S1 2020 Earnings Call

Company Participants

- Bernhard Kaufmann, Chief Risk Officer
- David Knibbe, Chief Executive Officer
- Delfin Rueda, Chief Financial Officer

Other Participants

- Andrew Baker, Analyst
- Cor Kluis, Analyst
- David Barma, Analyst
- Fulin Liang, Analyst
- Gordon Aitken, Analyst
- Jason Kalamboussis, Analyst
- Michele Ballatore, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. This is the operator speaking. Welcome to NN Group's Analyst Conference Call on its Half Year 2020 Result. The telephone lines will be in listen-only mode during the company's presentation. The lines will then be opened for a question-and-answer session.

Before handing this conference call over to Mr. David Knibbe, Chief Executive Officer of NN Group, let me first give the following statement on behalf of the company. Today's comments may include forward-looking statements. Such statements regarding future developments in NN Group's business, expectations for its future financial performance and any statement not involving a historical fact. Actual results may differ materially from those projected in any forward-looking statement. Any forward-looking statements speak only as of the date they are made, and NN Group assumes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or for any other reason. Furthermore, nothing in today's comments constitutes an offer to sell or solicitation of an offer to buy any securities.

Good morning, Mr. Knibbe. Over to you.

David Knibbe {BIO 17996037 <GO>}

Yes, good morning, everyone and welcome to our conference call to discuss NN Group's results for the first half of 2020. I'm joined today by Delfin Rueda, our Chief Financial Officer, and Bernhard Kaufmann, our Chief Risk Officer. As usual, I will first take you through the highlights of the first half-year results. Delfin will then talk in more detail about the solvency position, operating capital generation as well as the financial results of the group. After wrapping up the presentation, I will open up the call for Q&A.

Let me start with the highlights shown on slide three. It's been an extraordinary first half of the year in many ways, first and foremost, because of the COVID-19 pandemic. Our first priority has been the well-being of our employees and an uninterrupted service to our customers. Thanks to robust systems and new ways of working, we have been able to continue supporting our customers through these turbulent times. Of course, COVID-19 did impact our business. For example, the lockdown restrictions meant having to find new digital tools for brokers and agents to reach customers to remotely. And we provided payment and premium holidays for customers experiencing financial difficulties.

On the other hand, we saw a lower frequency of P&C claims reflecting less traffic on the roads and more people staying at home, which largely offset the higher D&A claims, resulting in a combined ratio of 94.9% for the first half of the year. All in all, the impact on the operating result of around EUR30 million has been limited so far, while sales and new business were clearly much lower than in the same period last year. Similarly, operating capital generation held up well amounting to EUR543 million in the first half of the year.

Another important event in the first half of 2020 was the completion of the acquisition of VIVAT Non-life on 1st of April. We have welcomed the VIVAT employees and customers and started the process of integrating the business. It also contributed to results in the first half of the year.

Despite the volatile environment, our balance sheet remains resilient. NN Group Solvency II ratio is 221%, which is after deduction of the interim dividend announced today. And the cash capital position is EUR1.3 billion, reflecting cash outflows, such as the consideration paid for VIVAT Non-life and a redemption of the EUR300 million senior debt in June.

Our decision to suspend the 2019 final dividend and share buyback program in April was in response to the recommendations of the European and Dutch regulators, given the uncertainty around how COVID-19 would develop. However, it has always been our intention to make those distribution to shareholders in the second half of the year, if and when appropriate. And therefore, we have today announced that we are resuming the share buyback and will pay an interim dividend of EUR2.26 per ordinary share, which comprises the amount of the suspended final dividend, plus the regular interim dividend.

Turning to slide four. At our Capital Markets Day in June, we set out the strategic initiatives that underpin our commitment to creating sustainable value for our stakeholders, by increasing cash flow generation and driving growth in attractive markets. In May, NN Life completed a sizable longevity deal, which reduces our exposure to longevity risk and consequently further strengthens our capital position. The resulting capital benefit has allowed NN Life to further shift to higher-yielding assets and increase its quarterly dividends to the holding company.

In the first half of the year, we accelerated the shift to higher-yielding assets. We invested more than EUR4 billion in investment grade bonds, high-yield bonds, equities and emerging market debt, also taking advantage of the market opportunities especially in March and April. Even with the COVID restrictions and the challenges of developing new online sales process, we continue to launch new products to meet customer needs. For example, a unique product in Poland, allowing people already suffering from diabetes to take out this protection insurance. And in Japan, we introduced the Emergency Plus COLI product in early March, which provides attractive benefits also under the new rules.

Our asset manager, NN Investment Partners, collaborated with a strategic partner China Asset Management to launch its inaugural ESG-integrated China A-Share Equities strategy, responding to the growing demand for investment strategies that integrate Environmental, Social and Governance factors.

Moving to slide five. As I already mentioned, new sales were impacted by the COVID restrictions from March onwards. In turn, the value of new business was down versus the same period, also reflecting decreased interest rates as well as strong sales in the first quarter of 2019 ahead of the implementation of the revised tax regulations for COLI products in Japan.

On the other hand, the mortgage market remains strong. NN Bank originated EUR4.4 billion of new mortgages in the first half of 2020, of which EUR2.9 billion was transferred to the Group's insurance companies for their investment portfolios, as well as to NN IP's third-party Dutch Mortgage Fund.

Total assets under management at NN IP increased EUR285 billion at the end of June, reflecting positive market performance as well as inflow of assets. Even though there were outflows of assets mainly in March, this was more than offset by strong inflows at the beginning of the year and the second quarter. On balance, we saw a net inflow of EUR3.5 billion in third-party assets.

On slide six, we show our progress on cost reductions. We continue to work towards achieving our target to reduce the expense base of the business units in the scope of integration by EUR400 million by the end of this year. In the first half of 2020, we realize additional cost savings of EUR21 million, bringing the total cost reductions to date to EUR381 million compared with the 2016 full-year expense base. Even after we complete this program, we will continue to focus on increasing efficiency throughout the organization and this is reflected in the segment cost guidance that we gave at the Capital Markets Day in June.

The following slide shows the capital returns announced today. We have a clear capital return policy, consisting of a progressive dividend per share and an annual share buyback of at least EUR250 million. Following the suspension of dividend payments and the share buyback earlier this year, we are pleased to announce that we are now resuming capital returns to our shareholders. The interim dividend of EUR2.26 per share announced today is essentially made up of two components, EUR1.40, which is the amount of the proposed 2019 final dividend that was suspended, plus EUR0.86, which is the amount of the regular 2020 interim dividend calculated in accordance with our dividend policy.

In addition, we are resuming the share buyback program that was started in March and then suspended in April. We had already completed EUR183 million of the EUR250 million program, so we will now execute the remaining EUR67 million. This announcement today means that we will deliver on our intended capital distribution to shareholders.

And with that, I will pass it over to Delfin.

Delfin Rueda {BIO 7032761 <GO>}

Thank you, David. And good morning, everyone. You will notice a change in the order of my slides compared with previous presentations. This is because of our shift in focus towards operating capital generation as announced at the Capital Markets Day. So let me begin with the movements in NN Group's solvency position.

I'm pleased that, despite the turbulent financial markets in the past six months, we are reporting a strong Solvency II ratio of 221% at the end of the first half of 2020 versus 224% at the end of 2019. Operating capital generation added 7 percentage points to the ratio. I will talk more about the drivers of operating capital generation on the next slide.

We experienced extreme volatility in the markets in the first six months of the year, but as you -- as we have seen before, the longer-term market impact is relatively small. Market variances reduced the ratio by 3 percentage points in the first half of 2020, mainly due to unfavorable credit spread movements as well as equity revaluations.

The category Other includes various items, with a positive contribution from the longevity transactions, which more than compensated the negative impact of the reduction of the UFR by 15 basis points at the start of the year and the acquisition of VIVAT Non-life.

Finally, the ratio reflects our deduction of capital flows to shareholders of 11 percentage points. This represents the announced interim dividend of EUR2.26 per share or approximately EUR705 million in total, as well as the EUR183 million paid to repurchase shares under the share buyback program, which began in March and was suspended in April.

As you are aware, the Bank will be included in the calculation of the Solvency II ratio as from at the end of the year. Based on current estimates, this will have a negative impact to the Solvency Ratio of around 10 percentage points.

Let's turn to slide 10. Total operating capital generation in the first half of 2020 amounted to EUR543 million compared with EUR697 million in the same period last year. In the table on this slide, you can see the split by segment. This is in line with the guidance we gave at the Capital Markets Day and reflects the exceptional circumstances we are facing this year, given COVID-19.

The decrease of operating capital generation reflects the negative impact of the UFR drag and risk margin release as a result of the lower interest rates, mainly in Netherlands Life,

As well as the negative impact of the longevity reinsurance transactions. Another factor was the fact that there was no contribution from the Bank in the first half of this year following the suspension of dividend payments on the recommendation of the regulator.

In addition, we saw a lower net business contribution in Insurance Europe as a result of the COVID-19 restrictions, as well as lower margins due to a decrease in interest rates. On the other hand, the shift to higher-yielding assets resulted in a higher investment return mainly in Netherlands Life, and operating capital generation of the non-life business includes the results of VIVAT Non-life as from April.

As I already mentioned, the method for including the Bank in the Solvency II ratio and therefore in operating capital generation will change as from the end of the year. If we were to apply the new method already, operating capital generation for the bank for the first half of this year would have been approximately EUR50 million on a pro forma basis.

On the next slide, you can see that the cash capital position at the holding was EUR1.3 billion at the end of June 2020, compared with just under EUR2 billion at the end of 2019. Total remittances received from subsidiaries amounted to EUR718 million. As usual, details of all the remittances upstream by each segment can be found in the appendix of this presentation.

During the period, we also had cash outflows, including the consideration paid for the acquisition of VIVAT Non-life, the redemption of EUR300 million of senior debt and the repurchase of own shares under the buyback programs executed in the first half year.

Looking ahead, we expect cash capital to remain comfortably within our target range. Besides outflows, such as the planned dividend payment, we will also continue to receive dividends from our subsidiaries, including a dividend from NN Life of EUR225 million each quarter.

Moving on to the next slide, I will take you through the IFRS financial results of the group. Starting on the left, NN Group's operating result increased to EUR926 million from EUR914 million in the same period last year. Let me remind you that the 2019 first half-year result included EUR67 million of private equity and special dividends, while the result for the first half of 2020 includes a much smaller amount of EUR16 million of private equity dividends and non-recurrent benefits, and also reflects the negative impact of COVID-19, which, as David already mentioned, was around EUR30 million in the first half of the year.

We will take you through the operating performance of the individual segments on the next slide. On the right hand side, you can see that the net result for the first half of 2020 was EUR587 million. The decrease compared with the first half of 2019 is mainly due to lower non-operating items, in particular lower revaluations and market and other impacts, reflecting the volatile markets as a result of COVID-19.

On the slide 13, let me run through the performance of each segment starting as usual with Netherlands Life. The operating result of EUR494 million reflects a lower investment margin as the first half of 2019 benefited from EUR67 million of private equity and special dividends. While these dividends were just EUR9 million in the first half of this year. At the same time, we saw higher longevity and morbidity results in the first half of 2020, as well as lower administrative expenses.

The result of Netherlands Non-life increased to EUR111 million. We included the results of VIVAT Non-Life as from 1st of April, which was a contribution of EUR20 million.

Our Property & Casualty business reported higher underwriting results, including favorable run-off results and a positive impact from COVID-19. On the other hand, we saw lower underwriting results in Disability & Accident, including higher claims experience due to COVID-19, the reduction of the reserve in discount rate and continued unfavorable claims experience in Individual Disability, which was partly covered by internal reinsurance. The combined ratio was 94.9%.

Insurance Europe's operating result decreased to EUR133 million from EUR140 million in the first half of 2019, which included a EUR6 million non-recurring benefit. The operating result of Japan Life was EUR138 million, up 12% excluding currency effects. This reflects an improved persistency of the in-force portfolio. Asset Management's result was stable at EUR74 million.

The operating result of Banking increased to EUR80 million, which includes a EUR7 million non-recurring benefit relating to premiums on mortgages, sales to the NN IP Dutch Residential Mortgage Fund. The interest result was also higher, reflecting lower funding cost and higher penalty interest as customers took advantage of lower mortgage rates to refinance their loans.

Finally, the segment Other reflects a lower result at the reinsurance business partly offset by a higher holding result. In particular, the reinsurance result reflects EUR39 million of claims related to Non-life's Disability portfolio, while at the same period in 2019 included EUR13 million of such claims as well as a large claim from our legacy reinsurance portfolio.

With that, I will now pass you back to David for the wrap-up.

David Knibbe {BIO 17996037 <GO>}

Thank you, Delfin. NN Group has today reported a strong set of results showing resilience in a time of market turbulence and weathering the impact of the COVID-19 pandemic. Our capital position is robust with a Solvency II ratio of 221%, which already reflects the deduction of the interim dividend of EUR2.26 per share that we announced today.

Operating capital generation for the first half of 2020 was EUR543 million, adding 7 percentage points to the ratio. During our Capital Markets Day in June, we presented our strategy for NN Group and our aim to create sustainable value for our stakeholders. With our priority to maintain a strong balance sheet and the strategic actions we are taking to achieve resilient and growing long-term capital generation, we are well positioned to navigate through volatile markets, drive profitable growth, and deliver attractive capital returns going forward.

I will now hand you back to the operator to open up the call for your questions.

Questions And Answers

Operator

Thank you, Mr. Knibbe. (Operator Instructions) And the first question is from Mr. Cor Kluis, ABN AMRO. Go ahead, please.

Q - Cor Kluis {BIO 3515446 <GO>}

Good morning, and congratulations with the results. Question on slide 18, where you have to give the split-up of the OCG. We see that the line Life Experience variance, that's EUR37 million, quite a big plus. Is that COVID-19 related or could you elaborate on that? And on the same slide, we also see that there is a change of the SCR, which is a benefit of EUR35 million in the quarter -- in the half-year, you re-risk of course in the portfolio. So question is what is the re-risking effect because with re-risking, you would have expected negative effects from that line, so how much did the SCR increase as a result of the re-risking? That's on that slide.

And second question is on capital returns. It's good that you're finalizing the remaining part of the share buyback, given the capital position and operational results. What would be a logical moment to announce a new share buyback, is it really Q4 to review that or could it also have been little a bit earlier in the year at a certain event or something?

And my last question is on Japan, persistency quite good benefit for the results, of course. Could you elaborate a little bit more on that? How much of that is structural? It seems that clients there remain quite persistent in deed and would it mean that the next couple of quarters these results on an IFRS basis at least would also be so beneficial? Those were my questions.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Cor. Let me start by answering your questions on the capital return and Japan, and then I'll give the question on slide 18 of Delfin's presentation naturally to Delfin.

So on capital return, what will be a logical moment? Well, I wouldn't expect a share buyback announcement this year on top of what we have already announced today. I mean, if we look at our capital return policy, we obviously look at three factors there, the

Solvency II position, which is strong, our leverage position and our cash on the holding. And then, of course, we take into account what our outlook is for operating capital generation, and free cash flow also given the economic circumstances.

Earlier, we announced that our capital policy means a minimum of EUR250 million of share buyback annually. So that one will run off in the first quarter of next year. So the Q4 reporting for 2020 in February of next year would be a logical moment to talk about this.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay.

A - David Knibbe {BIO 17996037 <GO>}

That's on capital return. Then on Japan, indeed, we're putting in a lot of effort to keep the persistency at where it is, so we're issuing at times policy loans. We're doing a lot to support the portfolio. We're also benefiting from the last four, five years, where we had a substantial sales and, therefore, we're also able to build a substantial in-force book. I don't have now any indication that I would expect a major change in the persistency.

With regard to the development of the portfolio, in May, June, July we've seen a more positive trend on sales and assuming that the economy continues to open up in Japan, we're optimistic that we can increase the -- also the sales pattern for Japan.

And then let me give the question on slide 18 to Delfin.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, thank you, Cor, for your questions. On the Experience variance, there are several items but it is mainly the lower claims related to COVID in the Property & Casualty business, and also some positive deviations due to better longevity results, also related to COVID. So, most of it is COVID-related. In terms of the change in SCR, please keep in mind that the change in the -- for the re-risking, which increase our SCR by approximately EUR175 million. This effect is reflected in the bucket Other. So it does not appear as part of the operating capital generation. Therefore, the EUR35 million relates to the normal run-off of the portfolio mainly in the Netherlands.

Q - Cor Kluis {BIO 3515446 <GO>}

Okay. Very clear. Thank you.

Operator

The next question is from Mr. Andrew Baker, Citi. Go ahead, please.

Q - Andrew Baker {BIO 20402705 <GO>}

Hi. Thank you for taking my questions. So just two from me. On the COVID impact, so you said in June you expected the full-year impact to be EUR100 million on operating profit. It looks like it was EUR30 million in the first half. Does that mean we should expect EUR70 million in the second half or is it lower than you expected at the time in June?

And then is the impact on OCG just EUR37 million that you just talked about, Delfin? And then secondly just on VIVAT, so it contributed EUR20 million to Non-life results. Are there any one-offs in this amount? And if not, has your expectations on the benefit of this transaction changed? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Andrew. Let me just say a few things about the COVID impact and VIVAT. And I'm sure Delfin can elaborate if needed. So on the guidance, we don't have a reason to change our guidance on COVID-19. I think we continue to see a relatively limited business impact there, also due to the way the business is set up. In the EUR30 million for the first half year, we do see a deteriorating trend for a while already in D&A, but so far, it has been offset by more favorable P&C results. Most of the impact is on lower sales. Keep in mind that the -- so when we're talking about EUR30 million obviously, the most of the corona impact was only a quarter. So even though we report here for six months, the most of the corona impact was mainly in the second quarter and, therefore, we're also not changing our guidance that we've given at the Capital Markets Day of a EUR100 million impact.

On VIVAT, indeed, there was a EUR20 million impact in the first six months. I think it's fair to say that the experience so far in its early days is somewhat better than expected. Please keep in mind that the EUR20 million contribution was also positively impacted by COVID-19. The Non-life business of VIVAT has a -- is, to a large extent, a P&C business and the lockdown have a favorable impact on the claims ratios, mostly in fire and in motor due to less economic activity. So I wouldn't assume the EUR20 million contribution now as a run rate going forward. Maybe, Delfin, you can add on OCG.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, Andrew, on the OCG, you're right that in terms of Experience variance and other effects like, for example, in OCG indirectly COVID impact of a possibility to pay dividends out of the Bank. That, as you know, is included when we receive the dividends. The biggest impact in OCG comes actually through the impact in markets. So the low interest rates, as you can see also in the same slide 18, increased very substantially the UFR drag. And on that respect, that is the biggest impact. But otherwise you leave markets impact aside, the impact on OCG is also relatively similar, slightly higher than the EUR30 million for the operating result.

Q - Andrew Baker {BIO 20402705 <GO>}

Great. Thank you very much, guys.

Operator

Your next question is from Mr. Michael Huttner, BMR [ph]. Go ahead please.

Q - Unidentified Participant

Sorry about that I was on mute. Good morning. Thank you very much for taking my question. I only had one, which is at the Capital Markets Day, I had the impression -- the feeling that -- the guidance is a wrong word, but indications for operating capital generation for 2020 would be around the EUR1 billion. But at the half year, you're already around EUR543 million, so you're ahead of that. And I'm just wondering if there are any seasonality to make me think that the second half would be lower? That's my question. Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Michael. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. Thanks, Michael. No reason to provide any different guidance of what we said in the Capital Markets Day. Of course, the OCG in any particular period has a dependency on the level of interest rates and spreads over the -- we calculate it based on monthly levels of the value of our fixed income securities. So it is not just the start of 1st of July that the term is the investment return, but what are these investment returns every month. So it is difficult to provide a precise guidance of how this would evolve. But the guidance provided take at Capital Markets Day is still maintained.

Q - Unidentified Participant

Brilliant. Thank you very much. Thank you.

Operator

The next question is from Mr. David Barma, Exane. Go ahead, please.

Q - David Barma {BIO 19957338 <GO>}

Yes, good morning. Thank you for taking my questions. The first one is on the Dutch Life earnings and the technical result is pretty strong. You mentioned some mortality benefits there. I assume that you relating them to COVID specifically can be tricky, but perhaps can you give us an idea of what you're seeing in terms of excess mortality on your book compared to last year or on average?

Then the second question I had was on the investment margin in the operating capital generation. From what you've shown this morning, the CMD targets of EUR200 million extra seems relatively close to get to. Is there anything specific to call out on that investment margin you disclosed this morning or is that only the impact from the rebalancing of the asset allocation you've done during the semester or is there maybe background changes in the risk free curve since the CMD or something like that?

And my last question is on Non-life in the Netherlands. I understand the D&A result is impacted by COVID-related claims, by the mechanical impact of rates on Disability, and by the longer time claims inflation you're seeing in the Individual Disability. Would it be possible to split that out for the first semester or -- just to get an idea of what's recurring in there and what's not? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Okay, thank you, David. Delfin, why don't you take the question on Non-life and investment margin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. So, the first question. Hi, good morning, David. The first question on the technical result in Netherlands Life, this is driven by better longevity results, as well as some the better morbidity results as well in the first half of the year. Of course, the benefits on the higher mortality or better longevity, we don't expect that, that will continue. As a matter of fact that we have also seen fortunately that the number of deaths has come into closer to normal levels within the Netherlands.

In terms of the investment margin, the EUR200 million mentioned on the Capital Markets Day, it is still a good guidance. And of course, this will be changing depending on the level of the interest rates of the spreads. So in the one hand, we have seen that the increase of spreads provide some additional investment margin going forward as well as the re-risking that we have performed so far.

So overall, I don't think there is better guidance that this EUR200 million increase for 2023. In terms of the impact of the investment in higher-yielding assets, that's, of course, base and we need to take into account this a bit careful based on the spreads and the level of interest rates at the end of June. This good half already on annualized basis provide an OCG uplift of more than EUR100 million, approximately EUR120 million. But, of course, changes in these spreads will come over time as well.

A - David Knibbe {BIO 17996037 <GO>}

Okay. Thank you, Delfin. Then on the D&A result. Indeed, the overall result of the Non-life company was strong, but if you look then deeper, there are some offsetting effects. We've seen a continued deterioration of the individual D&A book. This is around 10% of the premium. We already saw some pressure, mostly in the medical profession on that book, and now even more in the current situation. We are taking measures on repricing, claim handling, and making sure that we manage this very efficiently also from an expense perspective. But these measures will take some time to implement.

Now, on the specific question on a breakdown, I can tell you that the impact of the discount rate for the D&A, the full D&A company for the first half year is around EUR20 million and you would expect a similar amount likely for the second half of the year. Overall, good to know that despite the upward pressure that we see, because of the discount rate and COVID and also the individual D&A book that our guidance of 94 to 96 hasn't changed.

Q - David Barma {BIO 19957338 <GO>}

Thank you. And if I may just one follow-up on the OCG and the answer you were giving already, Delfin. Could you just remind us the -- on what basis you -- at what points you use the curve to calculate the UFR drag in the risk margin release, now that you have moved to half-yearly reporting, is it still the sum of starting period of each quarter?

A - Delfin Rueda {BIO 7032761 <GO>}

So, the calculation of the UFR, the risk margin release, the investment spreads, is all based on the balances at the end of each month. So in the past, we calculated it based on quarter per quarter basis, but now as we are reporting for six months on a semester basis, things changed so much during this period of time. And this year, it has been the clear example of that. The evolution of markets and interest rates, and the VOLA up to March changed from first quarter to second quarter quite significantly. So we do calculate the operating result, I would say, on a monthly basis on balances on the beginning of the month.

Q - David Barma {BIO 19957338 <GO>}

Thank you.

Operator

The next question is from Mr. Jason Kalamboussis, KBC. Go ahead please, sir.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, hi, good morning. Sorry about that. The first thing that I want to ask is just on the -- come back a bit on the combined ratio details. So in D&A, you say EUR20 million was included to get -- that was -- that got your D&A combined ratio to 103%. But could you give us a sense in percentage points of what is therefore only the deterioration you saw? And by when do you expect to be back to normally a combined ratio below 95%? And also if you could give us an idea, I mean, the P&C was very good at 90.8%. Was that purely driven by COVID or did you had any reserve releases in there? Because also if we account on the negative effect of CRA, basically that's the third element if you want the discount that distorts a bit delivery of the 95% combined ratio.

The second thing is just come back on Michael's question on OCG. I mean, if I recall well, Delfin, your words in the Capital Markets Day, you did say that the OCG was going to be closer to EUR1 billion rather than EUR1 billion. So I would presume that the closer is coming from EUR1.3 billion, so it can be anything between that and EUR1 billion. So I would consider that the EUR543 million comes pretty much within your -- that guidance. If you can confirm that, that would be great. Thank you very much.

A - David Knibbe {BIO 17996037 <GO>}

Okay. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. So maybe starting with the second question. Indeed, at the Capital Markets Day, we highlighted the fact that COVID was having a negative impact and also the markets were dragging down. So overall, I remember saying that it will be closer to the EUR1 billion than the EUR1.3 billion. And therefore, I can confirm that the EUR543 million is certainly within that guidance.

On the combined ratio, you're right, Jason. There is a lot of things happening here, and as a consequence, one has to be interpret it with a bit of care. So indeed, the Property & Casualty combined ratio of less than 91% is driven in the one hand by a positive contribution of P&C coming from VIVAT because of the COVID. Also, the rest of the Non-life business benefiting from that. But there was also some releases from reserves in the Property & Casualty business related to the SME portfolio. So as we said in the press release, there are several impacts that, at the end, sort of net themselves out. But the discount rate of the D&A, there is the storm that you mentioned in the first quarter and some of the releases coming from the reserves in the Non-life.

So another aspect to take into account in the Disability & Accident, of course, is that part of the negative results of Individual Disability are reflected in the segment Other through the reinsurance arrangement with NN Re. If you were to add, let's say, the claims in the included in the segment Other, the combined ratio would move to approximately 97%, so approximately 2 percentage points more for the VIVAT -- for the Non-life total combined ratio.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

That is very, very helpful. Sorry to just put another little quick question. On the Bank not paying dividend, do you kind of accrue, that means should we be expecting, for example, when the banks are able to pay again dividends that we will be receiving, for example, 2020 also the '19 dividend, is that correct assumption? And also did you mention EUR50 million, I think I got 50, but I'm not sure as being the OCG for the first half?

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you. Yes, indeed 50. Yeah, on the bank, so we are following the guidance here of the ECB and the DNB. So we don't expect any remittances for this year. We do expect a catch-up effect over time if and when possible.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Fantastic. Thank you very much.

Operator

(Operator Instructions) And the next question is from Ms. Fulin Liang, Morgan Stanley. Go ahead, please.

Q - Fulin Liang {BIO 21126177 <GO>}

Hi. Thank you for the presentation. I have three questions. The first one is on the sensitivity of credit spreads. I actually have a little bit difficulty understand that. So you invested a bit more into the credit, the corporate bonds. However, the sensitivity you disclosed in terms of the percentage in Solvency II ratio movement is actually becoming more positive in the credit spreads widening, narrower than fourth quarter last year. But I think the credit spreads widening should economically be negative to the Solvency Ratio. But previously you were positive, because I think you underweighed in the corporate bond, but then you actually invested most. I'm just surprised that the sensitivity is actually getting more positive. So that's the first question.

And the second question is could you just give us a bit of update on the -- what the credit default downgrade experience you've seen so far and as well as the Dutch Mortgage kind of default or anything like that? So that's the second question.

And the third one is just so I'm clear, on the OCG of Japan, obviously despite your decrease in new business, your Japan OCG is relatively stable, presumably because that's based on the Japan statutory basis. Is it fair to think that as long as the overall book of Japan remained stable or slightly increased because you're still writing new business, the OCG should actually increase from here? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Okay. Thank you, Fulin. I'll give the first two questions to Bernhard and then Delfin will cover the OCG of Japan.

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yeah, Fulin. Thank you for your questions. First one, sensitivity of credit spreads. This has not changed and you're right, this is depending still on our positioning against the reference portfolio of our EIOPA, where we have underweight in corporate bonds and overweight in government bonds. And as the sensitivity takes into account, the impact also of the resulting volatility adjustment of the reference portfolio, you see these two different directions in corporate spreads versus government bond spreads. And that has not changed compared to the last quarters. And on Dutch mortgages and other credit default experience in our investment portfolio, we have seen no default events yet. We saw some rating migrations and also some percentage of our portfolio is impacted by rating migrations. But that is mainly by one notch and this relates to the large names and countries. And so we are monitoring this, but that is not a concern until now and Dutch mortgages in specifics there we also see a flat trend, so no additional pickup in activity there.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you.

A - Delfin Rueda {BIO 7032761 <GO>}

And Fulin, on the third question, on the OCG of Japan, which has been relatively stable compared to the first half of '19. This is, as you know, in Japan because of OCG reflecting the increased in solvency under Japanese rules, the more we sell as we have explained in the past, the lower their operating capital generation because of the new business strain. So as we expect sales to increase, also now impacted by COVID-19, we would expect that the sales that will increase over time, and, as a consequence, puts pressure on the current levels of OCG.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Thank you very much.

Operator

The next question is from Mr. Michele Ballatore, KBW. Go ahead, please.

Q - Michele Ballatore {BIO 17318680 <GO>}

Yes, good morning. Just on cash (inaudible) what is the outlook for 2020, the rest of the year? I mean is it just the Bank not paying the dividend or in general, you will have a more prudent approach on this? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yeah. Thanks, Michele. It's not only the Bank that has been affected by the prudent approach to paying dividends due to the recommendations or the provision from regulators. So we have also seen this year that affecting, for example, Poland but also other places like Spain, to some extent Belgium, some of our pension funds. So 2020 will be somewhat lower in terms of the dividends coming from the business units in Europe due to the impacts of COVID-19 and the restrictions. Of course, we do expect that things will normalize over time, also in this part of the free cash flow to the holding company.

For the remainder part of the year, which was also within your question, Netherlands Life is quite predictable, expect the EUR225 million per quarter. So that is EUR450 million and then additional EUR30 million coming from the coupon of the hybrids. And then as I said, in Europe it's more limited. We do not expect that this year we will receive dividend from the Bank. And Japan has already paid their annual dividend. So that should give you a bit of a guidance of what to expect in the second half.

Q - Michele Ballatore {BIO 17318680 <GO>}

Thanks.

Operator

The next question is from Mr. Jason Kalamboussis, KBC. Go ahead please.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes. Hi. Just a very quick one. Looking at the value of new business and the full that was relatively large as expected because of COVID, and because of change in Japan, I mean, if we were to think three years down the road, let's say, so that we don't -- I don't ask the question, if you're going to dispose of Japan. But is it correct to say that at the end of the day, if you were, let's say, sales recover, everything is better -- if you were to think about any disposal of Japan, you would want actually to replace it with M&A that would add to you -- that would give you new business of an equivalent nature? And in the second kind of similar question or would you actually be agnostic and it could be like Life or Non-life i.e. versus other groups like (inaudible) have specified that their interest in M&A is Non-life. Do you have that bias or are you agnostic? So...

A - David Knibbe {BIO 17996037 <GO>}

Yes. Thank you, Jason. I'm not sure I'm going to be very helpful on this answer, but the -- I don't think it makes a lot of sense to speculate about divesting units and which ones then we would buy. Our base case we made very clear at the Capital Markets Day is that we believe in organic growth that we can, not only deliver a operating capital generation of EUR1.5 billion, but also believe that in the run-up to 2030 that we can grow our operating capital generation at mid single-digit percentage. So that is our base case. If you would look at Life, Non-Life, it's fair to say that outside of the Netherlands, our focus has primarily has been on life and life protection. The Non-life business is -- the big Non-life business is all in the Netherlands. So that's the situation today.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Fantastic. Thank you very much.

Operator

Your next question is from Mr. Gordon Aitken, RBC. Go ahead, please.

Q - Gordon Aitken {BIO 3846728 <GO>}

Yeah, thanks very much. So a couple of questions. First, on the three longevity reinsurance transactions that completed in May 2020, really why now? And given -- I mean, the base table effect on mortality from COVID is, of course, you know is pretty clear. There is lots of uncertainty around the future projection. And so why now? And what did the reinsurer assume in terms of future life expectancy? You don't need to give me any real detail and it's just but did the reinsurers have no change in life expectancy, life expectancy up or life expectancy down?

And the second question is if you can just remind us what proportion of your Dutch pension liabilities are now reinsured for longevity risk? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Gordon. Bernhard?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yeah, Gordon, on first the transaction or timing of the transaction, which, of course, is completely unrelated to COVID-19 and the ongoing pandemic. This mainly goes back to the longevity risk is our big concentration risk in our portfolio. So from mid-term strategic perspective, we want to reduce this exposure. We want to have a better diversified portfolio also with respect to our insurance risk categories. And that is the main rationale behind this. So to free up capital that we blocked for this concentration risk and to actively -- more actively manage this capital position, that's a main motivation for us. And yes, of course, there are different views in the market on how exactly the trend and the improvement of mortality will develop over time. But the base assumption in the insurance industry and also in the reinsurance industry is that there will be additional mortality improvements. There are some, of course, deviating opinions on how exactly this will look like. But the main point and the main also capital intensity also for this risk category comes from simply possible adverse developments. And these adverse developments is what you have to capitalize for and that is where also our current concentration risk is coming from and that is what the reinsurers are taking over.

And the proportions of the Life liabilities, so it's around 15% of the technical provisions that we now have reinsured under this first transaction sort of give you the magnitude of the current deal.

Q - Gordon Aitken {BIO 3846728 <GO>}

Just follow up on what you just said. I mean, I know you said your decision to reinsure longev risk is unrelated to COVID, but presumably you changed the terms of the transaction, given COVID has had a massive impact on deaths, and of course, future life expectancy. And then also even you mentioned obviously the risks with the additional mortality improvements, and that is the risk, but it certainly hasn't been going that way for the last 10 years. So what particularly are you concerned about?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

So no, the negotiations and the preparations for these transactions have been months with -- started months before the COVID outbreak. And also if you look at the impact of COVID into the typical insured blocks of businesses, in the Life Insurance books, it's -- yes, it's an annual impact. It may be two or three years that this has impacted, but this is part of a typical fluctuation volatility you have to take into account looking into such a long-term liability and long-term business. And that a pandemic can occur, that's part of the pricing and also the assessment of a longevity transaction. And so that it's happening now or happening in 10 or 20 years, well, that's just the timing that we are currently confronted with, but that's not changing the fundamental view and also the pricing assumptions for these transactions.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks very much.

Operator

There are no further questions. Mr. Knibbe, back to you, please.

A - David Knibbe {BIO 17996037 <GO>}

Okay. Thank you very much all for your questions. Before we close the call, let me just wrap up by saying that NN Group has today reported a strong set of results, showing resilience in a time of market turbulence and weathering the impact of the COVID-19 pandemic. Have a good day.