Our strategy

As we've seen, our operating environment is changing, and changing rapidly. We need to make sure our business is in shape to meet these changes, and that it continues to grow and prosper.

Our strategy is about reorganizing, investing more in fee-based businesses, selling off operations that are no longer core, and expanding in new areas that will bring future growth. It's about becoming more efficient – that means not just cutting costs, but also investing in new digital technologies that will transform our customer service. It's about being a more agile organization – sourcing new skills, tightening controls and improving internal processes where possible. It's also about maintaining a strong capital position, so we're better placed to ride out fluctuations in financial markets. As part of our strategy, we've set clear targets for 2018 with respect to sales, return on equity, expenses and capital position (see page 28). With this approach, we'll be able to free up more cash and improve returns. We'll also reinvest in our business and give money back to our shareholders through dividends.

Our strategy isn't just about profits and capital. We've set out new responsible business objectives: to help customers improve their financial security and well-being, to be a leader in retirement and healthy aging, and, through our investments, to help take better care of the environment. We track progress against our material issues (see table below). This helps us ensure our strategy is advancing, and that we're adapting to the new business environment and continuing to deliver value for our stakeholders and society.

Tracking progress with material issues

Our material issues	Strategic importance	Performance indicators
Low interest rates	We're looking to shield our own business against the effect of low interest rates – and also help customers protect the value of their savings and investments.	• % of earnings accounted for by fee-based businesses *Performance: Fees now account for around 45% of our overall earnings; in 2010, that figure was approximately 15%.*
New technologies and digital transformation	We're investing in new technologies and new business models to allow customers quicker, easier access to financial services.	• Number of connected customers • Net Promoter Score *Performance: At the end of 2017, we had 4.2 million connected customers (ahead of our target of 4.1 million). Our NPS scores have made significant progress over the past three years – more than 60% of our businesses (where NPS was measured) are now placed in the first or second quartiles in their respective markets.*
Increased economic and financial uncertainty	We maintain a strong capital position to guard against fluctuations in financial markets and protect our customers, employees, business partners and other stakeholders.	• Solvency II ratio • Excess cash *Performance: Our Solvency II ratio at the end of 2017 stood at 201%, just above our 150%-200% target. Excess cash at our holding company in 2017 totaled €1.4 billion, well within our target range of €1.0 billion – €1.5 billion.*
Increased regulation in financial services	We're working with regulators, improving internal processes and controls to safeguard the interests of customers and other stakeholders.	• Control Environment Index *Performance: Our Control Environment Index measures the strength and effectiveness of our risk controls and reporting. It is used internally for management purposes, but not communicated externally (for reasons of commercial sensitivity).*
Aging and changing demographics	We pay out pensions and other benefits to help customers achieve financial security – and invest in research to increase wider understanding of aging as a social and economic issue.	• Total customer claims, benefits and pension withdrawals *Performance: Last year, we paid out just over €48 billion to our customers in claims, benefits and pensions.*

Repositioning our businesses

This is what we call optimizing our portfolio. It's one of our four strategic objectives[1]. The idea is simple: we want to put more of our resources into businesses that will bring us future earnings and growth. Over the past few years, we've been shifting more toward businesses that pay fees or earn us money from our insurance margins, rather than those dependent on investment spreads. There are several reasons for this: it reduces our financial risk, which, in turn, reduces the amount of capital we have to set aside to cover those risks. It also makes us less reliant on the performance of financial markets – important in a time of market uncertainty. Fee businesses now account for 45% of our earnings, compared with around 15% in 2010.

We've been selling some businesses, and expanding others, so we can build up sources of growth for the future. Last year, we sold UMG, our advisory business in the Netherlands. We also sold our Irish operations and our UK annuities book. In the US, we sold several businesses already placed in run-off; these included our pay-out annuity and BOLI-COLI businesses, as well as another tranche of our US life reinsurance business. These sales reduced risk and freed up capital. Ninety percent of our capital is now invested in our core businesses; in 2010, it was just two-thirds. Elsewhere, we're looking to expand. We want to increase earnings from our asset management activities, for example. In the UK, we've made acquisitions in pensions and investments. By expanding our asset management operations and investing more in fee businesses, we're aiming for average annual sales growth of 10% between 2016 and 2018.

Generating capital

Thanks to recent changes, Aegon's businesses are also generating more capital. In 2018, we expect capital generation of €1.4 billion[2] a year, most from the US. At the same time, recent divestments have reduced our need for capital; the sale of two of our US run-off businesses alone freed up an additional $700 million. Management actions have also helped: switching into fee businesses, cutting costs and risk, and investing more in products and services that don't require so much capital. Last year, we injected €1 billion into our Dutch business; this money came partly from divestments, partly from other units. It's put our Dutch business on a much more solid footing – we're now expecting Aegon the Netherlands to begin *generating* significant capital from 2018.

As a result of these changes, among others, we were also able to increase our capital target in 2017. Our aim is to have, at any moment, between 150% and 200% of the capital required under Solvency II – in other words up to double what is necessary to comply with the new rules. At the end of 2017, our ratio stood at 201%, above the upper end of the range and a significant increase from 157% the previous year. A strong capital position protects both our business and our policyholders, particularly in the event of a sharp drop in world financial markets. Under Solvency II, the amount of capital we need depends on both the quantity of risk we have on our books and the nature of that risk. That means measures to reduce risk also bring down our requirement for capital.

Greater efficiency

Our businesses need to be as efficient as possible. We've made progress in this regard, but there's more to be done. Our aim is to cut costs by €350 million by the end of 2018. We're on course to meet that target. In the US, we've been through significant restructuring, simplifying our business, closing offices in California and Ohio. We'll also be outsourcing administration of around 10 million US insurance and annuity policies. Cost reductions are also underway in the Netherlands. Being more efficient isn't just about cutting costs. We're also investing in new technologies, overhauling processes and organizing ourselves better, so we have a more customer-facing business. As part of our reorganization in the US, we've created new jobs in customer advice and digital. Ultimately, this strategy will allow us to price our products better, grow our business and return money to our shareholders. By the end of 2018, we want to increase return on equity from our businesses to 10%. We're also aiming to give back a total of €2.1 billion to Aegon shareholders – €1.7 billion in the form of dividends, and another €400 million they received as part of our 2016 share buy-back.

Blockchain's potential

Nobody quite knows yet what the impact of blockchain will be. But it's clear it has the potential to transform the finance and insurance industry. In 2016, Aegon set up the Blockchain Insurance Industry Initiative (B3i) with four other insurers. B3i's aim is to develop uses for blockchain technology in insurance. The initiative's first project – a common platform for reinsurance – launched a prototype in December 2017. Blockchain works by creating a digital ledger, each transaction in the ledger representing a separate block of data, with its own code and time-stamp. Using blockchain has several advantages: it's quicker, easier and more efficient than the current pen-and-paper approach, so it should lower costs.
More importantly, it's secure. Once data is verified and stored in its block, it can't be changed, which should help further strengthen trust in financial services. Reinsurance is an ideal starting point for our work on blockchain; it's a business-to-business industry, involving a relatively small number of players. But there's no reason why blockchain, once tried and tested, shouldn't also revolutionize other parts of the insurance industry.

[1] These four strategic objectives are: loyal customers, operational excellence, empowered employees and optimized portfolio. These objectives have been in place since 2012.
[2] Not including funding for the holding company or operational expenditure.

Responsible Business

Last year, we re-examined our approach to sustainability, and the important social, environmental and economic aspects of our operations. As a result, we introduced Responsible Business. This looks specifically at where, as a company, we can create value for society. Our focus is on the link between long-term financial security and well-being. As part of Responsible Business, we've identified three main objectives – and have initiatives to support each of these objectives: investing more in sustainable real estate, for example, and developing products and services to help customers manage their finances and lifestyles more effectively:

1 To help our customers improve their financial security and well-being.

This goes to the very heart of our purpose as a company. We want our customers to have financial security, and we want them to be healthy, so they can enjoy that security. Indeed, there's a clear correlation between financial and personal well-being – both require discipline and long-term thinking. For individuals, health issues can also be a major cause of financial headaches, particularly in the US.

2 To be a leader in retirement and healthy aging.

We know that aging will bring profound social change. Where possible, we want to help age-proof society, so it can adapt to these changes. That's why we're investing in retirement research, and in working closely with government, multi-lateral organizations and policymakers.

3 To help take care of the environment.

We have a responsibility to act where we can on climate change. As an office-based company, we don't have a big carbon footprint. But as an investor we can make a difference, through engagement with other companies, and by choosing to invest more in clean, renewable energy and energy-efficient real estate. A cleaner environment also means fewer health problems.

How we repositioned our US and UK businesses

Over the past year, we've repositioned our businesses in the US and the UK. These changes have been disruptive at times, particularly for our employees. But, as a result, we're in a much stronger position; we can commit more resources to what's important: growing our businesses, and helping our customers save, plan and invest for the future.

Outsourcing in the US

In the US, we're outsourcing administration of our life, health, annuities and workplace businesses to Tata Consultancy Services (TCS)[1]; the agreement with TCS covers around 10 million policies. Outsourcing should save some $70 million a year (eventually rising to $100 million). The alternative – to update our own administration systems – would have proved too costly. TCS' know-how and use of technology should mean better, faster, more responsive customer service. As part of the agreement, TCS will offer jobs to 2,100 Transamerica employees, minimizing disruption. In some places, we'll be sharing office space. TCS will also site its North American headquarters in Cedar Rapids (Iowa), Transamerica's home city.

Acquisitions in the UK

In the UK, we sold off our annuities book, and made two important acquisitions: Cofunds and Blackrock's UK worksite pensions business. Together, these acquisitions brought £90 billion onto our UK investment platform, making it the biggest in the country. Through the platform, we're able to offer funds, savings products and pensions to customers, their employers and financial advisors. We're now working to upgrade our UK back-book – by converting pre-existing customers to newer, better products. With these changes, we've shifted Aegon UK from being an insurer to a long-term savings business; as a result, we're much better placed to benefit from forecast UK market growth[2].

[1] Our agreement with TCS was announced in January 2018. All figures refer to 2018 onwards.
[2] Over the next few years, the UK investment platform market is expected to grow quickly. Research forecasts that, by 2021, the market will have surpassed £1.2 trillion (source: Fundscape five-year platform projections – January 2017, NMG adviser survey, Platformum).