping Life, they know this concept of the volatility adjuster, which is loaded on top of the (inaudible). They have one of the lowest in the market. They have only 25 basis points, which they use on top of it, which is certainly in comparison to peers, one of the lower in the markets. So that may give some guidance. But duration mismatch and EV sensitivities is something that I leave to CTIH to disclose.

A - Christophe Boizard {BIO 15390084 <GO>}

If I may, I like to add one comment on this. And to give you a relief -- some kind of relief on the concern on duration, I -- making the parallel with well-known institutions, they have a kind of non-conventional approach to ALM, but as you know non-conventional policies some time are very efficient. The non-conventional policy is the following, they are faced with very long duration on liability, and they tend to increase the weight of risk asset, and like equity, where it is well known, that equity allocation is much higher than what you can see in Europe wide, because economic theory tells you that on the very long-term equity is the best investments you can make. So it is unconventional in the sense that they match the long duration liability with equities in some sense, which is (inaudible) conventional. But please take that into consideration and don't only take the, I would say, European (inaudible) to look the ALM mismatch -- the duration mismatch.

A - Antonio Cano {BIO 16483724 <GO>}

Okay, I'll take the new -- second question on the PIM. And you are right, as over the quarter the PIM decreased from 196 to 183, which is a decrease of 13% -- yes, 13%. While the Pillar 2 of own view is going from 196 to 187. So a lower decrease of 9%. And if you look at region by region, and you compare Pillar 1 and Pillar 2 region by region, you can see that the evolution between Pillar 1 and Pillar 2 is very similar, for all the region except for Belgium. And so there in Belgium in Pillar 2, we have a decrease of 10%, while in Pillar 1 we have a decrease of 15%, 1-5 percent. And that the main explanation is that in Pillar 1, the cap on (inaudible) has been reached. And so -- and that makes that in Pillar 1 you have an additional impact of solvency that we do not have under Pillar 2.

And of course, by that I'm sure that you know, so we manage and receive our capital management of asset allocation, our risk appetite is based on Pillar 2 and on Pillar 1. And we are, as already mentioned, a few time, we are well within our risk appetite and well above our target capital that we manage on the Pillar 2 basis. So, on the sensitivity for inflation, so you have in the pack, we show sensitivities for Pillar 1 and Pillar 2 and indeed inflation is not included there. It is something that we are considering to include moving forward. But two remarks that I want to make, the first one is, again (inaudible) inflation really every quarter and the market inflation is every quarter updated and reflected in our solvency. And if you really look at the evolution in 2021, we absolutely do not have a parallel shift. So giving you a sensitivity with the plus 1% or whatever parallel shift. Okay, I have some experience with these type of sensitivities. It's -- the reality is completely different. And that is absolutely what we see for inflation and the short-term inflation increased quite materially in '21, the long-term inflation increased much less across '21.

A - Hans De Cuyper {BIO 17991990 <GO>}

Maybe some words on the combined ratio for Belgium, which is indeed setting aside the weather, the floods, very strong in the third quarter. Bear in mind that combined ratio, if you look at it on a quarterly basis, there is always inherent volatility in it. Now the Group target for the combined ratio, as you know, going forward is 95%. And if you look at historical trend at AG, they've always been below that. And so, there is no reason to believe that going forward, that should be any different, so we feel comfortable that the combined ratio for Belgium going forward will be in the range as was in the past of say in the 92, 94 region that is I would say even rather conservative to expect that.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Great. Thank you very much.

Operator

Thank you. Next question from Robin van den Broek from Mediobanca. Sir, please go ahead.

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

Yes, good morning. Thank you for taking my questions. I've got two remaining. First of all on the re-risking efforts, I appreciate what you said, and also the assumptions are quite clear behind that. But you have been doing that consistently, but so far you're FCG run rate is still at 125 to 135 for the European entities. I was just wondering, when can we expect something to change there? Are you doing this re-risking also to offset (inaudible) or should we at some point expect that run rate to move higher? That's the first question.

And second question, you touched upon it, in the previous questions. But when interest rates in China started to go down, I think at the very first moment, you started to flag the potential to raise this probably adjuster locally. Most -- now we've gone through private cycle of earnings headwinds. And still quite a bit to come next year based on the guidance you gave earlier. And I'm just wondering, should we fully exclude the potential of this (inaudible) adjuster to be raised or is this still something that could actually come through maybe for year end? Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

You are right. And the move and re-risking is clearly to offset other more adverse affects. And when I said we have this shift to address the low interest rate issue, for instance this has a direct impact on the value of new business, and what we call RABP [ph] in the Solvency II framework. So RABP tends to decrease and we compensate with more financial contribution. Besides this we have other elements like the cost of financing and at holding level we have raised some debt. There is -- even if it was made at very attractive conditions, we have to pay for it. So indeed, you are right now, we are trying to compensate, that is the reason why we don't, so far we have decided not to change the guidance because we think that we can maintain it, despite the headwinds I have just indicated.

A - Antonio Cano {BIO 16483724 <GO>}

And perhaps one complement there. So -- and it has been already mentioned a few times. So the re-risking, so you have (inaudible) the negative impact multiplied by 175. So and the additional return (inaudible) return that you received moving forward, yeah, you don't have a leverage on this. So, the cost of the re-risking that you have immediately in your operational free capital is multiplied by 175.

A - Hans De Cuyper {BIO 17991990 <GO>}

But let's not forget because we talk about re-risking, the long-term equity asset class is ideal for a business like AG, because they have long-term pension business. And so, what AG is doing, they are optimizing their asset mix to maximally benefit from this long-term equity class where the final capital charge is only half roughly of normal equity capital charge. Of course with the FCG model and the operating FCG, the own funds generation come out to that, only comes later. So you really have to look at these FCG evolution over the cycle because, while you raise it on the equity side and you increase the SCR, the positive effect on all fronts only comes later. So be careful with re-risking, it is an optimization because of this asset class long-term equity that has created. And that is ideal for the business profile that AG is having.

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

No, I understand. And maybe I think Steven asked the question earlier in the call, but this SCR times 175% effect, why do you put this in the operational bucket because it just -- it creates a little bit of noise basically, that you're just explaining as well. So isn't it a potential to put that in other bucket rather than the operational one?

A - Hans De Cuyper {BIO 17991990 <GO>}

Well, there are certain choices that we have made in the allocation we see different applications there. I think it's most important to be conscious how we have made those choices and what the effect is. I'm not sure it's not opportune to really start changing now these choices. I think we are quite consistent in, what we have said 175 is our target range. So that's how we steer the risk taking of the company.

A - Antonio Cano {BIO 16483724 <GO>}

I think we have to go back one second to the original assumptions of the FCG. At start the idea was to isolate in market impact what was out also the reach of the management and operational impact was more of a direct consequences of management decision. We think that the re-risking fully belong to the category, that's a conscious choice that we make. Having said that, to promote our framework, I think that with the FCG and the breakdown on the front SCR, we have a very detailed analysis of all the different factors. And this is managed, even the re-risking, we have full control we could accelerate, we could reduce the speed. So that's something we have under full control, the re-risking to be put in perspective with the solvency ratio, which is still well above our target of 175. So again, I repeat what I said a while ago, we -- we want to use the margin for maneuver that we still have.

A - Hans De Cuyper {BIO 17991990 <GO>}

Your additional follow-up question on the volatility adjuster, which is actually called the illiquidity premium in China. It is extremely unlikely that, and I mean it's almost impossible that, that would change by year-end. Let's not forget that actually is a add-on the risk, which has to be approved by the CBRC. And in order to get approval for that, you have to demonstrate that there is a reason, a good reason why you would like to change that. And Taiping Group has always take the stance that this is not something that is something that they would like to do. Also, there is no good reason, because if you look at the underlying performance even the result of it, it's not like this is a company that needs an adjustment on that rate, from a regulatory perspective. So it's extremely unlikely that they would review that. But let's not forget what (inaudible) it is valuation interest rate that only affect the liability side of the par -- with the non-par book. That means the liabilities are valued higher when rates decrease. But the assets are HTM, they're in held to maturity. So in fact, it buffers immediately a rate, a future decline even in asset yields. That moment that the (inaudible) that you re-value your liabilities, in fact the underlying margin on the book of business is slightly going up.

So if you asked before -- someone asked a question on asset liability mismatch, in fact, with (inaudible) you are already anticipating, potential ALM gaps in the future, when you have a turnover in the asset bouquet. So you actually anticipate that already implicitly here. So it's a quite mechanical correction this, in case of declining interest rates, quite conservative. But I don't think that the volatility adjuster or better the liquidity premium is actual revision is extremely unlikely.

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

That's clear. Thank you very much.

Operator

Thank you. Next question from Nasib Ahmed from UBS. Sir, please go ahead.

Q - Nasib Ahmed

Thanks for taking my question. Just two here. So you talked about long-term equity being a good asset class for this. Just related to this what are your expectations on the impact from the proposals from the European Commission on the Solvency II review on the PIM model, and if any impact on the AGS model as well? And then secondly, what -- can you give us your thoughts on the outlook for those new business in China, given some pressures in the industry and the solvency changes (inaudible) review if that would have an impact on remittances from Taiping. Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

So on -- indeed as the long-term equity is something that we apply in our Pillar 1 and our Pillar 2. So there is no distinction between both, it is the same capital charge for Pillar 1 and Pillar 2. And that we are applying as we go. So I think the other question was the potential impact of the Solvency II review. But of course we are following this very closely. We are a different lobbying group, and also directly with the regulator and the industry. So you know the process, so EIOPA issued its review in December, the European Commission, I think it was a few months ago issued a recommendation on the EIOPA proposal. And now it has to go -- it has to follow the political way and the Parliament, the European Parliament and the European Council. So it's still quite a long way to go before that we will have the final proposal that is adopted. So we do not expect it to be implemented before 2024, and even 2025, I think is sort of most likely scenario.

Potential impact, what we have so far is the proposal in the directive level one, okay, give some indication, but for really being able to quantify impact we need to have the level two details. And that's not yet on the table. So very difficult to assess, there are couple of elements that will have a positive impact, a couple of elements that will have more a negative impact. But therefore, we really need to have the level two description of Solvency II.

A - Filip Coremans {BIO 17614100 <GO>}

On the expectation of impact of (inaudible) and remittance potential of China Taiping or Taiping Life at least, yeah, first and foremost, we are also eagerly awaiting the final guidelines coming out on (inaudible), which we do expect by year-end. But I already hear people talking about first quarter last -- next year rather than this year. But we of course, we have participated in dry runs, but these dry runs are really subject to confidentiality by the CBRC, so nobody is supposed to release any on that. You've seen in the press, and some of you follow this closely that impact expect of 10% have been mentioned. Whether that will ultimately be true or not, we will see.

But that, I also mentioned that in anticipation of that, but also to fund the future -- the further growth in China, Taiping Group is looking at the potential of sub-debt issuance, which is something that we are definitely looking for together with the partner to potential amount of let's say 14 bps solvency support. And that will certainly mediate what we expect to be the impact.

Now in terms of expectations on remittance, you know that this is partially guided by the Ministry of Finance in China for state-owned enterprise. That being said, we in the dialogs, the guidance between 30% to 35% remittance like we have seen is what is our expectation. Obviously, on (inaudible), let's not forget, that they are on the local accounting result.

Q - Nasib Ahmed

Okay. Thank you.

Operator

Thank you. Last question from Michael Huttner from Berenberg. Sir, please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic, it's my day. It's actually my best day. So thank you. And the -- it's really a question on ESG. So in the U.K. we have this huge conference in Glasgow, and we're all thinking about, well the thinking, and I'm wondering, well my house will be below water soon. And I am trying to make it a fun question, but the reality is we've seen AXA, we've seen Allianz put forward new improved kind of ESG kind of guidance, particularly on the E side, the environmental, what have you done?

A - Hans De Cuyper {BIO 17991990 <GO>}

Well, I think, Michael, I think, in Impact24 communication, that is the strategic focus for the coming two years, I think we have been extremely clear on where we want to contribute regarding ESG. Of course, we are not in the non-life market in the big corporate industrial, first off I think there is not a lot we can do. We are mainly on the retail side and the commercial side, up to medium sized enterprises. But we have taken a commitment that we will include in all our products, incentives for our customers to make their own contribution regarding the E, specifically the E, it's in ESG in general, but also on the E, like in housing, like in motor insurance. And we have also taken very strong commitment from our own business to be CO2 neutral in all our operations by the end of this cycle in 2024.

Of course as a Group who has a relatively high weight on life insurance, we can even do more on the of S, of social, there we have made even stronger commitments. And think about what we do already, for instance, in our pension business, in our healthcare business where we have I think important positive impact on the social side. So I think we have very committed (inaudible) also last week an update on from VigeoEiris on our ESG rating, which again has gone up. If you would take the whole population that is monitored by VigeoEiris, and out of my mind is this like 4,400 companies. So not only financial sector, we are now just within the top 10% of that group on place 439 or something. So I think we are making significant progress on our ESG ratings year after year. And it is becoming one of the key focuses also for the coming 2 years.

Q - Michael Huttner {BIO 21454754 <GO>}

Brilliant.

A - Hans De Cuyper {BIO 17991990 <GO>}

We have added this time to the investor deck, on Slide 71 an overview of the key ratings and their evolution for AGS over the last 4 years. So you can see where at least the effort is also being duly recognized by most of the rating agencies as you can see there.

Q - Michael Huttner {BIO 21454754 <GO>}

That's brilliant. That's really helpful. Thank you.

Operator

Thank you. As there are no further question, I would like to return the conference call back to the speakers.

A - Hans De Cuyper {BIO 17991990 <GO>}

Ladies and gentlemen, thank you for your questions. And to end this call, let me summarize the main conclusions. First of all AGS delivered a very strong performance, the commercial performance has been excellent both in terms of volume and type of products with a strong focus in Life on the Unit-Linked products in Europe and high value regular premium products in Asia. Thanks to this solid third quarter results, we are confident in our ability to deliver a full year result in line with our guidance of EUR850 million to EUR950 million despite the devastating floods in Belgium and the adverse evolution of the discount rate in China. And this, I can only repeat illustrates the strength and the resilience of our diversified model. Market conditions indeed did have some impact on the Group solvency, but all this has been managed comfortably within our risk appetite and above our target range of 175%. And last, but not least, we are fully on track to reach all the targets of our strategic plan Connect21, and we are fully ready to kick off our new strategic plan Impact24.

With this, I would like to bring this call to an end. Do not hesitate to contact our IR team should you have outstanding questions. Thank you for your time, and I would like to wish you a very nice day.

Operator

Thank you. Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.