FINAL

Bloomberg Transcript

Q4 2016 Earnings Call - Q&A

Company Participants

- Frédéric de Courtois, CEO Global Business Lines & International
- Luigi Lubelli, Group Chief Financial Officer
- Philippe Donnet, Managing Director and Chief Executive Officer
- Spencer Lee Horgan, Group Head-Investor & Rating Agency Relations

Other Participants

- Alberto Villa, Analyst
- Andy Hughes, Analyst
- Farooq Hanif, Analyst
- Gianluca Ferrari, Analyst
- Giuseppe Mapelli, Analyst
- Michael Igor Huttner, Analyst
- Nadine van der Meulen, Analyst
- Niccolo C. Dalla Palma, Analyst
- Nick Holmes, Analyst
- Paul De'Ath, Analyst
- Peter D. Eliot, Analyst
- Ralph Hebgen, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the Generali Group Full-Year 2016 Results Q&A Session. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Spencer Horgan, Head of Investor and Rating Agency Relations. Please go ahead, sir.

Spencer Lee Horgan {BIO 4241901 <GO>}

Hello, everybody and welcome to our full-year 2016 Q&A call. With me in the room here, I have Philippe Donnet, our Group CEO, Luigi Lubelli, our Group CFO, and other members of the management team. We are ready to take your questions shortly.

We do have one hour for this call, we do need to finish it unfortunately fairly promptly at 1 o'clock. Hopefully, you'll have the opportunity to discuss with each other also in the next days. So with those brief opening remarks, I'm going to hand over to Philippe for just a couple of comment and then we'll be ready to take your questions. Philippe?

Philippe Donnet {BIO 4657671 <GO>}

Thank you, Spencer. Good morning, everyone. Let me just highlight three things which standout from today's numbers. The first one is that these are particularly good quality results, we have seen improvement across all the business units and demonstrated that we are able to maintain market leadership in a very competitive industry and in very tough economic conditions.

We remain technically very strong in Property & Casualty, having further reduced our combined ratio by 0.7 percentage point. And our selective approach in Life is bringing strong growth in margin at the same time as we maintained a very good level of inflows.

Together, the performance across both Life and Property & Casualty produced record operating result. On top of these, is the fact that we have generated a net profit of €2.1 billion even as we follow our policy of producing fewer realized gains, so are not only in growing profit but also the quality of this profit. The second takeaway is the capacity we have shown to execute on our Simpler, Smarter, Faster plan. All the key indicators are moving in the right direction. And we're seeing the signs of our ability to accelerate on what we want to achieve. Today, we announced we are bringing forward our net cost reduction by a year to 2018.

The third takeaway is that we have the best management team in place to accelerate on our strategy. And behind these are the unique qualities that underpin the numbers we've produced today. A great example of this is our very strong distribution of over 150,000 agents and salespeople, all exclusive. This gives us more personal contact and greater control on how we serve our customers.

I want to underline that the very positive results we are presenting today are just the starting point of our journey. We have a clear program that aims at excellence and that making Generali the preferred insurance company for its clients, agents, distributors, employees, and of course, for its shareholders. We remain very focused and ambitious and these results are evidence of that. All our financial targets, €7 billion of net operating cash, €5 billion of dividends, and an operating return on equity of about 13%, are clearly and firmly in sight. Now, Luigi and myself will be happy to take your questions. Thank you.

Q&A

Operator

Thank you. We'll take our first question today from Paul De'Ath from RBC. Please go ahead.

Q - Paul De'Ath

Yeah, hello and good morning and couple of questions from me please. Firstly, just looking at the cash and the dividend paid up by the operations on slide 20 and of these good -- they are all improving the dividends paid out, but I just wondered whether firstly is there were any kind of one-offs within those dividend payments or should we expect those to be kind of regular payments going forward? And also, how closely linked are they to the operating results? So if you've have the operating profit coverage ratios, should we expect those to come down over time or indeed alternatively go up and some guidance there would be good? Thanks.

And then the second point was just on the expense targets and the acceleration of that, and target to be 2018. And if you (05:36) hear from you guys as to what's driving that acceleration, is it the fact that you're doing the same things but finding more cost savings than you thought you are going to find and/or are you doing all of the things that you were going to do but doing them going faster? And essentially, are we going to see further cost savings coming through in 2019 as well from all those of the actions that you've already started and/or if, does it end in 2018? Thanks.

A - Philippe Donnet {BIO 4657671 <GO>}

Well, thank you. First of all, our operating cash generation has been has been improving significantly between 2015 and 2016. And together with our strong capital position these improved cash generation allow us to pay a dividend of €0.80 per share and which is higher by more than 11% compared to 2015. Doing this, we're fully in track with the €5 billion dividend target because after two years, we will have paid almost half of it. We will have paid almost €2.5 billion, exactly €2.4 billion, which makes us on track, on the right path to achieve the dividend target.

Regarding the expenses, definitely the achievement of 2016 which is a very good achievement. We were able to be reduce the cost base on a net basis by €70 million. This has been achieved thanks to the Fit-to-Lead programs we launch in every single business unit, focusing on the improvement of the productivity and efficiency, on using better the technology to simplify our processes. We've been achieving this also thanks to a major focus on the cost of personnel. By the way, between April and December last year, the head count of the Group has been decreasing by 2,500 people, which is quite relevant. And this excellent performance on the cost reduction in 2016 makes us confident in our ability to accelerate. So what does it mean accelerate? It means that we will achieve the cost reduction target of €200 in the major market, not in 2019 but in 2018. What will we do in 2019? We will tell you next year.

A - Luigi Lubelli {BIO 4108780 <GO>}

In regards to your – Good morning, Paul. With regards to your question about the one-off, there are none. These are just the ordinary development of dividends and depending on the country, they of course have translated into a higher percentage of payouts relative to the profit of the country.

Q - Paul De'Ath

Thanks. And I guess, just on that point, I mean should we think that the dividends paid off by the operating entities and the movement in that going forward, is linked to the operating result or any operating profit, coverage ratio down over time as well.

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, as you can imagine, as we have been in the past, we're focusing on gradually and constantly increasing the upstream of cash from our subsidiaries. And that's something, we're planning to continue to do. Clearly, as a consequence of the initiatives we're taking, we expect ultimately as it was the case this year to translate into a larger profitability of each company and hence a larger dividend payment capacity.

Q - Paul De'Ath

Okay. Thanks.

Operator

Thank you. We will now take our next question from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. I have three questions please. First one is on reserve releases and I take on board your first comments on the reserving policy, no change, et cetera. But if I just look in Q4 in isolation, this seems to have been quite a big release. I mean, just numerically that was looking like sort of around the 10 percentage points in the quarter. I mean, I know, it's not going to be a regular one, needs to look maybe over the course of the year. But nevertheless, I was wondering if you could just comment on that in particular?

And secondly, unless you are reporting €3.3 billion as underlying normalized solvency capital generation, I guess that's a lot higher than the other metrics you're reporting in IFRS net income and cash flows, et cetera. And I was just wondering if you could comment on how sustainable you think that number is and what the risks to it all going forwards?

And then finally just coming back to pools, right on cash a little bit. I guess, one country which has increased a lot is France as we'd hoped and that's great news. I'm just wondering - it's probably still the region that has the most upside and I'm just wondering if you can give us any more color on what we should expect from France going forward on the dividend side of things? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Hi, Peter. With respect to Q4, I don't know what figure you're setting to because we actually have not released that. Well, I would say that if you compare it to the first half, you're right in the sense that the prior year component has increased. What I'd like to stress here, it's not in the presentation, but it's in the annual report, our reserving ratio has actually increased compared to the previous year. We now have 155%, a year ago we were at 154%, and this prior year's development simply and plainly is a very good claims experience that we had.

You're right it happened, it was more concentrated in the second half of the year than in the first one, but that's what there is to it actually. We are actually very confident and I would say, happy about the soundness of our reserves and the way the non-life business is developing. This actually somehow hooks into your second question. There's nothing other than good performance, I mean all of this kind of all your three questions have, let's say, a common thread, in the sense that the -we are improving consistently and across the board, the technical profitability, the good results of the company.

So that shows in the combined ratios, that shows in the solvency capital generation, which reflects that a technical performance. And coming to France, yes, there's nothing, let's say, unexpected or as I said before, one-off in France. Actually France, if you look at it compared to the previous year, you will see that it has improved its combined ratio which has gone below 100%, you will see that it has improved its new business margin considerably compared to the previous year. It's also France where we had the approval of the expansion of the internal model for the Life business. So, this is actually a year of series of good news from France. So which once again are not the outcome of chance, but they are the outcome of management initiatives. Have I answered your questions?

Q - Peter D. Eliot {BIO 7556214 <GO>}

Yeah. Thanks. Okay, those were straight. Thanks very much.

A - Philippe Donnet {BIO 4657671 <GO>}

Just wanted to add that obviously, France is on the good trajectory, on the good path, but there is still room for improvement in France, definitely, even if as you know the market is very challenging in France.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Nick Holmes from Société Générale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you very much. Two questions, please. The first is, coming back to the P&C reserve releases, I wanted to ask what you think about sustainability? I mean the 6% is, I know supported by no change in your reserve ratio. But I wondered if you could chat through whether it is at the high end of your range and whether you think that is sustainable at that level?

And then, secondly, just moving on to the internal model, I wonder can you give us a bit of a color on when you expect the full approval of the model and which countries it is that are still holding up the process? Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Nick. Look, with regard to the reserve release, I know, it is a, perhaps disappointing answer, but as I said before is – the reality is that it was a very good claims experience. It's possibly if you look at it, if you mean looking at our triangles in the past compared to previous year's observation, it could be towards the high end of the range of the previous year's observation. But as I said, we're quite glad about this. This means that we're writing well and our claims experience is coming out well. I mean, I'm not able to make forecast now, but let's say what I can tell you is that we feel very confident about our reserving levels and just say, the overall health of our non-life underwriting.

With regards to the internal model, let's say there are three big countries that are online. As we told you before, we are working on Austria, Switzerland, and Spain. Austria and Switzerland perhaps would be, we expect them to be of course with the supervisors approval, to be slightly earlier than the later. And those I would say are the three major addition expected, we cannot say when the supervisor is going to authorize this, but we would like to certainly make progress on that over the next two years.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you, Luigi. Can you give us some just any sort of slightly clearer idea of when earlier might be?

A - Luigi Lubelli {BIO 4108780 <GO>}

You should ask the supervisors, Nick.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay, okay. Fair enough. Thank you very much.

Operator

Thank you. Our next question today comes from Nadine van der Meulen from Morgan Stanley. Please go ahead.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Yes. Hi. Good afternoon. A couple of questions from me. Number one on the Life side, the sales were down quite a bit in 2016, particularly Germany, Italy, and France. Do you expect this trend to continue and at the same time, your business margin was clearly quite strong, do you see much upside there?

And on the second question coming back to Nick's question on the Solvency 2 gap between economic and regulatory approved. You mentioned that the remaining approval for the remaining countries, but at least there was also still internal model approval for operational risk as well, I'm not sure are you planning to close the gap fully or there are some elements which will remain because it might not just not be worth it?

And then on the last question, can you remind us of the disposal intentions, sort of the criteria, what the progresses that you are making, et cetera? Thank you very much.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you. I will answer the first and the third question and then we'll let Luigi answer the second one.

On the first one, definitely all our business units are focusing on the quality of the Life's new business, so they are definitely improving the mix, selling less and less traditional business, selling traditional business with lower guarantees, selling more Unit Linked and Protection products. Definitely, most of our business units are more selective on the new business and this is the reason why the premium, the Life premium are slightly decreasing.

Nevertheless, as you know, our net inflow, our Life net inflow is still very important, we're talking about €12 billion and it's the highest Life net inflow of the market. And this is what matters in terms of Life business is the reserves and the net inflow. So actually, we are growing faster than our competitors and we are increasing, improving the quality of our business. And by the way, the new business value is growing very, very fast, almost 15% and it's growing very fast in France, Italy and Germany.

Regarding the disposals, we said that we would exit about 12 – between 12 and 15 country, that we would sell about 12 and 15 companies, because these companies are in markets that are not attractive enough for us, or because we think that these companies cannot reach sufficient size, cannot reach critical size, or cannot reach the performance, the operating and technical performance, the excellent technical and operating performance we want to reach everywhere. In this case, we decided to put these companies on the list of assets to be sold.

We started the processes for each of these assets. We started by the way, competitive processes to sell every single asset. And these processes are proceeding quite well. It seems that there is strong appetite for the assets that are on the list. So, we're are pretty confident that we will achieve this target in a reasonable origin of time and that we will get the €1 billion we said that we would get from these disposals.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Nadine. Going to the other question, I think there is actually your question, gives us the opportunity to highlight something. The improvement in the margins in the second half was actually all the more remarkable, because it happened in a context in which the assumptions for the calculation of those margins were especially tough. So that was the case, especially for the third quarter. And you will notice that the countries where, with the savings component somehow showed some slowdown, but overall we actually managed to increase the margin even against that. The flipside of this and the positive side of this is that the first quarter of this year is exactly the reverse. We have happened to – we are writing with much better assumptions than the ones we used for the first quarter. So that actually should be a significant improvement, we're talking about 40 bps above what was the case in the fourth quarter of the year.

Regarding the operating risk, you're absolutely right. I forgot to mention that. And yes, it's in the pack. The operating risk internal model will also follow this application trend clearly with, all our efforts are on it but the final date rests on the supervisor's decision.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Thank you. So, you expect full internal model approval and what is the timeline that – I mean, you mentioned to Austria, but for, let's say, to get the full...?

A - Luigi Lubelli {BIO 4108780 <GO>}

Look. Our problem there is that we cannot take commitments on somebody else's standalone decision (23:35), but let's say that in terms of degree of maturity of the process, perhaps if that's the way of gauging that, you would say that perhaps Austria and Switzerland are slightly ahead and then perhaps, Spain in the operating model are slightly in the next block. And this, our intention and hope would be to accomplish this over the next two or three years, but as I say, it's a big caveat, it is not our decision.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Okay. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Operator, could we take the next question please?

Operator

My apologies, I was on mute. We have Gianluca Ferrari from Mediobanca. Please go ahead.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes, hi. Good morning. I have a couple of questions. The first one is on the 194% economic solvency, I was wondering if you can give us an updated number for Q1 this year, so where we are today with this respect? The second one is there is less deterioration in the current year loss ratio, in the press release you mentioned a deterioration of the non-motor, can you elaborate a bit more in which geography, in which line you saw this deterioration? Thank you.

Hi, Gianluca. The figure is clearly not disclosed but we can certainly give an indication and basically at the most recent update, we took the figure is basically in line with the level where it was at year end. So it's kind of there, not a material difference – I'm talking about the business view internal model.

The deterioration, two components there. The second half always have or tends to always have some seasonality, so the second half has a combined ratio that is slightly higher than the first half. So there is one reason for that increase in the current year and then we had a higher incidence of large planes in Germany and France.

Thank you.

Operator

Thank you. Our next question comes from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thank you very much. Could you tell us what the combined ratio of Italy was in 3Q and 4Q? And comment a little bit more about the Motor average premium and the pricing there, because it seems like that's under pressure. And I just wondered you did talk about a turning point, just wondered when, what the timing of that would be? That's question one.

Question two, I noticed that the policyholder sharing in the Life business has really dropped, so the amount you are paying policyholders on your investment income dropped by about 20%. So your policyholder sharing has gone down, which you guided too in the past, but to what extent can you keep doing this without impacting your growth and your inflows – net inflows.

And then last point is – question is, jump in the life technical result. Is that partly due to pricing and geographical and product mix, or are there any kind of one-offs in that. So for our modeling purposes, can we assume a similar sort of margin is sustained ordinary (27:18) growth? Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. So, Farooq, we're seeking some – to find the information. So we do not have quarterly figures for Italy. We released the figures for the first half and the second half. We have some increase in the – with compared to the first half, but really it wasn't in the loss ratio, it was driven by the expense ratio. And it came from basically some sales campaigns, in that retail customers and SME clients in non-motor business. But just to give you an idea, the loss ratio went from 65.8% to 66.1%, so basically it's (28:12).

A - Philippe Donnet {BIO 4657671 <GO>}

So, on the competition in Italy, on the price competition on the Motor Insurance, obviously it has been and it is still very tough. Nevertheless, we are starting seeing not only stabilization, but the beginning of an increase of the Motor Insurance prices in Italy. And then, don't forget that in Italy, the combined ratio is still under 90%, which is definitely an excellent achievement.

A - Luigi Lubelli {BIO 4108780 <GO>}

Regarding your question on policyholder share, I mean, we of course, try to strike a balance between the best interest of the policyholder and the shareholder, bear in mind that the interest rate scenario is quite low. If you don't mind, because we would like to know which figures you're actually building this on. If you don't mind, we will take this offline and deal with that more directly. Is that okay with you Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah. I mean, just be the number I'm looking at is, in the investment result of the policyholder interest on investment income. And so you, despite lower realized gains, you've been able to maintain a reasonable level of investment margin which means you're paying policyholder less of your investment returns.

A - Philippe Donnet {BIO 4657671 <GO>}

Actually that the – obviously, the investment income is decreasing, but don't forget that the average guarantee rate of the portfolio is decreasing very significantly and actually the gap between the margin, between investment income and guaranteed interest rate is in the most relevant countries, quite stable.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much. I'll take it offline. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

And regarding the fact whether there were any one-offs in the Life technical result. No, there were not. As we said, there were simply the outcome of the work being done on the portfolio.

Q - Farooq Hanif {BIO 4780978 <GO>}

That's really kind. Thank you.

Operator

Thank you. Our next question comes from Thomas Seidl from Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. First question goes back to Life, slide 34, where you show the gap between the running yields and in-force guarantees, running the yields down 17 bps, in-force guarantees down only 7 bps, so considerably less than the running yield and the new money yield strongly down 48 bps. So at the Investor Day, you gave us an outlook that you intend to keep the investments spread rather stable and I wonder what you gives you confidence that you can achieve that with this acceleration in dropping reinvestment yields? That's the first question.

The second, again, on the underlying combined ratio in P&C, a slight aeration (31:27), I wonder to what extent this is mainly driven by Italy where you have lower growth and lower margin. And with price competition continuing in Italy, is this something that I think, we should expect to continue, the underlying loss ratio being driven up, given the dominance Italy has in the P&C book?

And thirdly, impairments doubled from €341 million to €707 million, you gave (31:56) another €141 million link to Italian financials as a reason, but what explains the other, such a strong rise in impairment, what is the major source of those impairments? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Let's see, the existing portfolio guarantee is an ongoing work, you're absolutely right that we announced that we would make progress on that on the portfolio and we actually expect this improvement to accelerate over the coming years, especially in 2017 and 2018. So, we're actually up quite confident about that but as I said, we are expecting more improvements to come in this year.

I will also highlight the fact that the actual new business we're putting on the books has a higher jaw than the portfolio. So the new business where actually writing is contributing to widening the jaw instead of narrowing it. I am not sure I understood, because as I said before in Italy, I answered in the previous question, the loss ratio actually performed quite steadily, so there's – and actually also comparing first half to second half, so what's your doubt on that one?

Q - Thomas Seidl {BIO 17755912 <GO>}

No, my question is simply is – as an outlook basically, given you know further price competition, Italy and all the Europe trending top-line, and Italy, should we expect this basically to be a significant headwind for improving the underlying loss ratio. Because another thing you told us at Investor Day is you're going to improve the underlying loss ratio but it strikes me that with the headwind in Italy, it might prove quite difficult.

A - Luigi Lubelli {BIO 4108780 <GO>}

Right. Well actually, we have figures from the ISTAT, which is the Italian Statistical Institute that point to a continued increase in the motor premiums in Italy since July. So, if this continues, as we hope, that actually should, should help going forward. As I said before, we had an increase in the combined ratio that was coming from the expense ratio on motor. But obviously, as you know, non-motor performs in terms of combined ratio better than motor.

So, the more we increase are non-motor share of business, the better should be for the results. So, actually, we are – also if you strip out several elements in the renewals in Italy in non-motor, you can see that in our figures we do have an improvement compared to the first half. So actually our outlook in Italy is reasonably positive I would say rather than negative for this reason. And as I say, all the technical efforts are across the board. We are performing them in Italy, we are performing them in other countries. So, as I say, in non-Life we are quite positive (35:18).

A - Philippe Donnet {BIO 4657671 <GO>}

Yes, I think that during the Investor Day, we said that we would improve the combined ratio, wherever it could be improved and that we would try to keep the excellent combined ratio when we have that, which is the case of Italy. In a tough competitive environment, it's obviously challenging. I think that we still have a combined ratio under 90%, which is very, very positive. And as I mentioned earlier, on the Motor Insurance business is really challenging in Italy, we have the positive signals because on the Italian market the premium, the average premium of the Motor Insurance started increasing again, it gives a better prospective for the Italian combined ratio.

A - Luigi Lubelli {BIO 4108780 <GO>}

Regarding impairments, Thomas, clearly we cannot disclose names and we have not disclosed. But just qualitatively, you will see that a good chunk of the €700 million, you're referring to came in the first half there, I think, it was actually the first quarter. And it was because of market movements in that part of the year. And the rest was indeed impairments, partly to the amount disclosed impairments that we're taking in – at the end of the year.

Q - Thomas Seidl {BIO 17755912 <GO>}

So now no major things on the credit side?

A - Luigi Lubelli {BIO 4108780 <GO>}

No, nothing major. I mean, had it been major, we would have disclosed it, I mean these are taken one by one, they're not entirely material relative to Generali.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. And regarding the spread, maybe a follow-up question. You mentioned that there's some work to do on the guarantee, so that means that the majority of the Improvements here comes with the guarantees rather than more positive expectation on the investment income side.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question comes from Andy Hughes from Macquarie. Please go ahead.

Q - Andy Hughes {BIO 15036395 <GO>}

Well. Hi, guys, quick question on the French benefiting from the internal model and what that means for dividends next year from France. And so, I was looking at the gap between the regulated fully internal model and the kind of – actually pre-model. And obviously, it narrowed by 14 percentage points which is €3 billion, roughly. I'm guessing, I should take off from slide 24, the €1.3 billion that you strengthened the fully internal model by and – but is that kind of the quantum of the benefit, if the internal model in France is somewhere around €1.5 billion, €1 billion and does that not come back in dividends next year, now it's kind of approved or what's the timeline for that? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. So, I would separate the two elements. The first one roughly in terms of the improvement between the two or say, roughly it could be near around 8 percentage points roughly, as an improvement of the narrowing between the two. The dividend, I would say, I think I answered that before, in the sense France is bringing good news, France has been increasing the dividend. If you look at that in 2015, it was larger than 2014, 2016 is larger than 2015 and we expect this trend to continue based on the operational improvement of the company. Clearly, the solvency is an element that is borne in mind but that the main driver of the dividends we are receiving from France, which are continuing, as I said, at good pace is the operational improvement.

Q - Andy Hughes {BIO 15036395 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Michael Huttner from JP Morgan. Please go ahead.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Fantastic, thank you very much and well done on lovely results, and three questions. On the new business value, so how much – when does that come through into earnings. My guess is that the difference between the IFRS earnings and the operating capital generation, the 2.1% or the 3.3% is the new business value, so it would be nice to – if you could share what's coming next year, that would be really lovely.

And the other, you mentioned that there is much more to come in France and I just wondered if you could give a little bit more granularity. It's just that the progress on the combined ratios still seems quite slow, it went from 100.2% to 94%, to 99.4%, which is nice but it's like not massive.

And my last question is on the Italian banks or other impairments or whatever, if we had the scenario of a surprise in the political landscape in Europe this year, where if you like we could evolve on this in – unofficially to speed Europe and presumably the markets would worry about Italy potentially being in the lower speed region. In that scenario, how do you see your solvency evolving? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

So, hi, Michael. In terms of the NBV, how it comes into results? I mean, I think disappointing answer, but it will depend on the maturity of the products being written. What we can tell you is the strain is in the accounts and the profits will come. Obviously, we mentioned before the internal capital generation, that internal capital generation already is reflecting the improvements of this reinforced technical approach that you will see we coming (41:57) over and over again too. That's all the efforts that were taken on the writing side in Life and non-Life are showing benefits across many grounds.

And one of them is the generation of capital and the translation into earnings of this. The technical earnings in Life in IFRS were larger this year than a year ago. So something is already showing in the accounts, but clearly it will depend on the maturity, on the products.

On France, I mean, this is a matter of phase. I think, depends what you consider to be large and what you consider to be small. I think what matters is the trend. If you compare France now to what it was a few years ago, you cannot deny the improvements. So the tendency is the right one. As I say, we feel very confident on the solidity of the work that is being done in France, in terms of the underwriting and the reserving. And so, our outlook on that is positive. I wonder if that answers your question.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

If you could give just a bit of granularity? I mean, it's difficult to explain to an investor that France looks good, did they say (43:15) and you say, well, don't know. It would help us but if you don't want to, I can't - I fully respect that.

A - Philippe Donnet {BIO 4657671 <GO>}

I'm going to try to add a few more information about these. Being French, maybe it's easier for me to talk about France. I confirm that it's definitely a challenging market. Nevertheless, as Luigi said, France has been significantly improving, it came a long way. And there is more to come. We are currently studying very carefully the French new business, because as you know, France is very different from Italy or Germany, for example, because of the distribution.

The proprietary distribution in France is smaller compared to Italy and Germany. And we have significant part of our business coming from third-party distributors such as Internet, private banks. So it's a different kind of business, it's a very competitive business. So it's a very good business model. We have a very good servicing platform.

But, we are now reviewing all of these distribution agreements because we definitely want them to be more profitable. So we will renegotiate this agreement. We might decide if the renegotiation is not successful to close some business, but we are going to look at this business with a much stronger capital discipline. So, maybe that's the granularity...

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Excellent. Yeah, that's fantastic.

A - Philippe Donnet {BIO 4657671 <GO>}

...you wanted, you wanted to hear from me.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Absolutely, yes please. Merci (45:10).

A - Philippe Donnet {BIO 4657671 <GO>}

The – with regard to the new business, Michael, you may find helpful to look at the supplementary information of the 2016 embedded value on page 11, chapter 3.5, you will see the expected profits from new business over time. I hope that...

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Brilliant, I'll do that. And on the Brexit.

A - Philippe Donnet {BIO 4657671 <GO>}

And on the Brexit?

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Well, sir, I was in Milan and people thought, well, Brexit might not happen, but it you put a huge amount of pressure, if something like unexpected happen in France on Italian spreads, and I just wondered how you see that?

A - Philippe Donnet {BIO 4657671 <GO>}

Well, it's not an easy question but you know, I'm becoming a specialist, I have testimonies that I bet on Brexit and I won. I bet on the election of Trump and I won. So, I will try to win again. I don't believe that Brexit will happen. And by the way, I don't believe that Italy will get out of Europe as well. So I'm quite confident, despite the great uncertainty I'm quite confident things will go quite well in France and in Italy. And I think that the reforms in Italy are on track, the Italian government took the necessary step to fix the Monte Dei Paschi situation. So I think that generally speaking, the situation of the Italian Banking System banking system is much safer than what it was before.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Fair enough. Thank you.

Operator

Thank you. Our next question comes from Giuseppe Mapelli from Equita. Please go ahead.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Yes, sir. Good afternoon, everyone. Only one question, I would like to understand if recent events involving Intesa has changed your approach toward M&A strategy going forward. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Absolutely not. The excellent results for 2016 we are showing today are the evidence that our plan is the right one, because our plan is creating significant value for our shareholder. These results show that we are very good at implementing this plan to such an extent that we decided to accelerate on, for example, the cost reduction. We did that, we did accelerate on the cost reduction because we were very successful in implementing the cost reduction during 2016.

So our strategy is the right one, our plan is the right one and I think that our team is as you can see with this numbers, is very functional to achieve this plan – to implement this plan and achieve all the targets.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Ralph Hebgen from KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Hi, guys. Thanks for taking my question. I've got two things. One, I wish to call back for the reserve – to the reserve releases, sorry for that. So, here you explaining that basically it was good claims experience which drove that and yet we are seeing a very material increase in the prior development in the second half. So it would be interesting to hear you expand, perhaps the dynamics which were behind that material increase. And also, if you believe that this level of prior-year development was sustainable in the future, would you not increase your guidance or are you sticking to the guidance as expressed historically that you would expect reserve releases to fall into the range of 3 percentage points to 4 percentage points per annum?

And the second question goes back to the technical result, which also look very high, very good in the second half. And again here, what's the sort of work you've done, which would drive that? What were the initiatives driving this? And again, it's about sustainability, can we expect this to represent or constitute a new baseline from which you're going to generate less material incremental growth going forward, or would you actually believe that this level of growth which we've seen half year-on-half year in the technical result is sustainable? Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

FINAL

Bloomberg Transcript

Okay. Hi, Ralph. Look, I believe, I somehow already answered this previously, but I'm glad to come to it again. As I say, the claims happen and claims get paid and it's not exactly predictable when that happens. So this year we had that the second half was better in terms of run-off and I'm afraid, I'd like to have some other reasons but it's a very basic reason, which is also a very good reason. It's simply that claims performance went well. I don't have a forecast for you. I would say that logically, given the strong focus that we are putting on technical excellence and doing our underwriting business everyday better, I mean you should expect Generali to continue to be a provider of good news on this front. But clearly, this is a volatile piece of good news that depends on the reality of the underwriting business. So that is what I would answer to you.

I think in the past, basically, which at the end of the day, you look at the triangle and you see more or less around where it moves and that's kind of possibly the levels that you saw in the past this year. As I said before, it's perhaps above the average. Thank God, Generali is a company that traditionally tends to have a positive run-off and if we are right in doing what we're doing, that should be continued in the future.

I think, Philippe, before went at length through the initiatives that drove the improvement in the Life technical result. I think, what you can argue is that, I mean, you saw two elements of it, you saw certain momentum last year. In the second half, there was a slowdown in the margin. So the margins actually, I think, in a good chunk of countries at year-end, were falling compared to 2014. And then let's say, some sort of a J-effect took place and the margins starting going up and that somehow is gathering momentum, in the sense that the more the initiatives for the improvement of Life technical profitability are enacted, the more the margins grow. This was, as I said before, was even more evident in the second half because in the second half, this continued to happen despite the fact that we were calculating new business margins with less favorable assumptions. So, I would say that our expectation is yet sustainable in the sense that we are delivering the outcome of the good work that is being done on selecting the right Life business and selling the right products.

As I said, there is also an assumption element and it's a fact of life. So the assumptions for the first quarter of this year are going to be materially better than those of the last quarter of the previous one.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Very good. Thank you very much indeed.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're very welcome.

Operator

Thank you. Our next question comes from Alberto Villa from Intermonte. Please go ahead.

Q - Alberto Villa {BIO 16005221 <GO>}

Hi. Good afternoon. A couple of questions from side, very quick ones. One is on – again on in Intesa Sanpaolo – during that period, there were a lot of press noise about eventually the board discussing other plans like buybacks or acquisitions also to increase the size of the company to, let's say, increase the defense of the companies. Is that something that has been discussed?

And is there any possibility in the future or something of this kind could be on the table? And on the 3% stake you built up on the Intesa, do you have any intention to change this position in the short future according to what happened after the Intesa last statement on Generali?

And the second question is on the changing the Chief Investment Officer and the appointment today of the Mr. Mazzocco for the real estate segment. Are these changes in management to bringing any significant, let's say, investment strategy a new direction for the Group in the future and if you have anything specific on the Real Estate would be helpful. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Okay. So we have no special defense plans, no special defense initiative, anyway that the Intesa story is over. Definitely, the only in-built defense is create value for our shareholders. And as our 2016 results show, the best way for us to create value for our shareholders is to implement successfully our standalone strategic, nothing else to do.

Well, we have a disposition in Intesa which is by the way fully hedged and which is not strategic. So we will manage it in the best interest of the company. Definitely, the appointment of new Group Chief Investment Officer and of a new CEO for Generali Real Estate, mean something. On the Real Estate, it means that we just want to increase the quality of the management of our Real Estate portfolio which is a great real estate in terms of dimension and in terms of quality – Aldo (56:57) Mazzocco is a great professional of the real estate business with a great track record, and he is the right person to manage our beautiful real estate assets. He will be reporting to our new Group Chief Investment Officer, Tim Ryan, who also has great experience and a great track record as Chief Investment Officer and also in the asset management. This is important, because as we said in November last year, we want to grow our fees based revenues which means that we want to grow and to better value our asset management business. So we will probably come back to you quite soon with a strong strategic plan on the asset management. And Tim Ryan will explain this to you.

Q - Alberto Villa {BIO 16005221 <GO>}

Is there any timing for this, I mean, strategy on asset management?

A - Philippe Donnet {BIO 4657671 <GO>}

Before – we will probably come back to you in May, somewhere around May.

Q - Alberto Villa {BIO 16005221 <GO>}

Okay. Thank you very much.

A - Philippe Donnet {BIO 4657671 <GO>}

Which is very soon.

Q - Alberto Villa {BIO 16005221 <GO>}

We look forward. Okay, thanks.

A - Spencer Lee Horgan {BIO 4241901 <GO>}

As I mentioned in the beginning, we need to close this call around 1:00. So, I'm going to take one last question. Apologies, I can see there is a couple more of you in the queue but we can of course catch up afterwards. So operator, if we could take the last question, please.

Operator

Okay. Thank you. We will take Niccolo Dalla Palma from Exane BNP Paribas.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Hi. Thank you for taking my questions. I have two, but I hope to get one of the two. So, first question is on - in one of the recent interviews you mentioned that a very high proportion of your new business value should come from Asia by 2020, and it was a pretty precise number, I think it was 28%. So how do you see the bridge from current level to that level?

And the second question I had, if I can squeeze in, is on the new Generali equilibrium product in Italy which you launched. From a client perspective, it looks like being synthetic cost indicator is some 70 basis points, 80 basis points cheaper for the client. Now, I wonder that if you could share any views on the margin for the shareholder is because there's clearly other things going on between the cost to the clients and the final margin for the shareholder, but just wondered how much the margin for the shareholder is going down as well? Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Okay. On the first one, I will let Frédéric de Courtois answer about Asia. On the second one, it's difficult for me because I stepped up as the CEO of Italy on January 1 and this is a new product they launched recently. I know that it's a commercial success, so I'm very happy about that. And I am pretty confident that this product will be profitable for both the customers and the company, but unfortunately, I am not aware of the technical details of the product, but we will be happy to provide you all the information on this product.

A - Spencer Lee Horgan {BIO 4241901 <GO>}

Yeah. We will get back to you on that one, Niccolo.

A - Frédéric de Courtois

I'll answer on the question in Asia. So, first, the 28% is a number which is Group share and you know that we have only 50% of our company in China and doesn't include any acquisition.

So the message here is that, of course, volumes are increasing a lot in Asia, but we will see also an acceleration of the margins in Asia. We will see an acceleration coming from two sides. The first one is that, we have started to focus more on margins in China. So for instance, we are decreasing a lot the single premium book (1:01:23) insurance business and increasing the business with our agents which is more profitable. So we will see a significant increase of the margins in China which is our main business in Asia.

But in some other countries, we are now reaching the breakeven point whereas for the time being, we still had the cost overruns, for instance in Vietnam, in Indonesia where we are – in both countries we are the number 6 Life players and we will see a strong acceleration of NBV margins in these countries. So the 28% comes from volume but will come also from a significant increase in margins.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Thank you.

A - Spencer Lee Horgan {BIO 4241901 <GO>}

Thanks very much Frédéric. And with that one we need to close the call. So thank you very much everybody for dialing in and if you have any further questions, of course, myself and the team are available for you and indeed hopefully we will get to see many of you in person over the next days. Thank you very much.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.