Q1 2021 Sales and Revenue Call

Company Participants

- Andrew Wallace-Barnett, Head of Investor Relations
- Etienne Bouas-Laurent, Group Chief Financial Officer
- Thomas Buberl, Chief Executive Officer

Other Participants

- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Dominic O'Mahony, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Jon Hocking, Analyst
- Michael Huttner, Analyst
- Oliver Steel, Analyst
- Peter Eliot, Analyst
- Pierre Chedeville, Analyst
- Thomas Fossard, Analyst
- William Hawkins, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the AXA Q1 2021 Conference Call. To begin the call, I will now hand the call over to Andrew Wallace-Barnett, AXA Head of Investor Relations. Sir, please go ahead.

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Good morning, good morning, everyone and welcome to AXA's conference call on our activity indicated for the first three months of 2021. I'm very pleased to welcome Etienne Bouas-Laurent, AXA's Group CFO. Etienne will take us briefly through last night's release, and then at the end of his introductory remarks, he will be happy to take your questions. Etienne, I hand over to you.

Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you, Andrew, hello and good morning to all of you. Thank you for joining the call today. As you saw from our release yesterday evening, AXA performed well in the first three months of 2021. Our total revenues increased by 2% in a quarter still marked by COVID-19 related restrictions supported by growth in our preferred segments. Also our Solvency II ratio was very strong at 208% and we also pursued our action on climate and societal topics since the beginning of the year, notably by issuing our first Green bond pledging to invest EUR2 billion in French SMEs impacted by the COVID-19 crisis and acting as a Chair of the new Net-Zero Insurance Alliance. Let me now quickly go through the key numbers from the release, starting with P&C. P&C revenues were up 2% overall with the continued strong growth of 4% in commercial lines and stable revenues in personal lines. In commercial lines, we continue to benefit from favorable pricing conditions across all our major markets at AXA XL and in France, and Europe.

And the outlook remains positive. More specifically, at AXA XL, price increases on renewals were up 15% in insurance and up 11% in reinsurance translating into a price effect of plus 11% on gross written premium. This favorable price effect was partly offset by continued and disciplined exposure reductions across the portfolio which resulted into a minus 7% impact on revenues. Overall, a 4% revenue growth at our AXA XL with a strong focus on profitability. As you know, the quarter was quite active in terms of nat cats especially in the US.

For AXA XL, we estimate a slightly higher than usual nat cat charge for the first quarter, including from severe freeze events in Texas. We also however estimate the more favorable than expected non-cat loss experience. As a consequence, we believe that AXA XL is on track towards its EUR1.2 billion underlying earnings target for 2021. In personal lines, revenues were stable.

We saw some price softening on the motor side, notably in China, due to change in regulation. We expect the price softening trend to also impact Europe linked to COVID-19. On the other hand, we saw favorable pricing and volume effects in non-motor for France and Europe. Moving to other lines of business, in health, we saw continued growth with revenues up 5% in the first quarter. This was driven by both group up 6% and individual up 4% with growth in most of our geographies, in particular in international and Europe.

On the life side, we recorded EUR2 billion in net inflows and continue to see a favorable business mix with inflows in protection and unit-linked and outflows in G&A savings. In terms of revenues in life and savings for the quarter, two things I would like to highlight. Firstly, the strong performance in individual savings in France up 8% with higher sales of unit-linked retirement products and Eurocroissance capital-light products. Secondly, a good momentum in Japan from both a successful campaign of a capital-light products and continued growth in protection.

Finally in asset management, AXA IM delivered a revenue growth of 17%, a strong performance with plus EUR13 billion of net inflows in the quarter and an improved business mix towards alternatives. I want to highlight also that 90% of AXA IM eligible assets under management are now classified under sustainable finance disclosure regulation Articles 8 and 9, the most demanding EU regulatory disclosures for sustainable funds.

Moving on to Solvency II. Our Solvency II ratio was at 208% at the end of March, an increase of 8 points since the end of last year. To give you a bit more details and insights in the key moving pieces, the increase stems from a positive operating return net of accrued dividends of plus two points, favorable market effects mostly from higher interest rates of plus seven points and an additional point coming from the ADC put in place at AXA XL.

This was partly offset of course by the reduction in the UFR with an impact of minus two points. We expect structural positives on Solvency II in the near term with the recent issuance of our green CO2 bond as well as the disposal of AXA Bank Belgium expected to be completed in Q2. So in conclusion, five things to retain. First, AXA performed well in a quarter still characterized by COVID-19 restrictions. Our preferred segments are performing well and we remain disciplined growing where we have the best returns.

Second, we continue to see a good pricing dynamic at AXA XL and we maintained our underwriting discipline. We are on track towards our $1.2 billion underlying earnings targets for 2021. Third, France and Europe also performed well. Notably, with strong sales in individual savings in France and good momentum in health in Europe.

Fourth, in terms of our Group revenues, we are pleased to see some good momentum in Asia coming from Japan. As you have seen, AXA IM also have a very good quarter. And fifth, our balance sheet remain very strong with a Solvency II ratio at 208%. An overall strong start of the year. We are now focused on execution and delivering on our planned targets. I'm now happy to take your questions.

Questions And Answers

Operator

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

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. And morning, everyone. Three for me as usual, if that's okay. Firstly, just on XL, just really wondered if you could give us some more color on the drivers of outperformance in the non-cat areas of XL in Q1 and any expectation from recurrence of those positives in coming quarters. Secondly was just on, if you could give us an update on the EUR1.5 billion in COVID loss figure. Has that evolved in Q1 in terms of FERC losses and frequency benefits. And thirdly was -- I was actually just looking at the French Life APE figures, pretty huge jump in French health APE up about 30% and at the same time French protection APE was down about a quarter year-on-year and just wondered, if you could give us some color on those big news. Thanks.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So thank you, Andrew. First of all, what we said is that we -- as you highlighted, regarding XL, our nat cats experience was a little bit above our expectations, but the non-nat cat experience was a little bit better, thus having a sort of compensation effects. So the non-nat cat exposure is mainly driven by a good experience in large losses to a larger extent and to a lower extent some positive evolution expected in attritional given the very high prices implemented in the first quarter.

Your second question refers to the impact of the COVID. EUR1.5 billion was the amount of the cost estimated at the full year of 2020. We still think that it's the best view we have on our COVID losses so far and of course, there are still some uncertainties left as we say that the full year 2020 on the situation in France, and we'll see how things evolve, but so far, I would say 1.5 is our best estimate.

Third, you had some questions on the APE in France. And the increase in the health APE in France was primarily driven by the increased sales in the international business from our partnerships in the US. You know that we have a very strong franchise in employee benefits in France and we are capitalizing on the structure to expand on some international opportunity from time to time and the US, we have a strong franchise with partnerships there with the insurance -- other insurance providers fronting the business for us.

Q - Andrew Sinclair {BIO 17749036 <GO>}

And on the other side, on protection APE was down quite a lot year-on-year.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

On the protection results related to very large contract. So on the EB side, which are, you know, from time to time going up or down. So no trend here to highlight. Just it's -- it's a business where you have ups and downs, but it's really driven by group contracts, EB contracts.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Understood. Much appreciated. Thank you very much.

Operator

Thank you. Next question from Jon Hocking from Morgan Stanley. Please go ahead.

Q - Jon Hocking {BIO 2163183 <GO>}

Good morning, everyone. Just got two questions please. Firstly, are you now finished with the reduction in exposure at XL, should we start seeing the volume sort of track more in line with rate going forward? That's the first question. And then second, in terms of the individual life performance in France. Can you talk a little bit about how the agents have adapted to COVID and what we should see as restrictions still continue to lift through the summer, are the agents going to get back to working? It seems that they have been pretty productive in the current situation. Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So first of all, we have not changed our policy at AXA XL since you know what we said in the Investor Day. The year '21 will be dedicated to margin improvement. And so we are sticking to our plan. And there will be no change as to the end of the year. We are really about discipline and I would take the sort of exposure reduction as a good news and not as a bad news, right. We have renewal rates with our customers, which are very high, but will reduce the exposure of their clients and we don't hesitate to not to renew the business or even not to write new business when we think that the pricing is not the right one and we are not isolated of course on the markets to do this, but at AXA XL, we have a plan, we stick to it. You know our target. We want to achieve it. And so it's all about consistency.

Your second question was related to the performance in France. I think, and it's true that we are comparing here of Q1 '21 with a Q1 2020 where in January and February, there was no COVID impact. So this quarter, it's particularly the -- difficult in terms of growth. However, you highlight that in individual savings, we did well and we did well in France, especially because we are, I would say one of the leaders in over 25% of the market for the new retirement savings plan called (inaudible) which is a very strong business with a stronger tax incentives and where we had the possibility to have a unit linked rate above 50%. And this explains this resilience of the individual life savings performance in France.

Q - Jon Hocking {BIO 2163183 <GO>}

Thanks, Etienne.

Operator

Thank you. Next question from Peter Eliot from Kepler Cheuvreux, please ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks very much. Etienne, just a few points of clarification, please. The first one on the claims experience at AXA XL. You say a higher than usual nat cat charge, I assume you mean higher than 6% for the new cat budget, is that the right interpretation?

And the second one just on the earnings guidance, very helpful that you've reaffirmed that. I just wondered, if you could sort of remind us when you think of that how you think of the risks to meeting that guidance. I mean, I guess when you're thinking of it, you're assuming that nat cat sort of going to exceed 6% and there is no adverse development on the back book, but yes. And but yeah, and if you could sort of say on the confidence and the risks on that would be very helpful.

And then finally, AXA Bank Belgium, I know you're expecting it to close this quarter. Just wondering, the sort of the great [ph] confidence there because I guess obviously originally it was supposed to close 12 months ago -- expected to close 12 months ago and it's been a little bit delayed but just confirmation that you're fairly confident on it closing this quarter would be great, thank you very much.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Hi, Peter. So first of all, you're absolutely right, when we say compared to our expectations, it's in terms of nat cat for AXA XL. It's compared to the 6%. Absolutely right. And the reason for this is that, there was the Texas freeze where the definitive cost are not yet completely known, but where we think it's manageable, but still, it has an impact and to a much lower extent some floods in Australia.

So this was what -- the highlights. I would even say of the first four months of the year. The second question relates to the earnings guidance. I would say, what are the risks, the nat cat out [ph] their construction risk and this is the main one. I don't see the back book as a major risk at this stage. And we don't have news compared to what we say the exhaustively at the full year 2020. You know that the with ADC the liability lines our legacy book and liability line is really under control, and you remember as well, what we said on the COVID reserves, which are very conservative. So I would not be overly anxious about that it gets you book at this stage.

Your third question related to AXA Bank Belgium, I understand your question because there is such an inertia in the administrative process to get banking transactions done in Europe that it's difficult to understand from the outside, but this is the reality. What I can tell you is that we don't have any more questions from the banking regulators either in Belgium or European one. And it's purely a question and then is to achieve waiting period and the likelihood and this is my feeling that we get the authorization is not far away from 99%. I would say on us how away from 100%, at 99%. Now the likelihood that we closed before end of June is very, very high, but not 100%.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. That's very helpful. Thank you very much.

Operator

Thank you. Next question from Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Good morning, and thank you. And I've a few questions on Solvency II, you provided some granularity. So I just wanted to check were the numbers right? Essentially I'm trying to find out or the question is what is the contribution of the operating return? I have it by difference is being 4%, which would imply 16 for the year, which is a great number? But just wondered if you could confirm and maybe give some color here? And the second, you said just now COVID was mainly reserves. And I just wondered if you could update us how much would be EUR1.5 billion figure is still heard? And how much is paid relative to year end? And then maybe two more, if I may. But you kind of imply that merger was a difficult business at the moment with volumes and pricing down. Just on the, if you could give some color? And also AXA and if you could give a split of the assets with the high value stuff the alternative? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So on the Solvency II, we communicate on the operating result net of dividend that plus 2%. I will not confirm the 4% precisely, details we don't want to give. As you know, we don't make the full closing at the quarter and therefore, we don't intend to give you a very precise number on this. You know that we communicated on 20% operating return on a yearly basis, everything being normal, and you can take the assumption you want for the dividend, but we take always the dividend paid for the previous year. So here, EUR1.43 which we approve. So you can make the math, and I hope that you can leave with this very small and certainty around the operating return which is above four or five depending upon the way you calculate it.

The second is that the EUR1.5 billion was the number we gave in June. We affirmed that half year and full year last year. At this stage, we don't have any reason to communicate on a different number. So we stick to it.

Third question, the motor environment, you saw we are flat for the reasons we just explained that the volumes are slightly so the volume from country to country are different, but we have still a positive net inflow at group level in terms of number of contract. The pricing is slightly down and the counterparties that the frequency is still relatively favorable even if at the higher level than the Q2 level, I would say, of last year. So it's little bit early to say what will happen on the frequency side for the half year. What we see that indeed the prices are not increasing. There is a pretty high level of competition, but we are doing pretty well. We think that our performance is pretty resilient, and I would like to highlight as well that on the non-motor side, we have quite a positive evolution. So that in total, the best in the lines are doing pretty well in this first quarter.

Your fourth question is related to AXA and to the business in alternatives, which represents around 20% of the average assets under management. It was up 13% in Q1, and we reiterate our target revenue growth of 10% a year until 2023.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much.

Operator

Thank you. Next question from Dominic O'Mahony from Exane BNP Paribas. Please go ahead.

Q - Dominic O'Mahony

Hello. Thanks for taking my questions. Just a couple on to start, I understand that you recently consolidated your AXA XL Reinsurance businesses together in Bermuda. Can you just highlight the rationale for this and any potential financial benefits that might come from it? And then just a clarification on the top line. I understand that you reported and the adjusted growth because of the -- that we basically the Q1 2020 and kind of likely driven by the reduction in economic activity because of COVID which then plays through into premiums and that was sort of rebased in 2020. Maybe if that's expected to bounce back once we're back to normal and planes not flying and so on, well actually, would you see this is sort of the new normal?

And then just a question on Chinese motor. You highlighted the impact of regulatory change reducing average premiums in Chinese. Could you just maybe give us a bit of context as to whether this is positive or negative call if your volumes for your profitability you might think this is the deregulation of that market might be changing some of the competitive dynamic? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Hello Dominic, so you had a question on the XL reinsurance reorganization and it's perfectly right, we have decided to establish a new company in Bermuda, which we carry all reinsurance operations of AXA XL. The rationale for these changes is to reduce complexity within the group to reinforce the line, the management responsibility and accountability on these specific segment of business and this is the way we deal with all our entities in the group. So we think it will enhance accountability, transparency and efficiency to the benefits of our clients and our business.

And I remind you that AXA XL Reinsurance Limited is rated by S&P and Ainvest it's seen as core by both agencies and it benefits from the same rating as the other and these are the group with AA- stable outlook.

The third, you absolutely clear right in your analysis of the comparable growth for XL and the reason why we made this restatement, if you will, is that it gives this plus 5% growth is more representative of the underlying growth we will disclose in the upcoming quarters, everything being equal. So this is what you can take as a sort of trend for this year.

Your third question on China. Actually, there was a change in regulation at the beginning of Q4 or end of Q3 last year. We've two things happened. The Chinese regulators said they want to reduce the start-up pricing, and second, they wanted to increase the insurance coverage of the policies to better protect the customers with both measures. It has created a lot of movements in the market because actually prices have come down and in order to maintain a combined ratio below 100% of everybody expected the commission ratio to go down, which is not yet the case, I would say.

So the Chinese market as a whole is in the short term impacted negatively by this change in regulation. We expect it to come back to normal in the upcoming quarters, but it's a bit early to say. So this explains the reduced momentum on our Chinese business because at the same time, what we did was to select the best risk and not to run for volumes in the current context because it would have been detrimental to our combined ratio. So you will see this is impacting the whole P&C industry in China at the moment.

Q - Dominic O'Mahony

Thank you.

Operator

Thank you. Your next question is from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi everybody, good morning. In terms of the green bond that you've raised, can you talk again about your rationale for raising capital given your Solvency II position and given your cash position? I mean it seems like you don't really need it, and I'm just kind of thinking about the philosophy behind that. So second question is on your Microsoft agreement on health. Can you explain how that might change maybe the profitability or service dynamics or fee dynamics of existing businesses? And what it does for growth? And the last question is on update on disposals. I mean I believe in the press, there's been some talk about your Malaysian business and I'm just wondering whether you feel that there is still significant non-core disposal potential? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So first question. Thank you, Farooq, for your questions. The first one related to the green bond. First, there is nothing new. You remember that we provided you with the analysis of our plan. Finance -- well, our capital management plan, I mean the IRB in December. As you have seen, we can afford at comparable gearing to raise EUR3 billion of debt between 2020 and 2023. This was the first part of the plan. We are not forced to raise debt each year. So we will see. But given the extremely good financing conditions at the moment, it was very tempting to take this opportunity. I remind you that we have a spread of just a little bit less than 150 bps, which is extremely favorable market conditions. So this was, I would say, the reason why even if it was in the plan, the market timing was excellent. And then each year, we'll see if we raise debt or if we don't do it.

Second, on the Microsoft transaction, it's not a transaction, it's a project, sorry. We have been working on such initiatives for quite a while, including in Asia with a project called Emma. Here, we are accelerating with Microsoft and the objective is not short-term to boost the sales. I think it's really to improve the customer experience around health at AXA. By this, we want to have a better retention of our customers. We want to attract from time to time new customers, but it's more retention and also should have a positive experience on the loss ratio because we will improve the prevention, we will improve the sort of triage to our preferred providers. So it's a full ecosystem around the health, where we think that the customer needs are very high and the expectations of the customers are not fulfilled from today nowhere. So it's really about the qualitative approach on health and I'm very positive about the long-term benefits of this project. But it's not like an M&A deal, it's not like expect that new products, which is going to change the numbers in the upcoming quarters. It's really fundamental long term move for our group.

Q - Farooq Hanif {BIO 4780978 <GO>}

Just to be clear, you'll be implementing these capabilities in countries like the UK and France as well, presumably with a more Asia focus?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

No. So I look to Asia -- sorry, because I had this experience in Asia with the project called Emma. The new venture with Microsoft is starting in Europe, and we had two pilots in Italy and Germany, which are highly promising. It will be rolled over the other European countries. And then in the second step to France, but France has itself its own characteristics and is moving into the right direction, and we'll see if they take this platform in a step two. But I would say it's at the end of the day the idea to have a global approach on health services for AXA customers.

Your third question related to disposals, as you know, we are keen to pursue the simplification of the group and to our focus on the countries where we have a competitive advantage in the long run. So we might from time to time continue our program of disposals. The priority is to target the countries within the International segment. I cannot comment more than this. I think this is something we explained during the IR Day in December, there is nothing new on this. And as you know, we will also have a very strong financial discipline in order to reduce or eliminate the potential dilution coming from such disposals when they come.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. Thank you.

Operator

Thank you. Next question from Oliver Steel from Deutsche Bank. Please go ahead.

Q - Oliver Steel {BIO 6068696 <GO>}

Good morning. So three questions from me. The first is on protection volumes, which were up 1%. I'm not looking here at the new business so much. I'm looking at the sort of the premiums. But this is actually now the second year in succession where the growth in protections actually be a bit less than new target 3% year-on-year in the first quarter of last year, it's 1% this year. How much of that is economic? And how are you expecting that to sort of pan out as lockdowns end?

And second question is on AXA IM, and the 17 -- so basically the margin that you generated on average tons went up from 17 bps to 19 bps. Is that all just simply a function of improved mix or I think you mentioned or I think, you mentioned their outperformance fee. I'm just wondering, how much of that margin uplift came from the performance fee or anything exceptional? And then the third question is about sort of French government attitudes, it comes in two parts, one is, given that you're still saving money on frequency and there's still lockdowns in France. Are you expecting to pay any further contribution towards sort of COVID solidarity funds?

And then separately, if you do make further disposals this year. What is the French regulatory attitude towards you sort of been eliminating any earnings per share valuation through buybacks?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you, Oliver. So the third question relates to the growth in protection business, plus 1%.You might take that as a disappointment compared to the performance in commercial lines and health. The other two preferred segments. I see that differently because as I said in the introduction, we are comparing our performance with the Q1 last year, which was not impacted by the COVID in January and February.

So nothing worrying. And I think that once the lockdown will reduce or the effects of the lockdown will reduce, we will see a natural move up on the protection side in terms of new business and business. So I'm not overly worried. We might have also some more potential coming from Asia when -- and notably from Hong Kong once the frontiers will open again -- open up again.

So, no, I would say the plus 1% is not represented above the run rate. It should be higher and at the latest, I hope Q3, Q4. AXA IM, we have a revenue growth of 17%. I would say that you have within that around one third, which is linked to non-recurring, I would say, performance fees. So sort of one-off. One third to make it very simple coming from an improvement in business mix, which is due to the (technical difficulty) of the alternative business but also within the core business and a positive business mix towards multi assets -- multi-asset and high yield lines of business. And the third component is, of course, the increased average assets under management. Regarding the French government, you're right to say that they are very tempted to come with you with creative ideas in terms of taxes, every time we make profit. We haven't heard anything on the motor side. The only idea, which has been put on the table, but it's really an idea or concept. I'm not sure as we go through is on the health side, where remember you that last year, they said, we should have to pay the 2.6% tax on health sales on 2020 and 1.3% on '21.

Both taxes were booked in our accounts in 2020. Now let's say the prices continuing maybe the 1.3% was not high enough for '21. We are not sure that this will grow, this idea will be further developed, but this is potential risk, which is difficult to assess at this stage. We didn't hear at all about new solidarity taxes to be frank, and now we are speaking more about opening up the economy and the caffeine [ph] restaurants slowly but surely in the upcoming days. So I don't think that the risk is really high.

Regarding potential, the consequences of the disposals and potential share buybacks for us. There is not really anything new. What we just saw is a shift in the supervisor attitude, you know from a blanket ban to a case by case approach, which we think is very positive. And this is why we were able to confirm or to announce and confirm the dividend of EUR1.43, which is back to normal situation, I would say. There are no specific statements from the ACPR on the share buyback.

However, given the very solid solvency and the positive prospects of the vaccine, we see no reason to be worried for that especially from Q4 of this year.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you.

Operator

Thank you. Next question from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

(Technical Difficulty) remarks you made passing reference to the benign experience of your reserve covered by the ADC protection for XL. Have you actually done a formal close for NSTAR at the end of the first quarter to support that statement? And if not, when is the first formal close to assess the ADC? Is it the end of June? Or the end of December?

And then secondly, please. What's most prominent in your mind at the moment in terms of thinking about inflation risk? Some people are worried about US toll [ph] costs as the courts open up, some people are worried about the return of drivers to the road. There's always something to worry about. So, maybe there is nothing to worry about on this point. But in terms of what you've seen in the first quarter, what's the most prominent in your mind when you think about inflation?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Hello, William. So the ADC contract has been closed in recently. So, I hope that it's good news from your point of view, I don't think the market.

Q - William Hawkins {BIO 1822411 <GO>}

I'm sorry, Etienne. Sorry, Etienne. I know the contracts being closed. I just meant, when is the first formal reporting schedule to your counterparty?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So, we have actually, as you know, no formal closing as of the first quarter. We review our reserve twice a year. So, it will be more a topic for the half-year.

Q - William Hawkins {BIO 1822411 <GO>}

Right.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Regarding the inflation risk. You're right, there is always a question, a reason to worry in our business. On this one, I wouldn't say that it was on top of our agenda in terms of risk, of course, you can always say, you know the cost of claims could suffer from inflation.

But at this stage, it's a bit early and I wouldn't flag any specific risk on top of the agenda really for now. You can say, it could be a positive because maybe it will help getting back to a normal interest rate curve. This is I think the way we see it more, it's still a little bit early stage to draw conclusions. So, it could be an opportunity. There could be some more inflation on the claims, which could be a slight negative, but nothing I would say at this stage, nothing really significant.

Q - William Hawkins {BIO 1822411 <GO>}

Brilliant. Thank you.

Operator

Thank you. Next question from Andrew Crean from Autonomous. Please go ahead.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning all. Couple of questions, if I can.

Firstly, could you talk about the nat cat experience outside of XL in your main European businesses, in the first quarter? And secondly, if you take on board the debt and the bombells [ph] if it completes, your solvency will be 216 [ph], which is I think 7 billion, north of the 190%. How do you propose analysts assess your capability to return capital now that you have taken away the boundaries of higher and lower comfort zones. What do we -- how are we supposed to think about that?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Hello. Andrew outside of XL, the nat cat experience was slightly below what we expected. There were no really -- real nat cat events in 1Q. But I would say, we are only at the end of Q1. So let's wait a little bit before drawing conclusions, but if your conclusion is a good start of the year, I would say yes from this point of view. And on the solvency side, you are absolutely correct that Q2 solvency will go up in a mechanical way because 2 events are already known, which is the impact of the debt, 4 points and the expected 4 points from AXA Bank Belgium disposal, so you're absolutely right that we will be above our long-term target of 190%. It's a bit early to say in the year, how we are going to manage, I would say these excess level of solvency. And I would propose to have a discussion at the half year about this. In the meanwhile, you have also the possibility, even if it's marginal, we could reduce a little bit, the level of hedging on some equity positions in order to get a better return on our assets but still a bit early to answer this question, mechanically, you're right.

I would say that, I see that as a positive. I would say to be comfortably sitting with a sort of caution about our long-term target and it's a very nice contrast with the situation we experienced last year.

Q - Andrew Crean {BIO 16513202 <GO>}

Yes. Thank you.

Operator

Thank you. Next question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Oh yes, good morning, Etienne. Two questions, the first one will be on the commitment of AXA to allocate 2 billion to the French recovery participation loan scheme.

Could you tell us a bit more how you are going to deploy what the expected return, and the risk attached to this new scheme and how you're going to -- who is going to support ultimately the risk around this scheme.

Second question will be related to the cash at the Holdco company. So starting from the year 4.2 billion reported at the end of the year. Could you say there has been any significant positive or negative movement and maybe if you could update us on your thinking regarding AXA, Eurolife restructuring. Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you, Thomas. Tomas (inaudible). Thomas is a German version of Tomas and I have a bias, sorry for that. So. hello, Tomas, and thank you for your question. And so the French scheme, I would say, we think that it's a win-win deal because we are very happy to support the French economy in terms of solidarity. On the other side, the 30% of the risk is taken by the French, I would say, government. It reminds us a little bit of the system of sponsored loans granted by the bank during the crisis. So it's sort of an opportunity and a nice way to support the economy at the same stage, so we think that the risk return is favorable to us.

Second at the Holdco level, we have and so what's happening at the moment is absolutely bang in line with what we expected when we disclosed the struts [ph] plan in December during the IR Day, knowing that the cash at the moment is you can imagine above the level that we had at the end of last year, because, a big part of the dividend are being paid in the first part of the year.

And including in the first quarter. And we really think that the prospects in terms of liquidity for the end of the year, which should be at least at the upper end of our long-term target, if not above. Third, AXA Life Europe. We successfully signed a reinsurance agreement between AXA Germany and AXA Life Europe to reduce the capital constraints at the level of AXA Life Europe. When I say successfully signed, you can say, but it's an internal contract, you do whatever you want. I say successfully because we got the authorization from the -- not only from German regulator, but also from the Irish regulator, which is for us something very important. And now, we will dedicate the upcoming months to try to get the authorization to distribute an exceptional dividend from Ireland to the holding company because we have an excess level of capital there.

Q - Thomas Fossard {BIO 1941215 <GO>}

Can you quantify what it could be?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

A few hundred million euros.

Operator

Okay. Next question from James Shuck from Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hello, good morning. So three questions for me please. Actually firstly, the ambition AXA 2023 on the underlying earnings per share. You have the cost reduction target in that number, but there's also efficiency gains. So I'm just intrigued to know whether the start that you've had up to this point means that the revenue growth that you've got embedded in those targets will get you confidence in delivering on the efficiency elements of the underlying earnings per share?

Second question on solvency, the ADC benefit, I think you mentioned in your comments there's about one point benefit from the ADC. Could you just clarify that? That seems a bit low to me. What is it in relation to the risk capital at AXA XL, please. And then finally, I notice from the SFCR that the franchise business hasn't paid a dividend again in 2020, can you expect it to pay a dividend in 2021? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you, James. So on the ambition 2023, you are absolutely right that the contribution to the new EPS [ph] or the cost is significant, both in terms of cost reduction. And second, in terms of efficiency, which supposes that the revenues go up and there is no reason for us to change anything in what we said in December. We are confident, both in our capacity to reduce cost and second, to continue to grow our revenues in order to have a better expense ratio. So no change here at all, we just confirm our plan.

In terms of solvency ADC plus one point at group level, of course, which means a bit more at the AXA level. It's already difficult to isolate one item without looking at the diversification benefits and this is certainly the why you might have expected a bit more, but it's absolutely mechanical here and the solvency situation at AXA XL remains above our risk appetite and in line with the upper range of our risk appetite. So there is absolutely no reason to worry on that. And our capacity to distribute the earnings whatever level, they are in 2022 based on the 2021 earnings is confirmed at this stage.

You highlight the situation of AXA whereas you know the cash upstream is managed at group level. So we have various situation between the entities from year to year, but the plan for 2021 is absolutely in line. I just said that before with our expectations, when we disclose the plan. It's the EUR14 billion cash upstream absolutely confirmed at this stage and the solvency situation of AXA FASB remains much above the risk appetite limits at this stage with 155%.

Q - James Shuck {BIO 3680082 <GO>}

Okay, thanks very much, Etienne.

Operator

Thank you. We don't have anymore question for the moment. (Operator Instructions) We have a new question from Pierre Chedeville from CIC. Please go ahead.

Q - Pierre Chedeville {BIO 15076220 <GO>}

Yes. Good morning, Etienne. Two quick question, first question regarding tax fees in asset management. I wanted to do if you give me information regarding eligible funds for tax fees? And if you have any concerns regarding ESMA reform, regarding the way of calculating that fees on the five-year basis, instead of one year? That's my first question.

And my second question is related to participative loans. I read this morning in vehicle and alternatives which was not very clear for me right said that the insurers are sure then their asset managers and bank has to work with. But they don't mention AXA, while AXA will be, as you said, a significant participant to this positive. So I wanted to know what will be as the bank or asset manager, you will make a B&M with? Thank you very much.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So Pierre, hello? I fear I will not be able to answer this two questions in a very transparent way. The first one is very precise and technical question on the accounting metrics related to performance fees, and I propose you to deal with the IR team, which will itself connects with AXA IM to understands and ensure that we give you the proper answer.

And on the participating loans, it's true that we are a major market participant and that these loans are distributed by the banks and we will take our share of this distribution. So I'm not sure to understand exactly what it means to select one partner because it's, for me, there is a platform. It's euro depreciation and so once again on this one, you don't, if you take to get back to the IR team. If there is something, I mean, but for me, it's really sort of no-brainer. There is a platform initiative, and we take our share of it and the banks are intermediaries.

Q - Pierre Chedeville {BIO 15076220 <GO>}

Yes. I thought exactly like you, but maybe you will see this morning in an article in Diego, you will see a strange article on that issue is significant to understandable. That's why I was asking the question because in my view, I was thinking like you. I don't understand is this question of B&M between insurers and asset managers that which is mentioned in this article.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Okay. Pierre, I'm sorry, I will not give you more insights and please accept my apologies for this.

Q - Pierre Chedeville {BIO 15076220 <GO>}

Okay. Thank you very much.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

You're welcome.

Operator

Thank you. Next question from Ashik Musaddi from J.P. Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Thank you, and good morning, Etienne. Just a couple of questions from me. So first of all, like pricing in commercial lines in France, it was pretty strong at about 4%. I mean could you just give some color as to is it just inflation driven? Or is there is a bit of extra pricing as well? That's the first one. And second one is, I mean, I'm not sure I'm going to get the answer, but I'll still ask you. You mentioned that you get a lot of cash flows from starting first quarter. Now you mentioned that it has already been strong, but is it possible for you to give any indication on number? Or say, what portion of your annual cash flows are already in as you have got from the subsidiaries to holding company for the group? Any thoughts on that would be great? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Hello, I'm not sure I got -- and sorry for that. I'm not sure I got your two questions. On the first one, I heard the word international.

Q - Ashik Musaddi {BIO 15847584 <GO>}

No. Commercial lines in France, the pricing in commercial lines in France was pretty strong at about 4%. Is it all driven by just inflation? Or is it there is a bit of extra element on pricing as well?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

No. Sorry for that. It's not an inflation. As you know, it's mainly driven on the large accounts. Certainly, part of it is sort of impact from the COVID crisis as well. So there is a hardening trend and it's true, these price effects across the whole portfolio motor property construction liability. So I think it's more than inflation. Your second question, sorry, I didn't --

Q - Ashik Musaddi {BIO 15847584 <GO>}

The second question -- yeah, the second question was with respect to the cash upstreaming from subsidiaries. Now I remember, you mentioned that a lot of the cash upstreaming that you think for the year comes in the first quarter. So can you give us any percentage of how much of cash upstreaming has already come through? And how does that compare to last year?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So I will -- so the big part is in 1H for sure, and I will not give you the amount of cash we have today, but it's, in a nutshell, if I take the cash we have today, and I subtract the dividend to be paid, we would be at least at the range of our long-term target. If you see what I mean.

Q - Ashik Musaddi {BIO 15847584 <GO>}

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

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you very much.

Operator

Thank you. Next question once again from Andrew Sinclair from Bank of America. Please go ahead.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. And just one final follow-up for me. Actually, it's about the mandatory convertible bond into the EQH shares, I think converts 10 days time on 15th of May. Just want to -- by what time EQH share price means you probably have some EQH shares left after the conversion? And I'd say I was really wondered what the impact on solvency from that conversion and what would you planning to give us majority in EQH shares? Thanks.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So I'd just tell you that based on the current share price, because the definitive calculation is not made yet based on the current share price, we would be left with around 7 million shares of Equitable Holdings.

Operator

Thank you. Next question once again from Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you, and wanted to it's tricky and I'm going to talk to cancers. When you have arrive at CSO you probably saw from my gosh, it's complicated group and all these moving parts so best be very careful. And now clearly after a year in the role that you're talking any of the numbers, but it's clearly there's a lot of confidence in the way you present these numbers in the ceiling that seems good. When we have any of the potential or the likely only confirm change now, are we going to go through the same cycle again of slight course and then kind of reintroduce confidence? Or can we kind of assume that the transfer will be absolutely seamless? I don't know how you can answer it, but I can't not to ask it because it's kind of follow up, I did ask on COVID you said no other change. My question was really to know how much of the curve that you've set aside? How much is still unpaid that would give me and then the final one is just bit lazy, I'm really sorry, what is the long-term target for cash?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So Michael, a long-term target for cash is EUR1 billion to EUR3 billion. So, when I speak about the at end of the range is EUR3 billion, right. So if I say above the upper end of the range to both EUR3 billion. And your first question, I think it's part of the questions you ask rate into the reserve to COVID and some will be better answer at the half year because then we will have a closing a proper closing of the accounts, it's difficult for me to comment in the Q1 on the level of reserves we will high level of accuracy and granularity as you can understand.

And I remind you that we have gone through last year, a very specific year where we had the COVID crisis. And second, there was the level of earnings at XL which was not at the level we expected. There is two components where impacted us really last year. I don't think that we are in the same context each year. If you can give you some comfort on my level of confidence and on tone, which will be used by my successor with whom I've been working in very, very close relationship and in the relationship of trust, although the last two years, I would say.

Q - Michael Huttner {BIO 21454754 <GO>}

Understood. That's very helpful. Thank you.

Operator

Thank you. We don't have any more question for the moment. (Operator Instructions) It looks like we don't have any more question. Back to you for the conclusion.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So thank you very much to all of you for the quality of your questions. The higher attendance and this was for me my last official conf call appearance as a Group CFO, and I enjoyed particularly these exchanges with you, and I will miss it. And then very happy for my successor Alban, who we sitting here to me here today. I think he will enjoy very much and we show that there will be a continuity in the messages we are delivering to you in the tone, but also in terms of contents. And I'm very confident about us, about our plan, about our capacity to deliver, and I will miss you all, but maybe there will be some roadshows don't hesitate to go, don't forget that season is an important part of AXA. Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, everyone.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Bye-bye.

A - Thomas Buberl {BIO 16182457 <GO>}

Have a very good day. Take care.

Operator

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