THE OPINION OF MATTHEW RIDER

Matthew J. Rider took over as Aegon CFO in 2017. He brought with him a broad range of experience both in Europe and the US, including managing Finance and Risk functions and developing a Solvency II framework.

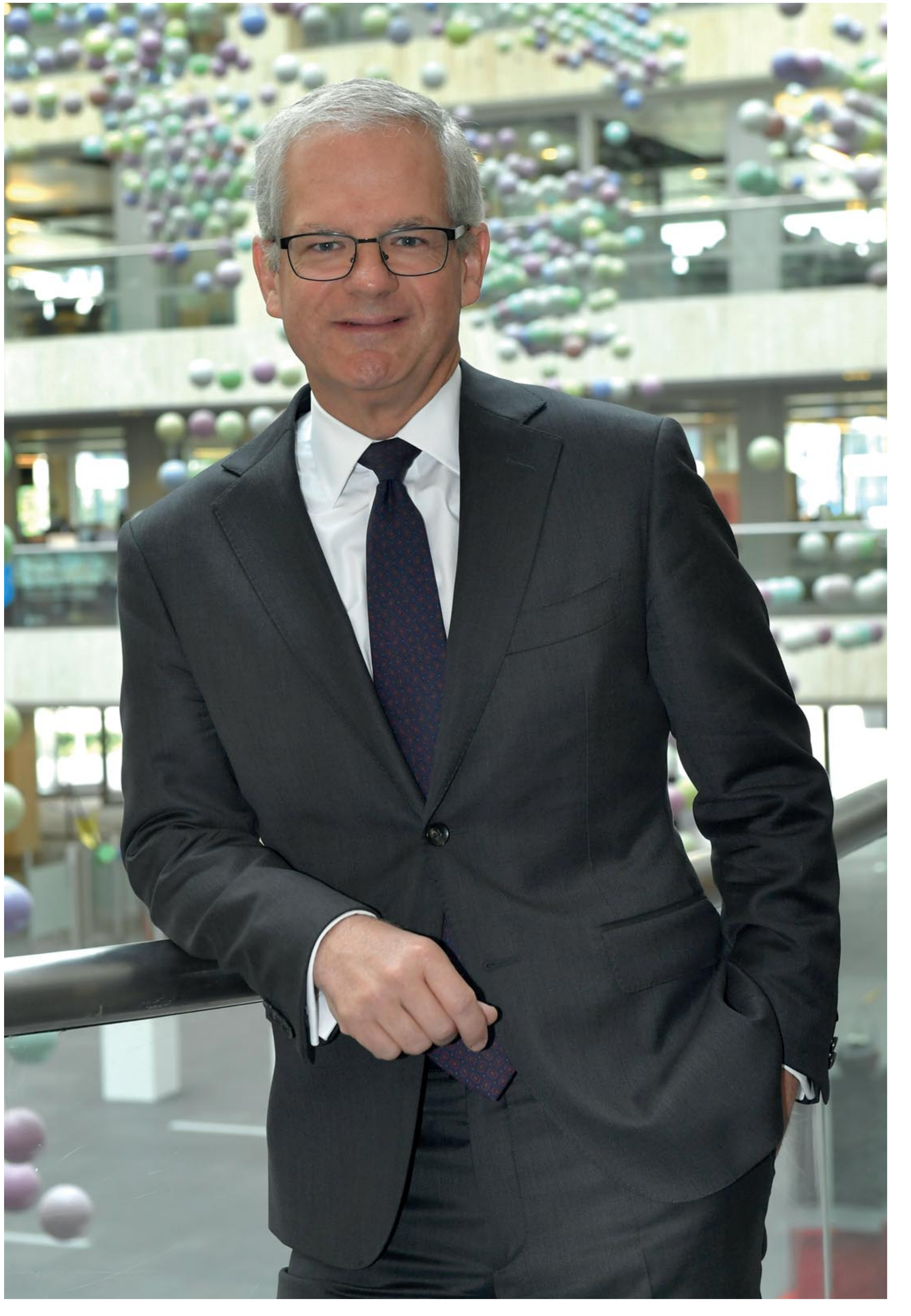
Can you tell us where Aegon stands on the implementation of IFRS 17? And is it more work than expected?
'As Aegon operates a bank, we have gained a lot of experience from the implementation of IFRS 9 – the standard for financial instruments applicable in the first instance to the banking sector. Working on that project gave us useful insights for the IFRS 9 program focused on our insurance business. I am happy to say that so far it's been a well-coordinated process; all lights are on green, everything is running normally and we haven't had any surprises.

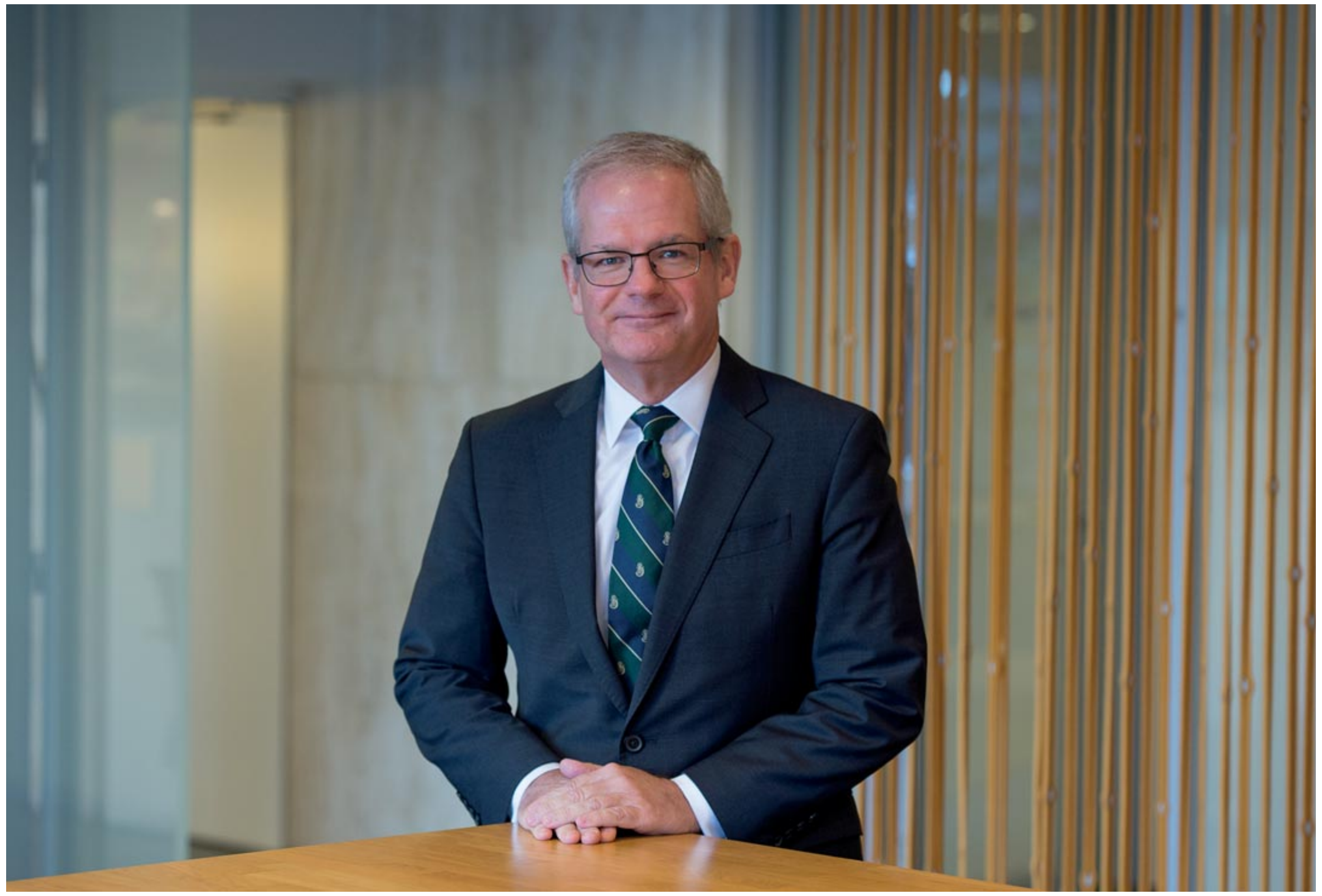
IFRS 17 is on track, but it's complicated. We knew it was going to be complicated because we don't actually have a final standard yet. But we do know the building blocks.

Aegon is really pretty much in the middle of the pack as far as I can see in terms of implementation. It was interesting: getting into the IFRS 17 project, I thought there were some advantages of having gone through Solvency II, especially in the European insurance companies, because Solvency II requires you to have really good command of your data and your models. So even though the accounting treatment is somewhat different, just the philosophy of being in total command of your data and your models has really helped us so far in Europe.

The US is working off a different solvency standard called the NAIC Risk Based Capital system. And when I joined Aegon, they had already had a big program in place in the US, something they called Finance and Actuarial Modernisation. So we're using that as the big building block. That's given us a little bit of advantage in the US with respect to IFRS 17 implementation. I think it will all start to coalesce when we come to a final standard.'

You mentioned how you leveraged the work done for Solvency II. Can you give me a sort of timescale and a little bit more information about the process and the preparatory steps?
'We started the project in earnest at the end of 2017. And the best estimate right now is implementation in 2022 - we're on track to effectively get all the infrastructure in place by the middle of 2020. Then we'll go through a process of dry runs, because it's important when you implement these standards that you have a good idea of the process that you need to go through in order to generate the results. And more importantly, you start to get a feel for the results themselves and ultimately how you're going to communicate them. You have to spend some time working with the information, working with the output, to make sure you understand it yourself and are ultimately able to communicate it to analysts and investors.'





Moving on then, what do you expect will be the impact on the financial markets and in the finance function within your organization as well?
'First of all, it's going to take some time for the financial markets to absorb because it is quite different than the current IFRS 4 and it's going to take a bit of time to get used to the new patterns of earnings emergence, but also to the basic balance sheet. But probably the biggest benefit of IFRS 17 is that the insurance company balance sheet starts to mean more than it does today.

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I think earnings will become a bit more volatile depending upon the choices that companies are making in implementation. I would emphasise that companies have a lot of options for implementation and it'll take some time to get the analyst and investor community used to looking at the financial statements. I can imagine there are going to be a lot of questions on differences between companies. But the guiding principle for Aegon is that we will continue to manage the company mainly based on capital standards – Solvency II in the European countries, NAIC Risk Based Capital in the US. And then this will be sort of an overlay for the financial markets explaining what is going on.'

Will it be easier to attract investors as was promised by the IASB?
'The short answer is that ultimately it will. But in the short term, there's going to be some education and training needed, some potential confusion over the results, etc. But in the longer term, I expect that it'll be easier to attract investors.'

What are the differences between the US and the Netherlands and what are the particular challenges in dealing with the two different accounting principles?
'The similarities are, of course, in the underlying economics and that's where the talents of the actuary lie. Then you have to overlay the various accounting principles, whether they be things that control capital, for example, Solvency II here in Europe, or the NAIC standard in the US. And by the way, there are many other principles in different countries in Asia. But as long as you can use that economic underpinning as the basic background, then it's just a question of overlaying these other principles.

For me, the challenge is how you articulate these different accounting bases to a generalist investor. For example, we have a Group Solvency Ratio, which is quite strong and good. But in terms of our ability to pay, for example, dividends to shareholders or pay interest on our debt and raise capital, we really need to manage capital on a more country-specific basis. So even though there's a regulation under Solvency II, called Deduction and Aggregation that allows you to convert a Risk Based Capital solvency ratio into a Solvency II standard for group purposes, that conversion is actually less meaningful than really understanding the economics of capital generation in the US specifically according to their standard. It's complex.'

Where can actuaries grow or expand in the finance domain? We talk a lot about the changing role of actuaries how do you see that?
'Maybe I have a bias here because I'm trained as an actuary, and I've done probably every kind of actuarial job that there is, but I found a kind of niche in the financial domain. I think that the big challenge is that as an actuary, you've already got a broad base of knowledge in different aspects of the job – there's a risk management element of it, there's asset liability management element, there is pure Finance and many other things.

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What I look for in actuaries is a willingness to be able to improve communications skills. You can have very technically competent actuaries who really do thorough deep analysis and get really dirty with the numbers and have it right in their own mind, but then they have to communicate a relatively complex topic, usually to a group of people that are not as well versed as they are. Sometimes they lose the forest for the trees! So it really is a skill set that we try to develop. You really have to work on articulating your results very well so that people are actually going to be able to understand, because these topics are quite complex.'

Turning to interest rates: As low as they are, how does Aegon maintain a strong balance sheet? What do you think of the continuous use of quantitative easing? What would you do if you were president of the ECB?
'What would I do? Ha ha, I'm not going to comment on that quite yet!'

But in general, low interest rates are obviously a super big challenge. Certainly under Solvency II, there is a giant incentive to protect your solvency against interest rate declines. There have been significant declines in interest rates in Europe even from the beginning of this year. But what we saw in the first half of the year was that the solvency ratios of our Solvency II companies, most specifically the companies in the Netherlands, were extremely well protected by our interest rate hedging program. So I think on a fundamental level, we've got the interest rate risk management pretty well down. Where it starts to bite you, is in being able to find ways to continually generate ongoing capital, to generate capital flexibility. We'd like to have higher interest rates, but the main message is that in a Solvency II environment, the policyholders are well protected.

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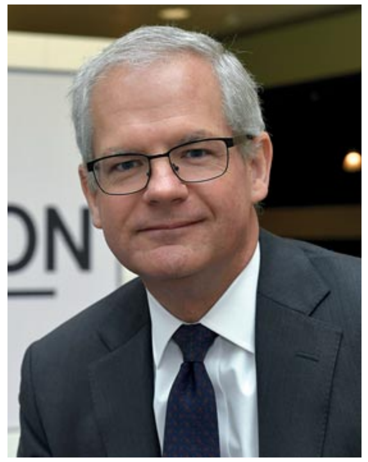
The market knows that low interest rates are generally worse for shareholders. But there are things that we can do. For example, in the Netherlands, in a low interest rate environment where our solvency level has been a bit depressed in the first half of the year, we have taken management actions. We announced just prior to the year-end, a big longevity reinsurance transaction. In the Netherlands a lot of the liabilities are in long duration pension contracts, and those are particularly sensitive to levels of interest rates, of course. But it also means that you're on the hook for longevity risks – people living longer means you have to pay out more and you have to hold capital against that and so on. But there are management actions that you can take to improve the position with the balance sheet and that again, will improve the solvency ratio in the Netherlands. So it's not all doom and gloom.'

Do you think interest rates staying low is sustainable or do you foresee a change?
'I can't see the trigger to get out of the cycle. Right now people are getting nothing on their savings accounts – and in some countries in Europe, they're getting negative interest rates, which is obviously problematic for savers. But I don't see the catalyst to reverse it unless we see some economic growth which should stop or curtail the need for quantitative easing.'

Finally looking at internationally active insurance groups and the ICS, what do you see as the value of that?
'OK, now I may be a little bit controversial or blunt: I see no value in it.

I see no value in ICS because it is purportedly looking to create a level playing field internationally, but as a practical matter, that can't happen because the US is not going to adopt the ICS. For Aegon, this could be a challenge if we have to layer on an ICS capital standard on top of existing requirements , while US companies that compete with Aegon in the US are exempt. Fundamentally the idea of a global standard and levelling the playing field, I have no objection to that. But as soon as you have countries opting out, it doesn't really work.' ■



Matt Rider began his career at Banner Life Insurance Company and held various management positions at Transamerica, Merrill Lynch Insurance Group and ING before joining Aegon. From 2010 to 2013, he was Chief Administration Officer and a member of the Management Board at ING Insurance, based in the Netherlands. In this role he was responsible for all of ING's insurance and asset management operations, and specifically for finance and Risk Management. He joined Aegon on January 1, 2017 and was appointed as CFO and member of the Executive Board of Aegon at the Annual General Meeting of Shareholders of Aegon N.V. of May 19, 2017.