Y 2019 Earnings Call

Company Participants

- Annemiek van Melick, Chief Financial Officer
- Jos Baeten, Chief Executive Officer
- Michel Hulters, Head of Investor Relations and Ratings

Other Participants

- Albert Ploegh, Analyst
- Andrew Baker, Analyst
- Ashik Musaddi, Analyst
- Cor Kluis, Analyst
- Farooq Hanif, Analyst
- Fulin Liang, Analyst
- Johnny Vo, Analyst
- Steven Haywood, Analyst

Presentation

Operator

Good day, and welcome to the ASR Investor Full Year Results 2019 Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Michel Hulters, Head of Investor Relations and Ratings. Please go ahead, sir.

Michel Hulters {BIO 19111905 <GO>}

Thank you, operator. Good morning, ladies and gentlemen, welcome to the ASR conference call on our full year results 2019.

On the call with me today are Jos Baeten, CEO; and Annemiek van Melick, our CFO. Jos will kick off as a customary with an overview of the highlights of our financial results and then discuss the business performance. And then Annemiek, she will then delve into the developments of our capital and solvency position, and after that we'll open up for Q&A.

I have to remind you that we have scheduled till 12 o'clock sharp. We need to catch a flight along to see some of our investors and also some of the analyst community, so we need to keep it within the hour. To make sure that everybody gets a turn in asking questions, we would appreciate it if you could observe limit of two questions for each per round.

And, as usual, please do have a look at the disclaimer that we have at the back of the presentation.

So, with that said, Jos?

Jos Baeten {BIO 2036695 <GO>}

Thank you, Michel. I'm happy to be to be here again today with Annemiek, our new CFO, who joined us very recently. So together with Ingrid de Swart, the Board team of ASR is complete and ready for a bright future of ASR.

Ladies and gentlemen, as you have seen from the numbers, which we have published this morning, 2019 was again a very, very strong year for ASR, beating the record operating performance of 2018. I'm proud of our overall performance as it demonstrates our discipline in executing our strategy and our successful pursue of profitable growth. ASR was consistently delivering against ambitious targets and also in 2019 we offer our shareholders an attractive progressive dividend and we intend to do so going forward.

And as I am sure, you have noticed this morning we also announced a share buyback of EUR75 million as part of our review of our capital management policy. More about that later in our presentation.

So let's move to slide 2. As said, our performance in 2019 has been really strong. Operating result of EUR858 million, exceeding the already record level of 2018 by EUR109 million. Especially favorable weather related claims compared to 2018 helped our operational result and the acquisition of Loyalis. This on top of overall improvement of all our business segments.

The operating return 15.1%, well above our targets. Combined ratio also well above target with 93.5% and we remain sharply focused on our cost levels.

Operating expenses declined slightly by EUR5 million, when adjusting for the cost base of the acquisitions, like, for example Loyalis, and some incidental costs mainly related to M&A projects.

Solvency II ratio, still based on the standard formula, remains robust at 194%, after the proposed full-year dividend. There are quite a number of items that impacted Solvency such as the 18 percent point impact from the lower VA, the impact of the acquisition of Loyalis, but also the issue and redemption of hybrid capital.

Organic capital creation amounted to EUR370 million, stable with last year and absorbing the additional UFR unwind, higher new business strain, and flattening of the yield curve.

In 2019, we also reviewed, as promised, our OCC definition and return assumptions on this new definition, which is now more aligned with the market. Our OCC for 2019 based on new definition amounts to EUR501 million. Annemiek, of course, will provide further detail on this.

Based on the strong performance and in line with our existing policy, we offer a progressive dividend. We proposed to raise the dividend with 9% to EUR1.90 per share, taking into account to the interim dividend we paid already in September. There remains a final dividend of EUR1.20 per share.

So, in sum, a very strong set of results achieved in 2019.

Let's move to slide 3 and talk a bit about our capital review. You're all familiar with the Solvency II management ladder here on this slide on the left. With a Solvency II ratio of 194%, we are comfortably above the management level of 160%, the level we tend to call the entrepreneurial zone. This means that we can allocate capital to pursue profitable growth, both organically and through bolt-on acquisitions such as we did with, for example, Loyalis and we remain active in optimizing and re-risking the balance sheet, wherever we see attractive opportunities. It also provides a buffer to absorb the impact from regulatory changes, such as the ongoing decline of the UFR.

As announced at the half year results, we undertook a review of our capital policy in the second half of 2019, particular with regards to the possibility of additional capital distributions. In doing so, we took into account the level of Solvency, our organic capital creation, and potential opportunities for allocating capital for acquisitions or/and re-risking.

While we still continue to see opportunities to allocate capital to profitable growth, we also believe there is scope for additional capital distributions. We are comfortable with the current level of stock, our intention for the medium term is to make an additional capital distribution of EUR75 million per year. A condition is that our Solvency ratio needs to remain above 180% as we aim to maintain a robust balance sheet.

And as is shown on the right of this slide, we expect that regular dividend, additional capital distributions and value creation opportunities will be covered by the OCC. If larger and value-creating acquisitions present themselves, we will, of course, give priority to those.

As you know, we maintain strict financial disciplines and require at least 12% return on invested capital. We will assess the possibility of additional distribution on an annual basis. The new policy will be implemented with immediate effect and we have decided to buy back EUR75 million of shares starting next from tomorrow.

So, let's now move to slide 4, business strategy. This slide is mainly self-explaining. So I will restrain myself to two remarks. I'm especially pleased with the inflow of 11,000 customers in the first two months of the Vitality program, which is aimed at prevention. This marks our long-term ambition to become an even more relevant insurer in the daily lives of our customers on top of providing cover for risk and the accumulation of financial assets for later.

Second remark, I would like to make is, we've finished the migration of all ASR-owned individual life books to our variable cost platform, over 800,000 policies are migrated. Now Loyalis and VIVAT [ph] are the next in line to migrate to our new platform, and so we are again open for new business, for new acquisitions.

On slide 5, we elaborate a little bit on our strategy in a pursuit becoming -- to become the most sustainable insurance company in the Netherlands and possibly in Europe. To -- a few remarks there. We consistently aim to improve the service we provide to customers. The increase of the Net Promoter Score from 42 to 44 and even more important for our intermediaries from 60 to 62 show as an example that we are successful in this.

Also, as an investor, we are committed to a more sustainable world. Our impact investments amounted already EUR900 million and the CO2 footprint has been measured for close to 90% of our investment portfolio. So we are on our way to meet our targets there. We increasingly receive external recognitions for our achievements. For example, for the third year in a row, we are the number one sustainable insurer in the Fair Insurance Guide and we have been voted to the most sustainable investor by VBDO, a Dutch organization, twice in one year.

And, finally, in our business operations, we focus on reducing our direct CO2 footprint, since this summer our office is no longer makes use of gas and is fully CO2 neutral.

Let's move to the non-life segment on slide 6. In non-life, a very strong year, up EUR83 million to EUR226 million. All major product lines are doing better as demonstrated and the improved combined ratios. The two key drivers -- the significant improvement in weather-related claims, the Jan storm in 2018 added up to EUR32 million and the addition of Loyalis, which is for the full-year EUR24 million, of which EUR17 million in the second half.

Combined ratio assets 93.5%, a beat on the target of 94% and 96%. And on top of that, our gross written premiums increased by almost 6%, driven by a solid 4% organic growth by P&C and

Disability. By the way, for Loyalis, it makes sense to look at the net earned premiums and annual contracts, gross written premium not appropriate measures for this broken year.

The uptick in the expense ratio is, first of all, a consequence of the inclusion of the Loyalis portfolio. Without Loyalis, the expense ratio would have declined to 8%.

The absenteeism portfolio reported better performance as we took measures within this portfolio.

And as you may have noticed, we took some additional provisions in Disability and P&C for changes in the discount rate for bodily injury, which added up to a total of EUR15 million.

Let's move to slide 7, our life business. Some highlights to mention here. Operating result up by 3.7%. The increase was primarily driven by higher investment margin, EUR44 million. This reflects lower required interest for individual life and higher direct investment income as a result of re-risking of investments and the integration of the Loyalis investments, partially offset by lower amortization of realized gains.

Operating results from H2 last year to H2 '19 is relatively stable and it is up when adjusting for the EUR10 million non-recurring benefits from Generali Netherlands in 2018.

Gross written premiums grew 3.4%. The additional contribution from Loyalis, which was close to EUR60 million and new pension DC portfolio growth exceeded to the decline in the Individual life and the decrease of the existing DB pension portfolio.

Life operating expenses in basis points of the basic life provision improved to 53%, so already meeting our medium term targets.

So the last slide before I hand over to Annemiek. All the segments, I think, mainly self explaining. Two remarks. As we already expected, the distribution and segment -- distribution and services segment declined a bit towards EUR23 million, but still better performing than targets. This was mainly due to the lower fees for mandated brokers and which is a market phenomenon and this was offset by solid organic growth.

Operating results of the holding amounted to a minus of EUR112 million. The decrease in operating result of holding and other is mainly driven by the increase in interest expenses from the EUR500 million Tier 2 subordinated liabilities placed in April.

So having said this, I will now hand over to Annemiek, and she will deep dive into Solvency and Capital.

Annemiek van Melick {BIO 20317450 <GO>}

Thank you, Jos, and good to meet you all by phone and I see some familiar names from my time as a bank CFO and some new names and looking forward to meet you live at one point. I was asked by IR to keep it relatively short, so I will try to restrain myself.

Having said that, I do want to take you through Solvency stock flow, the new OCC definition and some sensitivities. So it won't exactly be two minutes either.

If we go to page 10 and start with the stock Solvency II came in very robust at 194% on a standard model, especially robust if you consider that we absorbed the impact of a further UFR decline of 3 percent points, a VA decline of 18.4 percent points, and the acquisition of Loyalis of 6.5 percent points. And we added EUR410 million of unrestricted Tier 1 and if you would exclude the impact of roughly EUR490 million in hybrid capital, the own funds we acquired through Loyalis of EUR176

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million as well as the impact of own funds of the lower UFR and VA decline of EUR91 million and EUR582 million, respectively. We would have had at around EUR900 million of own funds during 2019.

Now, I believe this EUR900 million of own funds generated reflect the company's resilience to absorb the UFR decline and and VA volatility, while still being able to invest in organic and inorganic growth as well as returning capital to shareholders.

With that in mind, we have announced the intention for a yearly additional capital return of EUR75 million, as Jos already pointed out earlier.

Capital generation is also reflected in our IFRS equity, you can see that in Appendix E, which grew by EUR611 million last year.

In terms of required capital development, we've made a conscious allocation this year through the acquisition of Loyalis in non-life growth, particularly in Disability and P&C, as well as some re-risking into mortgages. We've reduced capital allocated to counterparty default and concentration risk.

Now, obviously, in terms of required capital, the real movement here is the increase of market risk, which only for minor part is driven by re-risking, it's mainly driven by positive revaluation of equities and real estate, and it also includes some additional risk to interest rate risk, driven by lower interest rates and which we partly mitigated by increasing our hedge and primarily in the first half of the year.

And despite these developments, our market risk as a percentage of required capital remains well under the soft limit of 50% with 44%. Now insurance risk also saw some increase with slightly over EUR500 million and that predominantly relates to life and health. Life, due to the impact of lower interest rates and longevity risk, and health primarily due to the acquisition of Loyalis.

Our diversification benefits increased by EUR248 million and we've seen a slightly higher LAC DT impact, which was mainly driven by the change in tax plans. The Vpb change from 20.5% to 21.7% there.

Good to point out that we still have ample headroom available, actually slightly more than in 2018 with EUR923 million for restricted Tier 1 and EUR500 million for Tier 2 Tier 3 combined. So, all in all, strong solvency level of 194% based on a standard model with ample headroom. And if you were to adjust that for the announced buyback of EUR75 million, which will start tomorrow and which will actually flow into the stock and H1 solvency would be 192%.

A bit on flow now, if you turn to page 11. As Jos already indicated, we've reviewed the OCC definition in H2 and we've aligned it a bit more with market practice.

Now, in terms of consistency and transparency, I'll first present the OCC on the old method, and then indicate a delta asset towards the new methods. If you started 197% in '18, you can see that we issued the EUR500 million Tier 2 to absorb the Loyalis acquisition and we issued and redeemed some Tier 1, Tier 2 capital in H2 basically offsetting each other.

Now if you leave those exogenous factors aside and look at what was really generated by ASR itself, i.e. the OCC, you can see the EUR370 million, which is close to 10 percent points of our required solvency. That OCC number is roughly the same as last year, but within that OCC we see an increase of business capital generation with EUR61 million to EUR344 million, and that's really the capital generated by running the business, i.e. the underwriting results, investment results, fee income and that EUR61 million increase there more than offsets the EUR35 million higher UFR unwind, which you can see in the technical movements at minus EUR125 million, really caused by lower interest rates.

Now, please be aware that our methodology takes the average over a year. In terms of view of our unwind, so that basically means that there will be a comparable echo of an additional UFR drag in 2020, obviously depending on rates this year.

The release of risk margin was somewhat less compared to last year, primarily reflecting the new business and the contract renewal cycle of Loyalis, which typically occurs at the end of the year. So, we'll see that impact -- we've seen that impact in Q4, but it's profitable business and it will generate OCC in the future.

Impact of markets and VA decline, as well as the lowering of the UFR rate, fall in our bucket markets and operational developments as you are aware. So, all in all, OCC comparable to last year absorbing a higher UFR drag with EUR61 million higher contribution of business capital generated. As we already indicated, previously we were looking at a more market consistent/harmonized OCC definition that has been worked out through the second half of last year and is now finalized and will be introduced in 2020.

Now, let's go to the next slide, slide 12, so I can talk to you a little bit through the changes that we've made there. On the new definition, the OCC would have been EUR501 million, which is an increase of EUR131 million versus the old definition. Key changes here really relate to the return assumptions for the investment portfolio for fixed income, including VA, we will move from excess returns to market observable spreads and for equities and real estate we will move straight from an excess return over swap to a total return assumptions. And our total return assumption is post tax 5% for equities and 4.1% for real estates.

And these new return assumptions aligns better with market practices we see around us and the total return assumptions for equities and real estate are actually consistent with the long-term assumptions we use in our strategic asset allocation.

If you look at the impact of that change in LTIM assumptions, you see EUR182 million more of business capital generation and you can break that down in fixed income, which is EUR56 million and then equities and real estate, which is EUR124 million. Now within fixed income space, we lost a bit of govies, both core and non-core, but we gain corporate bonds and mortgages there and we actually gained on VA a bit. And within equities and real estate, the split is relatively equal between equities and real estate in terms of gains that we made there.

We've also made some model refinements (technical difficulty) and those include the net release of capital buckets and all those -- we only included a release of insurance risks in line with young mind of our life book and in the new OCC we will also include the related market risk capital requirements, i.e. predominantly related to interest and spread risk.

We've also included a revision of the new business strain methodology leading to a higher but more accurate required capital for new business. Now, that -- those two factors combined had an impact of minus EUR63 million in terms of release of capital. Technical movements, we only used to look at the unwind of the UFR there. What we consider it more appropriate tool will also include the unwind of the TVOG. That time value tends to get smaller as time passes by.

All in all, that new definition OCC would have come in at EUR501 million and for 2019. And bear in mind it still remains quite sensitive obviously to movements in interest rates, UFR drag and it is more sensitive now to market observable spread movements for fixed income and VA.

In terms of target setting and we did introduce an OCC target at the Capital Markets Day of 2018 of more than EUR430 million for 2021. You would obviously need to add Loyalis and then you

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would get EUR465 million, all based on interest -- prevailing interest rates at the Capital Markets Day, I belief that was in October 2018.

If you would adjust for the additional UFR drag of EUR90 million since then and for some flattening of the curve, which knocked another EUR40 million, you would get to around EUR335 million if you would translate that EUR465 million targets at full year 2015 -- 2019 rates and you'll get some more -- you can find some more information on that on Appendix I.

I think we've done well reaching an OCC of EUR370 million in 2019, but bear in mind that there will be some echo impact of the UFR drag on that going forward and that you will also see on the new OCC model. The new OCC came in at EUR501 million and you may consider the EUR500 million target for 2021 not that challenging, but I said bear in mind UFR drag echo that we will have and bear in mind that 2019 was a very strong performance here weather wise for P&C.

And the new OCC is really the basis from which we intend to invest annually in organic growth and some inorganic growth and re-risking, and obviously it's the basis from which we intend to pay the regular dividend and the additional capital return of EUR75 million.

Page 13, we show some sensitivities. I think you're all familiar with this page. It really presents an indication of the stock solvency today if a lower UFR will be applied without any capital generation added to it. You can see what the impact would be of applying in economical UFR, i.e. closely linked to our actual investment returns, what we've kept at 2.4% and this would actually lower the stock 253%, but it would obviously simultaneously enhance the OCC by EUR63 million annually. That economical UFR has actually been pretty stable for the last year.

We've added a broader sensitivity in Appendix G, which is broadly in line with H1 2019, indicated that our current 194% Solvency is still well placed within the entrepreneurial zone even after applying the sensitivity, similar to what we've seen at the half year.

And returning to balance sheet, on page 14, as already touched upon earlier, a strong balance sheet with ample headroom within our capital structure, but market risk and financial risk are low. Market risk at about 44% of total risk, something we feel very comfortable with and we aim to keep that below 50% pre-diversification benefits. Our financial leverage today at 29.2% on an IFRS basis, slightly up versus last year as we issued a Tier 2 instrument, but still well below our mix of 35%.

Risky assets as a function of unrestricted Tier 1, our risky asset ratio relatively stable at 107%, which we feel very comfortable with.

Few words on cash and then I'll hand back to Jos on slide 15. Holding cash at the end of the period was EUR458 million. It was up from last year and it's still aligned with our policy to cover holding expenses coupons and dividends. In addition to that cash position, we have an unused RCF of EUR350 million. We've upstreamed cash from life, EUR356 million, non-life EUR80 million and other entities EUR65 million. There was no need to upstream more as given our holding policy, but there were also no impediments to upstream more and the remittances that we've done are in line with the remittances that we have done in the previous year's percentage-wise.

We are comfortable with the OpCo solvencies with life at 192% and non-life at 162% levels, all well above management targets.

Our debt maturity profile, as you can see, very robust, evenly spread, our next maturity date 2024 something again that -- that demonstrates that we have some more flexibility. That will leverage as expected just above 100%. So all in all very comfortable with the balance sheet and cash position as it currently stands.

And, with that, I'd like to hand it back to Jos for a final wrap up.

Jos Baeten {BIO 2036695 <GO>}

Thanks, Annemiek. Well done. And let's move quickly to slide 17, so we're not making Michel more nervous than necessary for the Q&A. Two graphs on this slide, the first one to highlights our steady multi-year increase in our operating results. And as you can see, our non-life business and capital-light free income-generating business in asset management and distribution represent a greater part of the total company and the new business we are writing in those businesses will push this further going forward.

Secondary market -- those results will fuel our capacity to pay attractive dividends to our shareholders. And, as you know, it's our ambition to offer shareholders a progressive dividend per share in the long-term asset. Full-year dividend will grow towards EUR1.90 per share, an increase of 9.2%. And on top of that, we aim to provide additional capital distribution as we announced this morning with the share buyback program of EUR75 million for this year.

So, all in all, since our IPO in 2016, we've returned well over EUR1 billion to our shareholders in dividends and share buybacks. If we would be able to execute on our intention as we just discussed, then we would again return another EUR1 billion in the current plan period.

So concluding on slide 18 and guiding you a little bit towards the outlook for 2020, again a very strong set of numbers, so a very solid performance again from ASR.

As is evidence from all the key metrics that we discussed, our business is running very, very well, and we're happy that everything we can influence has done according to targets or better than targets.

Looking ahead, we are positive about the commercial and operational outlook for ASR. However, we are keeping a close eye on developments in the financial markets and in particular the impact of the exceptionally low interest rates. And while there are no new facts on the EIOPA review, we will of course monitor any regulatory change that may have an impact.

At the same time, we remain interested in growth through small and medium-sized acquisitions. We still see opportunities there. Our strong capital position provides sufficient scope for this. So, looking forward, acknowledging that our performance in 2019 was very strong and significantly increased compared to the prior year, we would be very happy if and when we could deliver those results again in 2020.

So, with that, I hand over to the operator to go into all the questions you probably will have.

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) We'll now take our first question over the phone from Cor Kluis from ABN AMRO Bank. Please go ahead. Your line is open.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning. Cor Kluis, ABN AMRO. A couple of questions. First of all, maybe just for the record, the Ciara storm and Dennis storm (technical difficulty) could currently give some clarity on that? And related to that, of course, the reinsurance contracts that you have for such kind to events?

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Second question is about M&A. Currently you basically make clear that you will be turnaround 70% and a little bit more of your capital generation back to shareholders via dividends and share buybacks, but still around a little bit less than 30% left for M&A and re-risking. Could you elaborate a little bit there? And one more on the M&A pipeline. What are you see still opportunities, which year you delivered this since then -- since the IPO that put you in front of few acquisitions, did anything change after VIVAT or do you still see similar kind of pipelines and possibilities in the interest of that potential acquisitions?

And the last question is a technical one on the EUR500 million OCC target of at least EUR500 million OCC target that you have, what amount of UFR strain is included in that figure? And you mentioned, there will be a little bit extra UFR drag of course for the (inaudible) 2019. So UFR likely (technical difficulty) be a little bit higher. But in the EUR500 million, how much UFR drag is there? And if you would bring it back to (technical difficulty) instead on the slide to a lower level that might be offsetting positive effect is in the EUR63 million or have you not included that EUR63 million for the extra UFR drag that you look at this year in 2020?

Those are my questions.

A - Jos Baeten {BIO 2036695 <GO>}

Well, thanks, Cor, for those for those questions. Annemiek will go into the last one. I will take the first two. Ciara and Dennis together, they make a nice couple and proof that Ciara cost a bit more claims than Dennis proves that in most families females are the boss.

And, having said that, the weather-related claims in 2018 added up to EUR32 million. We have lots of large claims by then. Looking at the first feeling this year, we had again lots of claims but very small ones, fences and some smaller car incidents. Our first feeling is that the total claims for the two storms jointly will be somewhere between EUR10 million and EUR15 million. Hopefully on the lower side, but the the projected range today is between EUR10 million and EUR15 million.

On your second question, M&A. We still do see in line with what we said last year, chances for M&A. They may not be as big as Generali or Loyalis, but there are still some medium-sized chance that we see going forward and that's why we've explicitly set that we want to reserve a little bit of the OCC that we expect for M&A and re-risking.

So actually the story line there didn't change over the last few months and, yes, we are looking at a pipeline, but it's as usual we're not communicating about what's in the pipeline and what -- when could happen. M&A is a lumpy business. It could happen overnight, but it also can take a couple of months more.

And then for the third question, I hand over to Annemiek.

A - Annemiek van Melick {BIO 20317450 <GO>}

Cor, on the question on target OCC. If you look at the EUR500 million target, we have that includes this year's UFR drag, which was EUR125 million and then you would have to add the echo of the UFR drag of 2019, which would have been EUR35 million, so that would be around EUR160 million.

A - Jos Baeten {BIO 2036695 <GO>}

Sorry. Go ahead, Cor.

Q - Cor Kluis {BIO 3515446 <GO>}

Yes. As you said the following on that UFR drag offset EUR160 million, but you on slide 13 that you showed there you actually say we bring UFR down from 3.9% to 2.4%. It will be EUR63 million positive for the OCC. Was it based on the EUR125 million or was it based on EUR160 million.

A - Annemiek van Melick {BIO 20317450 <GO>}

That was based on the current EUR125 million.

A - Jos Baeten {BIO 2036695 <GO>}

Yeah.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Thank you.

A - Annemiek van Melick {BIO 20317450 <GO>}

You mean, on the sensitivities to stock Slide 13?

Q - Cor Kluis {BIO 3515446 <GO>}

Yeah.

A - Jos Baeten {BIO 2036695 <GO>}

And one addition to the question about Ciara, our reinsurance cover starts from EUR135 million for the first storm. So this is all on own account.

Q - Cor Kluis {BIO 3515446 <GO>}

Fairly clear. Thank you.

Operator

(Operator Instructions) We'll now take our next question from Albert Ploegh from ING. Please go ahead. Your line is open.

Q - Albert Ploegh {BIO 3151309 <GO>}

Yes. Good morning, all. Thanks for taking my questions. And the first one is, I mean, ASR has always been known to be conservative and you have a good track record of under-promising and over-delivering in the end and now today you're aligning the more the excess spread assumptions in the OCC. I was wondering, are there also maybe further alignment possible in other, for example, let's say, product lines where you are maybe excess and prudent in terms of reserving that you could revise as well. So in a way do you think you're still -- also in a way understating operating earnings in certain areas? That is just the first question.

The second question on the capital return decision and the dividend. I noticed that you keep to link with operating earnings there with the 45% to 55% as a base payout ratio range and you're clearly at the low-end. So you can basically grow that and show the progression, but the reason that you did not decouple like one of your peers. Should you also take their confidence that you still see room to grow operating earnings, despite a very solid level of operating and if we saw over 2019. So, a bit of thinking around that.

And, finally, on the progression itself, now you have announced a buyback, which will of course result in reduction in the share count. Yeah, what kind of progression in this percentage you would feel comfortable with. So to frame that a little bit? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

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Okay. Annemiek will take the first one.

A - Annemiek van Melick {BIO 20317450 <GO>}

Shall I start with the under-promising, over-deliver question and whether that's also somewhere in our operating results, I don't think there is a lot of additional conservatism or prudence versus our peers on that side. I think where we've mainly seen it was really related to the OCC and a bit to the solvency side.

So, no, I don't see that on the operating result side. On the solvency side, I think on the OCC definition we've now really align it with peers. If you look at stock solvency as good to bear in mind that we're still on standard model there. And I think, yeah, that probably sums it up.

A - Jos Baeten {BIO 2036695 <GO>}

And to your second question. We think it remains important to base dividend policy on an audited number, that's why we've said we will stick to the 45% to 55% of the operational, et cetera. There is still a lot of room to increase the nominal dividend, because we are now at 45%. We also trust that we will be able to continue to grow ASR as provided in the targets on the Capital Markets Day, the 3% to 5% growth in P&C and in Disability. And we've always said we want to have a stably growing dividends and we are happy with the current 9%. So everything that is between 5% and 10% will make us and shareholders hopefully also happy going forward.

Q - Albert Ploegh {BIO 3151309 <GO>}

Thank you. That's very clear.

Operator

We'll now take our next question from Farooq Hanif from Credit Suisse. Please go ahead. Your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thank you very much. Firstly, there has been a further decrease in interest rates. So as one of the echo of UFR, it's potential for further UFR drag in 2020. So I'm just wondering is there a rule of thumb we could use for each basis point in swap curve reduction to the measure that and align with that mortgage spreads going down as well. Will that impact now your OCC? And, second, obviously, with the change in CFO, is that now a change potentially your policy towards internal model? Thank you.

A - Annemiek van Melick {BIO 20317450 <GO>}

Thanks, Farooq. In terms of your first question related to the year-to-date OCC/solvency position. Yes, obviously we've seen a lowering of the UFR further to EUR375 million. We've seen interest rates decrease. We have seen some movements on the -- on mortgages spreads. So, all in all, that may have an impact on us. There is no real rule of thumb to use there and I understand that you would like to note that as of year-to-date, but we're not going to give any numbers there.

In terms of change in CFO, whether that would impact the internal model stands. And the answer is no. I think an internal model is quite costly, if we were only to do that to get the capital out that may not be the right movement. Having said that, if the standard model is very punitive to us or if we really see M&A opportunities where we would have to need that, we will definitely look at that. And so I can assure you, it is something that is constantly on my mind and that we're constantly evaluating and looking through it to see whether and at which point it may be -- it could move to do.

Q - Farooq Hanif {BIO 4780978 <GO>}

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That's clear. Thank you very much. Thank you.

Operator

We'll now take our next question from Fulin Liang from Morgan Stanley. Please go ahead. Your line is open.

Q - Fulin Liang {BIO 21126177 <GO>}

Hello. Thank you for taking my questions. I have two questions. So, first of all, is -- if I -- so you have EUR500 million OCC and then your ordinary -- your course of ordinary dividend plus buyback or specialty would be like roughly EUR340 million, EUR350 million, that will leave you like EUR100 million budget for M&A, which I understand that used to have pipeline for M&A. Just wonder that if you don't use all the capital for M&A, what's your kind of timeframe or kind of way of returning the unused M&A budget? Will you like say, okay, every three years, five years, I will review what's not used or will the review frequency by per annum every year. So that's my first question.

And the second one is, if you talk about that using the re-risking, use the capital to re-risk, but if I look at your investment portfolios, your mortgage is substantially lower in 2019, is substantially lower than the percentage in 2018. So apparently you're shifting your investment out of mortgage, is that -- is my understanding, correct?

And then also if I compare the allocation of within the -- like the fixed income or by credit rating bucket, I did not see any kind of sign of taking higher risk. Could you just give a bit of clarification on what do you mean by re-risking? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Okay. Annemiek will go into the second one. In terms of what to do with unused M&A budget, first of all, we assume that the part of the OCC that not will be used for dividend or buybacks, it could be used for re-risking and\or M&A. If and when, we, in a certain period, haven't done any M&A, we take it from there and will, on an annual basis, decide whether there a nearby pipeline, which we believe that we can invest in or that there is no pipeline and then will -- we decide at that moment in time what to do with the potential additional OCC that we have generated.

A - Annemiek van Melick {BIO 20317450 <GO>}

And in terms of your question on investment portfolio, in the Appendix on slide 30, we have an overview of that. We did add over a EUR1 billion of mortgages on nominal value last year. You only see EUR400 million of that in the actual category mortgages, auto loans, around EUR700 million, EUR800 million is allocated to the fixed income portfolio, because is done through mortgages funds and partly are in -- partly some auto funds. So we did add over EUR1 billion of mortgages in terms of relative size of mortgages, the auto components have increased in market value. And so the relative size is not a true reflection of the additional investments that we've made there.

Now, if you look at further room to optimize the investment portfolio, I think, overall, we're pretty comfortable equities and real estate as of current years. We do see some more room to re-risk into mortgages and a little bit within the fixed income space, where we could move a bit more from costs [ph] to credits.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Thank you.

Operator

We'll now take our next question from Johnny Vo from Goldman Sachs. Please go ahead. Your line is open.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Thank you. Just three questions. I mean, if I look at slide 11 and then I look at slide 28, and I look at the change in definition, it just looks slightly disingenuous that you're taking in your new definition of OCC all the benefit through own funds, but no negative benefit through SCR. So I can look at the pretty much a EUR200 million transfer into own funds and none of the or minimal amounts to the SCR moving in. Given that the fact that your solvency has remained flat broadly for a long period of time without the buyback, then this suggest to me that the OCC you currently report is broadly about correct. Can you comment on the two slides 11 and 28?

In terms of the remittances that you've got as well of about EUR500 million, at the half year stage, you said that the solvency position of the non-life business should have been 174%, it's 162%, so there clearly was some one-offs in terms of the remittance that you received this year. In addition, we had a very strong bull market in equities. Most of your equities reside in your life business. So off the remittances, how much of the remittances is really one-off and how much is sustainable?

And, finally, the third question on the EIOPA review. If I look at what they're suggesting, if they put through a negative interest rate shock, what is the impact on your solvency? Thank you.

A - Annemiek van Melick {BIO 20317450 <GO>}

To start off, Johnny, with your first question on comparing slide 11 with slide 28 and then the new OCC definition. A couple of points to make there. Obviously, the excess returns and the change that we've made there, that's something that will flow through the own funds there. And we have seen some changes to the SCR in that new definition, also related to release of capital where we have included new business strain, which actually added quite a bit there. You see there that we went from minus EUR45 million already in this capital to minus EUR13 million. Now within that there are two big chunks. Obviously, we have the release of market risk, but the impact of the new business strain was actually more than double that. So we did take some new business strain SCR into account there as well.

And on your questions of remittances and the actual non-life position. I'm going to move to this slide where we have that, which is I think Slide 15. Yes, we did guide at the half year results that the -- then prevailing non-Life solvency ratio would have been 174%, if you would have taken a Loyalis on a good way into account. But what was in there is that, we didn't do any remittances out of non-life in H1. We did the remittances out of non-life in H2, which is basically what you see there in terms of impact going from 174% to 162%. That explains that jump. So it's not a one-off, it's more a different in timing of the remittance.

Q - Johnny Vo {BIO 5509843 <GO>}

But should we see the solvency decline year-on-year then, every time you take a remittance out?

A - Annemiek van Melick {BIO 20317450 <GO>}

Not really, because you also have the generation within there. It's more the timing of when you take it out. And in the H1 figures, we did already take some remittances out of the life, but not yet out of the non-life. So that's why you see a bigger chunk movement into the non-life part from a half year to half year growth is there.

And in terms of EIOPA, I think it's still pretty early to say what the actual impact there will be. Yes, of course, we will see an impact if everything there is now checked and the market would come true, but it's probably -- you too bear in mind that all supervisors, including DNB, have said that there should be a balanced approach and they're not aimed at increasing capital. We've seen some opening towards discussion on the risk margin, and we've also found DNB quite constructive and

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open-minded to explore measures to counter any negative impact arising from the changes, and so it's still a wait and see. It's an early stage. It has to go to European Parliament, probably be a 2023 event. So we still have some time to absorb whatever comes out of there. And with that in mind, it's -- we still have the potential to move to an internal model.

A - Jos Baeten {BIO 2036695 <GO>}

And maybe to add-on there, Johnny, part of your question on the remittance was the sustainability of it and the answer to that is quite clear, all remittances we've made last year are sustainable also going forward. So no worries about that.

Q - Johnny Vo {BIO 5509843 <GO>}

Thanks.

Operator

We'll now take our next question from Steven Haywood from HSBC. Please go ahead. Your line is open.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Actually just three questions from me. On your -- going back to the question about the non-life ratio, and have you thought about what sort of normalized remittances you'll be doing from this business every year? I know their ratio went up from 154% to 162% throughout the year, but you only took out one dividend in the second half, is it going to be similar going forward or is it going to be every half year on that? Thank you.

Second question is this EUR75 million per annum share buyback. Is that a limit? Is it a minimum limit or is it maximum limit or is it just that EUR75 million set in stone?

And then on your total return assumptions for equities and real estate, you state 5% for equities and you state 4.1% for real estate and these are total return assumptions. So these include dividends and they include capital gains for the real estate side of things as well. It seems -- again, it seems a bit conservative considering the AEX Index probably has a yield of about 3% on average for equities anyway? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

So, Annemiek will go into the remittance on non-life, and your last question, Steven. On the EUR75 million, let me put it this way, it's a promise as long as we are above the 180% for the medium term and if and when the OCC, as earlier said in this call, is not fully used, we take it from there if there are other ways to spend it. As you know, we've always said we don't want to be capital hoarders. So if we can't use capital, we will always look at the most efficient way what to do with it. But EUR75 million, we wanted to be clear about the number. And I think that's what analysts and the market is used to. ASR is always clear about what they will do and want to do. That's why we said, well, let's just put a number out at, it's EUR75 million.

A - Annemiek van Melick {BIO 20317450 <GO>}

In terms of remittances, what we historically always done given the cash holding policy and that they only need cover holding -- folding an hybrid expenses and obviously dividend is that we remitted to 70% of the operating profit of the underlying companies. We don't see any reason to change that policy right now. So as far as that's concerned we try and stick to that and see what the future will bring.

And in terms of the new LTIM assumptions that we use for the OCC, yes, they are total return assumption. So it does include, dividend et cetera, does include gains in the real estate portfolio and it is more in line with markets. If you -- it's hard to see what all the other peers have that. It might be slightly, slightly conservative on the equity side and probably not so much on the real estate side.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

Operator

We'll now take our next question from Ashik Musaddi from JPMorgan. Please go ahead. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you, and good morning. Just few questions. So, first of all, this change in the new OCC, the drag from new business strain. Can you give a bit more clarity as to what has happened, so that you have a more drag from new business strain? Why it was not taken in past? Why is it taken now? So what is the change there, because I mean if I look at your new release, capital release, it feels like it's only minus EUR13 million in the year, which is like a rounding error on your SCR. So does this mean that the life book is not going backwards even by a penny or because in past when it was EUR45 million, it was around 1.5% of SCR. I mean, you are growing P&C somewhat, so it was fair to say that in past year life back because running offset around 2%, it sounded more reasonable, but if it is zero number, then it just sounds a bit weird that your life back book has no run-off at all. So are you growing in life book or are you able to maintain it flat with the new business, so that would be the second -- first question. I mean, why this change now?

The second thing is, in that cash flow chart, the holding cash on, there is something called EUR236 million other, sorry I might have missed it, can you just give some clarity as to what this is in total? I mean, what this other is?

And just on that remittance, like, if you just -- I think you did mention on the previous question, you have a 70% policy on remittance, if you just remind me again on that would be great?

And just the last question is, I mean, how should we think about dividend growth? You clearly mentioned that 5% to 10% would be ideal for investors as well. So if I think about this 5% to 10%, is it fair to say 1.5% comes from the buyback? Now, you're saying that your current OCC is about EUR450 million. Your target is north of EUR500 million. So that's a 10% growth in two years. So that's a 5% growth in OCC. So is that like 6.5% reasonable to bake in or do you think that it could be more or less? Thank you.

A - Annemiek van Melick {BIO 20317450 <GO>}

A lot of questions --

Q - Ashik Musaddi {BIO 15847584 <GO>}

Three actually.

A - Annemiek van Melick {BIO 20317450 <GO>}

(technical difficulty) the first one. The first one was on the OCC drag to -- of the new business strain. As you can see on page 28, I don't think that's the page that you are referring to actually. And there you see the minus EUR13 million in release of capital, which used to be minus EUR45 million. There is definitely a release of the life book in that SCR. So obviously you can see the release of the life book back in the risk margin, which remains unchanged.

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But you also see then in the SCR, where we have -- if you would break that down, the largest chunk and that would be slightly over EUR200 million release in SCR still comes from the release of insurance risk-related to the life book.

Now in the old definition, there was a new business strain, which was below EUR200 million, but in the new definition, the new business strain and the SCR that's added to that is over EUR200 million. The market release related to the life business that flows out and that's less than EUR50 million. So it's really there any uptick in the new business strain that has the impact and that causes it to go down and the reason why we did not have that in the old definition is that we were working that from the assumption that actually the new life growth was roughly the same as the redemption that we saw on new life -- in non-life, sorry. But non-life has actually grown quite a bit last year and we continue to focus on that as a growth area. So it feels actually more transparent to as of now these that old assumption and actually include the full new business strain of non-life in that regards.

And in terms of the cash or other, several moving parts are in that that EUR236 million that we see on -- I think of slide 15. On the cash position it covers all hybrid expansions, it covers the redemption of the revolving credit, it covers a bit of the smaller acquisitions that we have there and it also covers pension expenses. So it's really a mixed bag of lots of stuff that's in there.

Q - Ashik Musaddi {BIO 15847584 <GO>}

I mean just a request on that.

A - Jos Baeten {BIO 2036695 <GO>}

And on your --

Q - Ashik Musaddi {BIO 15847584 <GO>}

Sorry, just a request on that. It would be great like going forward if we can get the remittance and recurring cost, like hybrid expenses, holding company costs, so that we can figure out as to what's like a one-off like repayment of debt or M&A and what's a normal course of expenses, that would be helpful in future. Thank you. Sorry.

A - Jos Baeten {BIO 2036695 <GO>}

We will think about it. And on your last question, I think, the 1.5% that you assume due to the lower number of shares as a result from the buyback, I think that number is correct. And to be honest, I think the second part of your last question, I didn't get any more, so what was the second part of your last question?

Q - Ashik Musaddi {BIO 15847584 <GO>}

I mean, the thing -- I mean if I look at your OCC of EUR500 million at the moment, I mean there is not fully UFR is reflected in that as well as you have some better weather. So if I adjust for that, let's say, your OCC, clean OCC, the base OCC should be EUR450 million for 2019 and you are targeting north of EUR500 million for 2021. So that's in two years, you expect to grow OCC by about 10%, 11%. So that's a 5% growth. So is that what we should add to the lower share count to get to a normalized growth in dividend?

A - Jos Baeten {BIO 2036695 <GO>}

Well, we've shared the ambition is to deliver EUR500 million OCC and --

A - Annemiek van Melick {BIO 20317450 <GO>}

I'm glad you recognized by the way that it is fairly challenging target.

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A - Jos Baeten {BIO 2036695 <GO>}

And I don't know whether I agree that you could calculate those to grow, because you will mix up IFRS accounting and Solvency II accounting. So let us think a moment about the real answer to your question and if there is a good answer, we will come back to that tonight. Is that okay?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Absolutely fine. See you this afternoon. Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Thank you.

Operator

We'll now take our final question from Andrew Baker from Citi. Please go ahead. Your line is open.

Q - Andrew Baker {BIO 20402705 <GO>}

Hi. Thank you for taking my questions. Just two for me. So just interested on why now is the right timing to commit to a reoccurring buyback. So I understand the buyback. But on the reoccurring side, you're committing EUR75 million year, at the same time you're flagging headwinds to OCC and we have the EIOPA sort of noise in the background. So just a little bit on what went? And I think why now on that?

And then just on the partial internal model. It is still two to three years before sort of after you've made the decision to move to a partial internal model until it's fully implemented? Thank you.

A - Jos Baeten {BIO 2036695 <GO>}

Annemiek will take the last one and I'll give the last answer and immediately after that close the call. So, Annemiek?

A - Annemiek van Melick {BIO 20317450 <GO>}

And yes, if we were to move to an internal model before we have it all implemented and have all the use test on it, it will definitely take about three years. Yes.

A - Jos Baeten {BIO 2036695 <GO>}

And on your first question, why now? At the Capital Markets Day, we guided the market when -- if and when we would think about additional capital distribution and then we came up with the same formula, it starts with two et cetera. At that time, we took into account that there was an ongoing opportunity called VIVAT. And when that didn't occur, we promised to the market that we would reconsider our earlier guidance and the why now is because we made a promise on the reconsideration.

And we feel comfortable with our current level of capital and also having heard all the noise on the EIOPA review going forward and reaction from as well, EIOPA and our own regulator at this moment in time giving the opportunity that we still have to move towards an internal model if we would end up all wrong. We feel comfortable with the outcome of that going forward and that's why we've set well. We've made a promise and we want to live up to the promise and that's why we've guided to market now with this new guidance on the EUR75 million buyback, which we intend to do for a longer period if and when the solvency is above 180% and we will make a final decision on that on every new year.

So, having said that, and having answered the last question, many of you we will see tonight. Thanks for attending, and hopefully you are going to like the new team as you like to the old team.

I'm happy with Annemiek being part of the team, also happy with Ingrid being part of the team. We faced a challenging future, but we feel very comfortable that we -- as we have done in the past, keep on delivering on the promises we have made. At least that's what we work for everyday very hard and we will hopefully enjoy a nice dinner with the analyst community tonight. So, thanks for attending, and see you all later.

Operator

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

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