Investor and Analyst Meeting

Company Participants

- David Knibbe, Chairman of Executive Board & CEO
- Fabian Rupprecht, CEO of International Insurance & Member of Management Board
- Jelmer Lantinga, Head of IR
- Leon van Riet, CEO of Netherlands Life & Pensions and Member of the Management Board

Other Participants

- Andrew Baker, Analyst
- Benoit Petrarque, Analyst
- Cor Kluis, Analyst
- David Barma, Analyst
- Farquhar Murray, Analyst
- Fulin Liang, Analyst
- Michael Huttner, Analyst
- Nasib Ahmed, Analyst
- Steven Haywood, Analyst

Presentation

Jelmer Lantinga {BIO 20384884 <GO>}

Good morning, everyone. Welcome to our second Deep Dive Webinar.

Today's event will focus on the long-term growth prospects of NN Group. This is a topic that is high on our priority list. All in order [ph] to achieve our growth ambitions.

At the same time, we believe that our growth profile of the group is not always fully considered by the market. That is why in today's webinar, we would like to give you more insight into our growth outlook and the opportunities that we see.

We have three presenters for you today. Starting with our CEO, David Knibbe, who will talk about the group perspective on long-term growth. Followed by our business leaders Fabian Rupprecht on Insurance International. The presentations will be followed by a Q&A session in which you will be able to ask all your questions.

Now let me hand over to David.

David Knibbe {BIO 17996037 <GO>}

Thank you, Jelmer. Good morning, everyone.

Over the past two years, we have worked hard on shaping and executing enhanced investor proposition. Your feedback during that period has been extremely valuable, and I believe that we have made good progress in key areas, such as we have formulated a clear capital return policy linking to our operating capital generation target, we have provided additional information to explain our limited sensitivity to interest rates. Last year, we proactively communicated the expected limited impact of the EIOPA review. And we have set out criteria that we use to assess our portfolio of businesses, and we have already taken action to optimize our footprint. However, in many of my conversations with investors and analysts, it is clear to me that we have not explained well enough how we can grow our businesses in the longer term. We are convinced that we can achieve a mid-single-digit annual growth of OCG beyond 2023. Therefore, I am very excited to talk about the drivers underlying this growth outlook.

Today's webinar is attractive growing businesses. At the Capital Markets Day last year, we presented NN Group's strategy and discussed the targets that we have set for 2023. Besides these short-term targets, we also explained that long-term profitable growth is very important to us and that we are convinced that we can grow capital over the longer term.

Yes. We have an in-force portfolio of Dutch pension and individual life policies that will run over for a long period of time. However, at Netherlands Life, the OCG from this in-force book is broadly stable. On top of that, we expect growth from the DC pension business as well as potential future pension buyout opportunities.

In addition, we see healthy growth areas such as in Europe and Japan as well as at Non-Life. So today, we would like to talk about the growth engines at NN Group that give us confidence to grow long-term capital generation by a mid-single-digit growth rate per annum.

So let me start with our key messages on Slide -- NN Group's strategy is to create long-term value for our stakeholders. With the underlying belief that if we take good care of our customers, our colleagues and contribute to society, then this will also be good for our shareholders. We announced financial and nonfinancial targets at the Capital Markets Day in June 2020, and we are making good progress to achieving these.

We reconfirmed the group's OCG target earlier this year as we expect the capital generation lost on the disposal of our asset manager will be offset by the additional capital generation coming from the acquisition of MetLife Poland and Greece, the acquisition of Heinenoord in the Netherlands as well as strong business performance across the group.

And also beyond 2023, we expect mid-single-digit annual growth of OCG over time. This outlook is based on the organic growth opportunities of our businesses. It is supported by long-term market trends as well as the actions we have recently taken to optimize our portfolio. In line with our guidance, this long-term OCG growth will translate into growing free cash flow and growing capital returns to shareholders.

On Slide 3, you can see our proposition to investors as presented last year, which sets out our commitment to achieve resilient growth and cash generation over time. This is reflected in our financial targets and dividend policy. But as I already said, our strategy is broader than that. Our aim is to create value for all our stakeholders. And that is why we have set ourselves a number of nonfinancial targets, reflecting our responsibility to customers, employees and society at large.

A few words on our goals, which is to make a positive contribution to supporting the transition to a low carbon economy. We are doing this in various ways. Firstly, we have our own carbon footprint which comes mainly from our office buildings and travel. Even though this footprint is limited, we aim to significantly reduce emissions of our own business operations in the coming years and have set ourselves targets for this.

Secondly, in terms of our assets, we have the ambition to reach net zero carbon proprietary investment portfolio by 2050. As part of the road map to achieve this, we recently announced interim targets for 2025 and 2030.

And thirdly, we are also aiming to develop more sustainable customer propositions. We have joined the net-zero insurance alliance to pour all our knowledge and goals with other insurers. Together with the other participating insurers, we have committed to transition to a net-zero insurance underwriting portfolio by 2050.

Moving on to our financial targets. We aim to realize $1.5 billion of operating capital generation by 2023, and we are well on track to achieve this. We also expect free cash flow to develop in a range around OCG over time. On the next slide, I will talk more about our outlook for growth of the operating capital generation in the longer-term.

The graph on this slide will look familiar to you. We have provided this long term outlook for capital generation at our Capital Markets Day last year, and we have now updated it to give more granularity in the life pension business but also to reflect changes in our portfolio. Our guidance of mid-single-digit annual growth of OCG is based on organic growth only, and all of our business units contribute to that growth.

Let me first touch on the two segments that we are covering in more depth in this webinar which is Insurance International Netherlands Life. Our international activities in Europe and Japan are expected to deliver mid- to high single-digit growth. This is supported by the local economic environment as well as an increasing awareness for the need for protection. Fabian will tell you more about the product and distribution initiatives that are driving growth in these countries.

For Netherlands Life, we expect sustainable capital generation with potential upside. This is a combination of a profitable in-force book, providing stable capital generation, together with growth opportunities in the pension business. Leon will later talk about how we aim on capture the ongoing growth in the defined contribution. He will also address the opportunities from the Dutch pension reform and how this will boost the DC business and accelerate the pension buyout market.

Then we have Netherlands Non-life. NN is market leader in the Dutch Non-life market, which in itself is growing at a low to mid-single-digit rate. As Janet explained, during the deep dive webinar in May this year, we are in a unique position to benefit from our scale, both in terms of efficiency and on the single-digit OCG growth in the long term.

Finally, volumes of mortgages, most of which are sold on to the group's insurance companies for their investment portfolios. Our focus is on originating high-quality mortgages at good margins. Assuming that the Dutch mortgage market remains attractive past couple of years, we expect capital generation in NN Bank to continue to support our growth profile.

Current market trends are supportive for our growth ambition, and we are investing in many initiatives and solutions, which address the evolving demands and needs of our customers. Let me give you a few examples that we show on Slide 5.

Woonnu offers mortgage solutions for the purchase or improvement of energy-efficient homes. Customers receive a discount on the interest rate based on the energy label. The platform also helps customers to identify potential sustainable improvements. Total mortgages originated by Woonnu since the launch in August last year has recently passed the EUR1 billion mark.

Heinenoord is a strong player in the service provider market, enabling us to further enhance engagement by moving closer to the customer. It has achieved significant growth so far, and we are confident that this will continue. Another example is our bike insurance product with Cowboy, which is a start-up electric bike manufacturer. We provide a one-click theft and damage insurance. This can be purchased together with the bike directly from the dealer or store, which is easy and convenient for the customer. We already have provided this protection product through multiple partnerships in the Netherlands, Belgium, France, and Germany. It is a scalable concept, and we are currently expanding the offering through other bike manufacturers in more European countries. Fabian will talk about Kagyo Aid in his presentation.

We believe that to remain relevant in the life of customers, we need to continue to enhance customer engagement and offer them solutions that go beyond financial services to meet their changing demands.

Moving now to Slide 6. Here, I want to talk about our link between our conviction that we can sustainably grow capital generation and capital return prospects. Let me first assure you that growth in itself is not our goal. Our aim is to achieve profitable growth, and this will result in higher operating capital generation and higher free cash flow.

We have said that we expect free cash flow to develop in a range around operating capital generation over time. This is driven by sustainable remittances from all our segments based on solid capital positions. So the mid-single-digit growth outlook for OCG is expected to translate into growing cash flows, too.

We are committed to paying a progressive dividend per share, in line with our strong track record, as you can see in the chart. Going forward, the growth of the annual dividend is ultimately linked to the growth of capital generation. On top of this, we have committed to a minimum annual share buyback of EUR250 million. There's potential upside to this minimum amount, should we have additional excess capital that cannot be deployed in other value-creating opportunity. We always had a disciplined approach to capital deployment, and this will remain the same in the future.

Now let me wrap up on Slide 7. Looking ahead, we expect healthy growth in all of our business segments as they build on their strong market positions and customer propositions. For NN group as a whole, we expect to realize a mid-single-digit annual growth of operating capital generation in the long term. This outlook is based on organic business performance.

Besides this, the portfolio management decisions we have made in the past year are supportive for OCG growth, and we will continue to actively manage our portfolio of businesses. The growth potential of the group that we are outlining today will translate into growing capital generation and free cash flow. This will lead to sustainable and growing capital returns to shareholders, in line with our dividend policy.

Now with that, I will hand you over to Fabian, who will talk about the growth opportunities in Insurance International.

Fabian Rupprecht {BIO 18064442 <GO>}

Thank you, David. Today, I would like to explain to you why we are convinced that our international activities will sustainably grow over the next year. We are present in market segments that show a lot of opportunities to grow, and we have been constantly delivering growth since our IPO. And we have the right setup and position to deliver this growth as well further in the future. And that is thanks to a focused strategy on protection, a diversified distribution footprint and our large existing customer base that we can leverage by combining agents and digital capabilities. This growth of our new business single-digit annual OCG growth over the long term.

Let me now start with the Europe segment. As you can see from the map, outside the Netherlands, we are active in nine countries. These countries are located in Central and Southern Europe and Belgium.

These markets stand out in two ways. First, they are expected to grow faster than the European average. Second, they overall show a penetration level, which is likely to increase with growth and our current experienced customer research clearly shows that the relevance of health and protection product they make across all markets.

So we are clearly getting tailwinds from being in the right business in the right place and at the right time. At the Capital Market Day last year, we set our objective to grow OCG to EUR325 million in 2023, and we are well on track to reach this target. At the same time, also our long term growth prospects are good. Let me explain to you the key drivers of our long-term OCG growth and how they contribute. The most important source of growth is the new business contribution, which mainly reflects new sales and renewals of protection products. So we expect that new business contribution will grow strongly, in line with VNB growth, and therefore be the strongest driver of OCG in the long run. I will come to this laster. we expect modest growth of our investment return, mainly driven by rerisk large balance sheets like in Belgium.

Lastly, a more volatile growth from our non-Solvency II entities, which includes the pension funds for our pension funds, the contribution to OCG equals the local net profits where growth can vary year-by-year as they depend on assets under management and performance fee levels. This year actually happens to be a rather good year for pension funds. You might remember our strong half year results in that segment. So all these three drivers translate together 1into a mid to high single digit for our businesses in Europe.

You might ask yourself why we focus on VNB and this. VNB is the key growth KPI used in the insurance industry because it reflects the economic value that comes from the new business written in a specific year. So it is used to steer the business, both for volumes and for driving the right product mix. So steering our channels based on VNB has allowed us to focus our distribution [ph] on high-value protection products rather than traditional business with lower margins.

Every now and then, we get the question on how VNB and OCG relate to each other. So I will now explain this and become slightly more technical. Let's do this based on the example of a term insurance with annual renewal. This term insurance is sold in year one and then renewed automatically every year. Experience from our books allow us to determine the expected number of renewals, and thus, the expected duration of the contract. The VNB is then calculated as a discounted value of this duration of the contract.

With OCG, rules are defined by the Solvency II framework. So for example, with a yearly contract boundary, only the first year of the contract is valued. And then with every renewal of the term contract later on, the value of one further year of duration is reflected as new business contribution in the respective future year.

So today's new business is only partly review business contribution. The remaining part comes through OCG in future years or a kind of locked-in driver of OCG growth. In other words, if we experience a good new business year, we know already that this will strengthen our OCG new business contribution in the coming years, and that effect will even be stronger with good customer retention. So the new business contribution in OCG will over time grow at the same speed as the VNB and be the main driver of OCG growth.

Let me now explain why we are convinced that we can maintain the new business growth going forward. First of all, in our markets, we will take advantage of the above-average GDP growth and the upside potential in insurance penetration. But most importantly, with our focused strategy, which the teams and I are really excited and executing on a daily basis in all our units. This consists of growth in attractive protection business, being the preferred partner for third-party distributors and leveraging and growing our customer base through our own channels.

I will now explain each growth pillar in the next slides, since IPO, we have shifted our business to protection, contributing around 1/2 to 2/3 to total VNB in Europe. We were an early mover into this segment, which gives us a competitive advantage as it allowed us to build up a strong and large tight agent channel as well as a significant market share across the regions. For example, 22% in Hungary or in Belgium, 15%. And all of that with attractive margins and a strong growth potential. We have built over the last years, extensive knowledge in running the protection business, and we are well positioned to capture increased consumer relevance of health and protection products as a result of the pandemic.

Next to that, we're taking action to enhance further future growth by investing into capabilities, convenience and simplicity of product innovation. To give you an example, our cloud-based platform enables us to develop new products in a very short timeframe. We launched over 20 new or upgraded protection cover. Or in Poland, we have achieved 60% rate, and our goal is to reach 80% state through processing in the next years. So in the coming period, we expect to continue the strong VNB growth trend of protection products. Overall, we have a very diversified distribution footprint. Still, the biggest share is bancassurance where we have added new banking relationships that meanwhile contribute to more than 50% of our total VNB. And we are leveraging our bank partners as product providers for our own customer base. So with this, we turn a one-sided distribution agreement into a real partnership.

In some countries, for example, Spain, we distribute already more than 20% of the mortgages of our partner. So we become an essential distributor for them, too. And we have a strong position in selected markets where we work with brokers. There, we concentrate on specific value-creating segments in each market.

For example, in Belgium, we are leading the move to protection and unit-linked, and consequently have completely left the segment of traditional insurance. Our recent back book transaction has contributed to that. A growing share today and even more in the future are the tight agent channels through which, we serve our own customers. We are convinced that there is significant potential through building and leveraging our own customer base.

We have identified four areas which we invest into leveraging and building our customer base. First, the systematic use of all data. Second, fully digitalized and optimized processes for lead generation and next best action. Third, completely integrated customer journeys that smartly combine digital processes and personal advice. And fourth, the expansion of our product offer into Non-life, banking products and services that allowed to penetrate our customer base and increase our customers relevance. These four levers work all very well together and strengthen each other..

To give you an example, with fully integrated channels, it is easier to sell relevant services or products can be cross-sold digitally don't take away the capacity of agents. Then the agents can continue to focus on advise needed for the more complex products. Another example, with more products from an extended offer, we generate more data, know more about the customer, and that then can be reused to improve our next best actions. So these four focus areas can play well together with our strong assets in international: the 40 million customers, the 10,000 agents, the strong brand in our key markets and the good cooperation with our bank partners that will give us a unique position compared to purely digital players or companies with less digital capabilities.

And the first experience are encouraging. We already see the value of data use cases multiplying. We have grown the value of our data use cases by 200% over the last two years. For example, we built a proactive retention tooling to identify valuable customers with significant propensity to leave in the near future. And we approach them with an action which will eliminate the potential churn. Also, lead generation has increased significantly in the frontrunner markets and nearly doubled overall since 2018. Leads strongly increased the effectiveness of our agents, while customers can enjoy a more personal approach. With integrated channels and improved with communication, customer satisfaction, measured as NPS, increases.

We are already well above market average in Romania, in Spain and in Hungary. This is a key requirement for successful cross-sell and customer retention. And the value coming from distribution of third-party is adding close to 10% to our VNB. This is highly attractive. There's no capital needed, and we enjoy the direct benefits in form of the commissions from the product providers.

So we see first the potential in two ways. First, even in the frontrunner markets, there is more potential to grow. And second, we will leverage the best practices by rolling them out to all other markets. It is important to keep in mind that the impact of the different levers will vary in time. So for example, leads and optimized processes for agents will kick in faster. Customer engagement through integrated channels will likely become more powerful in the medium term. I'm very excited about the opportunity -- positive macro, the protection focus with increased customer relevance, our strong and diversified distribution and the potential of leveraging our large customer base will allow VNB in the future.

Let me now present to you the Japan segment. In Japan, we are a dominant player with a market share of around 10% in the COLI segment, which by itself is a large market. It's around 2.5x the total Belgium life market. COLI stands for corporate-owned life insurance products to SMEs to prepare for an immediate or a planned cash-out need later in the future.

We expect further significant potential in the market overall. We're active in the SME market since 1986. We have built unique capabilities over the year around it and cover more and more needs around protection. We're known as a leading SME insurer with focus on agent education, innovative products, and the ability to adapt quickly. We are the largest distributors through independent agents and bancassurance.

After the tax rule change in the beginning of 2019, sales volumes have recovered substantially as a result of increased activity. I am very proud of the teams in Japan who have demonstrated that NN in Japan were able to respond quickly to the changes and return as a winner into the market. This was possible, thanks to the quick time to market of adjusted products and training of the agents to deal with the higher complexity of the new tech system.

Next to that, margins have improved as competitors left the COLI space after the tax reform, which gave us more pricing power. This was further supported by the shift to the protection business. So both higher sales volumes as well as improved margins have resulted in that strong VNB growth.

With this year's performance, we are well on track to reach our VNB target of at least EUR150 million. A very attractive long-term growth market for us. We're convinced that with our strategy and unique position in the SME market segment, we can further grow VNB. The Japanese business is among the businesses with the highest IRR and VNB within our group. OCG for Japan is in line with local JGAAP profits, and there is no concept offtake under JGAAP. Profitable sales create a high new business strain at the time of sale, which is then compensated over time by sizable in-force profits.

So contrary to Europe, higher sales in a given year result in a lower OCG, but then increase OCG over time. And this works the same way for our dividends. We have the in-force profits that grow over time, part of the proceeds are used to finance the new business. With an IRR of 13% and a fixed year payback, we consider that as a highly attractive investment opportunity. This investment will translate into higher dividend pays than over time. And so the remaining part is then paid out as a dividend. Because of the low sales after the tax reform, we were able to pay out a significant dividend this year.

We covered two needs. We offer financial solutions as a vehicle to combine protection and savings. This business is more volatile, not only due to the changes in the tax treatment but as well as the economic situation of the companies might vary. So in addition, we have grown the protection business, which is there to protect owners and their families in case of deaths or illness. This is a business that we intend to develop further through new products and services. And as you can see from the chart, this business is less sensitive to tax rule changes and can deliver a more stable growth over time. Even though the agents we work with are independent, we invest into their training and a unique and strong support offer have successfully differentiated ourselves from our peers, which make us less commission sensitive. This is demonstrated by our increasing agent NPS that went even during the COVID-19 crisis from four to 17.

Similar to Europe, we invest in Japan to build and leverage our customer base. We have passed, for the first time in history, the mark of 100,000 SME customers. For years, we're investing in technology and data skills. We're doing so by rapidly growing our engineering base, and we are also upscaling all our employees in technical domains covering this year, 70% of all stuff.

We're successful in using algorithms to create customer base. We're now running pilots with bank partners on their customer base. If successful, we have close to 100 bank partners, so the -- this year, we partnered with Data Robot. It's a company involved in machine learning systems. In three years, 30% of the insurance policies will go unmanned as artificial intelligence is used to analyze results of health and medical check ups of executors. In the past, it took two or three business days to be insured. But with the unmanned systems, the process can be completed just within a few minutes.

And lastly, we launched Kagyo Aid. This is a fast-growing community platform for business successes through which we aim to increase our customer interaction. SME owners' children can connect and assist each other in preparing for a successful business takeover from their parents. This is actually one of the most used SME platform as of the moment in Japan and would offer the opportunity to introduce products and services in a tailored way over time. I shared with you today why I am convinced that we will be able to continue the strong track record of VNB group we have already shown in the past. This growth will be driven by macro trends, evolving customer needs, and a tailored customer-focused strategy, both in insurance Europe and in Japan. I'm really very excited about the opportunities we -- and with that, the increasing contribution, which we can bring to NN Group.

Thank you for your attention. I now hand over to Leon for his presentation on Netherlands Life.

Leon van Riet {BIO 19683159 <GO>}

Thank you, Fabian, and good morning, everyone. Last year, at the Capital Markets Day, I explained how we will achieve the target for Netherlands Life to generate EUR900 million of operating capital by 2023. I'm pleased to confirm today that we are well on track to reach this target.

One of the main drivers is the shift to higher-yielding assets, but also new business propositions, such as our defined contribution business contribute to that. Today, the main focus of my presentation is on how we are winning in the changing Dutch pension market and how we secure long-term growth.

My key messages for today are: firstly, the Dutch life market is an attractive market. Some say it's only a runoff business, but we see attractive growth opportunities.

Yes. The defined benefit book is running off, but we expect the operating capital generation from this defined benefit book to remain broadly stable. The lower UFR, including the step down of the UFR largely compensates the runoff of the portfolio.

Next to this, the shift to higher-yielding assets will result in additional operating capital generation. And on top of that, business opportunities will contribute to further growth of capital generation. Let me highlight the two main ones. Firstly, the buildup of the defined contribution market is developing rapidly. The shifts from defined benefit to defined contribution continues. This is becoming an attractive segment with healthy margins, growth and volume potential, that in the coming 10 to 15 years will grow to a level of assets under management that is comparable to the current defined benefit market in the Netherlands. As the market leader, we are well positioned in this growing market with our strong innovative propositions, our broad customer base and excellent relationship with the distribution partners.

Secondly, the upcoming Dutch pension reform creates additional opportunities. As a result of the new legislation, all pension plans will be based on defined contribution schemes. This will bring the market for pensions funds closer together. We expect that many pension funds will seek an alternative solution. This is likely to result in an addressable market that is twice the size of our current market and then is well positioned in this market. We can offer these pension fund solutions for both past and coming services. We already see signs that the buyout market is accelerating. And over time, we expect this will also contribute to further growth of the defined contribution market.

Now let me start with our current position in the Dutch life market and then as market leader in Dutch life and pension market with a 40% market share. With more than 3 million customers, we have the largest customer base and the broadest in the Netherlands. We aim to optimize the cash generation from the runoff of our in-force book, by optimizing the investment return of assets, at the same time, manage the expenses of the in-force book down, in line with the development of the portfolio. our existing services include a growing number of valued ESG products and services.

Let me give you a few examples. We provide these reports [ph] to our customers, showing them the impact of their life cycle investments in terms of CO2 reduction. Our PPI, BeFrank, is the first pension provider offering a CO2-neutral pension, and our life cycle funds have a high percentage of ESG-integrated investments. I'm proud to see that our advisory and participant scores are high. However, more needs to be done. We have the ambition to become the market leader in advisory satisfaction again like we were in 2017. High advisor and participant satisfaction scores are a really important driver for growth in these markets. We aim to improve this KPI by further improving our customer service and having a constant dialogue with the pension advisors. I'm personally involved in many of these activities, and I invest a lot of time talking to pension advisors during various roundtables and one-on-one meetings to further grow our defined contribution business and to capture the opportunities that arise from the new pension agreement.

I will show this translates into capital generation. At the Capital Markets Day in June last year, I explained how we will grow our operating capital generation towards the EUR900 million target pension company by 2023. Given the progress we have made so far, we are confident that we will reach this target. The shift to higher-yielding assets will support the growth of our capital generation. With our improved specific asset allocation, we aim to improve capital generation whilst maintaining a resilient balance sheet.

As part of the improved strategic asset allocation, we will continue to further increase our allocation to mortgages, loans and real estate. This will mainly be funded by a the reduction of our exposure to government bonds. Furthermore, we expect the pressure from the runoff of the in-force portfolio in the medium term to be largely offset by the reduction of the UFR drag. The reason for this is mainly technical, but both the step down of the UFR and the portfolio runoff will further reduce the UFR drag. The combination of these factors is expected to result in additional growth of our operating capital generation in the coming years, followed by a relatively stable level of capital generation in the long term. You may expect the operating capital generation may fluctuate year-to-year due to market circumstances.

Then when the defined contribution pension business further matures, we expect additional growth of capital generation to come from this business. On top of that, we expect pension reform to result in a potential expansion of our addressable market in the next six years, with opportunities for buyouts and additional defined contribution growth. We are quite optimistic about our prospects to capture some of the opportunities that will arise, but we have been prudent reflecting this in our guidance.

Before explaining the changes we foresee in the Dutch pension market, let me start with a brief overview of the Dutch pension system on Slide 5. The Dutch pension system consists of three pillars. Pillar one includes the state retirement pension. This offers a minimum pension income for all Dutch citizens. Pillar three comprises of the voluntary individual savings. In the Netherlands, this is a relatively modest market. And Pillar two consists of the employer pension plans. This is a relatively large market with over EUR2 trillion in assets under management.

In short, three different types of parties are active in the second pillar: industry-wide pension funds with mandatory participation for employers in certain industries, corporate pension funds without mandatory participation, and then the insurers. The corporate pension funds and the insurers each represent around 15% of the market, and the remainder 70% of the market sits with the industry-wide pension funds. Within the insurance segment, NN is the market leader with a market share of around 40%.

We offer four different types of products. And later in my presentation, I will explain why. First, let's turn to Slide 6. The Dutch bench reform is expected to become effective at the end of next year. The reform refers to Pillar two that you saw on the previous slide. As a result of the new legislation, all pension plans will become definite over a 5-year transition period starting in 2023. The mandatory participation for industry-wide pension funds remains in place for now, but the market for pension funds, and especially the corporate pension funds and insurers will move closer together, creating more of a level playing field. We have 15 years of deep experience products.

For pension funds, this is a new area where they lack capabilities. So under the new legislation, we can expand our addressable markets to also directly serve the corporate pension funds. This means that the EUR300 billion corporate pension fund market opens up for us during the 5-year transition period. This actually doubles our addressable market. We expect that the increase in cost for administration and the regulatory burden will trigger smaller and midsized corporate pension funds to seek an alternative solution, and this represents a total of around EUR75 billion of assets under management.

And this brings us two opportunities for coming services, in other words, the future pension accrual, we offer defined contribution schemes. And for the existing liabilities, we have two offerings, a pension buyout, ensuring accrued pension rights; and our general pension fund, the Nationale. And of course, when it comes to pricing and capital allocation regarding pension buy-outs. We have seen the buyout market picking up in the last couple of months. This is a clear solution and the expected market shift is emerging.

Our current pipeline of potential buyout is substantial and amounts to several billion of accrued rights. Of course, it's uncertain how much of this will eventually materialize in a transaction, but this could be a very promising opportunity for NN. On the next slide, I will show you why we have such a strong position in the Dutch pension market. And is the only company in the Netherlands that offers a full spectrum of pension solutions, consisting of: defined benefit and defined contribution via the NN label, PPI via our specialized BeFrank label, an APF solution, which is a general pension fund via the Nationale as well as pension fund administration services via the ability to offer all these solutions is a real unique selling point for us. In relation with advisers and employers, I noticed how much they appreciate that we can offer integrated solutions to their pension advisers, such as Mercer, Willis, Towers Watson, and AON also mentioned the importance of a one-stop shop solution. That is an important advantage, which they also emphasize in their advice.

A clear example of the attractiveness of having a one-stop shop solution is the buyout of the Henkel pension fund that we transacted in July this year. One of the reasons for winning this buyout was because the employer wanted to do business with one party for both past and coming services. But there's another advantage of being able to offer a full range of solutions. The defined contribution market is still evolving. It's not clear yet what direction the market will eventually take. Therefore, we want to remain flexible by having all options available.

Besides offering all options, we have a strong position for the following reasons. We have a strong track record of introducing new innovative products to the market, for example, by addressing the expanding interest for ESG products, like I explained before. We have excellent relationships with the distribution partners. For group pensions, these are generally the actuarial advisers and the pension advisers. We also benefit from the strength of the balance sheet as well as the well-known and trusted NN brand. We have many years of experience customers from defined benefit to defined contribution. We know what sort of information employers and participants want to receive, and we have made this process as simple as possible for participants, advisers and employers. This is all supported by our extensive seamless customer journeys.

And last but not least, the invest performance of our life cycle funds has been in the top quartile in the past years. So based on this, I'm confident that NN will capture the opportunities that will arise in the Dutch pension market.

Now let me zoom in on our defined contribution offering on Slide 8. Currently 80% of our new premium income relates to defined contribution pensions. We have a consistent market share of around 40% in the group pension market. We expect this market to continue to grow and to show attractive growth in the next years. This is mainly driven by the growth of the Dutch economy and is starting transition from company pension funds to insured defined contribution, and then offers two different pension propositions to target different market segments.

Our NN label offers insured DC with a focus on the SME market and, BeFrank offers a PPI solution, which is focused on the large corporates. Also would like to mention here that BeFrank is well-known for its full and seamless online offering. More than 95% of the participants we serve invest in our life cycle funds. We offer a broad range of life cycle funds consisting of a number of passively managed life cycles next to our range of actively managed life cycle funds. And we recently also added a full range of impact investing green life cycles.

We expect that the future partnership with Goldman Sachs Asset Management will further grow the range of high-quality funds that we can offer. And consequently, we will further increase the satisfaction scores from our participants.

Now let's move on to the numbers for DC on Slide 9. Today, our capital light defined contribution business is profitable. We expect the profitability to further grow, driven by an increased scale as well as the implementation of additional efficiency measures in processes and systems. This will immediately translate into higher profits and capital generation.

Last year, at the Capital Markets Day, I mentioned that we expect to achieve EUR32 billion of assets under management in DC in 2025. Given the strong growth we have seen, we now expect to reach this level of EUR32 billion one year earlier in 2024. This is, of course, assuming normal market circumstances.

We expect a shift from defined benefit to defined contribution pensions to continue, and the maturing of the DC portfolio will continue over the coming years. The level of assets under management in DC will therefore continue to grow. In about 10 years, I expect our assets under management in DC will be well above EUR60 billion.

In terms of revenues, we have a balanced combination of income sources, also after the sales of NNIP. This translates into an attractive margin of 15 to 20 basis points of the assets under management by 2025. And afterwards, with a growing asset base, the revenues will further grow. Defined contribution products consist of two different phases, each with a different earning profile.

The accumulation phase is mainly fee-based. We earn a service fee on the fund selection of the life cycle and the guarantee funds. Together with the administration fee, this covers the expenses. Furthermore, we have earnings from the offering of risk offers for pension payments in case a participant becomes disabled or dies. In the deccumulation phase, the main source of income is the (inaudible) next to the earnings from risk offers and the administration fee.

On top of that, we see potential for offering additional services in both phases. For example, in the areas of carefree retirement, sustainable employability, vitality and continuing to work after retirement age. But as a sizable and fast-growing volume and a capital-light business model, defined contribution is an attractive line of business for us.

Also after the sale of NNIP, today, I have explained that the Dutch Life market is an attractive growth market and not a business in runoff. The operating capital generation from the defined benefit book is expected to remain broadly stable. The lower UFR drag compensates largely the runoff of this portfolio.

On top of that, we continue to shift our investment portfolio to higher-yielding assets, and this will result in additional operating capital generation. Then we have the business opportunities. We are in pole position in the growing defined contribution market in the Netherlands. We are a market leader. We have a large installed client base of more than 3 million customers, we have strong product propositions, and we have excellent relationships with the distribution partners.

With the ongoing growth, the DC market is becoming a large and attractive segment for us with healthy margins of 15 to 20 basis points over the asset base as well as growth. The Dutch pension reform creates additional opportunities, which in 6 years time is likely to result in an addressable market that is twice the size of our current defined contribution market and is well positioned to capture these opportunities with the buyout propositions for pension funds, for the existing pension accruals and the DC offering accruals. We already see clear signals that this market is accelerating.

With that, I would like to wrap up my presentation, and thank you for your attention.

Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Leon, for your presentation on Netherlands Life. So let us now move to the Q&A session, for which we have about 30 minutes. So you can all now raise your hands virtually if you have a question to ask, and please limit yourself to two questions.

Questions And Answers

A - Jelmer Lantinga {BIO 20384884 <GO>}

So let us start with the first question from Steven Haywood from HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

Two questions then is on -- firstly, on M&A. Where are you kind of looking and what types of business are you looking at in terms of trying to support any inorganic additional growth in these regions? What type of businesses? What type of products? And you mentioned previously about the Belgium back book, is there any other back books that could be up for potential disposals? And secondly, from the -- obviously, there's been a lot of focus on your OCG now, and you've kind moved away from operating profit IFRS. Now is this because IFRS 17 is a mess for the Dutch Life and Pensions business? Is it impossible for us to interpret and analyze? Can you give us any sort of clue around this?

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Sure. Two good questions, Steven.

David, I think it's probably best if you take them both. First on M&A. Then secondly on IFRS.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Sure. Thank you, Steven.

Yes. So on M&A, I think you know it, our base case is really organic growth. And I think we also emphasized that in the presentations that we did. We focused a lot on transforming and growing organically our business.

So when we're looking at M&A, I think the question always for us is what can we add? What value can we add and are we the right owner? And that means there's strategic criteria for us, and there's financial criteria. And maybe the MetLife is a good example of that. So why did we invest in MetLife Greece and Poland? Well, strategic considerations. Poland, obviously, is a large market. It's a growing market. There's a lot of consolidation ongoing, and we felt that it was important also strategically to be -- to keep a very strong leading position there.

Strategic consideration for Greece, where we are a large player. You probably know there's a lot of hospitalization business. There's a very big overlap between MetLife Greece and NN Greece. But also because it's hospitalization, a lot is outsourced in Greece, hospital services, ambulance services. So purchasing power is very important. And that's what you get by becoming, number one, we increase our purchasing power.

So typically, we always look at strategic considerations and then financial considerations there. The MetLife deal showed a double-digit return. So these are the type of considerations that we have when we look at M&A. But again, the base case in everything today is really around organic growth.

Back books, indeed, we divested a Belgium back book, what we call the Delta Lloyd book. The reason was also to simplify our operation and we could make a good return on that book. We will continue to look at optimizing our portfolio. There's not a lot of back books comparable to the size that we have in Belgium. But if we see opportunities then -- and it makes sense, we obviously will do it.

IFRS 17, well, our main target, as you know, is OCG. So when we talk about the EUR5 billion, when we talk about mid-single-digit growth for the coming 10 years, this is all around OCG, and that is not impacted, of course, by IFRS 17. Of course, we're currently in the process of implementing IFRS expect that likely next year, in the second half of next year, we'll be giving an update on the impacts of IFRS 17. But it will not change, let's say, our main targets because those are around operating capital generation and free cash flow.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, David. Let's then move to the next one, which is Fulin Liang from Morgan Stanley.

Q - Fulin Liang {BIO 21126177 <GO>}

And I -- two questions, I guess, all for Netherlands. The first one is we'll mention that the addressable market because of the pension reform, the addressable market, size of the market levels. But actually in terms of the profit pool, could you give us some kind of estimates in terms of the profit pool? And then the second one is I was wondering, because the IRR, you said the buyout, the pension buyouts IRR is -- seems to be just, at best, high single digits. And why do you want to participate in this segment at all because, apparently, the other segments of the business is all earning double-digit IRR?

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Fulin. Indeed, two questions on Netherlands Life. Leon, could you answer the questions on the -- well, the addressable market and the margins that you would expect in that market and also the pension buyout opportunities that you see, and why that makes sense from your perspective.

A - Leon van Riet {BIO 19683159 <GO>}

Thank you. Thank you, Fulin. Thank you for the questions. The first one around the addressable market as a result of the upcoming pension legislation, we expect that we can at least double the market we're in because we will be in one market with the same products, the defined contribution-based products, which we can start offering to corporate pension funds.

The profit pool, so the DC business is a market which is dependent on volumes. So the more volumes, the more interesting the margins will be based. It's skill-based. So the more volume we add, the least additional variable cost we have. So yes, the profit pool will increase once we really can start addressing the corporate pension fund market.

Then related to your second question, the buyout opportunities, so we aim for a buyout internal rate of return of low double digit. And for us, it's an attractive market. We have all the capabilities. We have the knowledge. We have the distribution. We have these systems in place. So we have everything in place and it's adding additional volume. So also, it's basically an additional uplift of the volumes.

And next to that, what I also explained, sometimes, also the past service and the coming service, the DC business goes along. So by attracting via the example I gave with the Henkel buyout, we also are able to attract the future business. And all in all, it's an attractive package for us.

A - David Knibbe {BIO 17996037 <GO>}

Yes. And maybe if I can add, maybe I can add briefly here to this. So indeed, also we aim for a low double digit. I think in practice, we've also seen high single-digit IRRs, and that could also make sense because we can often reinsure the longevity risk and it helps a lot by keeping a size of book and maintaining our cost per policy. So there's other considerations as well, and that's why you've also seen that high single-digit buyout with a positive VNB, in our view, can also be attractive.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Thank you, Dave and Leon. Next question then is from Michael Huttner from Berenberg.

Q - Michael Huttner {BIO 1556863 <GO>}

So one is on the presentation and the other one is more general. On Belgium, you showed the progression of new business, and you've compared that with the OCG, which is really helpful. Can you do the same on Japan? I know you'd probably say you've done it, but can you do exactly the same? And so I can just kind of almost like overlay them. I was confused, sorry. Maybe you could talk me through that, that would be very helpful.

And then the more general question is on the OCG. So you effectively raised your target, right? You've sold 125 million of OCG, and you're saying, no, no, it's the same. So it's like profits up, and the opposite of a profit warning. And I just wondered if you could explain the little levers. I know you said Heinenoord and MetLife, but the others, if you could explain the little levers. And I'm not sure if I'm allowed the last question. It's very cheeky. I'm old, right? I'm the oldest guy here today, and COVID is not going away, does that have a kind of impact either way on the longevity book?

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Michael. That is indeed cheeky with three questions. But David, maybe you can start with the group targets and what we see in the business, why you still are comfortable with the EUR1.5 billion. And then on COVID, maybe you can also say something about longevity. And Fabian, could you end with the relationship in Japan with OCG remittances of VNB. Say something on that. Thanks.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Michael, of course. Yes. Indeed we're very well on track to get to the EUR1.5 billion. So I think there's a couple of items there. Indeed, in terms of M&A, and we are losing around EUR125 million with the divestment of our asset manager. In terms of acquisitions, we're bringing about EUR75 million, even though the timing is not completely the same as some is in '24, so probably a bit less than EUR75 million, if you would take 2023.

So indeed, that leaves a gap of a bit more than EUR50 million. The reason why we stick to our guidance of EUR1.5 billion is because the business performance is just doing really well. I think there's a couple of items that are important here. The re-risking, as we spoke about, has been -- there were some unique opportunities in 2020. Dutch mortgages going forward are still attractive. So we see re-risking as an important item.

I think the non-life business, the integration of VIVAT has certainly been running ahead of schedule. Some of the combined ratios have been favorable. And VNB, a new business contribution. I mean Europe has really been growing. We see a protection gap. We see high awareness for COVID. After COVID, high awareness that people are vulnerable. So there's more appetite in buying protection.

So yes, there's multiple items. And we actually see across the board, we see positive contribution on -- from the segments, which made us comfortable to say, despite the EUR50 million-plus gap in OCG following the M&A activities, that we'll stick to the EUR1.5 billion. So I think that's one.

Then on COVID. We don't expect a lot of impact from COVID the way it is now. I think we've seen that on non-life, disability, some upward pressure, maybe P&C a bit more favorable. These things, in broad terms, cancel each other out. The bigger impact, of course, if we get into a full lockdown is on sales, on VNB. However, I think Fabian and his team have done a really good job in digitalizing the front end, we've seen the tied agents are very resilient. So also there, there had an impact. But we've seen, first of all, that we can manage it, and also there's a catch-up effect going -- tends to happen after things open up again, as you have seen in our VNB numbers that we're in Europe up more than 60%.

In terms of longevity risk, it's too small right now. I mean there is hospitalization, unfortunately, I would say. But the impact there, fortunately, in people passing away due to COVID right now is too small and also too short-term to really have an impact on our longevity, and that's obviously good news as well.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Fabian, maybe on Japan?

A - Fabian Rupprecht {BIO 18064442 <GO>}

Yes. Michael, thanks for your question. So indeed, the VNB, which we have seen in this half year, EUR92 million, we're really very happy after the changes in the tax treatment that we were able so quickly to recover. And just last half year, we had EUR29 million. Now we have EUR92 million. So it's a fantastic growth.

Now to your question on OCG and VNB relation, let me start with OCG in Japan. OCG in Japan is the same as or very close to the JGAAP earnings, and we do that because the JGAAP earnings define the dividend. And what you have in JGAAP earnings, you don't have a debt treatment. So that means that when you write a lot of new business, you have a new business strain. And when the VNB grows, you have a higher new business strain, and therefore, you have that reverse relationship to the OCG. But the good news is this new business strain actually gives you a return. It's like an investment, or it is an investment that gives you a return of 13% with a 6-year payback. And that gives you as well an idea of how it flows back into the OCG. With that 6-year payback and an 8-year contract duration, I think you get a sense of how quickly then the VNB is reflected in the OCG over time.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Fabian. So let's then move on to the next question, which is from David Barma from Exane.

Q - David Barma {BIO 19957338 <GO>}

The first one is on Dutch Life and on the chart you show on the OCG development. And so there, the higher-yielding asset contribution is a big driver and probably longer in time that I would have expected. Can you remind us what your assumptions are in terms of maybe spreads and the asset classes you're trying to grow into and how much in billion terms you're either of assets or SCR you're still lining to shift. So that's the first one.

And then secondly, on Insurance Europe, I understood well, I think, the relationship you flagged between value of new business and OCG. Is it the same in IFRS? I mean if we look at IFRS or volumes in the last few years in APE or else, the growth isn't so obvious. Is there anything you can say there to reassure us on the growth assumptions you have for your Eastern European business, please?

A - David Knibbe {BIO 17996037 <GO>}

Yes. Sure. Maybe Fabian, would you like to start on Japan and the impact on the operating result of sales. And then maybe Leon can follow up on the question on the shift to higher-yielding assets and the moves we still expect to make.

A - Fabian Rupprecht {BIO 18064442 <GO>}

Yes. So I mean on Europe, and yes -- so -- and our target and our focus is the growth of OCG. So it is this growth of mid- to high single-digit OCG growth, and we do that because I think that best reflect our capacity to grow. And with that, and with IFRS is really secondary in the way we steer the business. And basically, the big difference between IFRS and OCG at that point is, of course, that in OCG, part of the new business growth is, of course, reflected as a present value, and that is not the case in IFRS. But there's no question that with OCG, IFRS will as well grow in the years to come. And you have seen that as well in the past that we had a very strong IFRS growth in the past.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Thank you, Fabian. Leon, do you want to take the question on the shift to higher-yielding assets?

A - Leon van Riet {BIO 19683159 <GO>}

Yes. Of course. Thank you, David. The question on the OCG development at Netherlands Life, indeed, we are shifting to higher-yielding assets, and that's a very big driver in our OCG development. Last year, we did some big steps during the market dislocation when COVID started. This year, we stepped back to a more gradual investment plan where we continue re-risking in mainly mortgages, loans and real estate, and we reduced our exposure in government bonds. And we will continue that for -- yes, for the next coming years, this gradual path to re-risking. So on a more modest path today.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Okay. Let us then move to the next question, which is from Nasib Ahmed from UBS.

Q - Nasib Ahmed

I think my first question is a good segue from the previous one. So I was just thinking about the regulator and how much liquidity you need to hold and how much re-risking you can do. Is there a limit to how much government bonds you can sell and reinvest into higher-yielding assets? And then secondly, just a question on solvency and related to Insurance Europe, you showed the slide on the relationship with VNB and OCG. Is there any sort of changes expected from the peer review of the guidance on contract boundaries there?

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Nasib. Also two good questions. Maybe, David, you can take the first one on the impact from the EIOPA review in our businesses. And then, secondly, Leon, could you take the question on the shift to higher-yielding assets and whether there's any hurdles or restrictions to the moves you can make. David, please?

A - David Knibbe {BIO 17996037 <GO>}

Yes. So the impact of EIOPA.

So when the EIOPA review came out, I think we were very -- we tried immediately to also assess the impact, where we said we expect around a 5% negative impact on our solvency in 2024, 2025. But in combination with that, an uplift of OCG of around EUR50 million. So it is, for us, a very manageable effect that is coming out of the EIOPA review. Of course, since then, parliament has been getting involved. Typically, things get a bit better when we go from, let's say, the phase from the regulators to the parliament phase. So let's see what exactly comes out. But so far, what we've seen, first indications are that it might be a bit better. But even if it wouldn't, it's still -- the EIOPA impact again is very manageable for us. So all in all, that is good news.

There will continuously be changes, obviously. Contract boundaries are all -- items are a topic of discussion in the sector. So there's a broader discussion than just EIOPA, and that will continue to happen. I think the good news is that if you look at our position, we have a very strong Solvency II ratio, our cash position is strong, and our leverage position is strong. So even if there are impacts coming, I think we have a strong balance sheet and we can clearly absorb this type of regulatory impacts.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Important first pillar of the investment proposition. Stable, strong balance sheet. And Leon, on the shift to higher-yielding assets.

A - Leon van Riet {BIO 19683159 <GO>}

Yes. Thanks for that question. Maybe good to start with that if you compare our investment portfolio with market efforts, we are still a bit on the conservative side with our investment portfolio. Therefore, there is room for further re-risking. And indeed, liquidity is one of our important criteria to develop and to decide upon our strategic asset allocation. So we take it well into account. And we still have, with all the plans we have, enough possibilities around liquidity to re-risk, basically.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. Thanks. Well, we have approximately 10 more minutes to go. Next question is from Farquhar Murray from Autonomous.

Q - Farquhar Murray {BIO 15345435 <GO>}

Just two questions. One for Leon, and then another for Fabian. On the Dutch buyout, is there any evidence of kind of improved pricing power in that market if you look back over the last, let's say, five years or so? There has been some flucs in terms of participation. So I just wondered. And presuming you're still kind of competing against large pension funds and some of the processes there. Are there any disciplinary evidence? And then on the international business, just a quick question on Slide 9 of Fabian's pack. How does that 45% of VNB from the bancassurance channel, how does that split between your largest partner and say, the other bank partners, just to get a sense of what progress you've made in terms of diversifying the channel?

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. So maybe, Leon, you can take the first question on the comparative landscape today and the pension buyout space. And then, Fabian, could you take the second question on the bancassurance piece?

A - Leon van Riet {BIO 19683159 <GO>}

Yes. Thank you, Farquhar, for the question related to buyouts. So what we see happening in the market is there is more and more appetite for buyouts due to the upcoming legislation. So we expect more buyouts will come to the market. And indeed, we are competing in some situations with large pension funds because then they have the opportunity to merge with the other pension funds, but there are also a number of situations where the pension fund prefers a buyout. And there, we then compete with the insurers competitors in the Netherlands.

And related to pricing, so the interest rate level is an important element in the pricing. So you can imagine that compared to end of last year, our buyout pricing is somewhat better due to somewhat higher interest rate levels. Next to that, we can also make use of our re-risking I just explained, that will result in also more competitive pricing from us. And therefore, yes, we are certain that we are -- that we have a good position in the buyout markets. We are very happy we transacted that buyout last summer. And yes, we are in for the market for the next few years to transact more of these buyouts.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you, Leon.

A - David Knibbe {BIO 17996037 <GO>}

Maybe if I can add. I think, Farquhar, your question was all right, so I think Leon is absolutely right. And then the question was also going forward. I mean, if it's right, and it looks like that there's significant amount of buyouts coming to the market, I do think we expect -- I mean, capacity is not unlimited on the insurance side. So typically, what we've seen is that the first buyouts are more competitive than the ones further down the road because capacity for insurance companies is not unlimited. And if indeed significant amounts are coming to the market because of the pension reform, it is not unlikely that over time, pricing becomes a bit less competitive. And we will always remain disciplined on our pricing. But yes, we are expecting that over time, pricing could become a bit less competitive and more attractive for us.

A - Jelmer Lantinga {BIO 20384884 <GO>}

That's helpful color. Fabian, please, on the bancassurance.

A - Fabian Rupprecht {BIO 18064442 <GO>}

Yes. Thanks for your question. So our -- indeed, our bank insurance channel, we have been able, over the last years since the IPO, to diversify it a lot and to optimize it. And we have really strong experience there. And as you might know, there's a big difference between having a bancassurance agreement and really making the maximum out of it using data and other tools in order to really leverage such a partnership.

Now when you look who is in there, I mentioned before, ING still remains our biggest partner. And then after that, we have a relationship experience in Greece, which has developed very, very nicely. And beyond that, then the other partners are rather smaller amongst those (inaudible) Moneta and other partners. So that's a little bit of an overview on our bank's insurance activities as they present themselves today.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Okay. Thanks for that. Let's then move to the next question, which is from Andrew Baker from Citi.

Q - Andrew Baker {BIO 20402705 <GO>}

The first is just on insurance here. You highlighted that you are an early movement in the protection products. I guess just given the growth in margins for this type of business, we are seeing many companies trying to pivot this way. So are you experiencing or expecting to experience more competition in this space? And then secondly, just on Japan. So at your Capital Markets Day last year, you were very clear that you believe you're the best owner of this business. But at the time, you were in the process of trying to prove a sales recovery following the tax reforms. So I guess just now that you've proved that and you've sort of proved the future value of this business on a look-forward basis, is it still your view that you're the best owner? Or has your view changed here in any way?

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thanks, Andrew. Maybe David, you could maybe help with some perspective on Japan in the group. And then Fabian, you could maybe follow up on the competition you see in the protection business.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Sure. Yes. Indeed.

So first of all, we're very pleased with the recovery of sales in Japan. And I think it shows also that we have a strong distribution capabilities. It requires a lot of investment to help brokers sell these products. I mean, if you're selling them on a tax benefit, that's relatively easy, but we focus a lot also on colleague protection, and that means that sales channels need to be comfortable enough to actually offer these products and address the questions. And that's been a significant investment by our Japanese unit, and we're pleased to see that we actually saw in the first half our VNB doubling versus first half year 2020.

In terms of ownership, I mean, Japan is a business we know very well. We built it ourselves. It's a greenfield to -- we've been there for over 30 years. It's a large market. So we're able to deploy a lot of capital in that market.

Fabian made earlier the point when you get to an IRR of 13%, a payback period of six years, that makes it a very attractive market for us to be in. And so by itself. And then there's obviously some synergies also between in the SME space between the companies and some diversification effects that we see from a group perspective between Japan and European operation.

So there are some extra benefits. But yes, we remain positive on our Japanese business, and we're very pleased to see the progress that they're making, that this growth engine that we've always seen was there, is actually also materializing again after the tax reform knowing that there's still an attractive market there also after the tax reform.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thanks. Then on to Fabian.

A - Fabian Rupprecht {BIO 18064442 <GO>}

Yes. And then on protection, so there was already in the last years quite some competition around protection, and we were still able to show a very attractive growth. But What is key there is, of course, to have a very good distribution. So on one side, it is important to have these strong bancassurance partnerships. On the other side, our agents trained and experienced and focusing on that segment. And then you need to continue to invest, so invest a lot into adding services, making underwriting much more targeted, make it simpler for the customers. We invest into product innovation, you have heard me speaking about the platforms which we use and with which we're able to launch regularly new product. All of that needs to be there. But as we focus on that, we have a big advantage, because all our energy goes into that. And that, of course, gives us a strong competitive advantage.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you. Okay. Let's then move to next question from Benoit Petrarque from Kepler.

Q - Benoit Petrarque {BIO 15997668 <GO>}

So my question is actually two questions. The first one is on the bank insurance. Actually I've got a couple of questions on that subject. Maybe focusing on ING and your relationship with ING. Obviously, ING is growing fast in Spain and Romania. Could you update us on how the distribution agreement works? What is the timing of the renewals? And what you expect also for the long-term in terms of bank insurance relationships? Can you maintain exclusivity? Or do you think about more platform type of relationships? And could you also consider entering in a new country based on the kind of platform. So no physical distribution, but just kind of big partner, kind of enter into a relationship with large bank somewhere in Europe. That's the first question.

And the second one will be on the mortgage margins, which have been under pressure recently. So do you see that moving on the longer run, do you think kind of that it will move back to the long-term average? Or just curious about your view on the current mortgage margin and if it's still attractive?

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thanks, Benoit. Yes. We have been discussing that indeed with ourselves as well, the mortgage margin. Maybe David, you could start on that on the view on the mortgages. And then Fabian, you could follow up on the ING distribution agreements.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Sure. Yes.

The Dutch mortgage -- we obviously know this market very well. We've been in there active for a long time. We have a strong position there, the mortgages that we get in. We underwrite ourselves via NN Bank. So it's also we know exactly what the underwriting criteria are.

In terms of spreads, you're right, they have been coming in, I would say probably more in the range of 160 to 180 basis points where they are now. Typically, we do see -- if interest rates move quicker than commercial rates. So if rates go up a bit, it takes a bit of time for the market to adjust those. So commercial rates upwards and the opposite happens when market rates go down, you also tend to see a bit of spread widening. So I think one effect is just also timing. It's also fair to say that we're not the only ones that like the Dutch merger market. So we have seen more entrants coming into the market, it puts a bit of pressure on the spreads. At the same time, banks under Basel are -- might be a bit less active in the mortgage market.

So the conclusion for us is that it's still a very attractive business to be in. The market has been very resilience, has been well tested in the financial crisis, also now in the payment -- or in the COVID crisis, we've seen that the payment discipline in the Netherlands is very high. Actual losses are still below 1 basis point. So from a risk-return perspective, also in, let's say, in the range of 160 to 180 basis point spread with this type of risk is, for us, still an attractive asset class that we continue to invest in.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Okay. And to Fabian.

A - Fabian Rupprecht {BIO 18064442 <GO>}

Yes. Thank you, Benoit, for your question on ING in Spain. That is an example of a relationship where I think both parties are very, very happy with. It is -- the good -- what is really best practice there is how we interact both together. So on one side, ING distributes our products, and we have for all our products exclusivity and have as well just renewed our relationship. And then on the other side, we bring the mortgages, we sell the mortgages to our customers. And we have there, 20% of the mortgage sales of ING are through our agents. And of course, this reciprocity works fantastic together because both parties really strongly benefit from that relationship.

And by the way, the same in Romania. So there -- and you saw that on the chart, Spain is a frontrunner, and Romania now just adopted this principle of reciprocity. So we will sell now as well mortgages from ING, and I'm very excited that there is a lot of more potential to gain on the Romanian side, where, by the way, the relationship as well is excellent.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you. That's great to see your excitement, Fabian. We have time for one last question, which is coming from Cor Kluis from ABN AMRO.

Q - Cor Kluis {BIO 3515446 <GO>}

I've got two questions. First of all, about the Netherlands, on acquisitions there, especially you did some acquisitions this year, of course, on the IFRS side. Would you be interested doing more acquisitions in general? And maybe would you be interested in acquiring funeral insurance companies there, especially from a natural hedge point of view, if one of these parties would come to the market? So that's my first question.

Second question would be about Japan. The VNB in Japan is, of course, quite strong this year. So maybe not yet in full, but you're probably going to be quite close in reaching already your 2023 target of EUR150 million this year. Why not increasing the VNB target for 2023? Is there something specific this year? Or are there other reasons for that. And then maybe one final technical question, the 15 to 20 basis points operating margin, just for the record, is that a revenue figure or not? That's just a technical question.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Yes. So let's take your questions in the order that you asked them. Maybe David, you could start on the M&A side in the Netherlands, and potentially, specifically on funeral business.

A - David Knibbe {BIO 17996037 <GO>}

Yes. I think in general, I always talk about M&A and our focus on organic growth. I think specifically for the Netherlands, when you talk about life insurance, there's not that many books around, first of all, if you see the market has been consolidating. We don't have to do anything. I mean we're the largest player, we had a lot of scale. So we're -- from that point of view, we're in a good position. If something very attractive comes along and we can do it on attractive pricing, we will certainly take a look at it.

I mean, funeral, to be honest, it sounds really good, and in a way, it is. But typically, the offset that you get is quite small given the size of our balance sheet. So we also shouldn't overemphasize the impact of the funeral policies on our total longevity exposure. I think we've been actively, as you know, looking at longevity type of deals. They move, for us, the needle a lot more than acquiring funeral businesses. It could be attractive from a point of view of maintaining our cost per policy and further reducing our cost per policy. If you bring extra books on board, we have a very efficient engine doing that, that Leon is running. But again, we don't have to do it. So we'll only do it if it makes financially a lot of sense to do it because given our size, we're already in a good position today.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you. Then over to Fabian on potentially the target of Japan, and whether you are going to make the targets maybe even already earlier than 2023?

A - Fabian Rupprecht {BIO 18064442 <GO>}

Yes. So we have -- indeed, we have the EUR92 million VNB in Japan. And now look at that, that there's always seasonality in Japan. So be careful and don't just multiply it by two to get to a year-end result. But overall, we are really well on track, really well on track. And we will stick on our 2023 target of EUR150 million of VNB.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thank you. Then last, the more technical question on the 15 to 20 basis points -- what it actually means.

A - Leon van Riet {BIO 19683159 <GO>}

Yes. Thank you, Cor, for asking that question.

The 15 to 20 basis point target is a margin. So it's net profit. Also excluding the profits from NNIP, we already substituted that from this target. And to dive a bit more into it, so both the accumulation deccumulation phase are profitable and will reach this target. And it is that the accumulation phase is slightly less profitable than the deccumulation phase. But accumulation, of course, is important because it's sticky business, customers are likely to stay with us and make use of the rollover to deccumulation. But so answer is it's profit, the target.

A - Jelmer Lantinga {BIO 20384884 <GO>}

Thanks. Okay. That brings end of the Q&A session.

Let me hand over to David for a couple of closing remarks.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Well, thank you very much all for participating. Thank you also for the questions, which we really enjoyed.

We really hope that we have convinced you now that there is a long-term growth profile in NN Group, mid-single digit as we call it. We hope that we have convinced you that also not only on the short term for the EUR1.5 billion OCG, but then also longer term, we see some real good growth prospects for our company.

So thank you very much for participating. Have a good day.