S1 2020 Earnings Call

Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Frederic Marie de Courtois D'Arcollieres, General Manager
- Giulia Raffo, Head of Investor & Rating Agency Relations
- Philippe Donnet, Group Chief Executive Officer
- Tim Ryan, Group Chief Investment Officer and CEO of Asset Management

Other Participants

- Andrew James Ritchie
- Andrew Sinclair
- Ashik Musaddi
- Colm Kelly
- Farooq Hanif
- Michael Igor Huttner
- Nick Holmes
- Peter Eliot
- William Hawkins

Presentation

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Generali Group Half Year 2020 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions)

At this time, I would like to turn the conference over to Ms.Giulia Raffo, Head of Investor and Rating Agency Relations. Please go ahead, madam.

Giulia Raffo {BIO 21037091 <GO>}

Thank you. Welcome all to Generali first half 2020 results conference call. Here with me there is the full top of Management of Generali. Before we open the Q&A session, I will hand over to our Group CEO, Philippe Donnet for some opening remarks. Over to you Philippe.

Philippe Donnet {BIO 4657671 <GO>}

Thank you, Giulia. Good morning, everyone, and welcome to the presentation of Generali's first half results 2020.

Before we open the floor for questions, let me highlight our four key messages. First, the results we present today confirm that Generali is resilient, both from a financial and operating standpoint and that we are able to withstand the unprecedented challenge posed by COVID-19. Our operating result at EUR2.7 billion was in-line with that of the first half of the year 2019, when we achieved a record high figure. We confirmed once again our technical excellence with a combined ratio at 89.5% and a new business margin at 3.94%. And our solid position from a capital perspective with the solvency ratio at 194%.

Second, at Generali we promptly reacted to the COVID situation, acting like true Lifetime Partner to all our customers, our agents and all stakeholders. We put in place many initiatives to support them at this critical juncture and we implemented a number of business actions that helped to mitigate the effects of the crisis.

Third, we confirm our outlook for the remainder of the year, whilst being conscious of the persisting uncertainty about the socio-economic and financial consequences of the COVID-19 pandemic. We expect our operating result to be resilient this year, thanks to favorable business mix and a robust standard policy terms, albeit with likely decrease compared to 2019.

Fourth, we continue to execute our strategy. Our Generali 2021 strategy, we executed it in a disciplined way, while accelerating on some initiatives such as digital transformation and adapting to the changing scenario. At the same time, we are ready to capture any opportunities any good opportunities that might arise, and we will provide a full update on the progress on our strategic plan on our Investor Day which will be held virtually, of course, on November 18th.

Thank you very much for your time, for your attention. And together with Frederic and Cristiano, we will be happy to answer your questions. Thank you.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) The first question is from Andrew Sinclair with Bank of America. Please go ahead.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks and good afternoon, everyone. Three for me, if that's okay. Firstly was on Switzerland where you've taken some reserve strengthening but it sounds like there might still be quite a lot to come with a similar in H2, and you said negative operating result for 2021.

Just wondering if you could give us a bit more color on this, and why you not take the whole hit upfront? And finally, when do we think we will get back to profitability for Switzerland? So that's the first question.

Second question is on M&A. You've got a stake in Cattolica. You've been linked with Borsa Italiana, neither of which really seems naturally set into your core M&A focus. Could you give us a bit more color on these and what we should think about the M&A strategy?

And then thirdly was just on P&C claims frequency. I just really wondered if you could give a bit of color on how things have changed since lockdowns started to ease. Do you still see COVID as being fairly neutral to maybe even slightly positive for the P&C business in H2? Thanks.

A - Giulia Raffo {BIO 21037091 <GO>}

Andy, sorry, can I ask you a favor? Can you repeat, please, the first question?

Q - Andrew Sinclair {BIO 17749036 <GO>}

The first one on Switzerland?

A - Giulia Raffo {BIO 21037091 <GO>}

Yes, sorry.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Sure. Just saying, on Switzerland, you've had the reserve strengthening. But it sounds like a similar hit to come in H2. You've guided for negative operating results in 2021. Just really wondered if you could give us a bit more color on that. And when profitability might return for Switzerland, then actually, could you not just take that whole hit up front rather than spreading that over a couple of years?

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. I suggest we start with Philippe on the M&A strategy. And then Frdric, if you want to answer the question on Switzerland. Thank you. And then P&C also. Yes, thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you, Andrew. On the M&A strategy, there is no change on the strategy we described when we presented our Generali 2021 strategy.

So, it's a very disciplined strategy on the insurance. It's focused on Europe. The scope is wider on the asset management side. We have nothing serious, except the Cattolica investment, which is strategic and industrial investment. On Borsa Italiana, there is absolutely nothing. We are not involved in this. So, basically, this is it. Frederic?

A - Frederic Marie de Courtois D'Arcollieres

So I'll start quickly with the P&C frequency before moving to the first one. So, on frequencies, yes, we've seen dramatic decreases of frequency during the lockdown, especially on motors by more than 50%. But we've also seen decreases in some other lines of business. What is interesting is that even if frequencies have increased after the significant increase after the lockdown, they've not come back yet to normal levels, which I think is a good indicator also of the economic recovery. So we still have frequencies which are down compared to our normal levels.

On the first question on Switzerland. So first, this is important to understand where it comes from. So it comes from an acceleration of the reserve strengthening which relates to an old Unit Linked portfolio in run-off, which was close to new business around 10 years ago.

But the size of this portfolio is around CHF8 billion, and this portfolio has financial guarantees. The average guarantee on the book is at around 2.3% and these are at maturity guarantees. So, the book is partially hedged for interest rate and equity market moves. But as you may have seen, interest rates have decreased a lot recently in all countries and also in Switzerland. And due to this extremely low level and due to the fact that we want to have a prudent reserving approach, we've decided to accelerate what we had started to do about 10 years ago. So about 10 years ago in accordance with the Swiss regulators, we had decided to set up a guarantee reserve linked to this portfolio.

At the end of 2019, this reserve had reached an amount of CHF1.3 billion. And again, linked to the context, we decided to accelerate this reserving in 2020. So we've booked CHF300 million in the first half, and we will book to the same amount in the second half. After that, we will come back, I would say, to normal levels of reserving. So, I understand your questions on why don't we do it one-off as it is linked to, first, this is linked to the way the Swiss regulator -- the agreement with the Swiss regulator and how the Swiss regulator decides that we should book this. And then you should have in mind that this is a very long-term portfolio, about 30 years maturities. And the agreement with the regulator is that we will continue to increase reserves over the next 7 years. But, again, at -- we will come back to a normal pace of reserving.

In addition, you may have seen that, again, with the same philosophy, to be cautious. We decided to impair the goodwill on our Swiss portfolio and on our Swiss operation, and it had a EUR93 million impact at half year.

I think -- and I will conclude with this. I think it is important to understand that the Swiss portfolio against this run-off portfolio has very high technical profits and very high fees. So of course, we have negative investment margins, but we have partially compensating fees there, high technical margins and very high fees.

So, what I can tell you is that at current market conditions, we estimate that the value of the portfolio is negative in the region of mid triple-digit EUR100 million euro. I hope I was clear, Andrew.

Q - Andrew Sinclair {BIO 17749036 <GO>}

That's really very helpful. Appreciate it. Thanks.

Operator

The next question is from Peter Eliot with Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thank you very much. Two questions from my side. And I might comeback quickly on Switzerland. But first of all, on your expense ratio, you showed a big reduction of 0.7 percentage points. Would you be able to comment how much of that you think is structural and how much of it is simply a sort of short-term volume and mix effect that might reverse in due course?

The second question, I noticed your Italian motor premiums were down 7%. I was wondering if you could just outline the drivers of that and maybe put it in the context of what you see has happened to the whole market as well.

And then yes, finally, maybe just to come back quickly on Switzerland. I was just wondering if you could out -- I mean, obviously, you mentioned the lower interest rates, which are, I guess, the primary driver. But I'm just wondering if you could just highlight sort of what the further risks are for that. And whether -- sorry, just to clarify, whether from 2022, you di expect to be back on the sort of the old run rate for operating profit going forward? Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Hi, Peter. Thank you very much. I think Frederic might want to take the expense ratio question and the motor and Switzerland, sorry. All for you.

A - Frederic Marie de Courtois D'Arcollieres

Hi, Peter. So, on expense ratio, you are right that there was a strong decrease of expenses this year, which is linked to, I would say, of course, directly to the COVID impact, which is also linked to additional discipline. Again, in tough times, we have additional discipline.

So it's difficult to say what is run rate and what is one-off. As a high-level order of magnitude, I would say probably around 50-50. But what is important is that all of this made us aware that we have other margins to decrease expenses and we will continue to decrease expenses even next year, beyond what we had in mind in our plan. So, we've -- we're working on this. And again, this is linked to the experience of the past few months.

On the motor premium development, I understand that your question was linked to Italy only. So yes, there was a quite significant decrease of premiums, of motor premiums in Italy. Part of this is linked to postponement of renewals. So, we will see that and we'll see by end of September, we will see a recovery over the coming months.

Still, I expect the premium evolution figure on motor to remain negative. And this is linked to both a more difficult new business and to the fact that in the current circumstances, we support our clients. And as frequencies have decreased a lot, our clients are also benefiting from this, and we see a decrease on the average premium.

I understand your third question was linked to Switzerland, but can you be more -- can you say it again Peter on what exactly was your question, the third question?

Q - Peter Eliot {BIO 7556214 <GO>}

Yes. So, I just wanted to sort of understand the risks to the guidance that you've given. I mean I'm assuming a further fall in interest rates would mean that maybe you have to take a sort of slightly bigger short-term hit, and just sort of confirm or understand that as you see it at the moment, as it currently stands, that from 2022, we should be back to sort of normal operating level that we've seen in the past.

A - Frederic Marie de Courtois D'Arcollieres

So it is clear that this Swiss portfolio is sensitive to the Swiss interest rate level. We've adopted for the -- for 2020, a cautious approach. But if we had a significant increase of, again, of Swiss interest rates, it would have a negative impact.

Again, based on the today's scenario, as I've said before, we expect that after the strong effort that we've made this year, we will come back to normal level of reserving in Switzerland. We will continue to allocate to the guarantee reserve as we've done over the past years.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. So, just quickly to clarify, if I can, I think you said an increase in interest rates, would mean higher reserving. I assume that you meant the other way around --

A - Philippe Donnet {BIO 4657671 <GO>}

I'm sorry. If I said this, I must be tired. That's obviously decrease in interest rate levels.

Q - Peter Eliot {BIO 7556214 <GO>}

Imagined it. Just checking. Imagined it.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Andrew Ritchie with Autonomous Research. Please go ahead.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Hello. Hi, there. Thanks. Just some very quick questions, I think. In the Life business, I noticed it was only really Switzerland and Spain I think that where you had the declines in net investment margin. There was a lot of resilience in Italy, Germany, France in particular. Do we expect more pressure there in second half or going forward, I mean, particularly because you've already flagged, we're going to see lower real estate rents? Obviously, lower dividends must have already come through I suppose. But maybe just clarify, is that resilience in the investment spread in those countries not to be extrapolated? Or is it?

Linked to that, maybe just update us broadly on what you're doing with your sort of reinvestment strategy in current markets. I've seen that you've obviously flagged very low reinvestment rates. I don't know what you can do to supplement those. Maybe just give us an overview as to how you're treating the problem of reinvestment right now, which has clearly got even more challenging.

And the final question, I should probably know the answer to this. This is a very quick one. I'm a bit confused. Asset management result was up a lot quarterly as in Q2 versus Q1, even though average AUM must have been down, at least for external clients, but is there some seasonality in the asset management result? And I think there is. But just remind us why that is. Thanks.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. Cristiano, if you can take the first question, and then we can pass on to Tim for the two question on reinvestment and asset management. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. Thanks a lot, Andrew. So first point on the net investment margin in the second half, if I have to compare what is the expected net of extraordinary development of the market, which is still unknown in front of us, should be quite fairly similar to the first half of the 2020, due to the actions and due to also the equilibrium in the investment part we managed through this quite low yield environment.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

There's no effect from lower real estate rents to come through still?

A - Cristiano Borean {BIO 15246531 <GO>}

From real estate, you will see potentially a slightly higher part in the second half of the year, notwithstanding the fact that this is counterbalanced by the fact that in the first half, you were missing the dividend from the banks. So you need just to make the balance among the two. That's why I'm saying it is fairly stable.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Okay.

A - Giulia Raffo {BIO 21037091 <GO>}

Tim?

A - Tim Ryan {BIO 21076682 <GO>}

Yes. Good afternoon, Andrew. This is Tim Ryan, the Group CIO. So, on your second question on reinvestment strategy, the first point I want to mention is, we are very cautious on the way we deployed capital. You will have seen that even our cash position has increased. Why? Because we always want to look at the risk adjusted return.

What do we do to do this? We have done a couple of key elements. One is to continue to selectively invest in investment grade with high-quality names, and this has been very efficient. Our team has done a wonderful job on this, first point.

The second is to continue, as we said before, because our strategy is to be resilient whatever the market situation is in real assets. And on real assets, we have seen some quite big dislocation both on the private equity side as well as on the private debt side. And this is all across the different geographies. And for us, this is for an opportunity to even accelerate the deployment. But again, being very cautious on risk and liquidity, which is a key element. So, this is to answer your second question.

The third element, I will answer as well on the asset management side. We have said that our projection to deliver EUR350 million by 2021 would be quite linear, but there is some seasonality that comes from the second point I mentioned just on your question, is that we deploy on the real asset. We do have commitments. We do have fees that are captured at different point of time. There is a seasonality. That is usually the second quarter as well as the last quarter of the year, we have a bit of a pickup on the fees. So this is to understand this.

But at the end, why we've been resisting fairly well is that asset mix that is not just third-party, but the asset mix we have is today a majority of fixed income products. And obviously with the yield compression on government bond, this has been helped -- enabled us to also benefit from bit of a market uptick on the -- on our fixed income portfolio, which, therefore gets more fees.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Thanks for that. Just to clarify, the reinvestment rates that are cited, I think, is 1.3% in both Life and non-Life, I think. Is that the average for the half year? Or is that the kind of spot position?

A - Tim Ryan {BIO 21076682 <GO>}

The average -- to answer your question, it's 1.4% on the Life side and 1.3% on P&C.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

So, I guess, it may have come down a bit by the end of the quarter, given what's happened to (inaudible)?

A - Tim Ryan {BIO 21076682 <GO>}

It depends, again, on the speed of deployment on the real asset because this is a bit more of a slow burner compared to the situation we have on the rest of the market.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Okay. Great. Thanks very much, everyone.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you, Andrew. Next question, please.

Operator

The next question is from William Hawkins with KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much for taking my call. First of all, thank you for the extra clarity on the COVID losses on Slide 10. Apologies if I've missed this. But with regards to the EUR87 million in non-life, could you give us the breakdown of that between the gross items? Because presumably, you've taken travel losses which are a negative, but then you have the benefit of frequency that we've already talked about. But I'm not sure what the two opposing numbers are getting to EUR87 million. So that's question one, if you could tell us the loss versus the frequency gains?

Secondly, could you update us please on where the average guarantee has got to in your Life and force portfolio? I'm sorry if I'm out-of-date. But I think the last time you published, it was at last year's may Investor Day when you talked about 1.2% in 2018. I'm sorry if I missed it at the end of last year. Could you just give us an update on where that average guarantee has got to? Presumably, it's not changed much. I'm just assuming it may be down a little bit, and I'd like to check.

And then lastly, could I ask you just to comment a little bit more on your dividend outlook? Your formal comments are reassuring with regards to the second tranche. But you are being very clear that that depends on the norms and regulatory recommendations concerning dividend payments. And as far as I can see, the outlook for that is still very uncertain. And if the banks are anything to go and buy it's still quite a challenge. So I appreciate that you guys in terms of your numbers seem to be screening fine against your own assessment of risk. But I'm not sure where you think you are with regards to the overall regulatory environment. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. Cristiano, I suggest you take the first question on the detail around the COVID impact on our P&C operating. And if you can take also the second question on the average guarantee. And then, Philippe will take the dividend question.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. So the EUR87 million, clearly, this is an estimation and has been done accordingly to a methodology compared to our budget expected point, which is a fair point to be clarified in explaining you how we did it. But basically, the EUR87 million net benefit comprises around EUR70 million direct claims both travel and business interruption. And then we have a figure of lower volumes, which is having a negative impact of the order of EUR100 million. And then this goes on the positive side, with the lower claims frequency due to the reduced activity in particularly motor. So the net effect of this is bringing a positive EUR180 million, between negative volumes part and positive effect on technical profitability.

And then you have another delta between this EUR180 million and to get to the EUR87 million, which is a combination of lower income from regular income, especially dividends -- less dividends in the first half of the year, concentrated and having a higher impact on a pro rata basis because it's on half year and not on the full year but -- and then other operating costs coming from COVID-related initiatives, which are not included in the technical results but are mainly related to the support of the business given for the operational functioning during this very complex moment.

Second point related to this is that we are in between 1.25% to 1.3%, in that range, in the middle of that range. That should be the expected average range -- rate guarantee you have on our Life book.

And this will proceed in this way according to the transformation of the lower guarantees coming from the new business that we underwrite, which are done also in some cases at negative guarantees.

Don't forget -- don't focus only on the average guarantee of the book. Take, for example, into account, that 27% of the saving business and done in Italy in the first half has been done with the only debt benefit guarantee and not financial guarantee related to that, which is bringing further down the strain on the capital consumption of the saving business. We'll clearly update you with the detailed figure for the year-end figures.

A - Giulia Raffo {BIO 21037091 <GO>}

Philippe?

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you, William. As approved by our AGM in May, the second tranche of the dividend is to be paid by year-end and it's subject to the Board's verification. The board will be held on November 11. And the Board will check the compliance with limit set by our group's risk appetite framework as of September 30, as well as the compliance with the regulation and with the recommendations of the regulator. So nothing new.

Q - William Hawkins {BIO 1822411 <GO>}

If I may come back, sorry, my question was more on the last bit about whether you think the regulatory environment has evolved?

A - Philippe Donnet {BIO 4657671 <GO>}

As far as I know, the regulatory is still in the same mood, which is to recommend an extreme presence in the way we manage capital and dividends.

Q - William Hawkins {BIO 1822411 <GO>}

Excellent. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Michael Huttner with Berenberg. Please go ahead.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Thank you so much. And the three questions, one on the numbers. And I'm really sorry, I didn't follow precisely the answer you gave to Will on the claims and the impact in non-Life, because I came up with a negative figure in total and clearly it's a positive EUR87 million. So just wondered if you could help me on that.

And then you talked about the cash position and can you update a little bit on what it is? And what the cash flow you see for the whole of the year, given your target of the mid-teen, I think over EUR7 billion over three years. And then the last point, I just wondered if you could talk a little bit more about to Cattolica. I noticed you mentioned it as both a financial and a strategic investment. And I just wondered if you could kind of give on industrial investment, give a kind of feeling where exactly it lies. Is it part of your budget of around EUR4 billion of deals? And how do you see it developing? Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you very much, Michael. I suggest Cristiano, if you can take the first two questions, and then Philippe will take the final one.

A - Cristiano Borean {BIO 15246531 <GO>}

For sure. So, Michael, sorry, not for being clear. I wanted to highlight also the thing -- the claim. So the technical profitability is impacted at this claim. I just gave you a further information, which is within the positive result of claim. We had an impact of EUR70 million from travel and business interruption. So that you have a view of what was the impact.

But at the end of the story, we had a positive impact in technical profitability for EUR275 million and then a negative impact for volumes of EUR100 million, which is netting out to get the EUR180 million coming for the combination of premium and profitability overall. And this is the EUR180 million.

From EUR180 million, EUR87 million, you need to deduct lower income for dividend, which we did not receive from equity participation in the first half, which is even more impacting pro rata. And second, some initiatives, which are not accounted in the technical results. So you don't see them in the combined ratio final figure, but are there to support the functioning of these complex moments of specific COVID environment to give to the network and the operational and the agents and all the distributors the support needed in order to function and produce at the end of the story, what, in my personal opinion, is a very good result in even non-Life collection, as you have seen.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Second point, cash. Cash is at strongest ever level. I recall you that we paid in May, the first tranche of the dividend, and notwithstanding that last time we talked, I told you that we had more than EUR4.1 billion. I can confirm you that we have a very healthy level about that one-off cash, which allows us to fulfill cash and capital flexibility in such an important and uncertain moment, which is one of our key assets, in my opinion, reaching and reducing a lot of uncertainty coming from the future. I hope I gave you clarity.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Can you talk a little bit about the cash flows? Because obviously, the regulators has been --

A - Cristiano Borean {BIO 15246531 <GO>}

Sorry, sorry. Yes, my fault. I'm getting old.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

I'm almost your age.

A - Cristiano Borean {BIO 15246531 <GO>}

I confirm you that in -- with the last cash flow or accounted for remittance in the first weeks of July, we are above the 90%, close to the 95% level of total remittance expected for 2020. Now what is missing basically is some Central Eastern Europe entities in regimes which were quite strict. But we hope that due to the healthy level of the solvency of these subsidiaries and the liquid position, we hope that after this summer break, we will get more clarity also from the answer of the regulator. So, we are very well positioned to fulfill this 2020 remittance pattern.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

And the position in cash now, you're saying it's higher than in Q1, even after paying that first tranche of the dividend?

A - Cristiano Borean {BIO 15246531 <GO>}

It is higher and at healthier level. So this is bringing us the confidence. Don't forget that in July, we spent some money for the liability management exercise. So it is higher even though we did that?

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Okay. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Philippe, over to you for the Cattolica question.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. Thank you, Michael. So the potential investment in Cattolica is both strategic industrial and also financial, because it's an investment. It's still potential because, as you know, it's subject to the transformation from cooperative company into joint stock company. And the meeting of the shareholders of Cattolica will decide tomorrow if they accept, if they approve the transformation and the capital increase proposed by the Board of Directors of Cattolica. So at this stage, I would say it's still potential.

If we make the investment, it will be something around EUR350 million for having 24.4% of the company. And it goes, obviously, together with an industrial partnership on asset management, on reinsurance, on the health insurance, and on internet of things. So this industrial partnership would provide additional revenues and earnings for Generali. Basically, this is what I can comment at this stage about this partnership.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

And is there any -- given your position in Italy, which is quite large, would the regulator -- is there a potential risk that the regulator says, "Oh, you can influence a bigger share -- part of the market now."

A - Philippe Donnet {BIO 4657671 <GO>}

We don't see this kind of issue. We don't see any kind of antitrust issue at this stage.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Thank you so much. Thank you, and good luck, Philippe.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you, Michael.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you, Michael. Next question, please.

Operator

The next question is from Farooq Hanif with Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. I hope you can hear me well. My first question just coming back to Cattolica, can you give us some idea of how much of the assets you might manage? And to what extent you will be reinsuring? So that we can get maybe some clue on the potential uplift next year, if this potential deal goes through. So just a scope of that, what kind of return do you expect? That's the first question area.

Secondly, going back to just clarify on the claims frequency benefit. So, I believe, Cristiano, you said it was at EUR271 million benefit. So the actual claims frequency is just that part. I just want to clarify that number again.

And then lastly, going back to Life. I mean excluding the Cometa contract, obviously volumes are down. They're not down that much considering the environment. Just wondering, what you're seeing in terms of Life in Q3. I mean with your updated systems with lockdown ending, is there a pickup now happening? Could you please talk about that? Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you very much, Farooq. Sorry, can I ask you a favor of the first question? It didn't come out too well. At some point, the sound broke. Can you repeat, please, on the Cattolica?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes, of course. Thank you. So the scope of the asset management and the reassurance of Cattolica, some numbers maybe to give us an idea if the deal goes through and what your ambition is.

A - Philippe Donnet {BIO 4657671 <GO>}

Before letting -- thank you, Farooq. This is Philippe speaking. Before letting Tim Ryan answer on the asset management, I would first say that for the time being it's still a potential investment. So, for the timing, it's not real. We will know more about this tomorrow night.

A - Tim Ryan {BIO 21076682 <GO>}

On the scope -- Farooq, on the scope of the agreement that will be subject, again, as Philippe mentioned to the votes of tomorrow, we have in scope, the traditional insurance asset management services around LDI, Liability Driven Investments, as well as real estate. And the scope will be in the double digit of billions of euros.

Q - Farooq Hanif {BIO 4780978 <GO>}

And can I just follow-up on the reinsurance? I mean I know it's early, but presumably you would be able to add a lot of value to the motor book and the non-motor book of Cattolica?

A - Tim Ryan {BIO 21076682 <GO>}

No, it's impossible at this stage to provide the details of what will be the reinsurance agreement. We -- I think that the first step is tomorrow, after that, obviously, we would discuss the detail of the agreement.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Frederic?

A - Frederic Marie de Courtois D'Arcollieres

On claims frequency, what are the benefits on the claims frequency? So first, you have to know that we've closed our accounts and especially on the claims side, we've closed these accounts in a cautious way, I would say, which means even more cautious than we were used to do in the past. Why have we done so? Because there are a lot of uncertainties over the coming months, and we thought that it was a good policy to be extremely cautious in closing our accounts and in closing our claims.

So, you do not -- you see part of the benefits of the claims frequency in the half year accounts. You do not see all of it, I mean, we will see what happens on the -- in the coming months. There were scenarios, I mean we had been looking at China and at the increased traffic in China after the lockdown. So we were thinking that frequencies may increase after the lockdown. Now, we are monitoring this extremely carefully. And as I said before, in July, frequencies have not come back yet to have not fully come back to normal levels.

So again, your question is absolutely valid. You see -- but it's complex to answer. So you see part of the benefits in our combined ratio in the first half. You do not see everything, because we've been cautious, and we are anticipating or we are -- we want to anticipate potentially what happens in the coming months. But again, if you ask me in the second half, how frequencies will be. I cannot tell you yet. I can just tell you that in July, frequencies are still improving compared to last year.

On the Life side, so in fact, volumes are -- have been doing well in the first 6 months. And there is a combination of various factors. First, people and it may seem paradox, but people have saved more in the globally in the first half, which is good for our business.

The second factor is that our agent channel has been extremely performing over the lockdown period and that was something we had never experienced. So we were not sure of what to expect. And the combination from agents and digital tool has proved to be an extremely strong weapon, if I may say.

So our agents have continued to advise our clients. Our agents have continued to sell. And we are extremely happy with the performance of our agent channels around the globe.

Then there is a third interesting factor on the Life volumes is that mix has -- and I have already discussed this at the end of the Q1, mix have significantly improved. So, you see that protection has continued to increase. You see that unit-linked have dramatically improved. But even if you exclude this specific pension contract in Italy, unit-linked have slightly improved over the first 6 months and Generali new business has decreased.

And I would say that this is extremely interesting, because this is different from previous crisis that we had experienced in which clients were selling their unit-linked products to invest in guaranteed products. And we've not seen this at all, and we're happy to see that the mix has continued to improve.

What will happen next? It's difficult for me to say. We've made a big survey in about 20 countries where we're active. Clients tell us that they want to be more protected and that they want to invest more in life insurance products. This is what they tell us, which is a good signal. Will it happen? I cannot tell you yet. But let's say that we are quite positive based on this survey and what clients tell us. But again, this is an uncertainty.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano, do you want to add something on the claims side?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, I think this could help also for you, Farooq, to dig a little bit. Clearly -- okay, apart from the lower nat cat burden of 0.3 percentage points, what you see is that the positive contribution for prior years development decreased to 2.5% compared to 4.1% of last year.

But this drop ahs very well underlined by -- highlighted by Frederic, does not reflect the change in the strength of the reserving position. This is rather contingent on prudency and the liquidation of the claims in the process of the current COVID-19 environment. And as a proof point of this, if I just look in the capital generation of the first half of the year, which before deducting for the accrued dividend pro rata -- so, I'm just saying capital generation, what happens in that, before the dividend deduction is 10 percentage points.

And if I look at the contribution coming from the non-Life part, in the first half of 2020, I have a capital generation which is higher than the full 2019 capital generation non-Life, which is I think the fair element to be looked when we look at what was the impact. Hope I gave you more insight.

Q - Farooq Hanif {BIO 4780978 <GO>}

That's very useful. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Nick Holmes with Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, guys. Thank you very much. A couple of questions, please. Really just follow-ups. First, coming back on Switzerland. Question is, what prompted you to strengthen the reserves now? Is it the market? Or the regulator? Or a combination of the two? And then -- sorry, just very quickly coming back on PYD. Cristiano, I wasn't quite sure, you were saying it's obviously fallen to 2.5%. But is 4% still what you would expect on a normal basis? Thanks very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Frederic?

A - Frederic Marie de Courtois D'Arcollieres

Hi, Nick. Usually, to say that we always close our accounts in agreement with the regulator, especially as for the reserving of this kind of product in Switzerland, the rules are principal-based. So, we've always agreed with the regulator on how much should be the guarantee reserve and at which pace it should be done. Then the trigger figure is the low level of interest rates. And again, this is why we decided, and again, in agreement with the regulator, to make strong acceleration figure.

Q - Nick Holmes {BIO 3387435 <GO>}

I'm sorry. Just as -- Frederic, just a very quick follow-up. These financial guarantees are interest rate guarantees rather than equity guarantees? Or are they -- you mentioned equities, I think, as well.

A - Frederic Marie de Courtois D'Arcollieres

The underlying are unit-linked products and we are investing in low volatility funds, so which are -- so the main risk is interest rate risk and there is some limited equity risk.

Q - Nick Holmes {BIO 3387435 <GO>}

Understood.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano, on the PYD outlook?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, Nick, I confirm you that the 4% is a more appropriate view of the run rate of prior year development in the, let's say, not uncertain environment, but prudent reserving as we made in the first half.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much. That's very clear.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. Next question, please.

Operator

The next question is from Colm Kelly with UBS. Please go ahead.

Q - Colm Kelly {BIO 19140684 <GO>}

Thank you. First one on capital management. The normalized capital generation was strong in the first half at EUR1.9 billion due to the booth from P&C, as we looking forward to potential recessionary scenarios where the P&C results might be more normalized and the Life contribution may be impacted by continued lower investment income and lower new business value, do you remain confident that Generali can deliver on the normalized capital generation target of EUR10.5 billion over the 2021 plan? That's the first question.

The second question is just relating to the reserving action and the ongoing profitability drive for the Swiss Life business. I suppose as the action today and over the first half, alter your view on the strategic position of that business and the Swiss for trip [ph] business within the Generali Group. Given that it's unlikely to generate profitable growth or generate a high-return on capital deployed which are core metrics within the Generali 2021 plan.

And then lastly and maybe simply on the BTP solvency sensitivities, you very helpfully gave an update in March around the BTP sensitivity changes from the full year due to the country specific VA, volatility adjustment. Given the changes in spreads since then, would you mind updating on any material changes to that BTP solvency sensitivity? The 197%

solvency would suggest it may have changed again. So an update would be very helpful? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano, I suggest you answer the first and the last question. And then Frederic will take the question on Switzerland.

A - Cristiano Borean {BIO 15246531 <GO>}

Absolutely. So Colm, fair point to say that there is a kind of support as of today in the P&C capital generation. But what I would like to stress is you need to take into account different factors. Going forward, our product mix as well highlighted by Frederic was giving even more in the capital light space. And even in the saving world, as I was telling you, for example, in Italy, 27% of the saving has been done without a financial guarantee only with a death benefit in case of that you guarantee the amount of premium, nothing else, which is a very healthy capacity to generate a new business margin. We are continuously focusing in growing the ancillary guarantees and protection part in this business and the unit-linked collection, which allows us to be confident to get to the capital generation level, knowing the fact that we are doing well in growth also for the P&C part with a very healthy growth on the non-motor component.

Having said that, so we are not in this environment under pressure for the EUR10.5 billion. We will see the evolution going forward, but we were very well dynamically acting against this. And our new products are showing this form of resilience. I think you've seen from our new business margin.

Third point related to sensitivity on BTP. Are they changed from the final year? Let me say that, no. Because if I look as of also these days, we are at level of spread which are not far, even slightly better than at the year-end. And in a level of not activation of the so called country specific VA. So, we need really an opening of BTP spread, let's say, as of the half year condition, end of June, okay, because that was the last moment we calculated.

The trigger would have been with flat corporate spray that as of end of June, we would have need something in the order of 50 bps to 60 bps of further opening of BTP spread before triggering the country-specific volatility adjustment. So, no big changes in my opinion to the sensitivity reported. Hope I gave you --

A - Frederic Marie de Courtois D'Arcollieres

Colm, on your second question, it's important to understand that our Swiss business is made of three different bits. We have a good P&C business on a market which is profitable. We have a good Life new business. And we have this book, which has been underwritten between 2000 and 2009, which obviously is not good and which is impacting our result for the time being.

So I would not tell you that we are happy with this result in Switzerland. But as of today, our strategic view on the market and the company has not changed.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Ashik Musaddi with JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Hi. Thank you. This is Ashik Musaddi. Just a quick follow-up on Swiss business again, sorry for this. I mean, how should we think about the mark-to-market impact of low interest rates on that business? I think you mentioned that it would be negative triple-digit value for the -- I think I also heard that you're talking about adding EUR300 million results in first half and then similar in second half.

So how can it be only -- mid triple-digit negative value if you're adding EUR600 million just in 2020? So, what are we missing here? I mean any thoughts on like longer-term market consistent value of that business would be good.

Secondly, is in terms of asset allocation of the asset business. Can you give us some color on where those assets are invested? I mean just to understand, like is it possible for you to get a yield pickup by going up on the risk on that asset base and reduce the interest rate drag on that? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Ashik, sorry. I didn't get the second question, apologies.

Q - Ashik Musaddi {BIO 15847584 <GO>}

No, that's fine. The second question is simple is what is the asset allocation of that Swiss Life book? Just to understand if you can go up on the risk to address the low interest rate problem on that business? Thanks.

A - Giulia Raffo {BIO 21037091 <GO>}

Tim, I don't know if you want to take this second question first.

A - Tim Ryan {BIO 21076682 <GO>}

Sure, I will take the second question on your question on the asset allocation. We have, like any business that is related to Life, a very conservative approach that is to rely on fixed income and also to deploy within the real asset, especially on real estates. So the answer is that we have room to take risk. We are obviously very careful about the adjustment that you need to do to back some of the guarantees.

So, we are using both the government for the typical duration matching as well as corporate bond spreads, which we look at hedging back into Swiss franc. And on the margins, you have a pickup around the real estate and investing in a very prudent way in the debt mortgages as well in Switzerland, which is a very high margin business for us.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. And Frederic, do you want to take the first question on the interest rates?

A - Frederic Marie de Courtois D'Arcollieres

Yes. No. On your first question on mark-to-market. So, I said that our estimate is mid-triple-digit negative on this(ph) book of business in mark-to-market. Of course, it depends very much on your interest rate assumption.

Just as a reminder, we'll have -- in 2023, we'll have IFRS 17. So, at this point, this would be -- everything will be really mark-to-market. I cannot see much more. This is again, the -- as I've said, we have this negative investment margin very interest rate dependent. And we have extremely high fees and mortality margins, which are not interest rate sensitive.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. So is it fair to say that the EUR600 million hit that you'll be taking this year is just to do with the recent interest rate decline? Or is it a bit of a catch up from past as well? I mean what I'm trying to understand is like, how should we think about future reserving additions, et cetera, if interest rates don't change. So I mean if it is, let's say, the EUR600 million is just because of this recent drop in interest rate and then more or less -- I don't think you would need to worry in the future too much. But if there is a bit of catch up from past as well as then probably interest rates plays a bit of a role here because interest rate have been declining for past, let's say, 10 years.

A - Frederic Marie de Courtois D'Arcollieres

As I said, the EUR600 million is directly linked to a catch-up on the lower interest rates. And I've said that after this having done this catch up and this and if interest rates remain where they are, we will come back to more normal levels.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. That's very clear. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

We have time for one more question.

Operator

The next question is a follow-up from Michael Huttner with Berenberg. Please go ahead.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Thank you very much for this chance. Just on the solvency, I was hoping solvency would be up versus Q1. It's actually down. And I was trying to work out the moving parts. It's in Other, and I know you have this thing about the adjustment of the bank, which I think is cost about 1%. Other for me was a delta of 3%. And I just wondered if there's something here which I've missed.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano, this is for you.

A - Cristiano Borean {BIO 15246531 <GO>}

No, there is nothing specific on this part. On the other -- the only important thing you have to keep in mind it has been the DSI transaction and the plan for the employees of Generali where we bought back the shares of Generali which then are non-eligible on funds item for a temporary moment because then we will give them that in 2022 at the end of the plan.

So it's a temporary drop, let's say, due to the execution of the plan. Nothing more specifically missed apart from the EUR100 million COVID expenses on an International Fund. These were the three elements. But in the first quarter, we booked the COVID in the IFRS account already.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Yes, yes, that's lovely. And Generali shares, how much is that?

A - Cristiano Borean {BIO 15246531 <GO>}

Michael, I really did not understand.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Sorry, sorry. The Generali shares, how much is that, please?

A - Cristiano Borean {BIO 15246531 <GO>}

It is 6 million Generali shares buyback. It is in the order between EUR70 million to EUR80 million amount. This is public information as we disclose to the market each single chunk of transaction there.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Sorry, I missed it. Thank you so much. Thank you.

A - Frederic Marie de Courtois D'Arcollieres

Michael, this is Frederic, maybe I should remind also that -- I know you know it, but this year is the year in which we will implement our operational risk internal model, which will have a positive impact on our solvency margin at year-end.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Okay. How much will that be? I'm pushing my luck here, but --

A - Frederic Marie de Courtois D'Arcollieres

I'm forcing my luck here. Unfortunately, I cannot disclose it because we need to have the final signature from the regulators. So, you will know more at your end.

Q - Michael Igor Huttner {BIO 21454754 <GO>}

Lovely. Thank you so much. Thanks, Frederic. Thank you. Thanks a lot.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you very much. We're already running over time. So this concludes our Q&A. Thanks a lot for all of your questions. As always, the Investor Relations team will be at your disposal for any follow-up. We wish you a happy summer break. Thank you. Bye-bye.

Operator

Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect your telephones.