Q3 2019 Earnings Call

Company Participants

- Antonio Cano, Chief Operating Officer
- Bart De Smet, Chief Executive Officer
- Christophe Boizard, Chief Financial Officer
- Emmanuel Van Grimbergen, Chief Risk Officer
- Hans De Cuyper, Chief Executive Officer, Belgium
- Unidentified Speaker

Other Participants

- Ashik Musaddi, Analyst
- Bart Jooris, Analyst
- Benoit Petrarque, Analyst
- Colm Kelly, Analyst
- Farquhar Murray, Analyst
- Fulin Liang, Analyst
- Jason Kalamboussis, Analyst
- Matthias De Wit, Analyst
- Robin van den Broek, Analyst
- Steven Haywood, Analyst
- Vikram Gandhi, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Ageas Conference Call for the First Nine Months of 2019. Today, I am pleased to present Mr. Bart De Smet, Chief Executive Officer; Mr. Christophe Boizard, Chief Financial Officer; Mr. Emmanuel Van Grimbergen, Chief Risk Officer; Mr. Antonio Cano, Chief Operating Officer; Mr. Filip Coremans, Chief Development Officer and Mr. Hans De Cuyper, Chief Executive Officer, Belgium.

For the first part of this call, let me remind you that all participants will remain on listen-only mode and afterwards there will be a question-and-answer session. Please also note that this conference is being recorded.

I would like now to hand the call over to Mr. Bart De Smet, CEO and Mr. Christophe Boizard, CFO. Gentlemen, please go ahead.

Bart De Smet {BIO 16272635 <GO>}

Good morning, ladies and gentlemen. Thank you all for dialing into this conference call and for being with us for the presentation of the results of Ageas for the first nine months of 2019. Ladies and gentlemen, Ageas has achieved a strong performance this quarter, confirming the positive trend recorded in the first half of the year.

The net result of the first nine months is at the very high EUR877 million. This represents a 34% increase compared to last year. The result was driven by a solid operating performance in both Life and Non-Life and benefited from the positive evolution of the RPN(i), which contributed EUR106 million, as well as from a substantial amount of EUR193 million capital gains over the first nine months. These capital gains are the result of our prudent approach in the way we value our assets. Our impairment rules let us to take a significant amount of impairments in Asia last year, which has a positive effect on our results this year, which enabled us to record nearly EUR100 million net capital gains in Asia.

Whereas the Life activity drove the strong result in Asia, in Europe the strong performance came to a large extent from the Non-Life business. The current year performance in Belgium and Portugal resulted in a strong combined ratio of 94.7%, comfortably below our target level. In the UK, the motor market remains difficult with pricing trends in the market not following the witnessed claims inflation and this translated in our results. The impact of the large losses we mentioned during the six month results communication has proven to be of lower magnitude than initially foreseen. The Life activity in Europe was relatively resilient considering the continued low interest environment.

As you can see on Slide 30, the evolution of the fixed income portfolio in our Belgium business is very close to the evolution of the accounting reserve in run-off. As indicated by rating agencies, the situation of AG Insurance is the relatively unique position on the European market and is the result of a strict and consistent investment and ALM strategy applied over the years. This consistent, adequate and efficient ALM consists of managing the interest rate risk through cash flow matching in combination with the ratio matching with both indicators closely monitored on a monthly basis. We can say that the existing Life portfolio in Belgium is very well matched and holds very limited reinvestment risk.

In Portugal, in order to alleviate the pressure from the low interest rates on our margin, we adapted our product strategy and reduced the guaranteed rates to zero. Overall, our nine months Group operating margin for Guaranteed products stood at 81 bps and we are confident that we are on track to reach our Group target range of 85 bps to 95 bps at the end of the year. This quarter, we also continued on the growth path recorded in the first half of the year, with an increase of 11% since the start of the year, scope on scope when excluding the divested activity in Luxembourg and our new Non-Life Entity in India. Growth was driven by both Life and Non-Life activities and spread across almost all the regions.

In UK, the inflows started to stabilize in the third quarter, after recording a decline in the first half of the year, following the strategic decision we took to prioritize pricing discipline in highly competitive market. In Asia, we pursued the solid sales momentum with a profitable regular premium contracts still accounting for more than 90% of the Life inflows.

We received this quarter an additional EUR4 million dividend upstream, leading to a total of EUR633 million coming from our operating companies since the start of the year. This amount was enough to cover not only the dividend paid to our shareholders and our holding costs, which is our strategic intent, but also the cash outs related to the share buyback programs, since the beginning of the year. Our total liquid assets amounted to EUR1.6 billion, including EUR0.6 billion, which remains ring-fenced for the settlement.

Ladies and gentlemen, I will now hand over to Christophe for more details on the results.

Christophe Boizard {BIO 15390084 <GO>}

Thank you Bart, and good morning ladies and gentlemen. As mentioned by Bart, we booked another strong quarter, driven by a solid operating performance and supported by financial results. As usual, I will give you some comments per segment.

Slide 5, in Belgium, our strong result this quarter was supported by the performance of both the Life and Non-Life activities. In Life, the quarterly result benefited from real-estate capital gain, which compensated for a lower underwriting result. The nine months guaranteed operating margin recovered to 81 bps. The additional expected capital gains on real-estate plan for the fourth quarter should enable us to end the year within our target range of 85 bps to 95 bps.

The Unit-Linked operating margin, which amounted to 39 bps was in line that with our target range, which is between 30 bps and 40 bps.

In Non-Life, we achieved this quarter an excellent result. After a first quarter impacted by weather events, we have continuously improved our combined ratio over the year and recorded an excellent 90% in the third quarter. On a year-to-date basis, we reached 95%, which is better than our target of 96%. Through the new internal reinsurance agreement EUR1 million of the Belgian Non-Life results was transferred to the reinsurance segment during this quarter.

The commercial performance in Belgium is strong since the start of the year, with double-digit growth in Life and a steady increase across all business lines in Non-Life. During the third quarter, Life inflows were stable compared to last year with increased inflows in Guaranteed products, compensating for lower Unit-Linked sales while Non-Life products continued their growth path.

In the UK, now -- sorry, I'm on Slide 6, our net results was impacted by higher claim inflation in motor, which is a market wide phenomenon. This offsets the continued strong operating performance recorded in Household. Please also note that the new internal reinsurance program had a negative impact of EUR4 million on the quarter. The year-to-date combined ratio stood at 97% with a benign weather mitigating the adverse claim development in Motor. On the sales side, the direct sales for the aggregators have continued to grow.

Now in Continental Europe, on Slide 7. The results of our nine months increased by 6% scope-on-scope when excluding the contribution from Luxembourg, which was sold last year. The Non-Life had a strong performance offsetting lower Life results in a challenging environment marked by low interest rates. The nine months Guaranteed operating margin was impacted by a reserve strengthening in Portugal in the second quarter that was already reported in the Q2 results. Excluding this, the operating margin Guaranteed would be in line with the high levels recorded last year. In Non-Life, the result was strongly up, thanks to the continued solid performance in all business lines, both in Portugal and in our non-consolidated partnership in Turkey. The combined ratio in the consolidated entities stood at 90.4%, well below the Group target. An increase in top line was also observed in both Turkey and Portugal. The internal reinsurance agreement had a negative impact of EUR2 million on the results of this quarter.

In Asia on Slide 8, we had a very high result this quarter. Thanks to a solid operating performance supported by EUR30 million net capital gain, compared to a EUR40 million loss last year due to equity impairments and see for this Slide 19 where you have more details. The results still benefited from the positive evolution of the discount rate curve in China. This curve used in China to assess the level of the liabilities is based on the 750 day moving average of the Chinese government bonds yield. We have included in the presentation, Slide 42, a graph showing the curve in comparison with the evolution of the 10-year Chinese government bond. The sales dynamic continued in Asia with double-digit growth recorded in both Life and Non-life segments.

In the Reinsurance segment on Slide 9, we had a positive result of EUR10 million this quarter. Thanks to the strong Non-Life performance in Belgium and Portugal for this quarter, all the segments positively contributed to these results.

The General Account on Slide 10 generated a positive net result, following the positive contribution of the RPN(I) of EUR106 million, which was already mentioned by Bart in the his introduction.

The Group shareholders equity on Slide 11 increased by 19% to EUR11.2 billion in the first nine months of 2019, supported by the high net results and by unrealized capital gain, especially in Thailand where interest rates are at historical lows and where there is no shadow rate [ph] accounting on the liabilities. This adjustment of the shadow rate accounting would have dampened the increase.

Our Group Solvency II ratio on Slide 12, stood at a strong 199% and was only 2 percentage point down over the quarter, despite the continuing drop in the yield curve. This is explained by the mitigating impact of a correction on the treatment of the minority interest related to intra Group subordinated loans. The impact was positive by roughly 4 percentage points, 5 percentage points. The contribution of the operation to the solvency ratio covers the expected dividend over the quarter.

The operational free capital generation on Slide 13 amounted to EUR391 million for the first nine months of the year, including EUR98 million dividend upstream from the non-European non-consolidated participations. In the third quarter, our business operations generated EUR134 million of free capital, of which EUR4 million of dividend collected during the quarter. This was already mentioned by Bart as well. This is a solid number in the current continuing low interest rate environment.

And this is the end of my presentation.

Questions And Answers

Operator

We're starting the Q&A session now, I guess. (Operator Instructions) We have the first question from Ashik Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, good morning Bart, good morning Christophe. Just a few questions, first of all, can you give us some clarity on what's going on in Slide #43, which is the China discount rate thing? I mean, I think we are aware of this thing. But can you give us some numbers as to what would be the tail headwind next year compared to the tailwind this year and related to that is, how should we think about your guidance of EUR275 million to EUR325 million, which was given for the year. How should we think about for next year? So what should be our expectation for Asian earnings? I can see that you have given some additional earning split in the tables -- in the Excel tables. But that's still goes till only six months. So, any clarity on what should be the expectation for next year for Asian earnings would be really helpful.

Secondly on Belgium. I mean you have crystallized some capital gains as of nine months, which is more or less in line with last year. So how should we think about capital gains for fourth quarter. So that would be a bit more important as well, just given that volumes have -- are coming down slightly, just because of low interest rates. So how should we think about that for fourth quarter.

And thirdly, UK P&C, I mean it looks like there is a big reserve release there about 12% on a clean -- on a clean basis your combined ratio is like 110%. What's the trajectory of that? I mean, how -- where do we stand on that EUR65 million to EUR75 million of clean UK profits going forward. These three questions would be very helpful. Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

Okay. Ashik thank you for the three questions, I will take the first one and then hand over to Hans for the Belgium one and Antonio for the one from UK. So with respect to Slide 43, we have indeed produced, let's say, the graph for the past and if you would extrapolate, you can expect indeed in

2020 that curve will have an opposite movement, that will come down, but remind that there are also elements like the volatility [ph]in gesture in China where China Taiping Life always has been more on the conservative prudent side. So, I think it's quite difficult to project or to predict what the real impact will be.

Coming to the guidance we have given in the past for the Asian segment in terms of profit, where we have always put that in the last quarters between EUR275 million and EUR325 million. I believe you can note that we move this up now to EUR300 million to EUR350 million, which also means that the total Group target, Group profit including general account, well, we had an EUR800 million to EUR900 million guidance, you can move that up to EUR850 million to EUR950 million.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, that's very clear. Thank you.

A - Hans De Cuyper {BIO 17991990 <GO>}

Yes Ashik, good morning. Hans De Cuyper for your question on Belgium. Indeed we did realize the -- part of the capital gains in the third quarter. So, year-to-date, I think the operating margin is positively impacted by 14 basis points coming from real-estate, compared to 10 basis points last year. So it's a slightly higher. As you can see as well, our operating margin in total is at 81 basis points. We are working on one more real-estate transaction to come through, actually this month. Once this transaction is concluded, we should end the year within our ambition of 85 basis points to 90 basis points.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Antonio Cano {BIO 16483724 <GO>}

Yes, hello Ashik. Good morning, Antonio here on the UK. So the 12.5% that you notice on previous years releases, actually it's -- makes a bit more sense to look at on a year-to-date basis, because this 12.5% relate actually also to taking back part of the increase of provisions we had in the first half year related to this large losses. So we had a review of all these claims. So part of that 12.5%, you should actually net out with the previous years releases of the first half year that should have been higher.

On the target, so the target is still the numbers that you mentioned. What do we see this year. So we still have year-to-date negative impact of these large claims. So these releases of previous years, large claims releases do not compensate overall the increase we see in large claims. And then a new phenomena that we see picking up in Q3, particularly is claims inflation on more -- on the attritional claims, mostly related to third-party damage and there we see an inflation edging up and some of our other UK insurance, colleagues, competitors have pointed to that and we see that type of inflation for those claims as well as attrition of third-party damages, actually edging up more close to the 10%, which is a bit worrying looking to next year, combined with the fact that premium rates in the UK are stable or may only slightly increasing, while they actually taking into account this claims inflation should be higher.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, so it looks like for next year UK P&C would be a bit struggling. Is it fair to say that or do you think there is enough in the reserving to offset that higher claims inflation?

A - Antonio Cano {BIO 16483724 <GO>}

So we have reserved these attritional claims considering the current inflation. So that should be enough. I think for next year, particularly on the topline, a lot will depend on this famous FCA review on general insurance pricing and we do expect (Technical Difficulty) materially, if you look at our sensitivity on Page 50 -- Page 59, we show one on the UFR even decreasing by 45 basis points. The impact on our solvency is minus 3%. On the risk margin, also there we don't have very long tail business. We don't have annuity type of business or not too material portfolio of annuity type of business, so the risk margin is also not impacting materially Ageas. So to summarize on the 2020 review, last repeat point, UFR risk margin no material impact, but depending on the outcome, and on the VA, we have a hope that it can have a slight positive in (inaudible).

And then on your last question, related indeed to the model correction, we have -- indeed it's linked to subordinated debt that we own -- lend through to operating companies through AG Insurance and through MBCP Ageas. So, and there was -- in the minority -- third-party minority interest, there was a mistake in the elimination. If we think about it before Q1, we had only two loans that were on land -- one to AG and one to MBCP Ageas and then we underestimated before Q1 solvency by between 2% and 3%. And if you remember, in Q2 we (inaudible) a third loan to AG Insurance and then we noticed that (inaudible) and the three together is underestimation of the solvency of 5%. And that's what we have corrected for the Q3 results. So before Q2, it was an underestimation between 2% and 3% and with the new (inaudible) of Q2, it end up with an underestimation on the solvency ratio of 5% that we have corrected now.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, thank you for your lengthy answers. Thank you.

Operator

Thank you. Next question from Vikram Gandhi from Societe Generale. Please go ahead. Next question is from Vikram Gandhi.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello, can you hear me? Hello?

Operator

Yes, yes, we can hear you, yes, we can hear you.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, thank you, thank you. Thank you for the opportunity. Can I just ask what's your outlook for the Chinese Life business for the next two to three years in terms of the volume and profitability? And secondly, can you remind us on the reasons for the week underwriting profitability in Belgium Life? And lastly in the nearly EUR870 million of the net insurance results over the nine months period, how would you characterize the genuine one-offs, i.e., it would be great if you can break this -- these one-offs in terms of positive and negatives. But I mean at EUR870 million on a reported basis in your view what's the number ex one-offs? That's all from my side. Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

Okay. For your first question I want to limit it to the Asian contribution and of course China always is of importance. As I mentioned in another -- as an answer to another question, we expect for the coming years, the profit contribution from the Asian segment to be between EUR300 million and EUR350 million compared to the EUR275 million to EUR325 million guidance we gave before, so we lifted upwards EUR25 million. In terms of volumes, we believe that the growth profile that we are in will continue, a main contributor to that next to the new businesses is the very solid portfolio of regular premium with very high persistency rates and as a consequence of a strong growth of the renewals. So from that side, we don't expect an evolution that is not going in the same direction as in the past, meaning going up as well profit as premium. Knowing that this year of course and that's maybe the link to your third question that we have a number of exceptionals in

Asia in the first nine months of this year. But before coming to the third question, I propose to hand over to Hans for the question on the underwriting risk result in Belgium.

A - Hans De Cuyper {BIO 17991990 <GO>}

Yes, good morning. On the Life risk margin, while there are a few elements that are into play, some of them already we spoke already about in the second quarter. The first one is on mortality. Mortality, I think two elements there. The first one is on the Unit-Linked business, we have some old Unit-Linked business where mortality guarantee was given on your initial investment, like a minimum guaranteed paid out of your minimal investment in case of death. We model this risk and we did correction that we saw in the stock markets by the end of last year. We had to make appropriate provisioning for the risk capital that popped up.

We are using there Black and Scholes methodology, we are actually not too happy with that methodology, because we believe it brings unnecessarily volatility. So we are looking into that going forward, but that's the first element in the Unit-Linked. Second element is in the generic MRTA business with the bank. We have seen a slight worsening of the claims performance. We do not see that as structural. We see that it seems to be a more difficult year compared to last year and previous years, but we do not -- we see it more as a one-off and not being structural.

And then the final element, I would like to mention is that in segregated portfolio of the Group Life Insurance, we have done some final reserve strengthening because to face the low interest rate environment. But there again nothing structural.

A - Unidentified Speaker

Question on the -- third question on the one-offs in the year-to-date results. Let's say, I exclude weather because we consider weather as being part of the normal business. When we look in blocks to the UK, you could say there is overall a positive EUR30 million from Ogden and negative EUR40 million from the large losses, which mainly relate to previous years and also restructuring costs. So if you net it out, you could say it's something like EUR10 million negative in UK. So that you should -- if you want to go to an underlying edge to the result.

In Asia, we have a combination of what you know the tax relief where it's important to mention that the major part that we've taken of debt in the 2019 year-to-date results is the one result for last year. For this year the major part of the tax advantage will be in the fourth quarter. So it was a very low number now. You then have the point that is referred to on Slide, I think, 43 with (inaudible) that has an impact of some EUR30 million, EUR35 million. So if that -- you take those two together, you could say that we have something like an EUR85 million positive in Asia and a EUR10 million negative exceptional in UK. So it's something like EUR75 million exceptional.

Next to that of course you have the whole issue on capital gains, for last year, the capital gain impact was -- impairment impact was quite huge. We are now at the level -- total of Ageas at EUR193 million, capital gains, where in the previous years and I exclude year like 2018, which was exceptionally low, you should see that we have on average between EUR185 million and EUR200 million capital gains on a yearly base. So you could say we are close to the normal run rate and with the capital gain that will be realized in Belgium on the real-estate, we will probably exceed that, not taking into account potential impairments in the last two quarter of the year.

So, I would say on capital gains, it's not that exceptional. So you could say that out of the results that you've seen here, as I said, something like EUR75 million is exceptional.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. If I can just come back on the point about (Technical Difficulty) the guidance of (Technical Difficulty), is the level of capital gains that (Technical Difficulty), but or zero is the baseline for that and whatever you get is on top of that?

A - Bart De Smet {BIO 16272635 <GO>}

Let's say the capital gains in Asia is a very particular one also. I think we referred in the past to the fact that we use our IFRS impairment rules for equities everywhere. It's also in Asia where locally shares are not always impaired at the same level, With the most clear example, we impaired in share as -- is dropped 25% or is below acquisition price only after a year. In China that 25% is 50%. So what happened in the first nine months of this year, that a number of shares that we had impaired has been sold in the trading portfolio at price higher than our impaired price and that's gave us this capital gain.

So -- and for the rest, you could say the only amount of capital gains, where we have a kind of a, let's say, a regular amount in our budgets is in Belgium, if you look through the past years, it's always something between EUR80 million and EUR90 million cap gains. On real-estate, possibly on equities exactly to reflect the return that we expect from these assets in our strategic asset allocation.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Okay.

A - Bart De Smet {BIO 16272635 <GO>}

When we give the guidance of -- sorry, when we give the guidance of EUR300 million and EUR350 million for the Asian region, you should see it without an expected impact from capital gains on equities.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Okay, that's very useful. And on the second question on the Life risk margin. Will Unit-Linked business, you already said there was a mortality guarantee and then you've corrected. I'm just wondering -- in the case where the approach under IFRS versus Solvency II wasn't consistent before, but now you've corrected. So that is lining in line with what you have on Solvency II? Or I'm just reading it wrong and these two are completely unrelated. And maybe if it's too technical like, I am ready to take it offline.

A - Bart De Smet {BIO 16272635 <GO>}

No, what I was talking about on the Unit-Linked risk margin has nothing to do with the mistake. It has to do with market evolution. It also has as such no impact on our Solvency II calculations, it is IFRS related. We have an old book of Unit-Linked business where a mortality guarantee was given to your investments. So it means that when the value of your investments is above your initial investment, there is no risk capital, there is also no mortality charge, but if it would fall below and that's some of the effects we have seen from the last quarter last year. Then there is a risk capital popping up being case -- only in case of mortality and not in case of surrender. And of course we need to make appropriate provisions where we use a forward-looking Black and Scholes model to quantify the mortality risk of that risk capital appearing. And that is the effect that you have seen on the Unit-Linked side.

When I say we are looking into the methodology, that is because we feel that our current methodology calculating this brings some unnecessary volatility and that's something we will look into for the future. But, so it is -- there is nothing to do with the mistake. It is just the evolution of the financial markets. It's also a closed book by the way, it's an old book, we are having an internal solvency to impact as such.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Yes, okay, thanks very much.

Operator

Thank you. Next question from Farquhar Murray from Autonomous Research. Please go ahead.

Q - Farquhar Murray {BIO 15345435 <GO>}

Good morning, gentlemen. Just two questions if I may. Firstly on the Continental European solvency ratio. Could you just explain and ideally decompose that the Q-on-Q fall in solvency from 160% to 142%, in particular, is that being driven by interest rates or some model changes or perhaps something I've missed earlier. And then secondly, just coming back to the UK. Can you just explain which elements of the claims base is driving the claims inflation you are seeing there. You mentioned third-party attritional claims. Is that coming from repair costs or bodily injury settlements. I'm just trying to understand the driver there please? Thanks.

A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

Okay, Emmanuel, I'll take your first question on the evolution of Solvency in Continental Europe. So we have a decrease from 160% to 142%, which is almost a 20% decrease. And the decrease is, let's say, completely allocated to market movements and in the market movements, what you have to see is certainly the decrease in interest rate, but also there are some other equity movement. But mainly it is a decrease in interest rate. So for Continental Europe, Q3 sec [ph] is minus 20% due to market rate. Then we have the normal operational performance of the business and the expected dividend that we subtract from a solvency, that explains then the evolution from 160% to 142%.

Q - Farquhar Murray {BIO 15345435 <GO>}

Just as a follow one. Which geographies or business unit is that focused on? Is our Portugal or --?

A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

It is Portugal and France. And indeed as you probably know, in France we have also an annuity portfolio which at Ageas level is not material. But for our entity in France, it's certainly a reasonable part of the business, which means that France is certainty quite sensitive on interest rate movement. I just want to remind you that over the quarter Q3, the swap rate decreased by more than 30 basis points. But today since the end of Q3, the swap rate increased again by 25 basis points. So we are almost back to the level of the end of second -- by the end of Q2 from an interest rate perspective.

Q - Farquhar Murray {BIO 15345435 <GO>}

Is it then fair to summarize that a large part of that fall in the third quarter is reversed then?

A - Bart De Smet {BIO 16272635 <GO>}

So we had -- can you repeat the question?

Q - Farquhar Murray {BIO 15345435 <GO>}

Sorry. Is it then fair to assume that large part of the fall in 3Q is therefore reversed already?

A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

That is -- okay, certainly, partially it will be recovered. Again, we have more 25 basis point increase back on the swap compared to the 33 basis point decrease in Q3 sec. Of course there are other spread movement as I said, but the most important element will be no recovery of solvency based on the current swap rates, but -- I don't know, but would be the rest of the quarter. So based on the current situation, a big part will be recovered.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay, super. And then on the UK, please?

A - Bart De Smet {BIO 16272635 <GO>}

Yes, on the UK. So the claims inflation, I was talking about, it's not bodily injury or indemnity claims. It's really third-party material damage. How does it work? It is when actually it is the insurance company of the other party that manages the claim and then invoices us or the insurer of the guilty party for the damage and typically you see that those are kind of claims inflation there that this third party insurer kind of top-ups -- tops up the claim cost. We don't see that level of inflation when it's about accidental damage when it's like own damage, there you see a lower inflation. In UK, I believe this is called the so-called Scholes [ph] model whereby actually insurance companies make a margin on handling claims.

Q - Farquhar Murray {BIO 15345435 <GO>}

Yes, okay. Got it, thanks.

Operator

Thank you. Next question from Fulin Liang from Morgan Stanley. Please go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Hello, thank you for taking my questions. I have three. One -- and the first one is, you're talking motor inflation in the UK and can we have some numbers in terms of the inflation and how much you have in your setting, pricing. How much kind of have you kind of incorporated into it and will you increase pricing to adjust for the higher inflation and that's the first one. And then the second one, it seems like your Belgium Unit-linked margin expansion comes largely from some expense, higher expense margin, if that's so can we actually assume this is more sustainable in the future?

And then lastly on Portugal. So there is a double-digit kind of growth in Portugal inflow. Is that something you see over across the whole market or is it because of you -- something you've done specifically and also because you mentioned that you cut the guarantee rates to 0% in Portugal. So all this been achieved together with your lowering of guarantee rate. Maybe some dynamics in Portugal market would be great. Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

So I'll come back to the motor claims inflation for this third-party. So I mentioned this number of 10% that's actually the assumption that we are using today, both in our reserving and our pricing assumptions. And in fact that we have moved this inflation expectation has also led to a slight deterioration of the overall claims ratio this year.

In terms of, to the extent that the market is willing to absorb this claims -- this inflation or this rate increases to a certain extent. So we do increase rates. It's very difficult to speak about what is the average increase in rates because of the complexity of the market, but we are definitely increasing prices. I think we and the market should probably try to have a slightly higher price rate. Putting this in perspective, so this impacts only a part of the claims. So it's not about the bodily injury or accidental damage. And this high inflation is due to some extent also compensated by a lower frequency. So the so-called burn cost is not increasing at 10%, that will be more in the order of 6%.

A - Christophe Boizard {BIO 15390084 <GO>}

Your question related to expense margin Unit-Linked. As you can see, the year-to-date expense margin with Linked is actually stable at 39 basis points. But indeed, you're right, you see an uptick in the first quarter with some of these and also few exceptional elements. Also last year, you should be aware that it was actually lower, because of some commission payments from a sales campaign that ran over the quarter. And that is something we are not seeing. So this is more an exceptional events.

But your question about sustainability, I would say what you see at the 39 basis points, I think that is a fair assumption. That range is a fair assumption going forward, despite the fact that competition on this element with low interest rate environment is heating up a little bit, we are confident on the margin.

A - Antonio Cano {BIO 16483724 <GO>}

Okay. With respect to Portugal, the double-digit growth, if you look to the nine months, you will see indeed a 16% increase in Life, and a 9% in Non-Life, but if you would dive into the figures of the third quarter, it's clear that the growth is mostly in Non-Life and less in Life. So part of that double-digit growth was in the first half of the year. While on the one side the rates were still higher, in the meantime, we've reduced them to zero, the Guaranteed rate. And so I don't think you can use double-digit growth in Life in Portugal as an indicator for the future, it should be coming down and main -- let's say, targeting more flat level with the normal inflows in Portugal. Whereas in Non-Life fee, we of course still work towards a growth scenario.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Are you actually gaining market share in Portugal Life or and/or Non-Life segment?

A - Antonio Cano {BIO 16483724 <GO>}

In Life not -- we are not really gaining market share in Life. The question is also whether you look to market share in gross written premium or in less technical liabilities. And of course, yes, profitability in Life is more based on technical liabilities. There, our market share has always been higher than the market share in gross written premium. In Non-Life, we of course have the ambition to further grow our market share, which has been happening in the past years.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you.

Operator

Thank you. Next question from Steven Haywood from HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you. I see that in your general account, you have dropped a bit of disclosure, so I can't really reconcile between the net income result and what you disclosed on the RPN(I) and the expenses in there. Can you tell me what was driving the difference between when you reconcile the third quarter, whether it was an impairment or provisioning that was coming through that was a negative -- to account the difference between the net result and the expenses in the RPN(I). Thanks on that.

And then secondly on your solvency, again, are there any other areas of concerns or weaknesses or mistakes that you are looking into currently that we could expect to see another positive 5 percentage points to come through in the quarter? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Thanks for your question. Relating to the general account, I can tell you that the gap that you're probably looking for is about EUR15 million that you cannot reconcile. And that is entirely related to what we hope is a final addition to the provision related to the WCAM [ph] settlement. Of course, and then I'll quickly give also the update on that. In July, we terminated the claim filing period. And so we now have adapted on the administrative task ahead and we have provided the total expected expenses for administration of that process until, I would say, mid-2020 when we hope to terminate it. So that is the main component that you miss in the reconciliation.

A - Emmanuel Van Grimbergen {BIO 18010465 <GO>}

Okay, so on your question, okay, my answer will be, not that I know. So that's very clear. And also I want to reinforce the -- and the point that in the previous quarter it was an underestimation of 2% to 3%, and due thanks to the new lending we detected that's -- that, yes, that error and then we end up now with a 5% we are right now. It's also not -- it's really in the intercompany elimination, it is also not in the actuarial valuation models that we have detected the error is in the intercompany elimination. But to conclude, I don't -- we are not aware of any material correction that we can expect moving forward.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay, thank you very much.

Operator

Thank you. Next question from Jason Kalamboussis from KBC Securities. Please go ahead.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Yes, good morning gentlemen. A couple of questions. One is on, if you could give us -- kind of give us the explanations on Continental Europe on the drop of Solvency II, if you could please do the same for Belgium, it is in front of me, but I think it was substantial?

The second thing is on Asia. Couple of things, if you could specifically address the third quarter, it seems that it was on an underlying basis, it was a lower quarter. So just would like to understand the seasonality of it. Especially looking at 2018, the evolution. And on the discount rate, you gave us a EUR35 million, I think nine months and year-to-date, could we have the second -- the third quarter. And also, could we have, if possible, the 2018 number to have a better perspective on this? Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

So on your question on the drop of solvency in Belgium. So we have a drop from 200 and -- I'm taking now Q3 sec [ph] 223% to 209% And there we have a market impact of minus 13% and the rest is then supported by the operational performance of the business. So the market impact of minus 13% is also almost completely explained by the drop in the swap curve over Q3, again minus 33 basis points, which we cover with 25 basis points since the end of Q3.

Operator

Thank you. Next question from Matthias De Wit from Kempen. Please go ahead.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Sorry, I still have one question to answer for (inaudible). So the Asian Q3, first of all, the question with respect to the impact of the reserving, in Q3 it was EUR17 million, where it was last year EUR4 million, so it's EUR13 million more, and over the -- the total of the year is EUR35 million compared to EUR9 million last year, so EUR26 million more than last year.

A - Christophe Boizard {BIO 15390084 <GO>}

In terms of capital gains, you have it on the slides with the details of the net realized capital gains. Last year the quarter was minus EUR40 million, this year it's plus EUR30 million. So if you would correct and the question is always -- because if also you have provisions for profit sharing that sometimes follow also the financial results. So if you would take out the capital gains, this year's result would be EUR82 million, last year's EUR80 million. The EUR82 million of this quarter containing a said EUR17 million of that correction, so it brings you to EUR65 million, last year EUR4 million brings you to EUR76 million. So you could say there is a delta of some EUR10 million less than last year. But again, we really cannot and don't want to manage the business on a purely quarterly level and definitely not in Life. We also have indeed sometimes differences in, what I would call, in volumes, in commission payments. So, we are not at all worried about underlying of this quarter. As mentioned, we lifted the expectation for the Asian region from EUR300 million to EUR350 million, and that expresses our belief in the strong underlying of the region.

Q - Jason Kalamboussis {BIO 4811408 <GO>}

Many thanks for the explanations, it was great.

Operator

Thank you. So now we take the next question from Matthias De Wit on Kempen. Please go ahead.

Q - Matthias De Wit {BIO 15856815 <GO>}

Hi, good morning. I've got three small questions. The first is on the guidance upgrade, so at a Group level, it was EUR50 million compared to EUR25 million at the level of Asia, so where is that difference coming from, please. And yes, can you maybe share something on the main assumptions and building blocks like for example, what's the contribution from the UK, you're expecting like what's the combined ratio in Non-Life you're putting into or -- yes, you're assuming for that number?

And then just on capital generation. Is there anything you can share on the impact of low rates and spreads on your guidance? Are you still confident with the previous target or is that no longer the case?

And lastly on the new money fixed income yields 1.73%. It looks very high to me considering that approximately half of your reinvestments are in core sovereign, so that implies like fixed income yield of 4% for the other assets. So, maybe I'm missing something, but can you provide more color on that please? Thank you.

A - Bart De Smet {BIO 16272635 <GO>}

Okay. On the first question, to give the range as per segment, you could say Belgium is between EUR400 million and EUR420 million. UK between EUR70 million and EUR90 million. You come to Europe EUR120 million to EUR150 million, Asia EUR300 million to EUR350 million and reinsurance EUR10 million to EUR15 million brings you to a range of EUR900 million to EUR1.020 billion. If you then deduct the regional office costs, the corporate center cost because the regional office costs are already deducted in the Asian result, you come to a range of, let's say, EUR850 million to EUR950 million.

Q - Matthias De Wit {BIO 15856815 <GO>}

Okay.

A - Antonio Cano {BIO 16483724 <GO>}

So on the new money yield, so please note that 1.73% is a year-to-date figure. If we take Q3 alone, it is much lower. And I can read, but it is 1.08%, which is much lower. And the reason for this small figure, two things, first, the decrease in the rates and that's the obvious explanation, but then you know that we have a lot of, let's say, innovative idea about infrastructure, the Dutch mortgages and we had kind of holiday effect, during Q3 you have July, August and we didn't put in place a lot of these kind of deal, is the reason why it is rather low at 1.08%. But in the future the 1.73% will go down on a yearly basis. So that's for the new money yield.

Then on the free capital generation, you have noticed that this quarter we achieved on the operating impact EUR134 million, of which we have to flag the EUR4 million of dividend. So the right number to look at this EUR130 million, which is, I would say, within the part of the guidance, but in the low-end. And again the low interest rates [ph]bites here , because in the operating component you have the value of new business, which is one component and the interest rates play a role here. So at this stage we think that it is fair to say that the guidance won't be achieved this year in 2019, but let's see the fourth quarter. And on the guidance, we will combat this with the adverse results.

Q - Matthias De Wit {BIO 15856815 <GO>}

Okay. Just one -- one very small follow-up if I may. On the Group Life Guarantees in Belgium, can you remind me what you're currently offering and what's -- yes, what you committed to for the coming years towards the employers?

A - Bart De Smet {BIO 16272635 <GO>}

Yes, okay. Well, we have not lowered the Guaranteed rates yet, we are investigating that and it's highly likely that we will take some action in the beginning of next year if yields stay low as today. The guarantee we have given is for next year, the minimum, the [ph]op guarantee of 175 .

Q - Matthias De Wit {BIO 15856815 <GO>}

Okay, thank you.

A - Bart De Smet {BIO 16272635 <GO>}

And that is already provisioned. So every time we communicate something to the market that is immediately provisioned in the books and should not have any impact. We have not decided yet on another announcement the end of this year.

Q - Matthias De Wit {BIO 15856815 <GO>}

Okay, thank you.

Operator

Thank you. Next question from Benoit Petrarque from Kepler Cheuvreux. Please go ahead.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Yes, good morning. So, yes, two questions from my side. The first one is on the Belgium cap generation coming at EUR90 million, in Q3 it is on the 100%. If I kind of annualize this figure and take the minorities into account, I get to about EUR340 million cap generation. I mean own funds cap generation for Belgium. This is much lower than the dividends payout of Belgium in 2019. So how do you see the dividend capacity of Belgium going forward, we have seen Solvency II, I mean, the PIM is at 181%, Solvency II came down a lot. So, do you still go for a 100% payout ratio out of Belgium or do you think that could be maybe on the high side and you might go back to what you've been paying historically, say, more 75% level. So that's the first question.

And the second question was on the -- just Non-Life Belgium. What is the outlook for 2020, very strong year obviously 2019. Could you maybe comment a bit on the volatility you have seen on the motor side I think (inaudible) been a bit more volatile there. Thank you very much.

A - Bart De Smet {BIO 16272635 <GO>}

For the first question, we expect of course Belgium to continue to pay 100% of the profit as dividend then the solvency ratio is above 200%, so no reason to question that. With respect to capital generation, again remind that capital generation is not equal to cash generation. So we have no regions if you look in the future doubt on the capacity of the Belgian entity to pay the profit in form of dividends. You are taking the second one, Hans?

A - Hans De Cuyper {BIO 17991990 <GO>}

Okay combined ratios for Belgium. Well, first of all, this year maybe a few trends you see indeed that the situation has -- is less positive on the motor side that is predominantly coming from lower prior year releases on this segment compared to last year, but we are still at a comfortable 96.2%, which I think is very close to our overall ambition.

If I look at Households, there we have a slight improvement compared to last year. Last year, as well as this year, we have already fully consumed our retention of the reinsurance. So we are in the reinsurance of (inaudible) and that is actually something in our plans that we assume every year to happen. So that should not have a negative impact if we would look forward to next year. Attention point for our market remains excellent and held and specifically Workmen's Compensation, where the low -- well, the worsening combined ratio is still compensated by the investment return of this portfolio. But of course in the low yield environment that starts building up more pressure. And that is actually an issue for the whole market, the whole Belgium market. So with these trends extrapolating forward, at this moment, we have no reason to assume that our ambition of 96% combined ratio would not be a -- not be sustainable for the future.

Q - Benoit Petrarque {BIO 15997668 <GO>}

Thank you.

Operator

Thank you. Next question from Robin van den Broek from Mediobanca. Please go ahead.

Q - Robin van den Broek {BIO 17002948 <GO>}

Yes. Good morning, everybody. My line dropped off during the Q&A. So if I am repeating questions, I'm very sorry for that. What I understood is that you've raised your Asia guidance of EUR300 million to EUR350 million and the Group guidance to EUR850 million, EUR950 million. I was just wondering if you could very clearly specify what kind of capital gains are embedded in that number and what kind of previous year releases you are including in there? I thought in the past capital gains were [ph]120, 140 and previous year releases 4 points to 5 points. Could you just confirm that is still valid.

And then maybe for Asia, specifically. Can you already comment on what kind of tax benefits you are expecting on the commission expenses side in Q4 and whether that run rate will continue going forward as well?

Then a second question is more in connection to -- yes, you're quickly rising dividend on the back of your strong EPS performance this year. This quarter, you basically showed that your operational cap generation is equal to your dividend reservation. So should we assume that your buyback basically becomes fully reliant on your existing reserves or are there some dynamics coming through that will strengthen the operational cap gen going forward? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. On the first question, when we give you guidance for Asia EUR300 million to EUR350 million, that is, let's say, on a normal base without taking into account capital gains. And so the lifting then for the Group guidance to EUR850 million to EUR950 million is based on -- in any case for the European entities on the, what we call, more the normalized capital gains and you could say that there is something like EUR100 million altogether. And for the Asian market, it's again not really accounting many capital gains. So you could say, it's including something like I would round EUR120 million cap gains for the whole Group.

On the tax benefits, as mentioned, the impact of this year so far was mostly the recovery of 2018, a very small amount for 2019 so far. We expect higher amount in the fourth quarter, because, let's say, a lot of the incentives to salespeople are paid in the fourth quarter and that triggers a bit the tax advantage. But of course that depends on the volumes we will produce in the course of the fourth quarter and so it's difficult to put in an amount on it.

Then the third question, the expected dividend and the reference to the free capital generation. Also keep in mind that what we take and roll forward as expected dividend is based on the current profit so far. But that -- as most of the increase of the profit so far comes from Asia and in Asia comes from China. We also can expect next year, in absolute terms, a higher dividend coming from the non-controlled participation. So the part of the dividend to be paid next year will be funded by a higher, in absolute terms, pay dividend by the mainly the Chinese joint venture.

Q - Robin van den Broek {BIO 17002948 <GO>}

And that's clear.

A - Christophe Boizard {BIO 15390084 <GO>}

To make it very clear, with respect to the buyback and I cannot repeat it enough. We have always, since the first launch of buyback, said that our ambition is that we cover with the upstream dividends, the dividend we paid to shareholders plus the corporate center costs. We always position to buyback as coming out of the excess cash in the General Account. But fortunately over the past years and it will be no different this year, part of that share buyback is funded by excess upstream dividend compared to the dividends we paid plus the corporate costs and so the buyback is not planned to be coming out of the upstream dividends.

Q - Robin van den Broek {BIO 17002948 <GO>}

Okay, that's clear. And the previous year releases assumption in your guidance.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. There I forgot that point, we don't have, let's say, changes, it's always based on the, let's say, the historical experience. It's not that we say, okay, we will push up this result by releasing more than what we believe is justified.

Q - Robin van den Broek {BIO 17002948 <GO>}

What is that historic trends according to you?

A - Antonio Cano {BIO 16483724 <GO>}

The release is around 6%.

Q - Robin van den Broek {BIO 17002948 <GO>}

6%.

A - Antonio Cano {BIO 16483724 <GO>}

On the combined ratio around 6%. And this is I would say structural, it relates to the way the reserving is done. So this could be seen as a sustainable level, 6% on the combined ratio on consolidated accounts.

Q - Robin van den Broek {BIO 17002948 <GO>}

Thank you very much.

Operator

Thank you. Next question from Bart Jooris from Degroof Petercam. Please go ahead.

Q - Bart Jooris {BIO 3470300 <GO>}

Yes, hi. A lot of my questions have been answered. Just a few follow-ups on the UK. First of all, I still want to grin at that third-party material damage claims. If I understood it well, that comes from other insurance companies making a margin of the claims they pass on from their clients. I would think that you could do just the same thing and that should have no impact. What am I getting wrong here?

And then secondly, there has been some rumors in the market that Tesco would like to get out of the JV. Can you give us your thoughts on that? If you don't want to comment on -- how that will happen or not? Give us maybe some explanations on how the JV is structured? How one of the parties can get out at what date? Thank you very much.

A - Bart De Smet {BIO 16272635 <GO>}

So on the third-party damages, the model is indeed as you describe it. It is insurance companies managing claims and passing on the cost plus, plus a markup. Indeed you right, we could do the same thing. We do that also to some extent, but bear in mind, this claims management activity, it's easier to do when you are a direct company. And in the case that you work with insurance brokers, which is still in our case, the largest distribution channel, it's much more complicated to do so because there are quite some brokers that do that themselves. So the possibility for us to play this strategy is more limited than, say, the usual names that are big in the direct, say, the Admiral and Hastings. And that just give us a bit on -- of color on how that works.

Q - Bart Jooris {BIO 3470300 <GO>}

If I can follow-up on that, that means that those larger players have less of a tendency to increase premiums to compensate for that?

A - Bart De Smet {BIO 16272635 <GO>}

That, that is -- I'm not sure if you can -- if you can really translate that, because the larger players also claim costs towards the other large players. So -- also Admiral will be confronted with higher claims costs coming from other competitors -- direct lines et cetera. So I'm not sure if that has direct impact on the premium.

On the Tesco rumors, well, these are indeed rumors. Bear in mind that the existing agreement, which was prolonged a few years ago lasts until end 2021 in principle.

Q - Bart Jooris {BIO 3470300 <GO>}

Okay, thank you very much.

Operator

Thank you. Next question from Colm Kelly from UBS. Please go ahead.

Q - Colm Kelly {BIO 19140684 <GO>}

Yes, thank you very much. I mean, my line got cut off early, so apologies if there is any repetition here. Just questions on the Continental Europe solvency ratio. If we think about the remittance here, I think it constitutes about 15% of the Group cash upstreaming. If the solvency of Continental Europe does not improve either in aggregate or within some of the subsidiaries, is there any risk to the cash upstreaming for next year. And if we think about the coverage of the dividends and the holding company costs, excluding Continental Europe upstreaming, it will be quite high, so is there any risk around dividend holding company costs in that scenario? Can you also update on the French Solvency ratio, specifically given you've mentioned that.

And just lastly on this point. If we look at the year-on-year movement in Continental Europe solvency, it's down 70 percentage points, which is a very, very large move. I appreciate it's Interest-rate driven, but it does indicate the need to increase the level of hedging across those subsidiaries, particularly at this level of solvency, so is this something that's being considered, can we expect something around this going forward? Thank you.

A - Christophe Boizard {BIO 15390084 <GO>}

Okay. So on Continental Europe, on your question related to dividend upstream, let's also keep in mind that you have to make a distinguished -- difference between the Life companies and the Non-Life companies. Of course, the Life companies are much more impacted by the market and the interest rate movement that we have observed in so far. The Non-Life company are still very strong and generating a very strong capital. So that's something that you have to keep in mind.

Okay. And also that by the --- as of today compared to the end of Q3, which was probably one of the lowest point of the year, the swap recovered by 25 basis points. On the risk of -- on the management actions that we can take, we took already a couple of management actions in the course of the year. We also communicated them in Q2, we also took a few additional one in Q3 on the assets side of the balance sheet, but also on the liability -- on the liability side of the balance sheet. What I mean by this, by redesigning products. So we already mentioned that continued -- in Portugal that we have decreased the Guaranteed rate to 0%, but other actions has been also taken in the Life business from a product perspective.

Then, I'm not sure whether you had, still a lot of question. Did I call out all your question?

Q - Colm Kelly {BIO 19140684 <GO>}

Can you --- is it possible to update (Multiple Speakers) --

A - Christophe Boizard {BIO 15390084 <GO>}

There was a specific question on France, so maybe I can give a couple of words on France. So France, first, France doesn't pay dividend, so there is no risk that there is a decrease coming from France, because it has been set to zero. And this is the case, this has been the case for many years, because where solvency position as Emmanuel mentioned previously, and due to the annuity book is not extremely high. But on the other side, France [ph] benefit from the so-called transitional on the solvency side, which set to the Pillar 1 Solvency at such a level that there is no risk of capital increase. And so no dividend and no capital increase, that's the French position

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. Thank you, that's clear.

Operator

Thank you. We don't have any more questions. So, back to you for the conclusion.

A - Bart De Smet {BIO 16272635 <GO>}

Okay. Ladies and gentlemen, thank you for your questions. And to end this call, let me summarize the main conclusions. We achieved record results, thanks to a solid operating performance supported by exceptional elements. Our strong sales momentum continued with a double-digit growth, driven by both Life and Non-Life. We generated a solid operational free capital generation this quarter in a challenging environment of very low interest rates. And we renewed our guidance for the future to bring it to EUR850 million to EUR950 million on a yearly base.

And with this I would like to bring this call to an end. Do not hesitate to contact our Investor Relations team should you have outstanding questions. Thanks for your time and we'd like to wish you a very nice day. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you all for participation. You may now disconnect.
