Capital Management at a.s.r.

Solvency II
is all about stock and flow

Chris Figee, CFO

11 December 2017
DNB Insurance Conference

Topics

Introduction

Solvency II “stock”

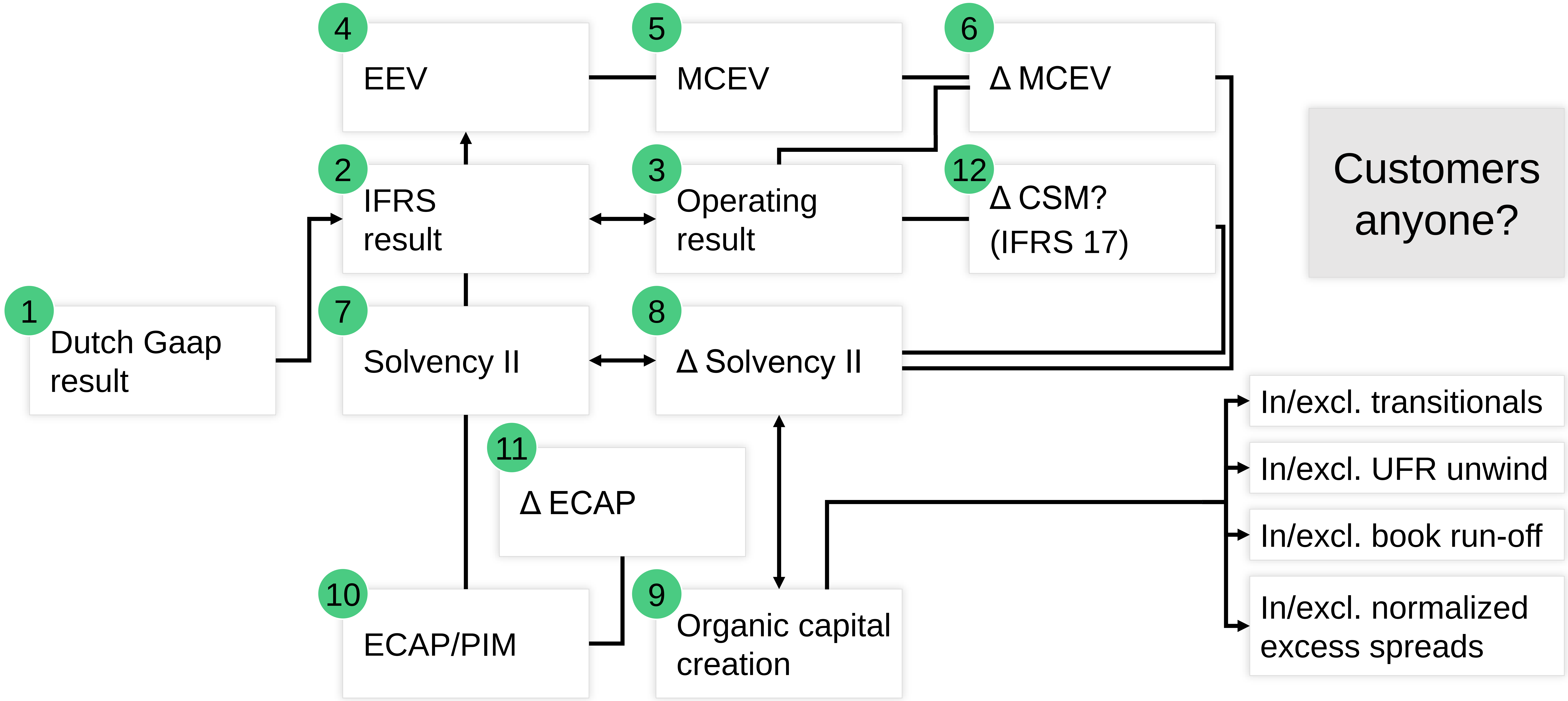
Solvency II “flow”

Trade-off of stock and flow

Assessing capital distribution capacity

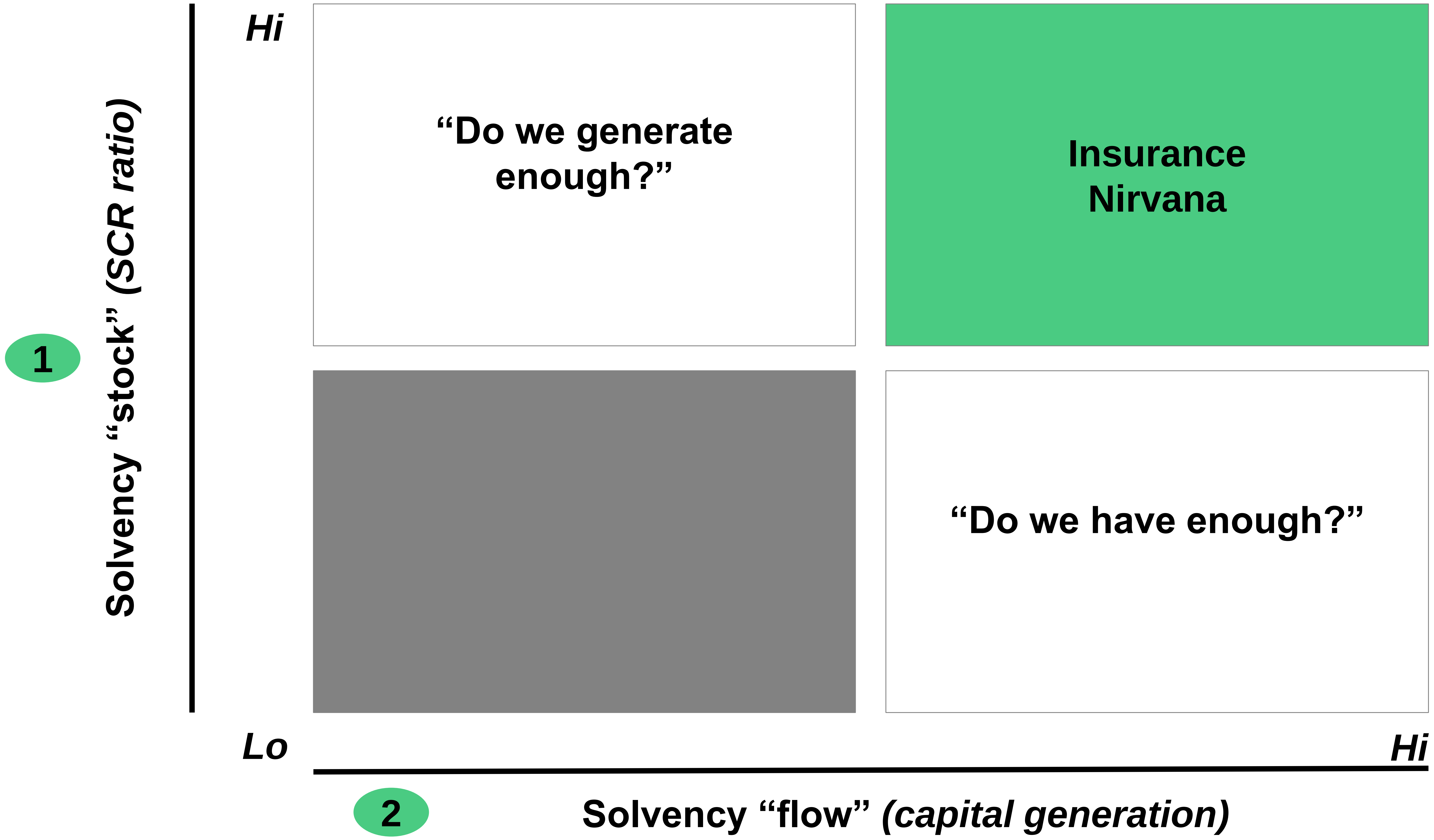
Wrap up

Evolution of insurance metrics

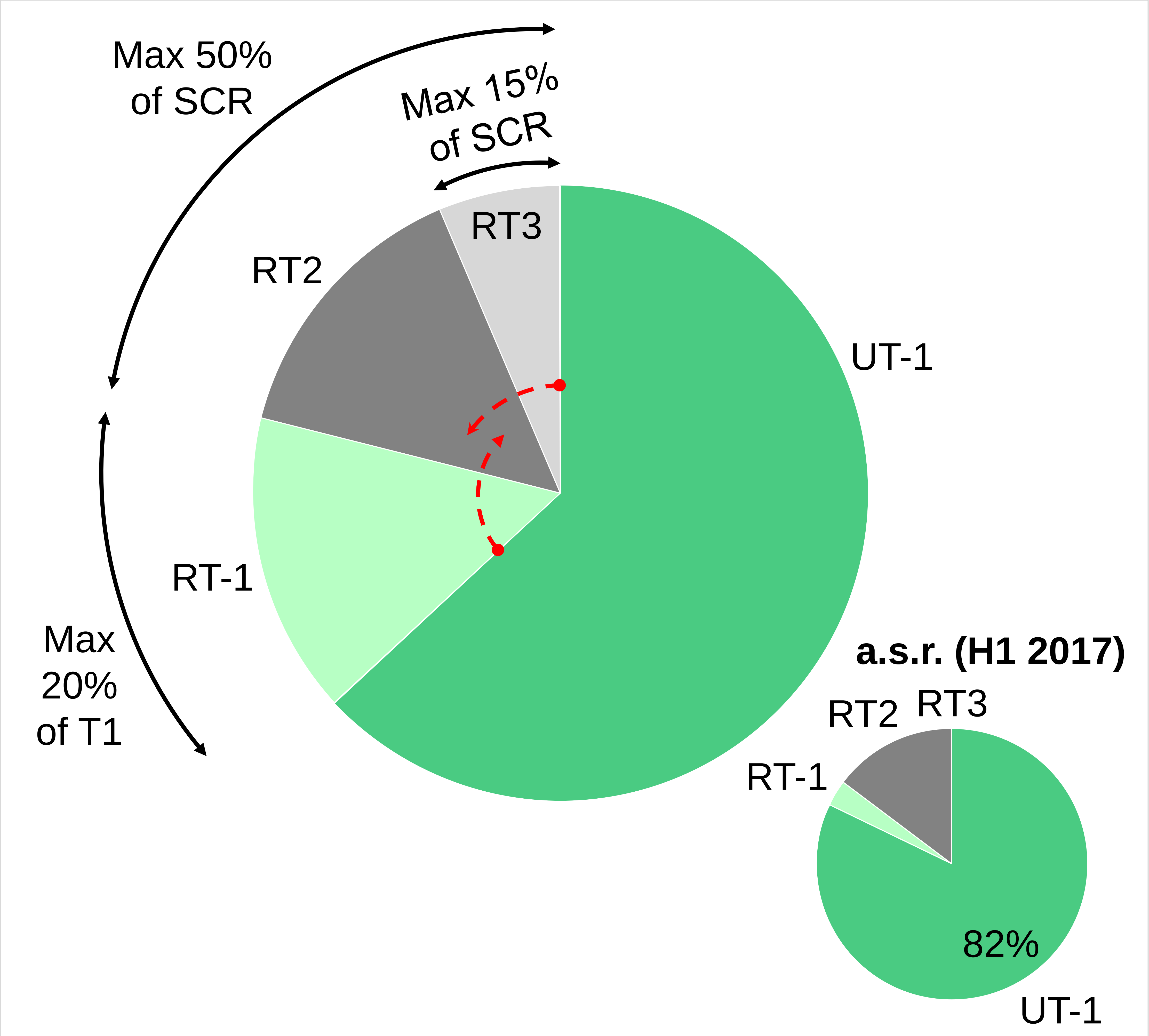


Customers anyone?

Dynamics of Solvency II: balancing stock and flow



Quality of Capital: The next focus point



RT2 / RT3 headroom is effectively <u>a function of required capital</u> including market risk

DTA's will consume RT3 space; eventually also reducing eligibility of RT2 capital

Upon decline of UT1, RT1 will move into RT2 category

Ineligibility not a problem in "all is well scenario", but may become a serious issue in case of asset losses, interest rate increases etc.

Beware of the spiral accelerating effect; down is dangerous!

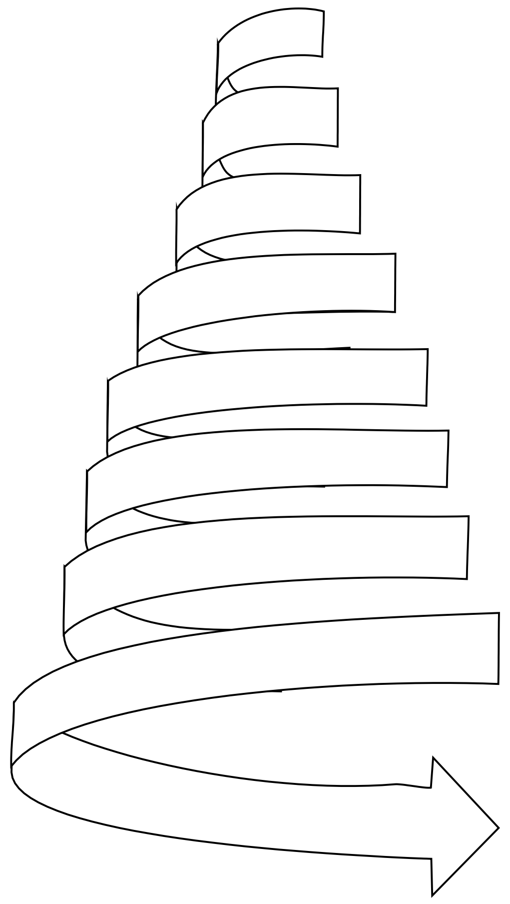
- Reduced capital requires de-risking, reducing future capital generation capacity

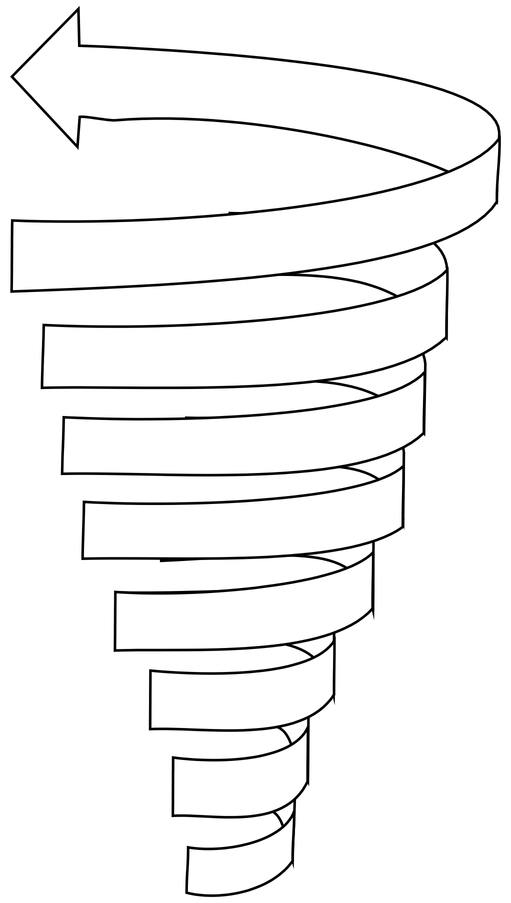
- Evaporation of vulnerable LACDT components

"Sudden" ineligibility of:

  RT1 / RT3 due to negative market developments

  RT2 / RT3 due to de-risking





- Capital enables generation of flow that creates future capital

- Excess returns continue to be realized

- Invest in value enhancing opportunities

Indicators of “positive/negative spiral” potential

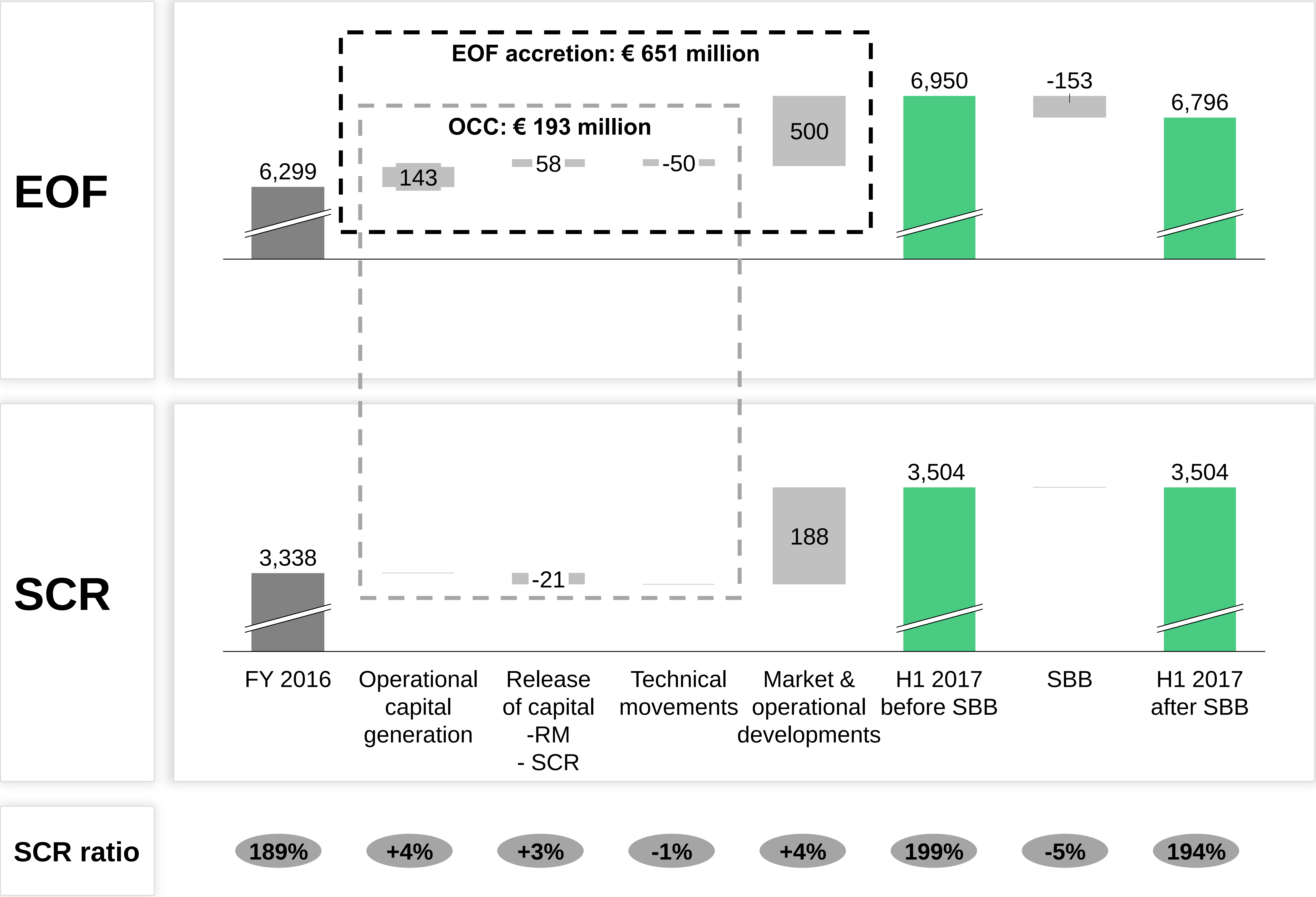
−

Restricted Tier 2/3 capacity fully utilized	LACDT dependent on current and future fiscal profits
Underperformance BEL assumptions	Market risk largest source of required capital

+

Headroom in Restricted Tier 2/3 capacity	LACDT founded in tangible claims against tax authorities
Outperformance BEL assumptions	Underwriting and counterparty risk largest source of required capital

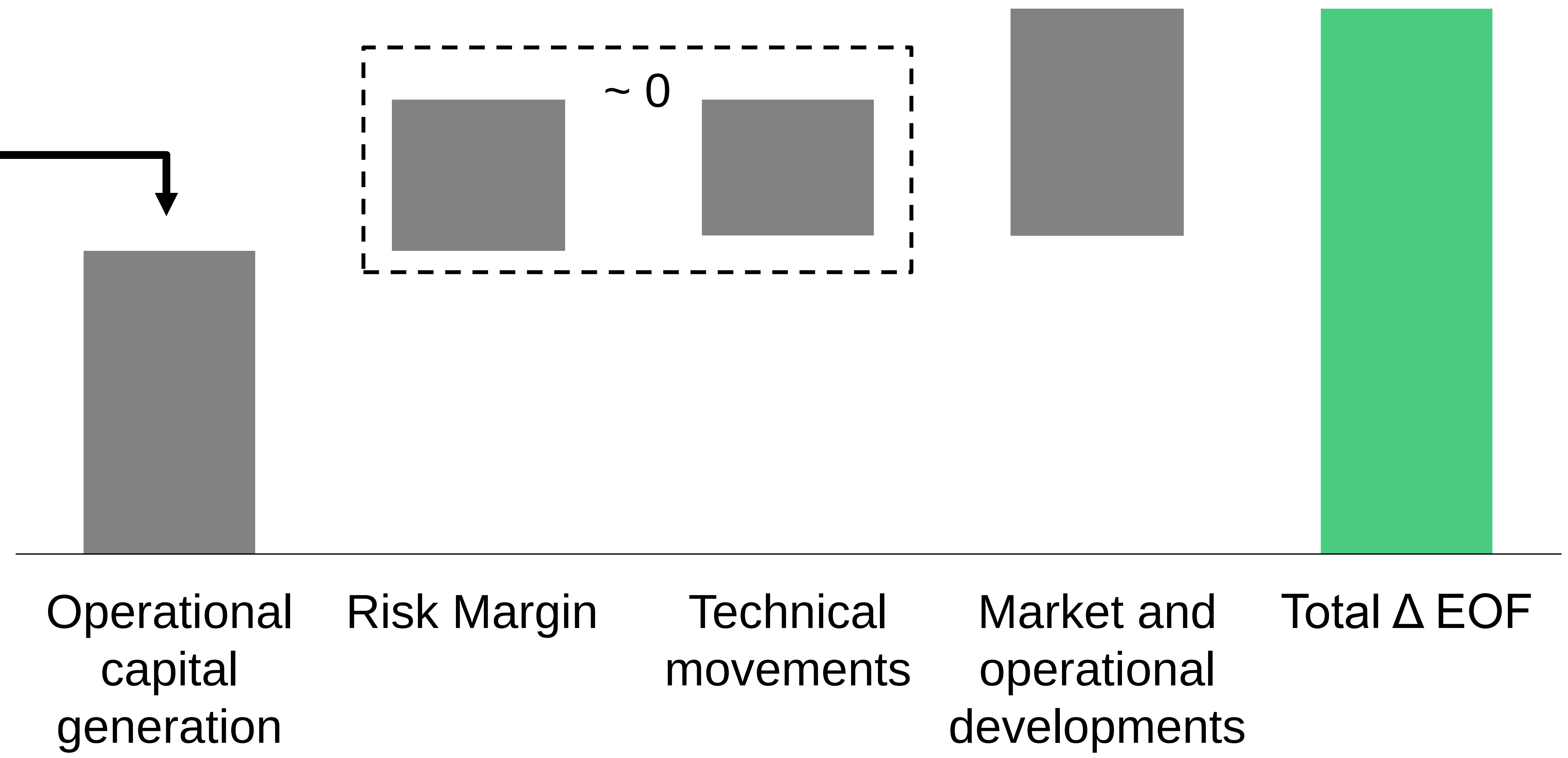
Flow perspective: OCC & EOF accretion



How to positively impact ‘flow’

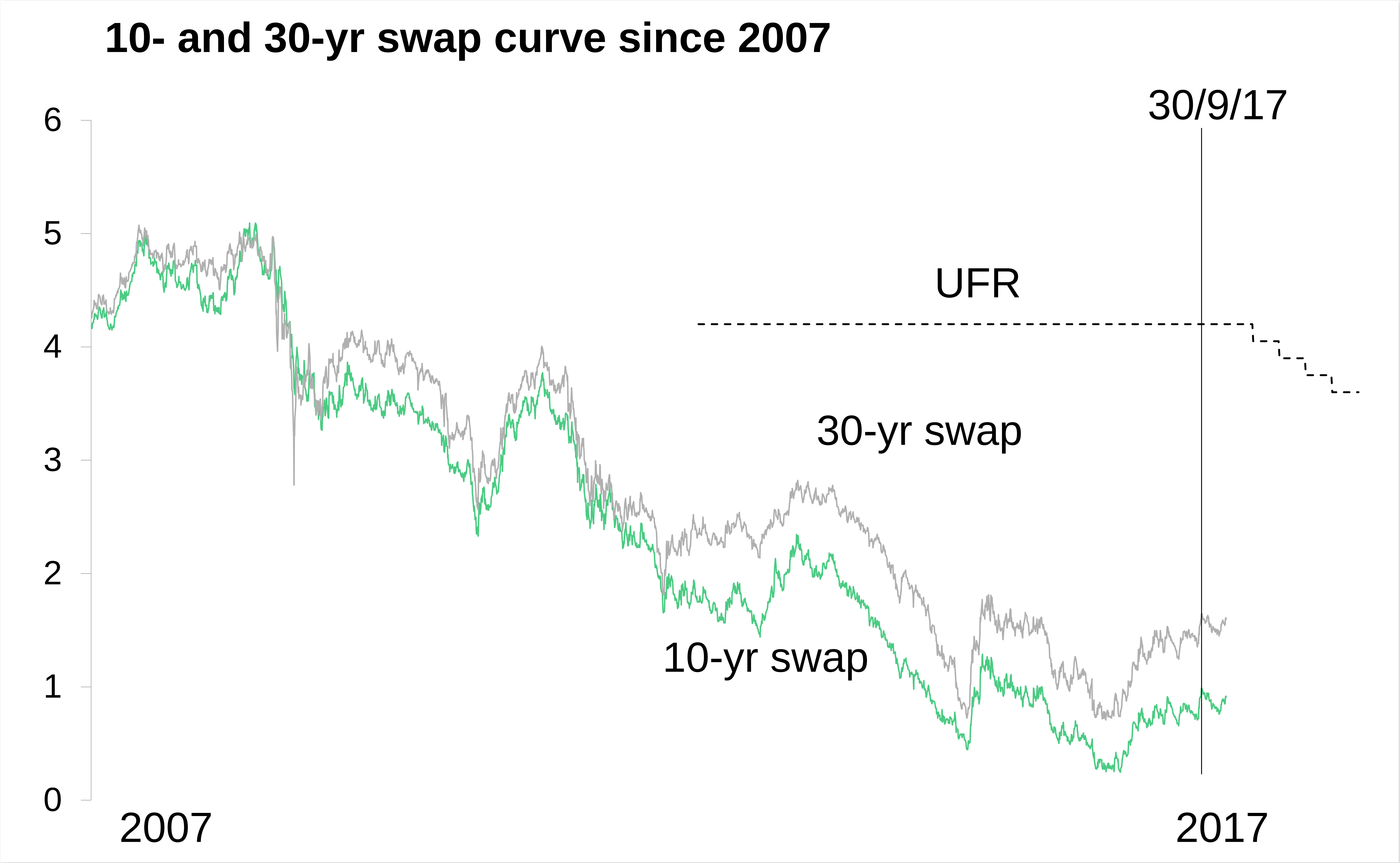
- Re-risk investment portfolio with focus on investment returns
- Increase investment portfolio
- Write profitable new business
- Increase capital light and/or fee-business
- Reduce financing and holding cost
- Improve operating and underwriting performance Non-Life

a.s.r. EOF bridge



- Increase total investment return
- Outperform BEL assumptions (esp. Life)
- Realize cost and capital synergies

What about the UFR?

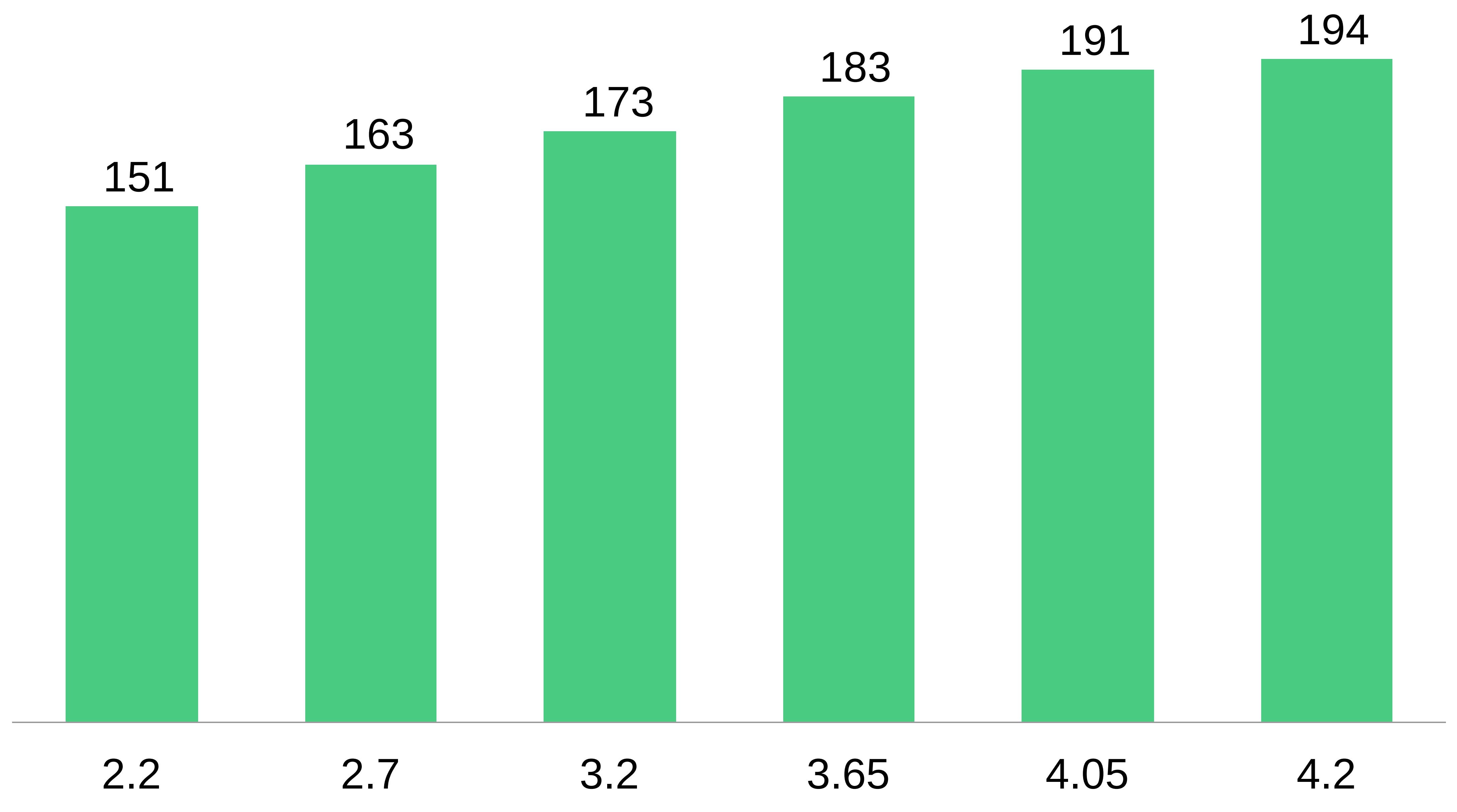


As from 1/1/2018 the UFR will be decreased with 15bps from 4.2% to 4.05% and further downwards thereafter in steps of 15bps

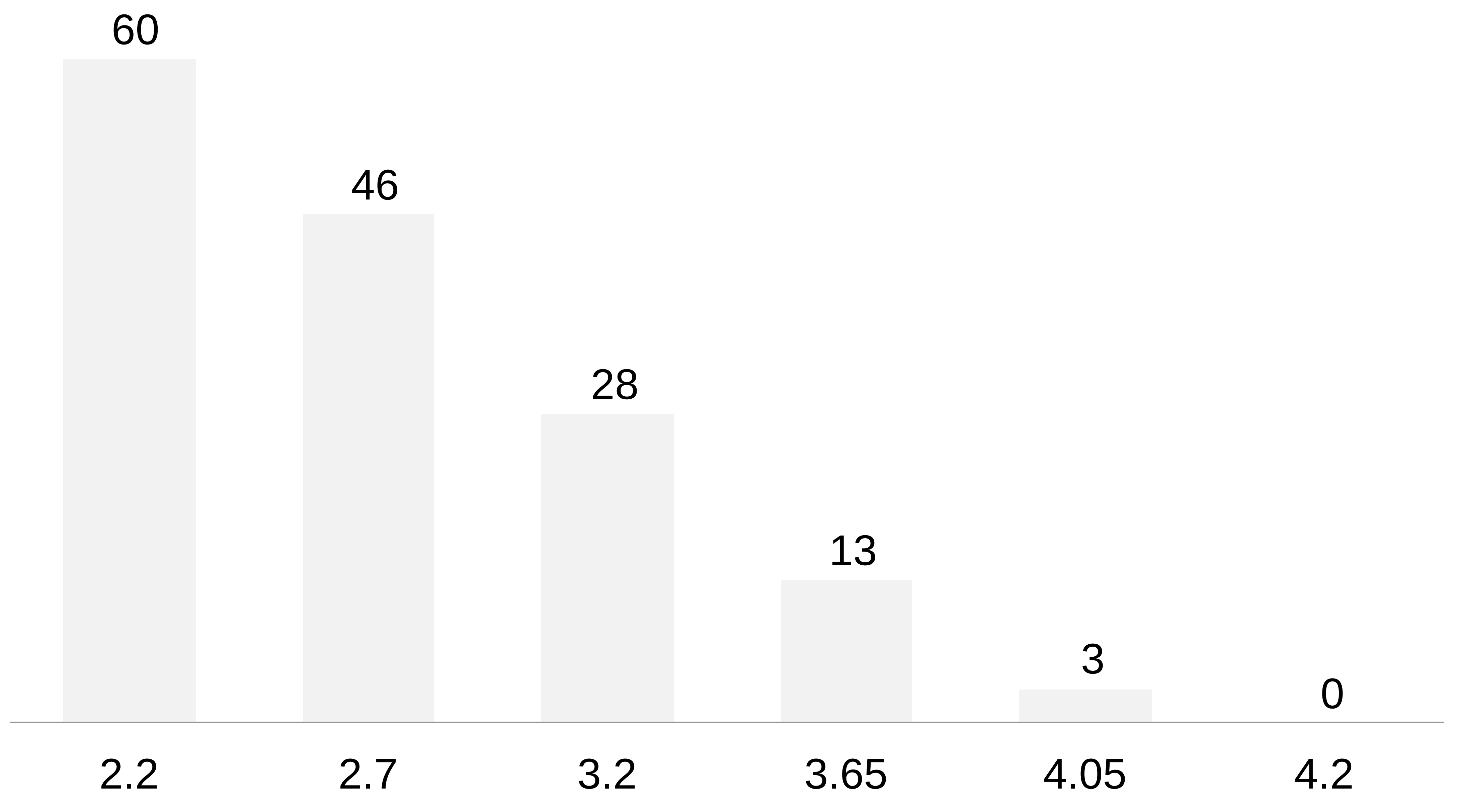
- Current target of 3.65%, to be realized in 2021

Indifferent to UFR?

Stock of SII* (in %)



Additional annual OCC (“flow”) of SII from lower UFR unwind (in € mln)



* Excluding a.s.r. Bank.

Capital distribution capacity and UFR effect assessed via 3 perspectives

How much room to distribute capital?

	1	2	3
Based on…	Headline SII ratio at "nominal" UFR	Economic UFR, representing achieved investment results	Available capital based on "exit" scenario
vs what norm	Capital management ladder	Substantially above 100% norm (120% soft limit?)	Capital level at exit value safely above zero
Useful for	Ordinary, across the cycle typical dividends	All distributions to shareholders	All distributions to shareholders

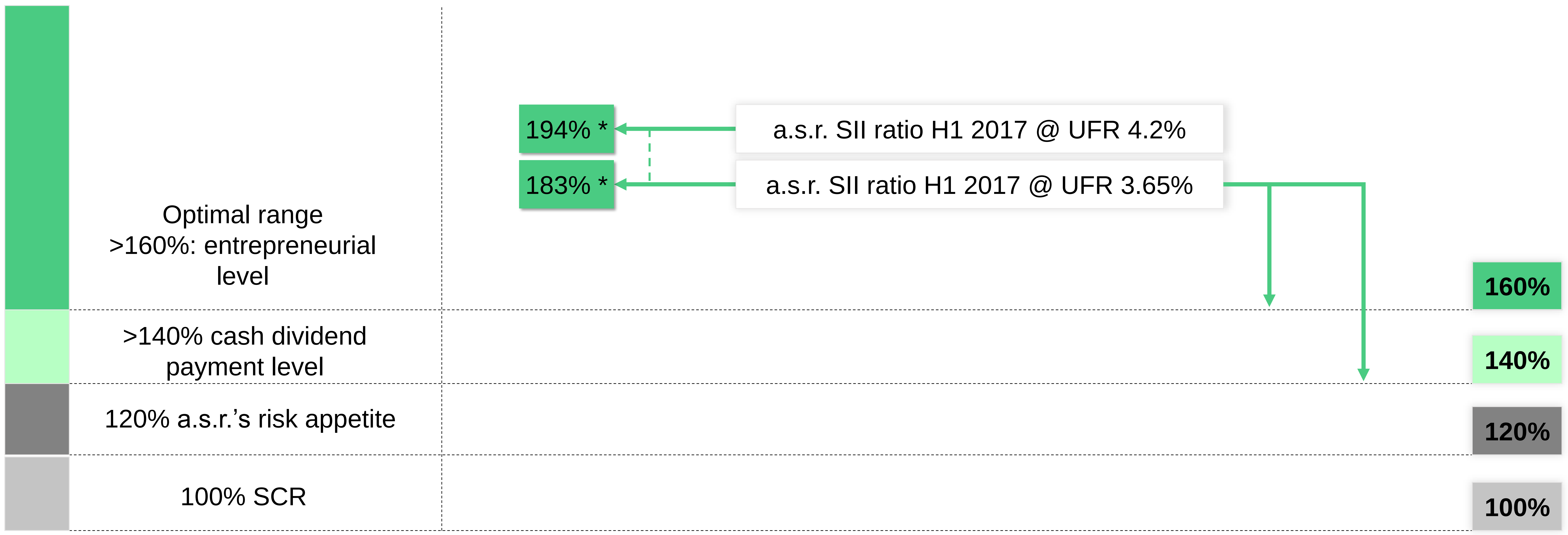
← **Current a.s.r. practice** → (1, 2)

← **Additional perspective** → (3)

Dividend capacity according to perspective #1
“Nominal” UFR

Across the cycle dividends

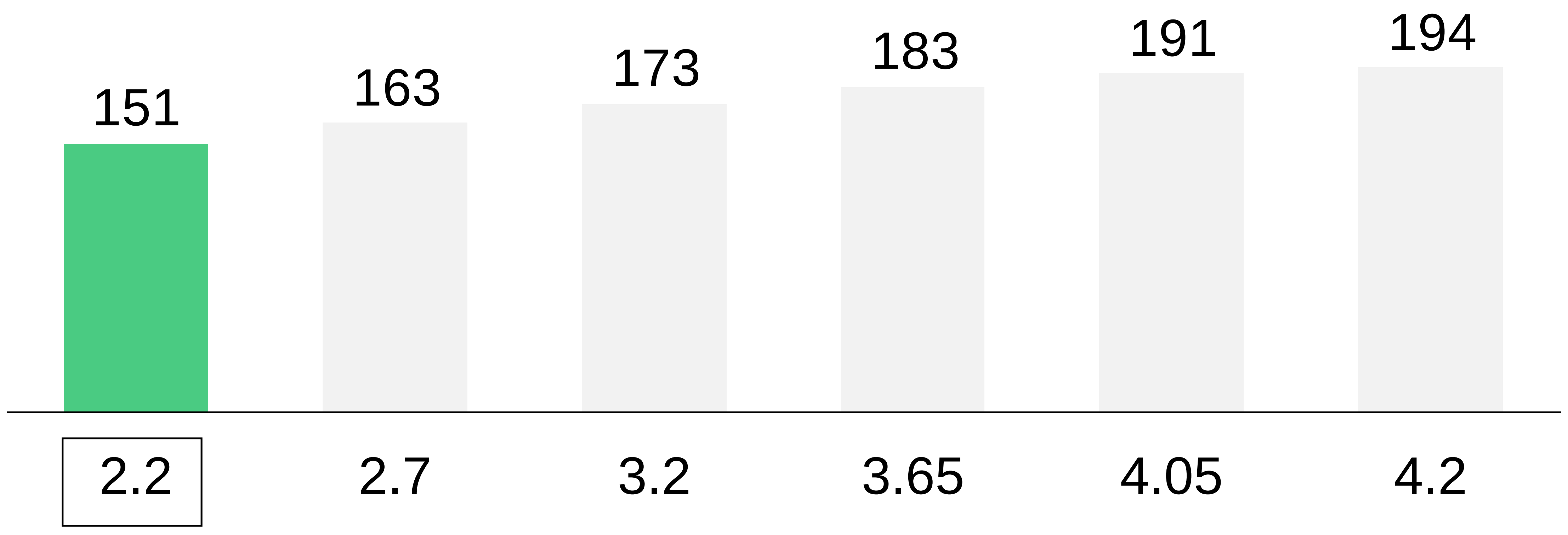
Solvency II management ladder (based on standard model and UFR of 4.2%)



* Before impact SBB in Q3 2017. Expected impact 3%-pts

Dividend capacity according to perspective #2
“Economic” UFR

Solvency II ratio H1 2017



- Economically, a UFR that is in line with long term investment results would be optimal way to measure capital base (and compare to >100% threshold)
- Typical current direct investment return a.s.r. portfolio >2.2%
- Internally and at current yields, a.s.r. increasingly monitors SCR at UFR of 2.2% as metric for long term financial health

Dividend capacity according to perspective #3
"Exit" scenario

Economic assumption

- Immediate freeze
- De-risk business
- Protecting the rights of the policyholder

Basic modelling assumptions

- Solvency II ratio ex. UFR
- Solvency II ratio ex. VA
- Solvency II ratio ex. DTA

"Enhanced" modelling assumptions

- *Soften risk margin charges (CoC)*
- *Immediate expense reduction*
- *Recoverability measures*
- *Capture small but relevant illiquidity premium / capped VA*
- *Synergies from arms-length transaction*

?

Current a.s.r. (w.i.p.) perspective on exit value scenario: Total EOF safely above € 0

Summary: stock & flow, it's all about the trade-off

Tier 1 / 2 / 3 contribution

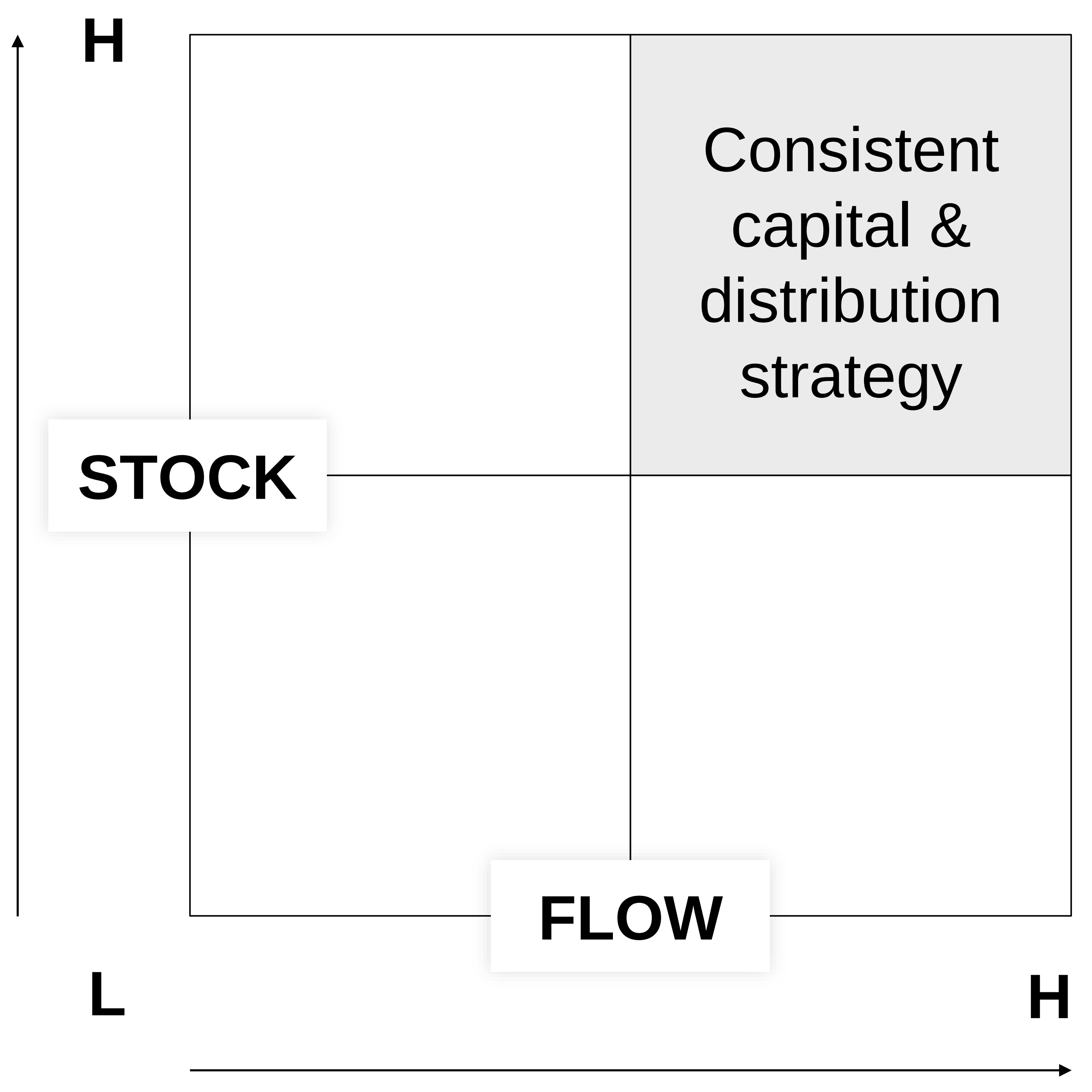
Assumptions in BEL

Sensitivities

Standard formula vs. PIM

Other …

Quality of capital "STOCK"



Contri-bution of capital generation "FLOW"

Excess returns

Underwriting results

Managing of costs

Realizing synergies

Afterthought… themes for coming years

Best estimate assumptions

- What assumptions in COR, cost level are embedded in your BEL? Especially in LT liabilities
- As time passes, are you meeting or matching these? Will you be able to outperform your BEL assumptions?

Balance sheet metrics

- With IFRS 17 inevitable approaching, what metrics will you steer your balance sheet on going forward?
- Interest cover based on OCC? Financial leverage related to UFR-adjusted EOF?

Tiering and capital eligibility

- Under what scenario's will you face ineligible capital (RT2, RT3)?
- What if rates go up, create DTA's and diminish RT3 and RT2 space?
- If you'd take a Solvency II hit and have to de-risk, would that eliminate RT2 eligibility?

EOF growth

- Will (sustainable) growth in EOF become the relevant "next generation" metric?
- How does UFR unwind relate to risk margin release?