

Capital Management at a.s.r.

Solvency II
is all about stock and flow

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a.s.r.
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Topics

Introduction

Solvency II “stock”

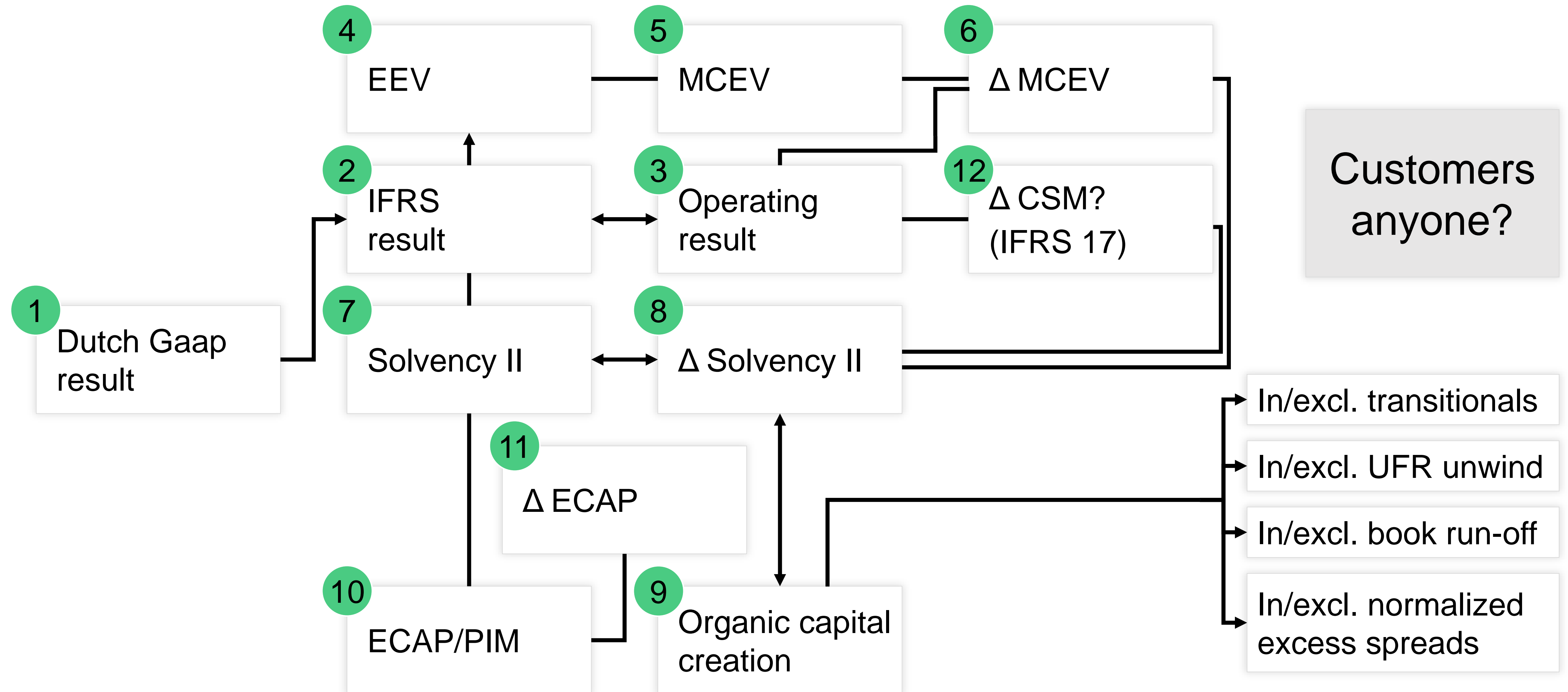
Solvency II “flow”

Trade-off of stock and flow

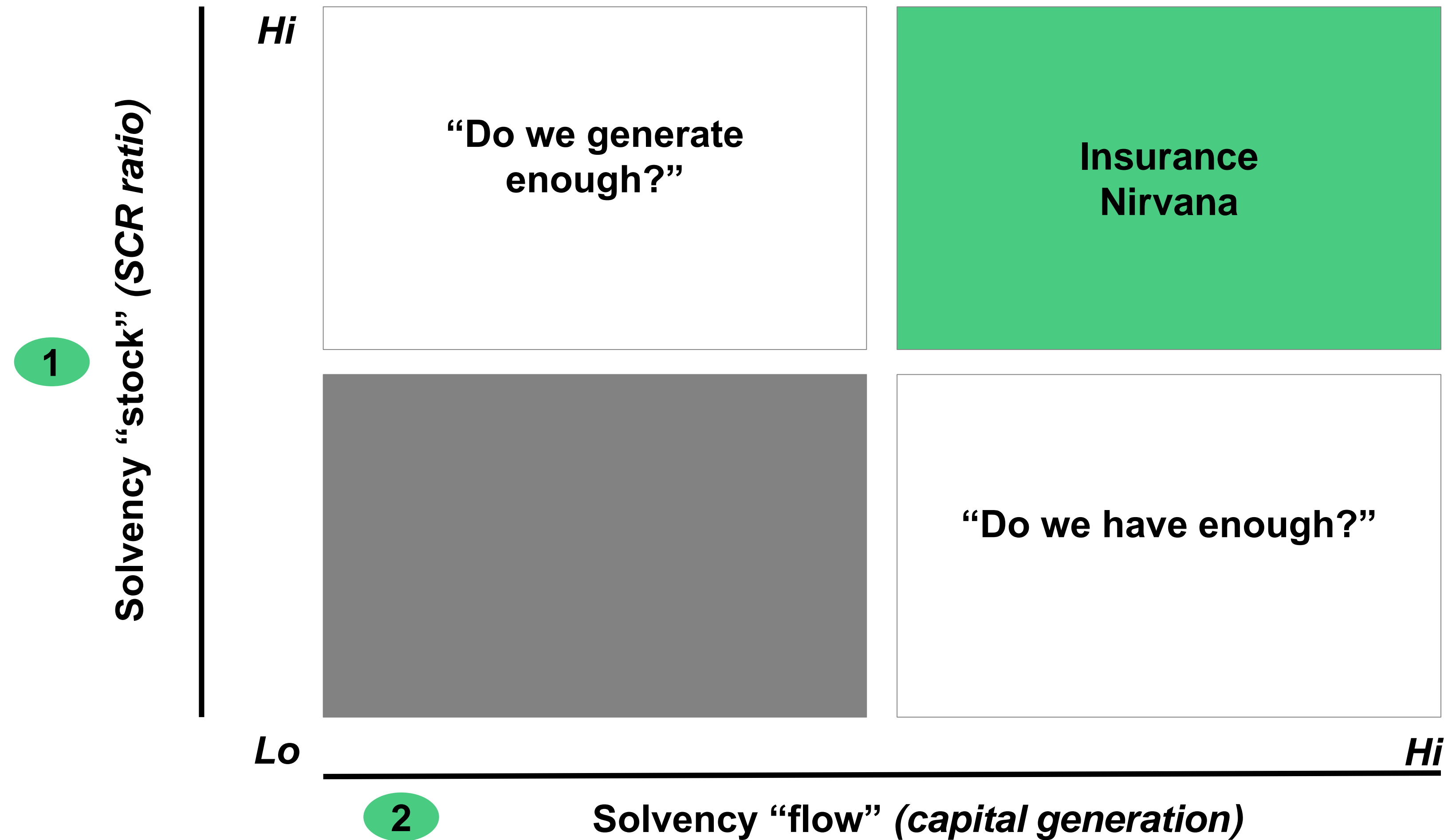
Assessing capital distribution capacity

Wrap up

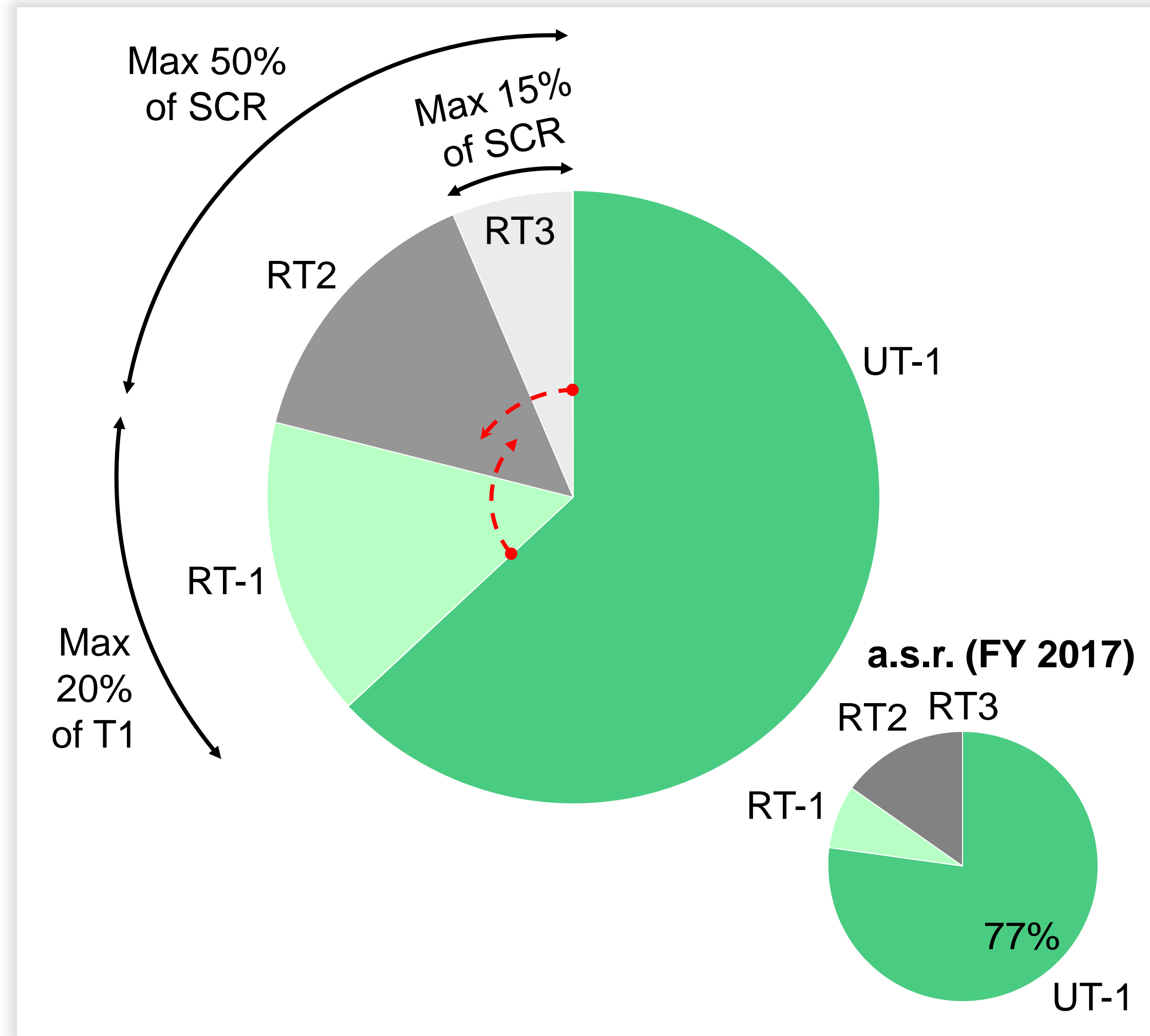
Evolution of insurance metrics



Dynamics of Solvency II: balancing stock and flow



Quality of Capital: The next focus point



RT2 / RT3 headroom is effectively a function of required capital 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.

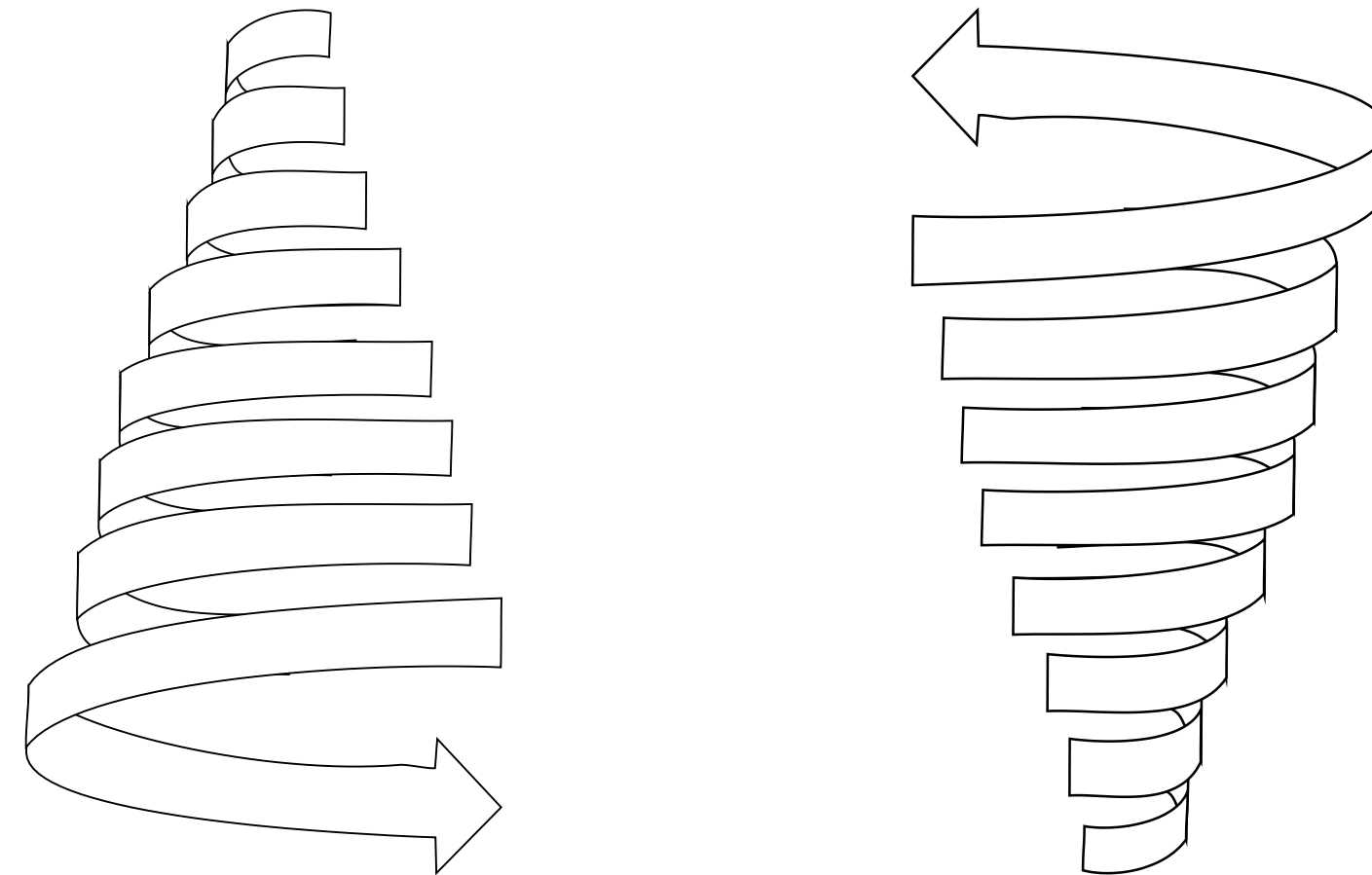
Beware of the spiral accelerating effect; down is dangerous!

- Reduced capital requires de-risking, reducing future capital generation capacity
- Evaporation of vulnerable LACDT components

“Sudden” ineligibility of:

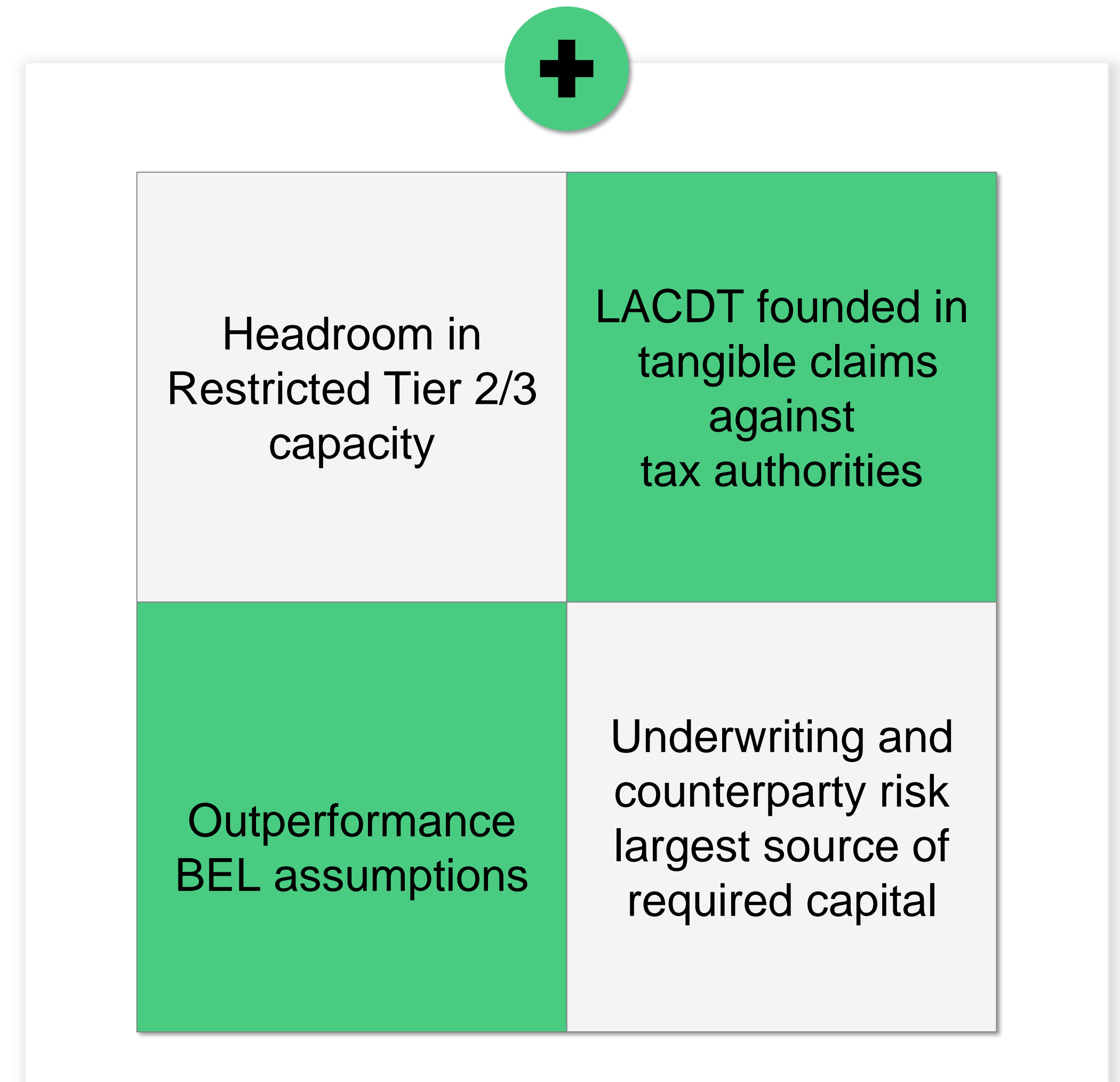
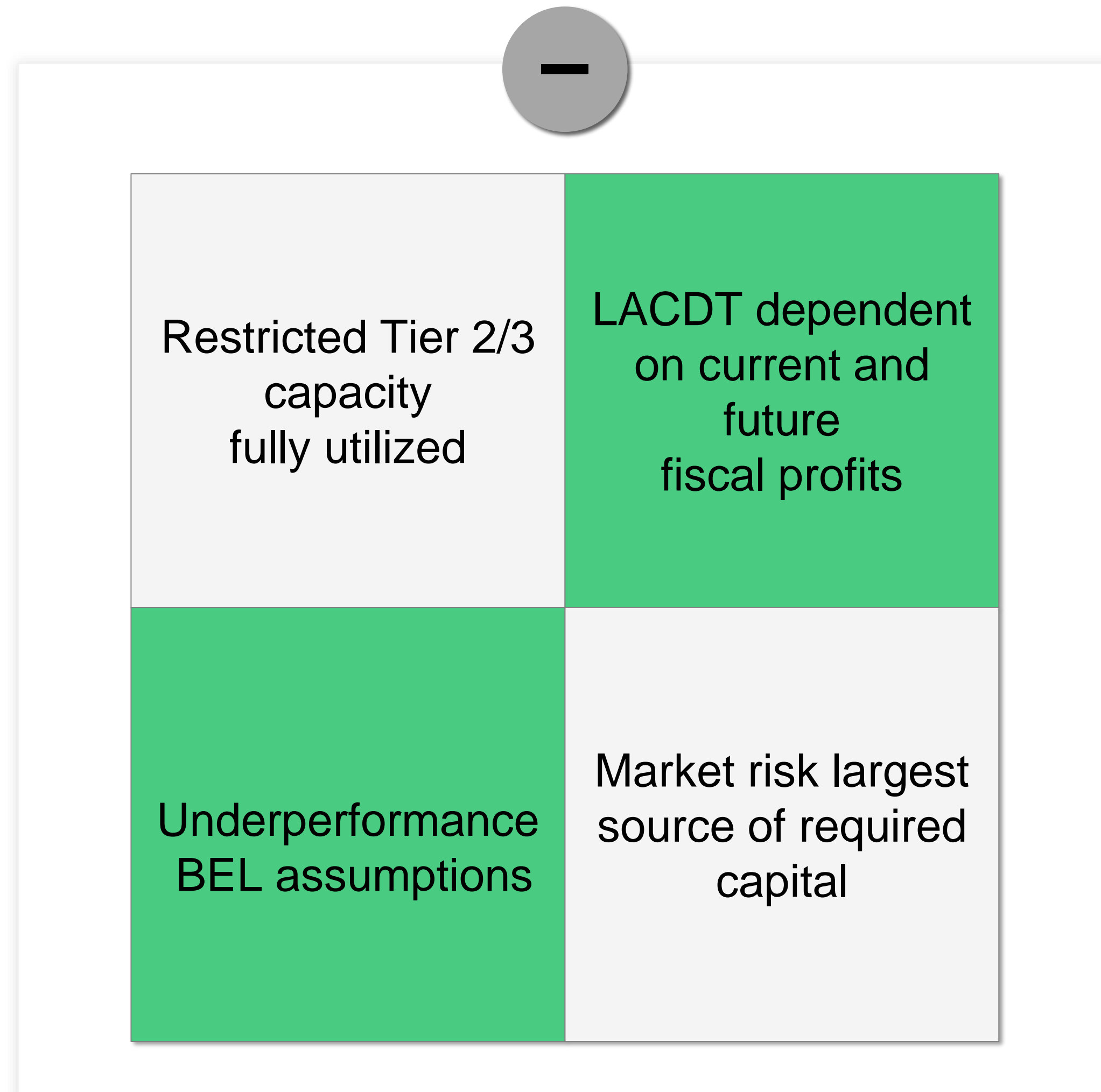
RT1 / RT3 due to negative market developments

RT2 / RT3 due to de-risking

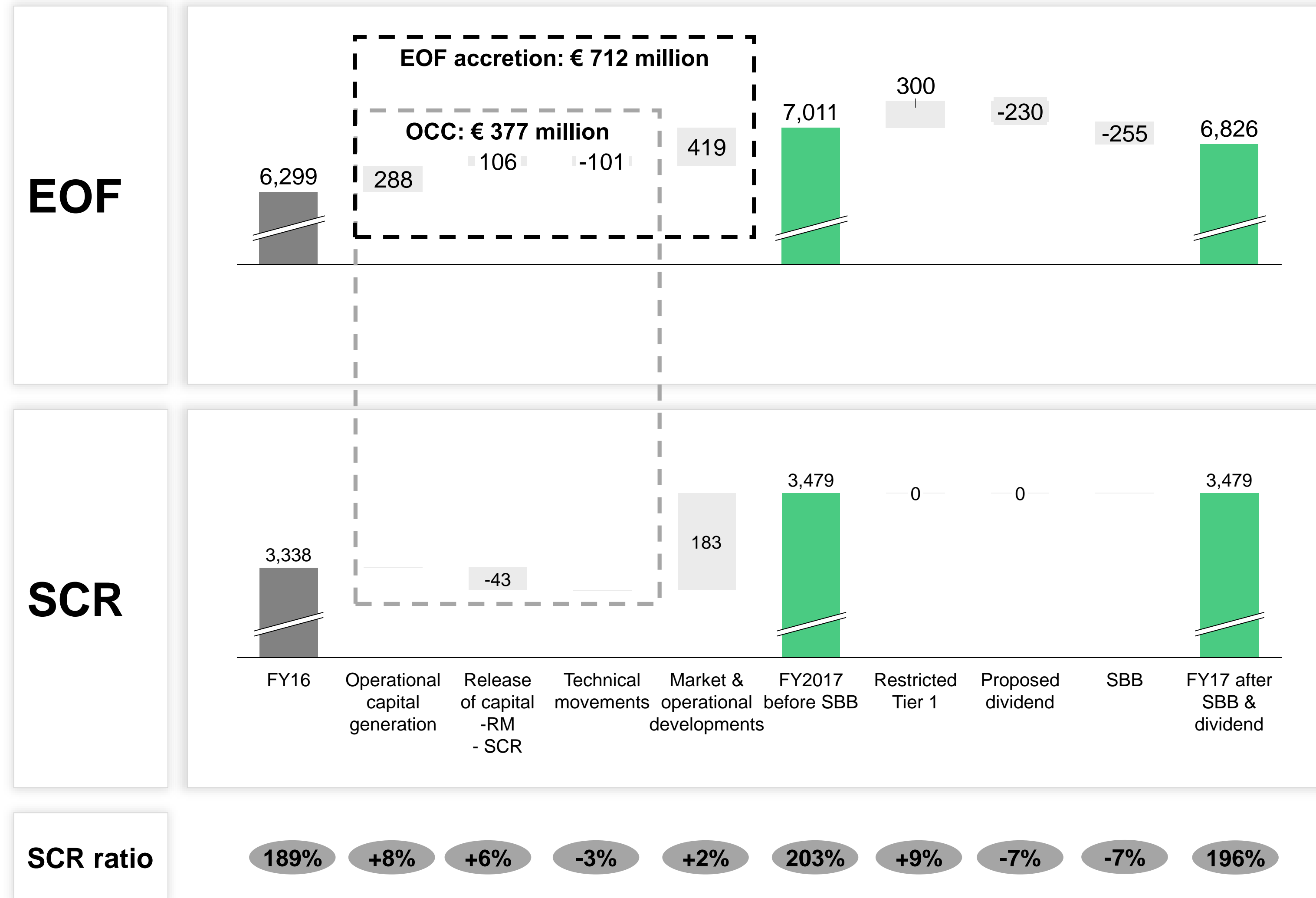


- Capital enables generation of flow that creates future capital
- Excess returns continue to be realized
- Invest in value enhancing opportunities

Indicators of “positive/negative spiral” potential



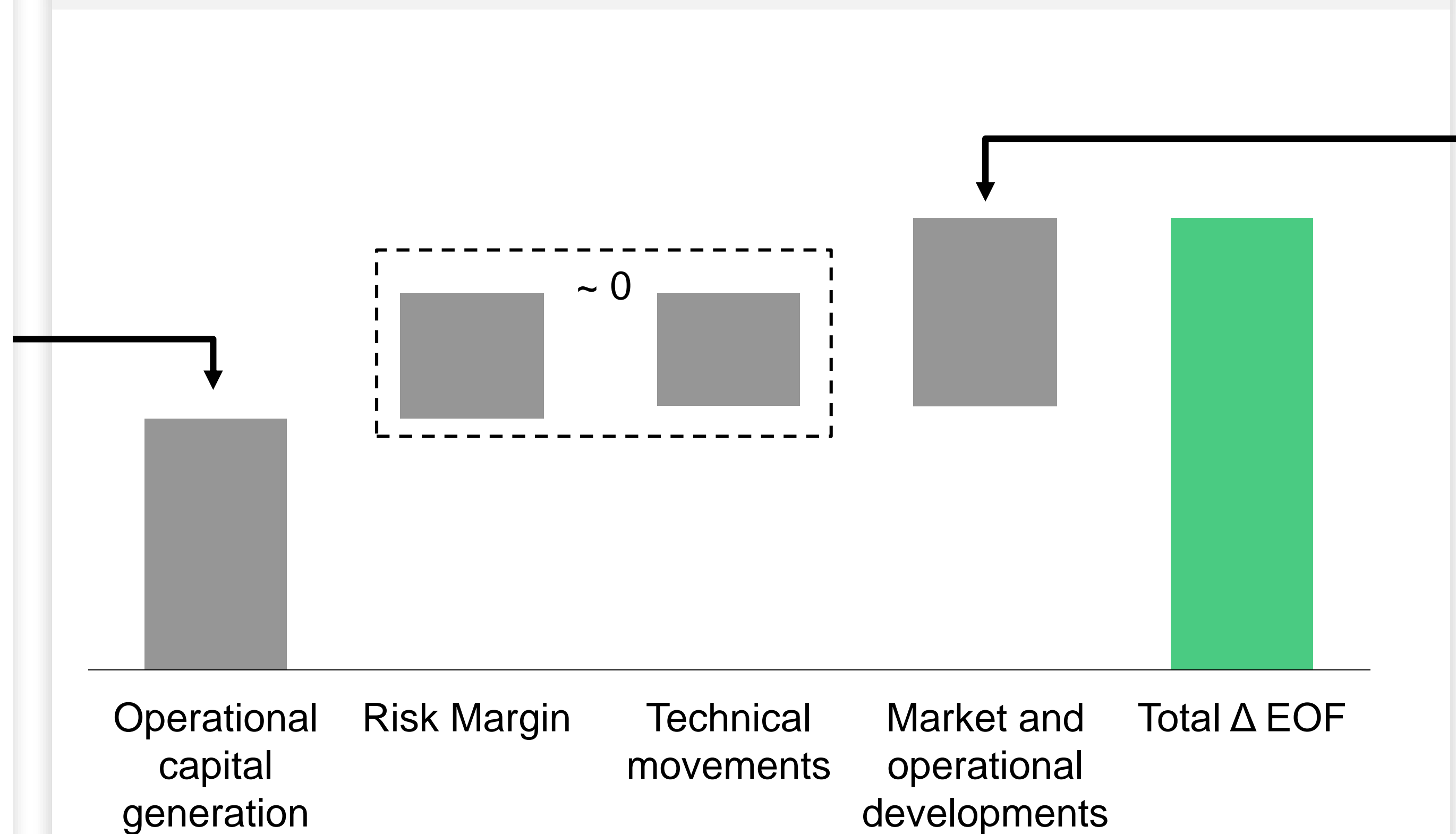
Flow perspective: OCC & EOF accretion



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

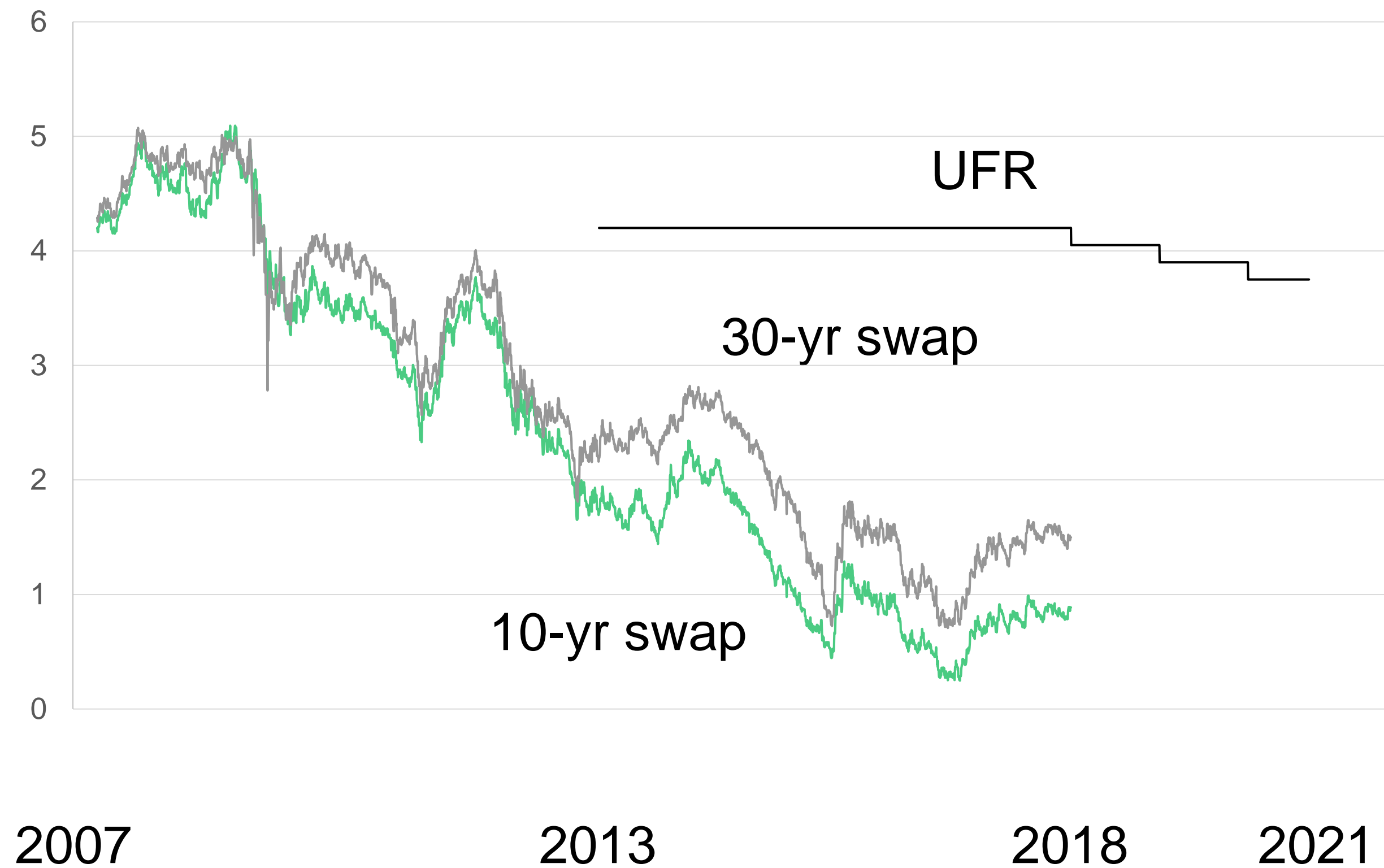
a.s.r. EOF bridge



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

What about the UFR?

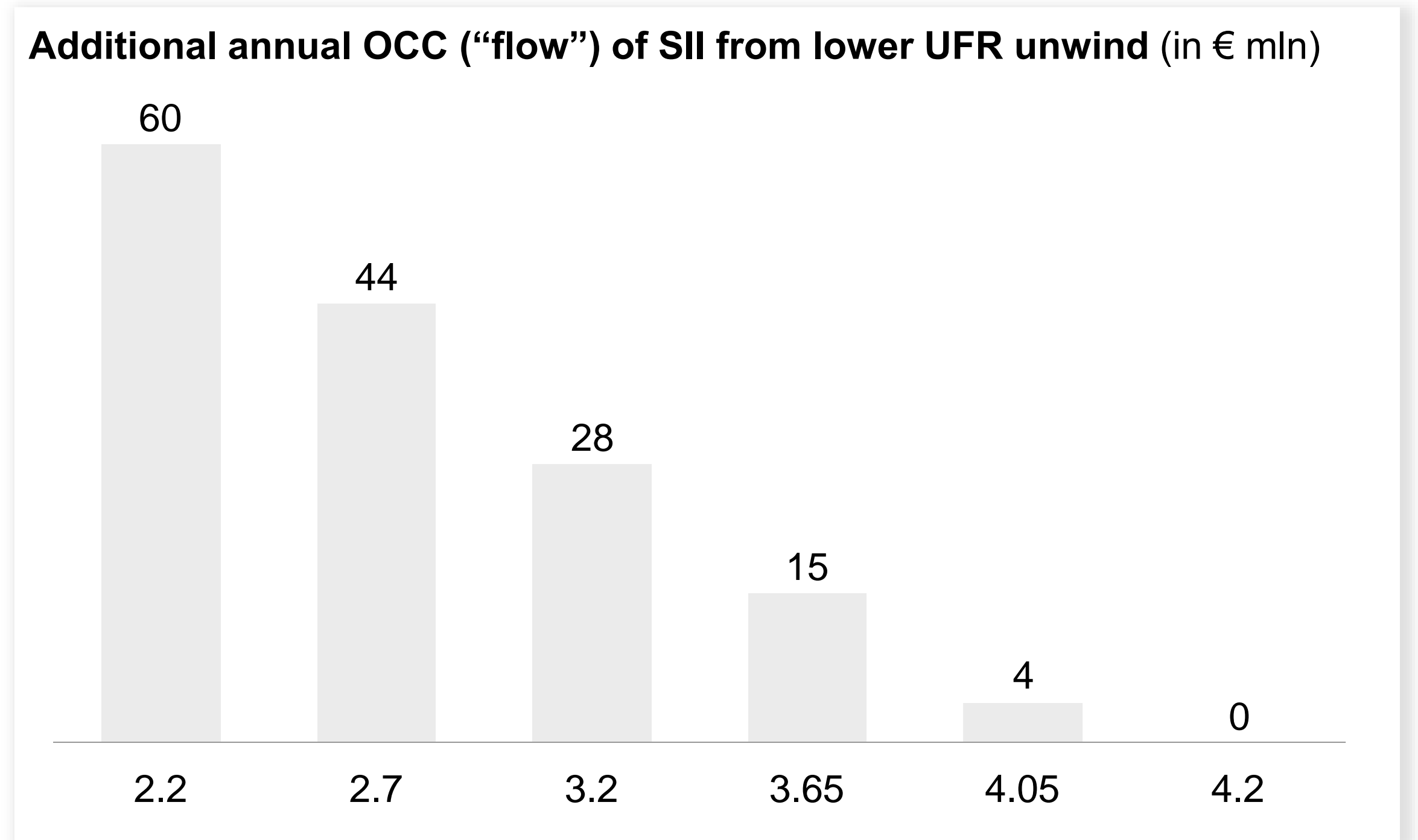
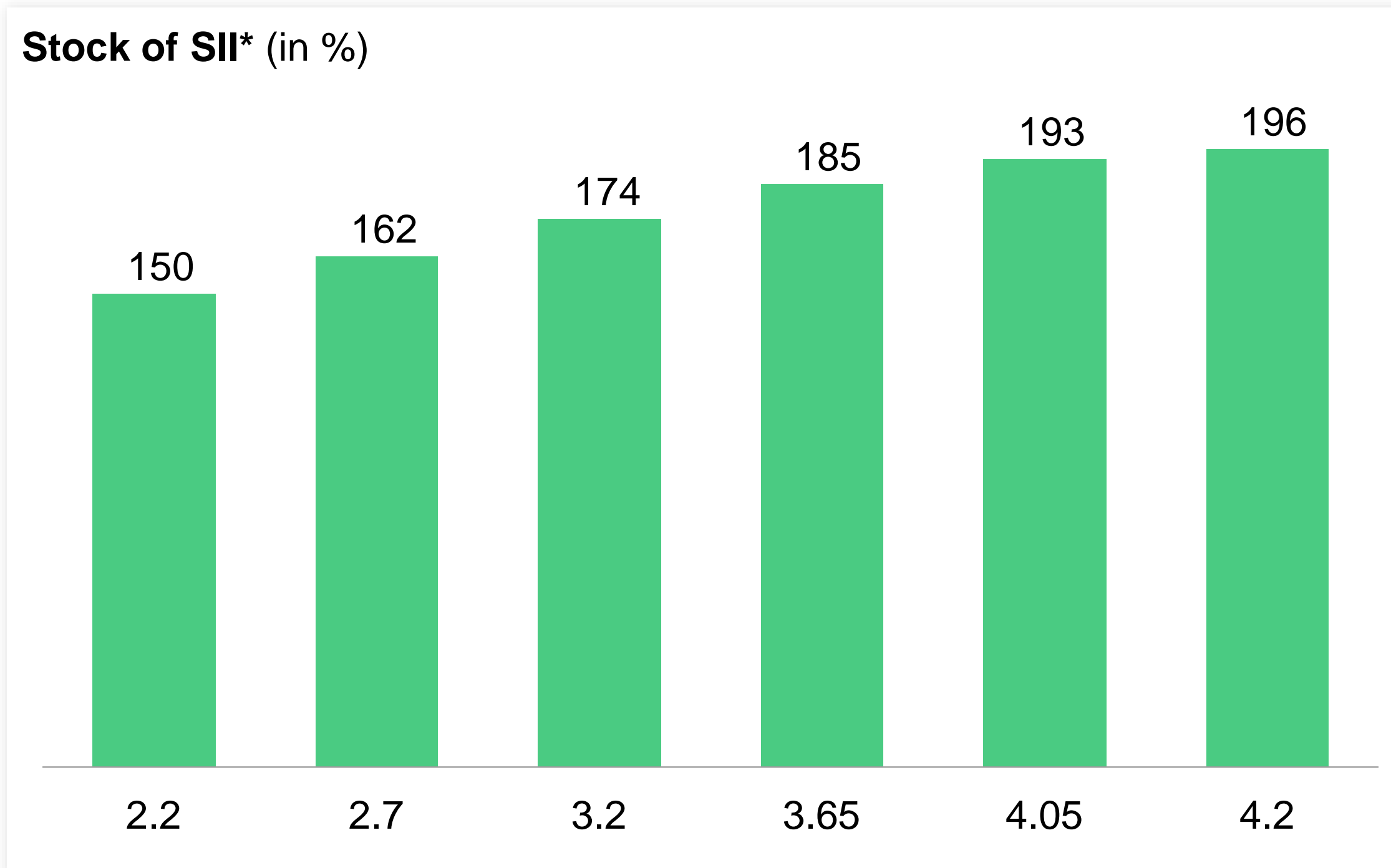
10- and 30-yr swap curve since 2007



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

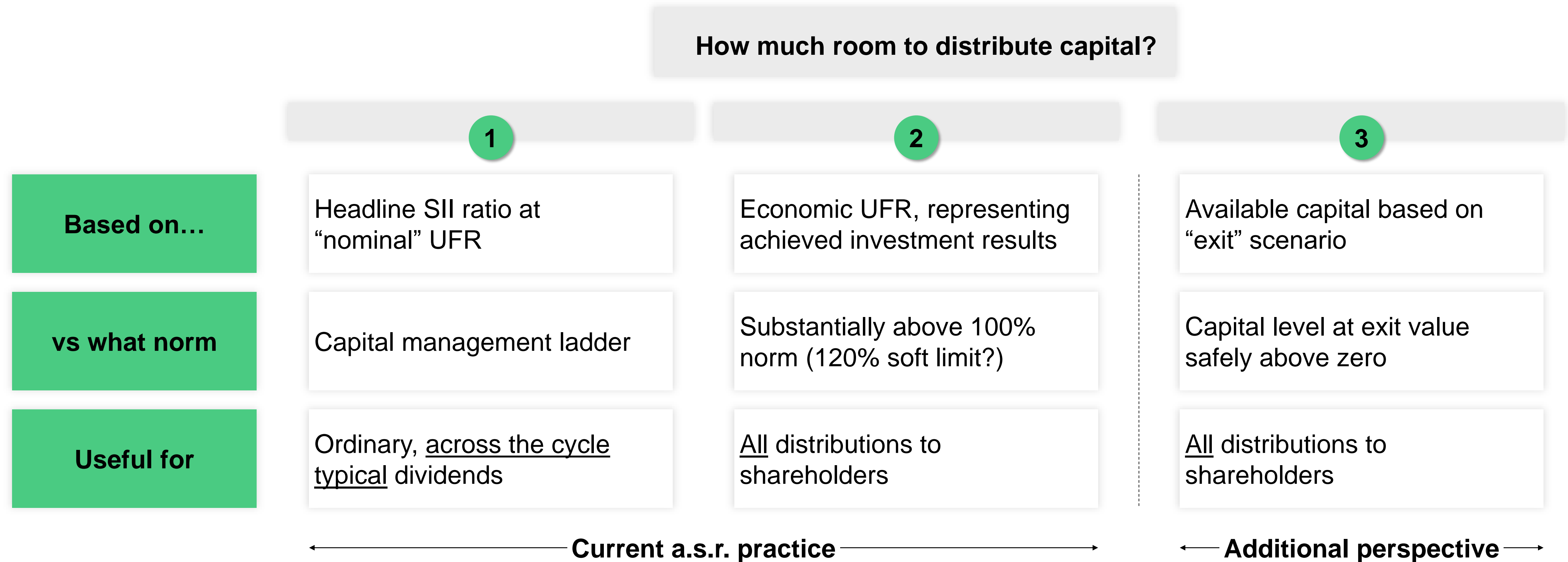
- Current target of 3.65%, to be realized in 2021

Indifferent to UFR?



* Excluding a.s.r. Bank.

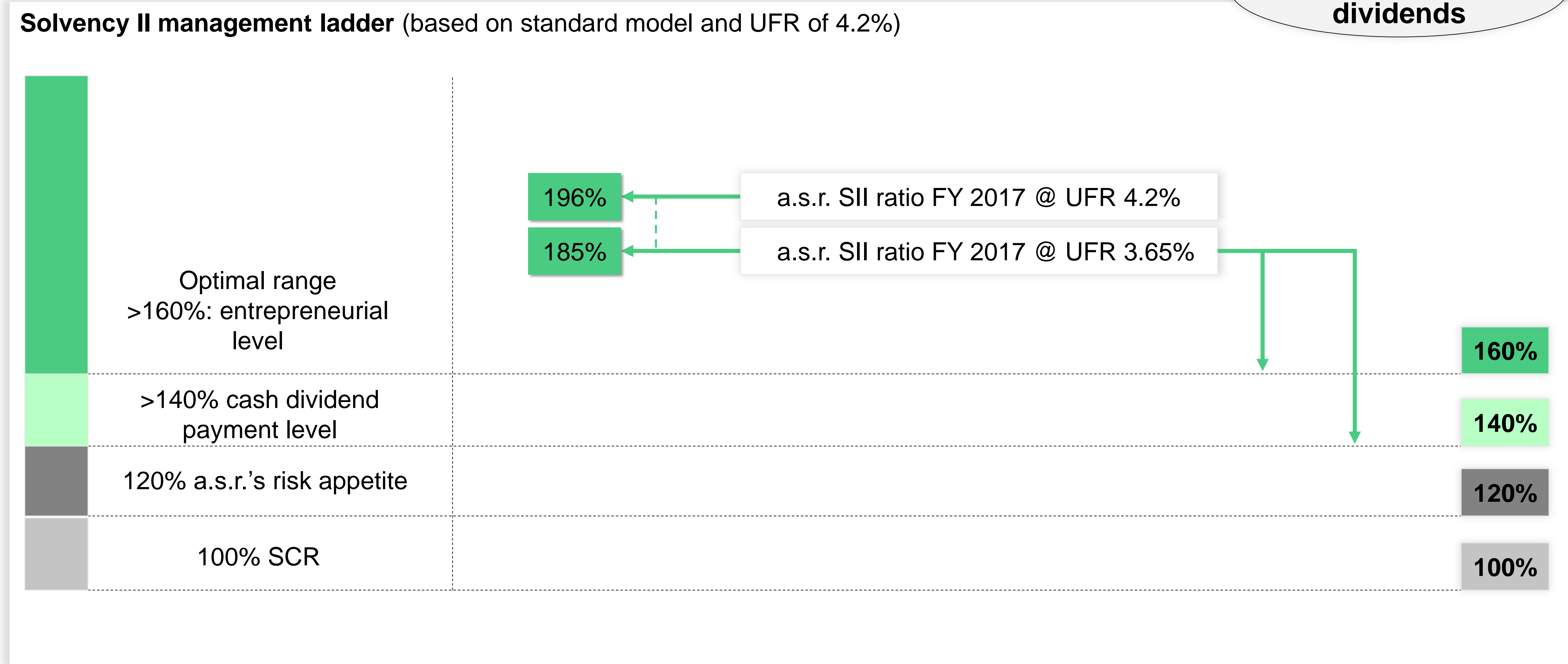
Capital distribution capacity and UFR effect assessed via 3 perspectives



Dividend capacity according to perspective #1

“Nominal” UFR

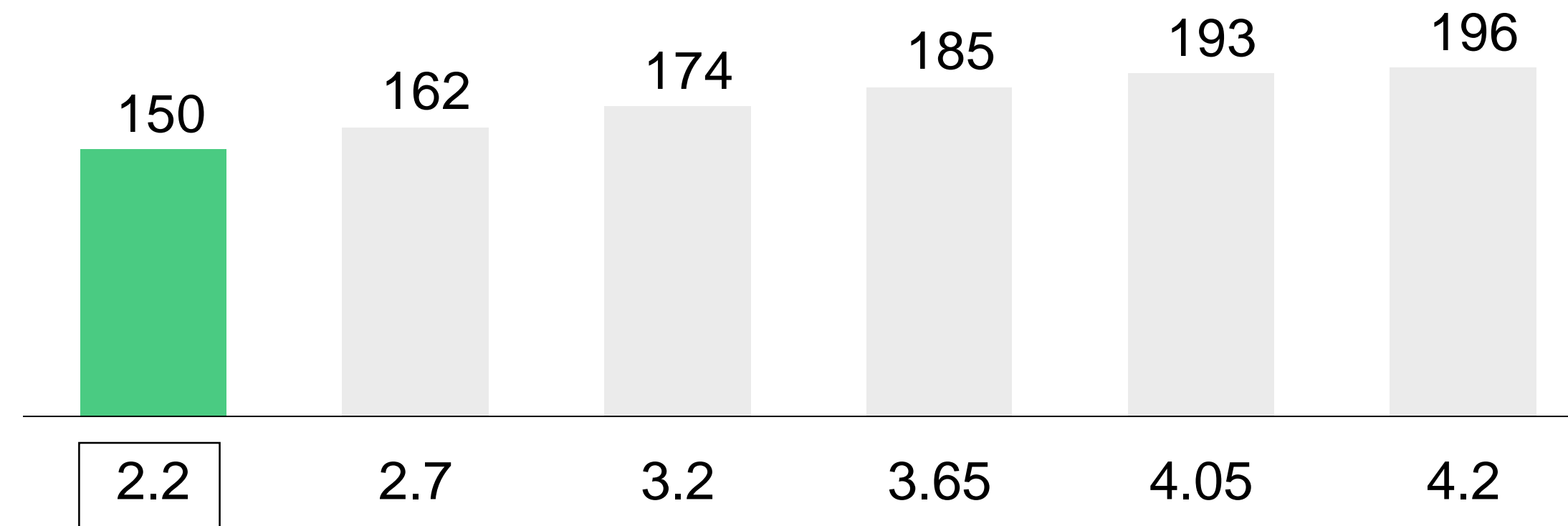
Across the cycle dividends



Dividend capacity according to perspective #2

“Economic” UFR

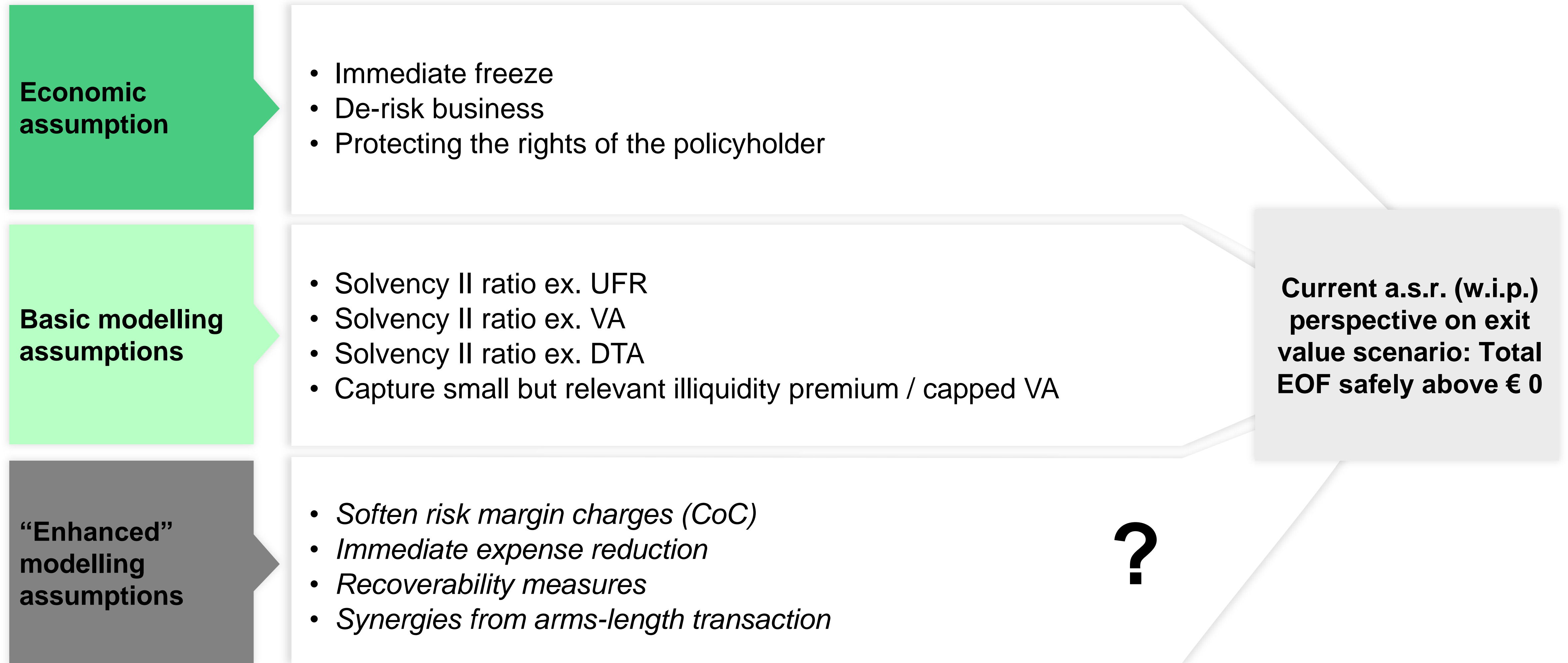
Solvency II ratio FY 2017



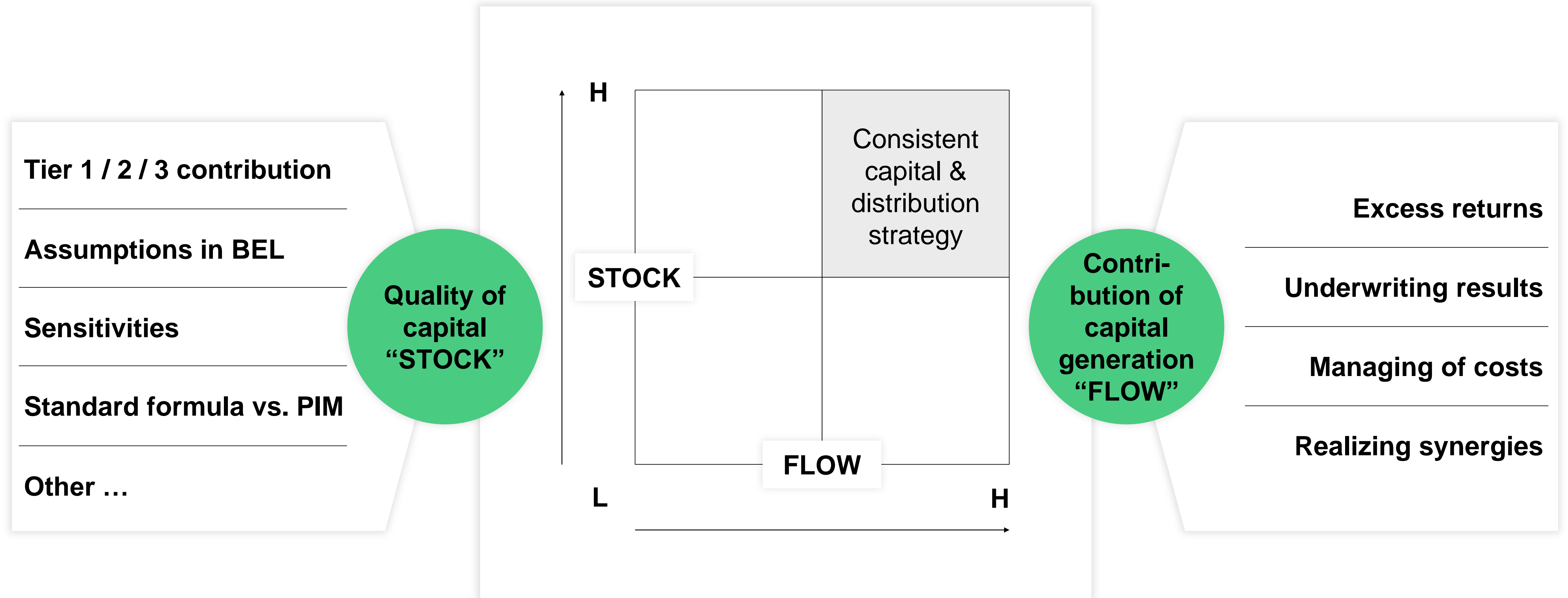
- Economically, a UFR that is in line with long term investment results would be optimal way to measure capital base (and compare to >100% threshold)
- Typical current direct investment return a.s.r. portfolio >2.2%
- Internally and at current yields, a.s.r. increasingly monitors SCR at UFR of 2.2% as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

Dividend capacity according to perspective #3

“Exit” scenario



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



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?