Press release Amsterdam, 16 January 2012

Delta Lloyd: different approach to risks and interest rates

Niek Hoek, CEO of Delta Lloyd Group, gave his New Year's speech on Monday, 16 January. Speaking to a gathering of customers and business partners of Delta Lloyd Group in the Amsterdam Concertgebouw, he looked back at 2011 and forward to 2012.

Niek Hoek said that 2011 had been a year with many highlights for Delta Lloyd Group, including new alliances, strong recognition of the Group's improved focus on customer interest and commercial successes: over 1 billion euros of large pension contracts, the launch of the first premium pension institution BeFrank, and growth in technical general insurance and mortgage sales. Its robust capital position enabled Delta Lloyd Group to continue selling these products. "That is also good for our customers who can continue to count on a reliable party that has stood its ground amidst all the turmoil of the past decade". Trust and security thus constitute the essence of the focus on customer interest.

The euro crisis is the third successive crisis in which Delta Lloyd Group has retained its solid position. Hoek emphasised the need for courage and vision to overcome the current period of financial uncertainty. "Not just from businesses, politicians and regulators, but from all of us."

Niek Hoek therefore made a plea for a different approach to risks and interest rates. The interest rates on government bonds are no longer risk-free and are often not realistic either. The effects of discounting provisions at ultra low interest rates undermine the trust in financial stability. And this is unnecessary: "It is fairly easy to restore trust. Namely by switching over to more realistic interest rates. Interest rates that take account of a certain liquidity premium, in line with Solvency II." The positive effects of this approach will help to reduce the uncertainty and reverse the negative spiral, said Niek Hoek.

Courage is also needed to give the euro our unconditional backing. Saving the euro is key. "We must accept the consequences of a single currency. We need greater political unity, a common fiscal policy, and the transfer of financial powers to a single euro authority." Political leaders should be given sufficient room to take the action required to save the currency. Hoek stressed that there was no alternative. Without the euro, Europe will be plunged into a recession lasting many years.

Finally, Niek Hoek championed the need to think about the future, sustainable solutions and opportunities instead of seeking to preserve what we have.

The full text of the New Year's speech is enclosed with this press release.

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About Delta Lloyd Group

Delta Lloyd Group is a financial services provider offering life insurance, general insurance, asset management and banking products and services. Delta Lloyd Group's target markets are the Netherlands and Belgium. The Group operates primarily under the brand names of Delta Lloyd, OHRA and ABN AMRO Insurance in the Netherlands, and under the Delta Lloyd brand name in Belgium. Delta Lloyd Group employs 5,447 permanent staff (FTE) and is listed on NYSE Euronext Amsterdam.

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CEO Niek Hoek's New Year's Speech, 16 January 2012

Ladies and gentlemen, welcome to our traditional New Year's Concert of the Netherlands Philharmonic Orchestra. It gives me great pleasure to greet you here this evening on behalf of all my colleagues at Delta Lloyd and, of course, to extend to you the best wishes for the New Year from all of us.

Ladies and gentlemen. Looking ahead to 2012 is not possible without looking back at 2011. Our new advertising slogan "Critical at the right time" was more fitting than ever. Great credit is due to so many people within Delta Lloyd for enabling us to keep our head firmly above water thanks to their excellent risk-return management and ability to react effectively.

But the past year also brought many highlights for Delta Lloyd. 2011 was the first year in which the majority of our shares were traded on the stock exchange because Aviva sold its majority interest. In Germany the proposed sale of our activities to Nomura marked a strategically important step. And we also achieved major commercial successes. In the pensions market, we secured over 1 billion euros of large pension contracts and, together with BinckBank, we launched our joint venture BeFrank, the first Premium Pension Institution in the Dutch market. Our technical general insurance and mortgage operations also showed splendid growth.

As a strong player, we retained our ability to sell these kinds of products. Which is not only good for Delta Lloyd, but most certainly also for our customers. It means they can continue to count on a reliable party who has stood its ground amidst all the turmoil of the past decade, which is already into its third successive crisis.

But there is more. Our distribution partner ABN AMRO launched its first-ever dedicated insurance campaign, presenting its contemporary insurance products to meet the needs of today. And there was also the start of a new long-term partnership with a strong regional distribution partner in the form of FrieslandBank.

In the past years there has been much talk about the need for financials to focus on customer interest. I wholeheartedly agree. Clearly, there are many things which, from our customers' perspective, we can do better. All of us at Delta Lloyd are continuously working on this and we will vigorously pursue further improvements in 2012. This is reflected in the greater recognition for our efforts to enhance our focus on customer interest from, for instance, the Netherlands Authority for the Financial Markets. It is also reflected in OHRA's customer pledge to deliver a fast, efficient and faultless service with the best call centre in the Netherlands. And it is reflected in our bank annuity being named the best in the market by the financial services comparison website Moneyview. What's more, no less than three of Delta Lloyd's investment funds were in the top-5 ranking in Elseviers' investment fund top 100. And in Belgium too our insurance products and insurance-linked equity funds won awards.

These are great achievements. But what is the true essence of focusing on customer interest for a financial services provider? That lies primarily in offering reliability and financial security at a reasonable price. Customers must know that their money is safe with us and that their risks are properly managed. In short, that they can rely on us whenever necessary. In my New Year's speech last year I spoke at length about the need for us to continue improving, simplifying and clarifying our products and communication. But the essence is that we as financials must be a solid rock of trust and security for our customers.

Ladies and gentlemen, as noted, offering financial security and financial trust was a big challenge in the past year. And all the signs suggest that financial uncertainty will continue to dominate the scene in 2012. In order to overcome this period of uncertainty, courage and vision are required. Not only from businesses, politicians and regulators, but from all of us.

Allow me now to digress briefly and mention the magnificent music that awaits you this evening: Antonin Dvorak's ninth symphony, popularly known as the New World Symphony. Because our economy of today is also coming from a "new world". When I studied business economics, there were two hard-and-fast certainties.

1. shares and interest rates are two sides of a see-saw, if interest rates go down, shares and bonds go up;
2. government bonds are risk-free.

That's what I was brought up to think, and that's how the whole generation of current policymakers was brought up to think. But these truths no longer hold water, so if we ever want to get out of the current problems, we must change our way of thinking.

We need to adopt a fundamentally different attitude to, for instance, risks and interest rates. The interest rates on government bonds are no longer risk-free and are often not realistic. Due to risk-averse behaviour, the interest rates for 'high-risk' countries are too high. And because of strong demand, the interest rates for 'safe havens' like the Netherlands and Germany are too low. Recent events, incidentally, have shown how important such an AAA rating is. The Netherlands must do everything in its power to retain that AAA rating. If you, as a pension fund or insurer, are required to discount all your provisions against these excessively low interest rates, you are soon confronted with unnecessarily low pension funding ratios and insurance solvency ratios. This, in turn, leads to falling confidence in the institution's financial stability.

It is fairly simple to restore trust in this area, namely by switching to more realistic interest rates. An interest rate that takes account of a certain liquidity premium, in line with Solvency II. Without investing a single cent, the pension funds' funding ratios will be restored to safer levels, the solvency of insurers will improve, and more money will become available for investments. In short, you remove from the market a slice of uncertainty that is currently undermining the confidence of many consumers, particularly pensioners. Signals like this can help to remedy rather than reinforce the negative sentiment about our economy – and, in so doing, help to reverse the negative trend.

Let me also make one remark here about the issue of mortgage interest relief. Major changes to mortgage interest relief would be unwise in this uncertain climate. Any changes in this area must form part of a long-term vision in the housing market and be introduced very gradually over time.

So what about the euro? Let me be perfectly clear. The euro must stay. The now much-criticised euro is the driver of our current prosperity and well-being. Saving the euro is key to preserving our prosperity. Unthinking and wild calls to return to the guilder as the saviour of our wealth must be categorically relegated to the land of fantasy.

Does this mean no changes are necessary in this area? Of course changes are necessary. We must translate the consequences of a single currency into greater political unity, into a common budget policy, into a transfer of financial powers to a single euro authority. Let me make myself absolutely clear: there is no way back.

The question of whether the euro was introduced too soon is now irrelevant. The question of whether the euro was introduced in the correct way is equally irrelevant. The euro is a reality. And the euro must stay. I repeat: there is no choice. The choice is between a single euro and a Europe-wide recession lasting many years on a scale we have never before experienced. Making the right choice calls for courage from our leaders, notably our political leaders. It implies that these leaders should be given sufficient room to take the action required. There is no realistic sustainable alternative. To my mind, the efforts of politicians, central bankers and many others in the past months have conclusively proven this. I repeat: there is really no choice.

Ladies and gentlemen, as I suggested, finding a way forward will be just as hard in 2012 as it was in 2011. The solutions will not come easily, nor will financial certainty and financial trust. And as I already said, and will say again, getting ourselves out of this predicament will require courage and vision. Not just from businesses, or politicians or regulators, but from all of us. That is the real challenge for 2012 (and beyond).

Ladies and gentlemen, I am going to conclude with this parting thought. Let us not be lured into the pitfall of obsessively seeking to preserve what was; instead let us seek to create opportunities for what MUST come. In the coming year, let's focus on a powerful financial and political policy based on sustainability, in order to build a solid future for ourselves, our children and our grandchildren.

Ladies and gentlemen, I wish all of you and your loved ones a very good year, starting with a magnificent Delta Lloyd evening in our New World of 2012.