S1 2021 Earnings Call

Company Participants

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

Other Participants

- Andrew Baker
- Ashik Musaddi
- David Barma
- Farquhar Murray
- Fulin Liang
- Michael Huttner
- Nasib Ahmed
- Robin van den Broek

Presentation

Operator

Good morning, ladies and gentlemen. This is the operator speaking. Welcome to NN Group's Analysts Conference Call on its First Half-Year 2021 Results. 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 as statements regarding future developments in NN Group's business, expectations for its future financial performance and any statements 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 a solicitation of an offer to buy any security.

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 result for the first half of 2021. As always, I'm joined today by Delfin Rueda, our Chief Financial Officer; and Bernhard Kaufmann, our Chief Risk Officer.

I will start off this presentation with the highlights of the first half-year results, including the strategic and commercial developments. Delfin will then talk in more detail about our solvency position as well as the financial results of the Group. After wrapping up the presentation, we will open up the call for Q&A.

Let me start with the financial highlights shown on Slide 3. Our businesses across the Group, delivered an excellent performance in the first half of 2021. We saw a strong recovery in sales in Europe and Japan as COVID restrictions are easing in many countries and online sales are becoming more common practice for agents, brokers and customers. Our value of new business doubled to EUR242 million on the back of higher sales as well as improved margins and business mix. At our non-life business, we see encouraging signs of improvements, partly thanks to the measures we have been taking.

The integration of VIVAT Non-life is also progressing well with 90% of VIVAT premiums already migrated to NN systems. NN Group's operating result increased 21% on the same period last year to EUR1.1 billion, driven by strong operating performance at all segments. Operating capital generation or OCG increased by 44% to EUR780 million. This increase reflects a strong business performance with better non-life underwriting results, higher new business at insurance Europe, and a higher net result at asset management. OCG was fully supported by a higher investment return on the shift to higher yielding assets and a positive contribution from banking under the new methodology.

Our capital position remains strong with a Solvency II ratio of 209% at the 30 of June, 2021, and we have announced today that we will pay an interim dividend of EUR0.93 per ordinary share. More details on the Solvency position and financial results will be covered as always by Delfin, later in the presentation.

Now let's turn to Slide 4. We continually strive to provide relevant products and services that meet our customers evolving needs and to be there when they need us most. As I mentioned on the previous slide, we saw higher sales in the first half of 2021, which is really encouraging and it illustrates the strength of our distribution channels as well as all the hard work in our units. The consequences of the pandemic in the past 18-months has highlighted the need for protection. For example, in the event of illness or loss of income, as well as the current under penetration of insurance in many markets. We continue to launch protection and living benefits products. For example, an income protection product in Japan which safeguards SME CEOs and their employees against the risk of not being able to work due to sudden illness or accident, as well as payment protection product in Spain.

Besides the higher sales, we saw the business mix in Europe shifting to more protection products as well as an improved margin in Japan as a result of management actions including repricing. All these actions resulted in a very strong value of new business in the first half of 2021, as you can see on the slide. On the other hand, we did all we could to help our customers deal with the damage caused to their homes and businesses during the recent floods in the Netherlands and in Belgium. And as claims, manager were immediately available inside to directly assess damages and where possible, process and payout the claims straight away or to provide an advance on the claim amount. We are proactively approaching customers in the affected areas to check, if they need our help.

Our insurance products are designed to help people at times like these and our customers can rely on us to support them. As should be expected from the market leader in the Dutch market. The full extent of the damage caused by the floods will only become apparent once buildings have dried out and all claims have been submitted. Well, there is still quite some uncertainty, we currently estimate the financial impact on our results of around EUR70 million, net of external reinsurance in the second half of the year.

Now, turning to Slide 5. We are making good progress on executing our strategy as set out at the Capital Markets Day last year, with a commitment to achieve resilient and growing long-term capital generation. Our strategy is built on three pillars, the first one, being our resilient balance sheet and Delfin will talk about that later. The second pillar is on generating strong cash flows in the Netherlands. The actions we are taking to improve the results of our non-life business are starting to come through. We have a leading position in Dutch pensions as well as strong defined contribution of our DC propositions. And we continue to attract inflows in line with our market share of around 40%. In DC assets under management are currently amount to EUR27 billion.

At the same time, mortgage origination at NN Bank remained at high level in a very buoyant Dutch housing market. These assets are also very attractive for our insurance investment portfolios and a large portion is transferred to Group companies as part of our shift to higher yielding assets. And NN Investment partners continues to attract new mandates with close to EUR4 billion of net inflows of third-party assets, while continuing this leadership, and responsible investing, and increasing the percentage of ESG integrated assets.

The third pillar is to achieve profitable growth in Europe and Japan. Our distribution strength in Europe is enhanced by digital capabilities, making customer engagement more efficient and more effective. For example, process digitalization to enable remote sales as well as the strong increase in lead generation, have both led to a growth in new sales. Our strategy is focused on organic growth, but we are open to inorganic opportunities that create value. We recently announced the acquisition of MetLife's businesses in Poland and Greece as well as 70% stake in Heinenoord, one of the largest non-life service providers and insurance brokers in the Netherlands. Both these acquisitions strengthen our proposition in the relevant markets and they are also accretive to operating capital generation, offering an attractive return on investment. At the same time, we continue to manage our portfolio and we can form a regular and thorough assessment of our individual businesses against the financial and strategic criteria. This has led us to announce the sale of our business in Bulgaria in February, and the transaction was completed in July.

The strategic review of our asset management business that we announced in April, is ongoing. We will update the market, when we have any news to share. When we talk about generating value, we mean value for all of our stakeholders and we measured this against our non-financial targets for excellent customer experience, engaged employees and our contribution to society, which are shown in the appendix. I'm particularly out of our highly engaged employees, who are committed to helping our customers while also actively volunteering in community projects.

Moving to Slide 6. Our commitment to shareholders is to provide attractive and growing capital returns and we have been consistent in delivering on that promise as our track record shows. We announced today that we will pay an interim dividend of EUR0.93 per ordinary share in September which represents an increase of 8% compared to last year. This amount is calculated in line with NN Group's dividend policy. So as 40% of the pro forma 2020 full-year dividend per ordinary share.

And with that, I pass you all over to Delfin.

Delfin Rueda {BIO 7032761 <GO>}

Thank you, David, and good morning, everyone. Let me start as usual with a movement in NN Group Solvency ratio in the first half of 2021. Our Solvency ratio remains as strong at 209% at the end of June. There are a number of items that impact the ratio. So let me take you through them.

Firstly, operating capital generation added 9 percentage points to the ratio. I will take -- I will talk more about the drivers of operating capital generation on the next slide. Market variance was positive, mainly reflecting the positive impact of the tightening of a spreads, in particular mortgage spreads and added 8 percentage points to the ratio. These two positive items were partly offset by the category other which includes an increase in the capital requirement due to the shift to higher yielding assets and the replacement of part of our source with government and corporate bonds with very long duration. In addition, the ratio was lowered by the impact of the UFR reduction from 3.75% to 3.60% as of the 1 of January this year. As well as capital flows to shareholders in the form of the announced 2021 interim dividend and the EUR250 million shares buyback program that commenced in March. Please note that the expected impact on the Solvency ratio from the recently announced acquisition of MetLife and Heinenoord as well as the sale of the Bulgarian business will be reflected at the time the respective transactions closed.

Let's now turn to Slide 9 which shows the operating capital generation by segment. Total operating capital generation in the first half of 2021 increased to EUR780 million compared with EUR543 million in the same period of 2020, with most segments contributing to increase. The main drivers of this significantly higher operating capital generation were the improve non-life underwriting result in both P&C and D&A as well as the higher new sales at the insurance Europe. In addition, the contribution from banking in the first half of this year is based for the first time on the new methodology, and reflects the statutory net result offset by a limited increase in risk weighted assets. Let me just remind you that in preview years, the operating capital generation of banking was based on dividends remitted to the holding. The ongoing shift to higher-yielding assets as well as higher equity valuations lead to a higher investment return mainly at Netherlands Life. On the other hand, higher sales at Japan Life lead to new business strain, which has a negative impact on operating capital generation in the short-term. A breakdown of operating capital generation by source can be found in the appendix to this presentation.

The next slide shows the capital position of the holding. Let me began as usual with Netherlands Life. Which reported an operating result of EUR520 million. The increase compared with the first half of 2020 -- Sorry. I think, I moved too fast with in the presentation.

So we are back to a Slide 10 and we're talking on the cash capital position at the holding, which increased to EUR1.5 billion at the end of June 2021 compared with EUR1.2 billion at the end of December 2020. Total remittances receive from subsidiaries reached EUR978 million in the first half of 2021. While we saw the gradual resumption of dividend payments from some units regularly, regulatory restrictions are still somewhat impact in remittances, mainly from NN Bank. As usual details of all the remittances upstream by each segment can be found in the appendix through this presentation.

Cash outflows in the first half of the year, where the payment of the cash portion of the 2020 final dividend of EUR252 million and the repurchase of own shares for an amount of EUR165 million. The amounts to be paid for the announced acquisition of MetLife in Poland and Greece, and Heinenoord in the Netherlands will be deducted from the cash capital position at the time that the transactions are closed.

Moving it -- moving onto the next slide, I will take you through the IFRS Financial results of the Group. Starting on the left, NN Group's operating result in the first half of the year was up 21% compared with the same period in 2020, with almost all business units reporting higher results. Please note that the current period benefited from EUR24 million of private equity dividends, while the first half of 2020 including EUR16 million of private equity dividends and non-recurring benefits.

I will take you through the results 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 2021 was EUR1.4 billion. The increase compared with the first half of last year and is mainly driven by higher non-operating items which include capital gains on the sale of public equities and government bonds in the current period. The operating result by segment is shown in a Slide 12.

Let me began as usual with Netherlands Life, which reported an operating result of EUR520 million. The increase compared with the first half of 2020 is mainly driven by a higher investment margin in the current period as we continue to shift to higher yielding assets, as well as higher dividends from equity investments, following the postponement of some dividend payments in the first half of last year due to COVID-19. The operating result of Netherlands Non-life increased to EUR189 million from EUR111 million in the first half of last year.

The higher results in P&C were mainly driven by favorable claims development in the five portfolio, also supported by frequency benefits due to COVID-19. In D&A, we saw favorable claims development in individual disability as well as a higher underwriting result in the accident and travel portfolio. The combined ratio improved to 92% versus 94.9% in the first half of 2020. This is a strong result, but please keep in mind that non-life results can be volatile, and as David already mentioned mention, we will see the claims from the flooding in the Netherlands and Belgium coming through in the second half of the year.

Insurance Europe's operating result increased to EUR161 million. As COVID-19 restrictions are easing many countries, the recording sales led to higher Life & Pension fees across the region. We also saw a recovering sales of COLI products in Japan. The operating result of Japan Life was up 23% on the same period last year, excluding currency FX, reflecting a higher technical margin, lower DAC amortization and trail commissions, and higher fees and premium based revenues. Asset Management, operating result increased to EUR91 million, driven by higher fees on the back of higher average assets under management and a more favorable asset mix. The operating result of banking was broadly stable at EUR79 million in the first half of 2021. Higher operating income mainly reflect in fees earned on the larger serviced mortgage portfolio was so offset by higher total expenses. Finally, the operating result of the segment other improved to minus EUR76 million, mainly driven by the higher operating result of the reinsurance business, which last year included claims related to Netherland's non-life's disability portfolio.

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

David Knibbe {BIO 17996037 <GO>}

Thank you, Delfin. We can look back at an excellent first half of 2021 with a strong financial and commercial performance at all of our business units. Operating capital generation increased 44% and our Solvency ratio remains strong at 209%. We have announced today that we will pay an interim dividend of EUR0.93 per ordinary share in September, in line with our dividend policy. Even if COVID-19 continues to impact the lives of many and uncertainties continue, our employees remain dedicated to providing excellent products and services to our customers to help them care for what matters most to them. We are committed to delivering on our strategy to create long-term value for all stakeholders, and we are progressing well to achieve both our financial and our non-financial targets.

Let me now hand you back to the operator to open the call for your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you, Mr.David. Ladies and gentlemen, we will start the question-and-answer session now. (Operator Instructions) Our first question is from Mr.Andrew Baker of Citi. Go ahead, sir, your line is open.

Q - Andrew Baker {BIO 3694545 <GO>}

All right. Thanks for taking my questions. So the first one is just on OCG. I'm just wondering if you could provide the outlook for OCG for the second half based on where current market conditions are? And if you're not willing to provide that, maybe you could just provide the mark-to-market impact this in second half from interest rates and mortgage revenues?

And then secondly, if you were to dispose the asset management business, just curious what would be your plans for any proceeds that you may receive? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Andrew. Delfin, can you cover the first question and I'll take the second one.

A - Delfin Rueda {BIO 7032761 <GO>}

Certainly. Thanks. Good morning, Andrew. Thanks for your question. On the OCG outlook for the second half, first let me remind you that, of course, OCG is more volatile than operating result as it is dependent as you rightly point out to the condition of the market of the rates in particular.

Nevertheless, of course, the first half of the year has been very good driven by many factors, so it certainly will be wrong to just use the first half of the year or multiply by two. There has been quite a few elements positive during the first half in several segments. For example, in life, we mentioned the private equity dividends that are not expected to come in the second half of EUR24 million.

Non-life has had a very good result and at 92% combined ratio, we do expect things to evolve more within the range of our target of 94% to 96%. But also Europe has had a strong sales and have benefited from strong market performance, providing some additional performance fees for pension business.

Keep in mind that also the bank has a good OCG contribution, as the strong origination of mortgages, there was a significant transfer to third-party that impact positively in the operating results and in the OCG. So overall, there is an elevated level in the first half that we don't expect repeated in the second half.

On your question on the rates. When you look at the OCG in the first half, these are based more or less on the average monthly rate in that period. And when we look at the current level of interest rates, they are close to that average. So overall the impact on the markets are expected, as you know, to be limited. Of course, don't forget the impact of the flow during -- in the second half.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Delfin. Then your question on potential proceeds. Just as a reminder for everybody what we have announced there, so we have announces a strategic review of our asset management business to see if we can accelerate the growth of this business by making it part of a larger platform, and options on the table, our joint venture and merger, a partial or a full divestment. Now this review is ongoing and obviously, if we have news to share on that we will do that immediately.

Yes, in terms of then speculating on capital return, we have a very clear capital framework. And in the past, we have been disciplined around returning capital to shareholders and we -- and all I can say in this stage is that we will remain also disciplined on returning capital to shareholders, not only in the past but also going forward.

Q - Andrew Baker {BIO 3694545 <GO>}

Okay. Thank you very much.

Operator

Our next question is from Mr.David Barma of Exane BNP Paribas. Go ahead, your line is open.

Q - David Barma {BIO 19957338 <GO>}

Good morning. Thank you for taking my questions. The first one is just to come back on the operating capital generation. So I think you mentioned EUR700 million as an underlying -- number for the first half versus EUR780 million reported. Can you just help bridge the two, because from what you're saying it seems like the gap is a bit bigger than that, was the project that you dividend very strong on might business and the European new business contribution? So that's the first question.

And then secondly on M&A and more generally on your appetite for life portfolios. Can you talk a little bit about your appetite work for, say, more guaranteed books of business, especially following the MetLife transaction where the portfolio differs quite a bit, what you are rumored to look at in the past?

And then maybe -- sorry, just a last small one on M&A, NN IP. So just to check in the press release, I see you refer to growth mostly and now you seem to mention all the options are still on the table, is that still the case, just to confirm? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Thank you, David. So let me start with your question on the M&A and NN IP, and then I'll give it to Delfin on the OCG question. Yes, let's start with M&A. I think -- let's start with a comment in general, I mean, we obviously have our hands full now with trying to close the transactions that we did and preparing the integration. Overall, our base case is organic growth and that's why we're also pleased to see the progress that we're making in driving long-term capital generation. That is really driven by our businesses, whether this is the non-life improvements that we have seen or for example the commercial growth, where we have been doubling our value new business or the mortgage growth. So -- and that is our base case.

Also, we'll continue to do active portfolio management and the divestment of Bulgaria is an example of that, and a strategic review that we're doing on NN IP. So currently, the priority is really around preparing and running the integration of our acquisitions and we'll also going forward will remain disciplined on M&A.

I think specifically, on your question on MetLife, I think MetLife had a very good overlap of business with our businesses and that helps in many ways, it helps obviously to create more synergies on the expense side, on the product side, but it also helps on the distribution side that you can easier a line distribution channels and create a larger platform for growth.

And that's why we were very interested in the MetLife business, both in Greece and in Poland. And it will support our growth profile in these markets also going forward and thereby also supporting our operating capital generation and the EUR50 million that we have given as a guidance on the back of this deal. Overall, it provides a double-digit return, so we're very pleased with the transaction and are now working to close it and prepare the integration.

For NN IP, I'm not exactly hear what your question are, indeed all options are still on the table. If we look at the underlying performance of NN IP itself, it had a very good half here, we saw an inflow of third-party business or a net inflow of third-party business of EUR3.9 billion, which is of course, very good news. But also the performance was very strong. We've seen an increase of our outperformance versus the benchmark that now 162 basis points, which is very good news and 70% of our Alpha funds are now outperforming peers.

So for us it's really a combination of good customer inflow, but also strong investment performance. And certainly, the ESG angle, as the sustainable and impacting investments of NN IP have always been a priority and we see that also coming through in the portfolio and there is a good growth also in that asset category. So overall, NN IP had a good half here.

A - Delfin Rueda {BIO 7032761 <GO>}

David, then on your first question, I always have a bit of a struggle to define what is normalized run rate or underlying. The truth is that the OCG in the first half of the year don't have, let's say, many short of one-offs, they -- it is supported by a strong underlying business driver. So the only thing is that these drivers were very strong. And in terms of guidance our expectations going forward, we do believe that it is not prudent to use that same figure for the first half for the rest.

I mentioned before the private equity dividends which actually is an one-off that we have indicated impacting operating results, but that actually is not an especial item within the OCG, as for operating capital generation we do consider the expected return on equity and the actual performance, over performance or underperformance is reflected in the market movement.

But with that clarification, I think the areas that were we see that has been very strong in the first half and might be less so going forward related to the non-life combined ratio. As I mentioned before, the level of strong sales in Europe we think that they can be maintained, but some of the outperformance fees for the pension business, it depends on maintaining a strong market performance and can be a bit less strong.

So overall, when you look at as you know, the overall expectations for the second half, certainly will be lower and probably closer to 700 million that you mentioned. But with no specific one-off to mention.

Maybe, of course, this raises questions in relationship to the target for 2023, on which apart from the positive momentum that we have seen across the different businesses, we see that for some upside on this segment targets, but also we have to take into account expected contribution from the acquisition of MetLife, Poland and Greece, and also Heinenoord in the non-life segment.

So, overall, just the two acquisitions together might bring something between EUR70 million - EUR75 million for 2023, apart from the positive momentum there.

Q - David Barma {BIO 19957338 <GO>}

Thank you.

Operator

Next question is from Mr.Ashik Musaddi of JP Morgan. Go ahead, your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you, and good morning, Delfin. Good morning. Just a couple of -- good morning, David. Just couple of questions I have if I may. So (inaudible) stick with this OCG, sorry to come back on this OCG. So if I hear you correctly, you were saying like second half 700 is more normalized, so if I do times to those 700 that looks like your normalized OCG at the moment is about 14 -- 1.4 billion. And you said that a couple of acquisitions would add about EUR70 million - EUR75 million so that basically takes you to about EUR1.5 billion, just shy of EUR1.5 billion.

And then there are dynamics of lower UFR in the future, some more underlying improvement in your P&C business, some growth in asset management, et cetera. So I mean, how do we think about like EUR1.5 billion? Are we talking about 1.6, 1.7 any color on that would be very helpful? That's the first one.

Secondly, I mean, David just wanted to say thanks that your capital management has been absolutely very spot on with respect to dividend, buyback et cetera, but is your capital generation OCG is moving higher and remittance is moving higher, then how do we think about the buyback? What needs to happen for you to say that okay, instead of 250 million now I'm doing 500 million buyback. So that is one thing I would like to understand, is when do we get a higher buyback, clearly, M&A is good as well, it is adding value, but any color on that?

And thirdly on asset management. Now, if I understand correctly, I mean, you've delivered like EUR90 million profit in first half, that's EUR180 million for the year without any growth, post tax is EUR140 million, I mean is that the right way to look at the math on asset management earning, because the speculated EUR1.4 billion then looks relatively low for business that is making EUR140 million and is generating cash on the recurring basis? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Thank you, Ashik. Delfin, can you start with the OCG question?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes. So, thanks, Ashik. You're right. I think that is certainly, clearly upside to the EUR1.5 billion target for 2023. I don't think it's now the time in order to set a new targets, but apart from the acquisitions that we have mentioned, there are some positive underlined drivers within the different business and re-risking, we are also progressing quite well.

In terms of the cap -- how to think about the share buyback, I mean, certainly we have been a very clear and actually we have update with the same clarity in terms of delivering returns to shareholders with the surplus capital, when we have excess capital is part of our capital management policy and we will do so in going forward.

We have a range forecast capital between 1.5 and -- between 0.5 and 1.5. So any excess above that we will over time, as you know, trying to come -- bring it back to that level. Of course, there are some acquisitions that we are expecting to close in the case of Heinenoord before year-end and in the case of MetLife, in the first half of next year, so this will be some cash outflows. And we will continue be acting in that same manner.

A - David Knibbe {BIO 17996037 <GO>}

Yes. And then on your question on asset management. I mean the way we look at the asset management, this is, as you know, Ashik, we really look from an operating capital generation point of view. So the operating capital generation in -- for the asset management in the first half of EUR67 million. We've given an OCG target for the NN IP business of EUR125 million in 2023. And well, as you can see from the results that we're well on our way to deliver on that EUR125 million OCG target.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you.

Operator

Our next question is from Mr.Michael Huttner of Berenberg. Go ahead, your line is open.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. Thank you. So congratulations on amazing results. And I mean, yes, anyway, I was trying to -- I feel sorry for myself for not having used by that, that's me. And just two questions, if I may? The first one is, could you possibly give us a kind of walk through what could be the cash at the year-end? I drive the figure, but I forgot the some of the deals closed after the event. I'm completely confused now. So any kind of help on how we can using kind of some of the subsidiaries do remit quarterly and some don't and maybe the bank will do a catch-up and I got confused with all this. That's we really gratefully received.

And then the second is on the strategic review of the asset management and can you help us a little bit on this? So the business is doing fantastic, you do not need the cash, you don't seem to have tail risk like some of your competitors. I don't get it, I still don't understand what prompted you to review something, which you had firmly embedded in your strategic plan for 2023? And clearly, I'm missing something, you're very sensible company, so you've talked this through. Any help on explaining why it makes sense? Would be grateful to receive it. Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Michael. And thanks for the compliment also. I think, let me start with the strategic review on the asset management and then Delfin can talk about the cash position at the year-end. Yes, so indeed to your point, we're not trying to address here an under-performance issue or a big problem in our business. This is really a long-term strategic review and then the question is, do we have the right setup, is the right way to further develop the asset management business? And we all know, that there's a skill is an important element. We know that having scaled to invest in the right capabilities is important, there is an ongoing pressure on fees, there is still a shift to passive.

So there's a lot of macro trends that are happening, at the same time we also see that customers become more demanding, there's white capabilities are needed from LBI up to the general kind of the Alpha products all the way up to alternatives and everything that is in between. So there's a lot happening in this space, it's clearly also becoming more and more a global space, a global competition, which I would argue is not necessarily the same for insurance where we often compete in very much in local markets with local regulation and local tax laws and local pension systems.

So there's a lot happening and this has led us to say let's do a strategic review, not because of that today, we don't have a good performance at to your point where, and I make that point earlier, we're very pleased with that performance, but it is also long-term at the best way to run our asset manager and/or should we think about accelerating the growth by making it part of a larger platform. That's what we're investigating and I trust that we will also come with a sensible outcome of this review, and once we know this, we'll obviously come back to you.

Then on the cash position, Delfin.

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, good morning. Thanks, Michael. So let me see if I can provide you a bit of guidance on that front. For the cash position first and important is the expected remittances. 2020 was year where we saw restrictions on the payment of dividends, although there is still some prudency and some limitation in some markets we see that this has more -- has already more normalized and this is already reflected in the remittances of the first half with the exception on mainly of the bank, on which the amount of the dividend was of EUR13 million following the limitations, current limitations by we do expect that as from September, this will be clear and there will be -- we will come back to the normal payment of dividends from the bank.

Also, of course, in order to look at the dividends of the second half, you need to take into account that there is a formality on which insurance Europe and some other entities tend to pay more dividends in the second quarter of the year.

The long-term guidance in terms of free cash flow not only remittances but also the expenses of the holding are to be in the range of the operating capital generation. There are of course other cash flows that are happening, one is still the execution of the share buyback program that we are now more or less around half of that program, so that will continue over time. And then the different transactions we will have a some proceeds from the disposal in Bulgaria, not that large.

And then in the second half of the year, we are expecting to close the acquisition with of Heinenoord and that will be approximately EUR300 million. And that is the cast outflow related to the acquisition of 70% and also the fact that we refinanced, we take a loan on board of EUR129 million. So for the second half of the year, there will be this EUR300 million outflow in terms of cash.

And then the acquisition of MetLife which is, of course, more significant around EUR600 million, a little bit less, EUR584 million expected, this will only happen in the second half of -- sorry in the first half of 2022.

Q - Michael Huttner {BIO 21454754 <GO>}

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

Operator

Our next question is from Ms.Fulin Liang of Morgan Stanley. Go ahead, your line is open.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. Very good results and congratulations. Got two quick questions, hopefully. So the first one is obviously in Dutch, you have seen the frequency benefits and are you seeing the severity actually going up in Dutch market at the moment, and also you making any provisions for this potential severity kind of going up? So that's the first one.

And secondly is, I just wanted to look at your VNB. So obviously your VNB actually grows year-on-year is very impressive. But then, if I compare the VNB versus the pre-COVID world, which is the 1st of '19 number, first half 2019, it kind of, really kind of flat. However, so that is based on the fact I -- if I understand correctly. So Japan is still in partially lockdown and maybe many of the CE countries that are still kind of restrictions in the place. So therefore, your current capacity may not be the full capacity.

So I just wanted to, if we can, do have assessment of the real organic growth of the business in CE countries as well as in Japan? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Fulin, thank you. So let me first start with your question on VNB. Indeed, we had a very strong development of VNB versus last year, Europe was up 61%. I think there's a couple of things happening here, we do see higher demand from customers in general, the -- I think COVID maybe even the extreme weather, everything that's been happening to the world has led to an increased awareness of vulnerabilities that people have. And certainly in some of the markets outside the Netherlands, where we operate the level of social security protection and the insurance penetration is relatively low. So I think that is one factor that contributes to our growth.

I think there is also a bit more of a one-off effect, we have seen that households have in general spend a bit less, maybe less holiday, there's a bit of a catch-up effect as well that people are spend -- have a bit more money to spend, so I think that obviously is more of a short-term effect.

And the other thing I've been doing, we've been really moving our sales more into the online world. So I think we make very good steps in further making our business online. We set up also, we've shown a 40% leads increase to our agents. So I think part of it -- is market part of it is around doing and we've also seen that while tied agents were very resilient during the height of the pandemic. Now also banks and brokers are really picking up again.

If you look at the numbers, you would compare it to '19. I think Europe still shows a good growth, develop new business in '19, first-half was EUR108 million, it's now EUR135 million, so also versus '19 the first half which was obviously at pre-COVID were showing a good growth. Going forward, we've always said that VNB growth for Europe high single-digits growth should be achievable certainly on the back of these macro factors that I mentioned in the strength of our distribution channels.

So yes, this has been a very impressive number, but also over the longer term we believe we can continue to grow the -- develop new business and therefore also the capital generation of Europe.

Japan, indeed is a different story, we saw a phenomenal drop after the tax reform and after the -- and the COVID lockdowns, but also here, I think, we're very well on our way back up, we more than doubled our sales. I think that puts us in the number two position in the market with an overall market share of around 13%, 14%.

We continue to sell a lot of protection products, which is also a supportive for our value. So we see also for Japan going forward, we do see a further growth, even though, competition is, of course, also adapting to the new products like we have done. But overall, we've given a target of EUR150 million VNB for Japan in 2023 and we're well on our way to deliver that as well.

So all in all, indeed, I think it has been a very strong growth and -- but also going forward, we do expect that probably at a bit different pace, we do expect to grow our business. And by the way, this is not only around sales. If you look at Japan, for example, for the first time, we passed the mark of 100,000 SME customers. So also we're putting a significant effort in our retention, Q2 is typically a bad retention month but we managed to do that a bit better, therefore now for the first time we also passed the 100,000 number of customers in the SME space in Japan.

Then your question on the Netherlands. I think, I mean obviously the flood has a big impact. I think we also need to acknowledge that even though weather has become more extreme, if you look at the last period, the weather has been relatively favorable, certainly in the first half year, headed the floods obviously happened after the first half year. The weather has been favorable.

We are looking of course at our models, so what is this do in terms of our -- in terms of the premiums that we need to act as to customers. The fire market is still a relatively hard market, especially in the SME segment, maybe not as much as in the past, but there's still a possibility to increase premiums, we're needed. Retail probably also but a bit less, I mean we see less (inaudible), there's more people at home. But there's still some room also for increases.

So I think that's on the short-term. On longer-term, obviously we also have a reinsurance cover that is very helpful for this event that happened. We do think that over time, there is a possibility that we'll see more of these extreme weather is happening and that's something we need to account for in our pricing and potentially also for our -- in our every insurance coverage.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. Very clear.

Operator

(Operator Instructions). Our next question is from Mr.Nasib Ahmed of UBS. Go ahead, your line is open.

Q - Nasib Ahmed

Hi. Thanks for taking my question. So just coming back to the 2022 targets. You're progressing well against the EUR1.5 billion total target, but if I look at the divisions as you point out, insurance Europe, you're talking about EUR3 million to EUR5 million it's looking that is going to exceed P&C, I think it was EUR2 million to EUR5 million, that's looking (inaudible). But the one where it's you need to catch-up is life, it was a target of EUR900 million. So are you making good progress on the re-risking and you have to the target of EUR200 million. So, the question, where are you currently with respect to the EUR200 million and can you exceed that EUR200 million target and then related to that, on the solvency of the EUR3 million increase in the SCR, how much of that is driven by re-risking?

And second question, you just mentioned that the online sales are driving VNB. Is there a high -- lower persistency on this business? I guess it's too early to say, because you've just started selling the business. But in terms of the assumptions that you're making in the VNB, are you expecting lower retention from the (inaudible)? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Thank you, Nasib. So let me start with the online sales question and then I'll give it to you to Bernhard on the, let's say, the impact of re-risking and Delfin can cover the target of NN Life.

Yes, so maybe just to clarify, when we say online sales, we don't necessarily mean so -- you shouldn't compare this to direct sales. There are still agents, brokers involved. It's just the way they do it, there's -- they can do it via screen, there's a lot more online possibility to do policy amendments, online underwriting, so the amount of tooling is a lot more online and we don't need to have agents driving through countries anymore for a few hours to meet a customer. And then there's obviously the online lease model that can support these agents so that they get enough leads, but also they can do it in a more efficient way.

We don't have any indication that this would lead to a different retention level. In fact, I would argue that it's also positive for customers that they are now in an easy way -- easier way, we can do business with us in an online way, and generally, we see that the more online active customers are, the higher the NPS, the higher a net promoter score. So at which could potentially be a plus even four-year retention. So we don't have any indication that this would be a reason for lower retentions.

Then on the target of EUR200 million. Bernhard?

A - Bernhard Kaufmann {BIO 18347993 <GO>}

Yes, Nasib. Where we are with our re-risking program we have already now reached our target of additional EUR200 million OCG contribution coming from re-risking of our investment portfolio compared to our 2019 OCG numbers. So we successfully reached our targeted level, but please keep in mind that 2020 was a very special year where we were able to size opportunities in the market that were impacted by the pandemic.

And now, in the first half of this year, we shifted also to hide in assets, but at the last -- at a much lower pace and what we will do going forward is we will continue but gradually to shift to higher-yielding assets, mainly focusing then on the illiquids like mortgage real estate and loans. And yes, the SCR related to re-risking activities in the first half was roughly half of the numbers that we also show in the bucket of us.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Bernhard. Delfin, the overall target?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, thank you, Nasib. So for the 2023 target, you are right, we are progressing well. There is clearly upside to the EUR1.5 billion and I could go segment by segment, but I think overall there is a positive underline business driver. So for -- Bernhard has mentioned the ability on the further improvements on the re-risking on the investment margin, I mentioned already the two acquisitions that are going to contribute positively and we do expect also some additional benefits here and there. So indeed there is clearly upside to the EUR1.5 billion in 2023.

Q - Nasib Ahmed

Thank you. Thanks.

Operator

Our next question is from Mr.Robin van den Broek, Mediobanca. Go ahead, please, your line is open.

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

Yes, sir. Good morning, everybody. Thank you for taking my question. Only one last. I mean with your Investor Day, you basically guided for free cash flow to grow to work OCG over time, I was just wondering given you're flagging out-performance on OCG delivery versus EUR1.5 billion. I was just wondering how you're thinking on the sensibility of the capital generation towards free cash flow looks like in 2023 or share some words on how you think on other relationships progress onto that? Thank you.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you, Robin. Delfin?

A - Delfin Rueda {BIO 7032761 <GO>}

Yes, thanks, Robin. The link between the OCG and the free cash flow is an overtime reference because it's logical. The OCG is measuring how much is additional surplus capital is generated, let's say, on a normalized basis or driven by the normal business. Of course, always there is going to be fluctuations around that as market impacts the actual OCG -- market impact the actual surplus capital is not reflected in OCG and the rest.

And in terms of -- therefore this guidance is maintained. Obviously, in some units, the OCG might be usually a bit lower than the -- remittances might be lower than the OCG, but also we have other units like the segment Netherlands Life on which we are currently distributing slightly above the level of the OCG and it's expected that to be maintained for the future. So overall, that guidance is maintained

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

Okay. Very clear. Thank you.

Operator

Our next question is from Mr.Farquhar Murray, Autonomous. Go ahead please, sir, your line is open.

Q - Farquhar Murray {BIO 15345435 <GO>}

Good morning, all. I have just two questions if I may? First, we just on the floods estimate, I presume that 70 million this kind of limited risk around that, I presume, is kind of kept by the reinsurance coverage. And also, could I asked what the growth claims are within the estimate?

And secondly, just -- sorry to coming just back to NN IP. Could I ask how you're managing uncertainties around the process that within the business, it is ultimately a kind of people business? I do just wonder just, is there sense of urgency (inaudible) inclusion there? Thanks.

A - David Knibbe {BIO 17996037 <GO>}

Yes. Good morning, Farquhar. Yes, on the flood, so indeed the estimate is around 70 million pretax net of external reinsurance. Growth claims estimated around 90 million. And again, there's also here some uncertainty around these numbers, but this is broadly the ballpark of where we are.

On NN IP. Yes, obviously, we're actively managing this and I think also both the customer performance and the investment performance has shown that we're managing the uncertainties well. We also do a lot of measurements on staff and engagement that we've also seen that NN IP has a very strong engagement also in the company. So from that point of view, the uncertainties are well-managed.

Obviously, in terms of timing, yes, we're doing this on the one hand as fast as we can because there's no reason to delay it, but we also need to do it the right way, and this is important. So we're going to take the time that it that requires, obviously, as quick as we can but doing it right in a responsible way is the leading principle here.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks a lot.

Operator

We have no further questions, so, back to you, Mr.Knibbe.

A - David Knibbe {BIO 17996037 <GO>}

Yes, thank you very much again for all your questions. And before we close the call, let me just wrap up by saying we can look back on an excellent first half-year of 2021 with a strong financial performance and all of our business units, and a very encouraging growth in our sales and a solid capital position. Have a good day.