Q3 2020 Sales and Revenue Call

Company Participants

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

Other Participants

- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Farooq Hanif, Analyst
- Jon Hocking, Analyst
- Michael Huttner, Analyst
- Nick Holmes, 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 Group's Nine Months 2020 Activity Indicators Analyst Conference Call. To begin the call, I will now hand over to Andrew Wallace-Barnett, AXA's Head of Investor Relations. Sir, please go ahead.

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Thank you, and good morning to everyone, and welcome to AXA's conference call on our activity indicators for the first nine months of 2020. I'm pleased to welcome Etienne Bouas-Laurent, AXA's Group CFO. Etienne will briefly take you through last night's release. And 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. Thank you for joining the call today. As you would have seen from our press release, AXA's activity rebounded strongly in the third quarter after a significant decline in the second quarter in the context of COVID-19. The rebound in revenues we saw is an important demonstration of the resilience and strength of our business model. It stems from the strategic choices we have made in recent years to focus on P&C commercial lines, health, protection and unit-linked. And is a reflection of the commitment of our employees and distributors. And most importantly, the loyalty of our customers.

Let me rapidly go through some of the details, starting with P&C. P&C revenues were up 2% year-on-year versus the third quarter '19, driven by both commercial lines and personal lines. In commercial lines, revenues were up 2% year-on-year in the third quarter, driven by continued strong price increases, partly offset by underwriting actions to improve profitability at AXA XL. In the third quarter, prices were up 4% in France and Europe.

Personal lines revenues were up 1% year-on-year in Q3, with a strong increase in net new contracts, notably in motor, including in France and Europe with around plus 100,000 contracts.

On AXA XL, specifically, we continue to see an acceleration in pricing increases. In Q3, insurance pricing was up 20% and reinsurance was up 10%. At the same time, Scott Gunter and his new leadership team are taking decisive underwriting measures to enhance the performance of AXA XL's business. As an example, in Q3, AXA XL decided to exit from some financial lines in our UK and Lloyd's business as we believe the level of pricing increases are not sufficient to compensate the uncertain and volatile outlook for these lines.

You all know that Q3 was another active CAT season with above-average insured losses across the industry. This stems from an elevated number of storm in the US, including Hurricane Laura, Isaias, Sally, Derecho as well as wildfires in California. Our current bottom-up estimates indicate that we may incur claims charges of EUR0.3 billion in excess of the normalized level for AXA XL for the second half of the year before tax and net of reinsurance.

Very recently, AM Best in its September 2020 rating review, reiterated the AA- rating of AXA XL with a stable outlook, which is important commercially and a sign of confidence in the measures currently being implemented.

If I now move rapidly through our other business lines. On health, we continue to see growth with revenues up 7% over the nine months, up strongly in France and across all our geographies. On the life side, despite a continued slowdown linked to COVID-19, I'm pleased to see a sustained positive shift in the quality of our business. Specifically, we saw positive flows in the third quarter in protection and in unit-linked, and continued outflows in G/A savings in line with our strategy. Finally, on asset management, we recorded EUR11 billion of net inflows in Q3 from both core and alternatives, with revenues up 4%.

Now let's move on to Solvency II. As at end September, our Solvency II ratio remained stable versus end June at 180%. This includes a pro rata dividend accrual based on the full year dividend of EUR1.43 per share, initially proposed by the Board for full year '19.

Looking ahead, the Solvency II ratio for full year '20 is expected to benefit from the integration of AXA XL into the Group's internal model, and from the completion of previously-announced disposals, including plus 2 points from the CEE disposal, which was not captured in the 180% as of September 30. And that is a good segue to remind you that we continue to pursue our simplification journey.

In mid-October, we closed the CEE sale of EUR1 billion of cash proceeds. We announced, in August, the disposal of non-life operations in India. And a few days ago, we closed the sale of Architas UK investment business. We expect the level of cash at holdings to remain high at the end of 2020, above the top end of our desired range of EUR1 billion to EUR3 billion.

Finally, a brief word on COVID claims. At this stage, we expect only a limited impact from the current second wave of lockdowns, and we have reaffirmed our best estimate of EUR1.5 billion, net of tax and net of reinsurance, for COVID-19-related claims in 2020.

So to conclude, AXA has performed well in the context of COVID-19 with a strong high-quality rebound in our activity in the third quarter, and which initial figures indicate has continued into October. Our business model favoring technical risks over financial risks is proving its relevance and strength as confirmed by the continued growth momentum in our preferred segments and the loyalty of our customers.

Our balance sheet is strong and remains resilient in volatile market conditions and with upside ahead of us on our Solvency II ratio. We expect the level of cash at holding to be above the top end of our target level of EUR1 billion to EUR3 billion at the end of 2020. We expect only a limited net impact on claims from the current second wave of lockdowns, and have reaffirmed our estimated EUR1.5 billion impact from COVID-19-related claims in 2020.

We believe in our strategy and its execution. We have become a simpler and more focused organization, and we are confident to deliver sustained good performance.

I'm now ready to take your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) First question from Andrew Sinclair from Bank of America. Sir, please go ahead.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Thanks. Good morning, everyone. Three from me as usual, if that's okay. First one is probably a slightly longer one. Look, your comments about ensuring that XL has necessary resources to take full advantage of market conditions. There's been some discussion as well about potential cash down streaming before year-end. I just wondered if you could give us some color here. Should we think about just reserve strengthening cash for future growth? I know the subject of reserves for anything you'll be in a position to give us more disclosure to properly analyze adequacy of XL's reserves. That's the long question one.

Second question was just on the COVID loss guidance. Good to hear further lockdowns will not have a material effect. I assume that's on a net basis after allowing for lower attritional frequency. I just really wondered if you can give some breakdown on kind of gross versus net claims there.

And thirdly, just what proportion of your commercial lines contracts have now explicitly excluded COVID claims as we go through renewals during the year? Thanks.

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

Good morning, Andrew, and thank you for your questions. So your first question relates to the -- our willingness, and our wish to reinforce the resources of XL, to be able to benefit from the current favorable pricing context and the anticipated resumption of demand across most lines segments in 2021, which is a very clear statement from our side.

Obviously, we need as well to offset some expected loss from COVID-19. And all in all, what we want to ensure is that we have sufficient resources capital within our risk appetite framework to continue to grow this business. We are not shrinking this business. Of course, we are re-underwriting, we are line-sizing.

We are increasing the client retention, but we want as well to grow in the business lines where we think that it's correctly priced, and we think that the market will grow -- will continue to grow next year. So we want to be in a good position to benefit from this trend. We have -- of course, your question related to the reserves. We don't make -- at the nine months, we don't publish a balance sheet. So what I can tell you is that we continue to consider our reserves are adequate.

And lastly, the amount of capital we intend to inject is around EUR1 billion. We think it will put us in a comfortable situation at year-end. This will be -- there will be no impact in terms of liquidity at the Group level because we have also other upstreams from entities in the second part of the year. And last point, there will be, as well, no impact on the solvency for the Group.

So your second question is related to the COVID losses. So as you know, there are two aspects. The first one is the first wave. And on the first wave, we consider that the uncertainty is really reducing month after month. I would say that we have clarity in the UK in the meanwhile since the first half. There are still some uncertainties in France, but which remain, in our view, manageable. And there is some debate around some contracts, which we think are extremely clear because they exclude pandemics. There is some confusion in the French courts around that. We think that it will be settled over time. But after reinsurance, we don't see that as a very material impact.

Regarding the second wave, we are confident that the impact will be very limited for two main reasons. The first one is event cancellation, you remember, represented a pretty big part of the cost in the first half. Event cancellation, we already booked a provision for the 12 months so starting from March. So -- because there was very limited new business, and when there is no business, including pandemic and because we had already booked a provision, we don't consider that there will be any impact related to a second lockdown.

The second part was the business interruption. Business interruption is, I would say, a more complicated topic. However, based on what we see and understand, first of all, the second lockdown have softer restrictions than the first one with more government support.

Second, I remind you that in some cases in France, in Germany, in Switzerland, there were settlements, settlements in case of lack of clarity of the contracts. These settlements included a clear waiver on any claims linked to a further lockdown. So we think we are safe on this part.

And maybe a link -- a third point, which is linked to your third question. We have adapted -- we have started to adapt, already a few months ago, and we continue it to be rolled out, the wording of our contract in a way which is not only excluding pandemic, but as well, clarifying what is really covered and what is not. We had in the past, especially for business interruption contracts, an approach with a sort of blanket coverage with exclusions. So -- which was saying, you are covered for everything, but. And this led to some confusion. And therefore, we have decided to switch to an affirmative description of the coverage provided. So (inaudible) so as to not to be exposed to systemic risks.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Thanks, Etienne. And can I just come back to the first question again? You mentioned that you'll be fitting the XL business in a comfortable position on reserves around year-end, but I think the market has been struggling for a few years now to really get comfortable on that level. Are you able to commit to giving more disclosures, say, more detailed reserve triangles on XL over the coming months?

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

So as you know, it's difficult for me to comment balance sheet items at nine months. I -- so we will give, of course, the numbers in the full year numbers, which means at the end of February. But I think -- I guess your point is more related to the -- it's less a question of numbers, but more a question of disclosures, if I understand well. What your message is to say please provide us with more detail so that we get more comfort. And I know this point, we have that in mind and it's a fair point.

We just need to ensure that the format of the information provided gives indeed more clarity. Sometimes when you look at net of reinsurance amounts and the historical data, the scopes, you don't always get the needed clarity. And this is why -- this is my only waiver. If it was very clear, very helpful for the analysts and investors, we would not hesitate.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Understood. Appreciate it. Thanks, Etienne.

Operator

Thank you. Next question from Farooq Hanif from Credit Suisse. Sir, please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thank you very much and good morning. Returning firstly to AXA XL. How can you convince us that the EUR1 billion capital injection is enough? Clearly, there have been questions about this. And when you talk about the upstream from other entities, is that Switzerland? Can you explain where that capital is coming from so that we can be assured that you're not taking surplus from one area to bulk up surplus in another area?

Secondly, on AXA XL, can you talk a little bit about the future of further mix shift that you're going to do? So we've heard about financial lines and some liability lines in the US. Just wondering what further work do you have to do? So at what point should we start to see better top line growth?

And then last point is, I understand a difficult topic, but even if we are convinced that you can pay a dividend, the elephant in the room is whether you will be allowed to pay a dividend. What can you tell us about that? Thank you.

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

Good morning, Farooq, and thank you for your questions. Not easy ones, especially the third one. So on the dividend, the thing which I can tell you is that technically, if I can use this word, there is no hurdle, no constraint. If you look at profitability, liquidity, solvency, there is no technical hurdle. And it's very difficult for me to, at this stage, to comment on any intention or positions from the regulators and especially on the French regulator. It's too early for me.

You just need to understand that we have, I think, a good motivation. We cited to pay part of our dividend this year. And for next year, I think we'll be in the same spirit. This was for your question number three.

Question number one, why? So on the capital increase -- so first of all, we manage internally our capital. It's business as usual for us. And reallocating capital from capital-intensive businesses like G/A business to more technical risk like XL's business is something we want to do in the future. This being said, we have -- the amount I gave, which is around EUR1 billion should be sufficient for us to support the growth, not only this year but next year as well. So this is what I can tell you at this stage, and it corresponds to the guidelines of our risk appetite.

The financing is very clear. It's coming partly from the cash upstream from the other entities, it's coming partly from Switzerland. And you know that because we have restructured our general account business in Group Life. So it's freezed [ph] capital. It started last year. It continued this year, and it will -- there will be a third part normally next year. So this is the second part for this year, which would be paid. And the other one is Japan, which usually pays its dividend in second part of the year. So there is absolutely nothing unexpected there.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Just -- sorry quickly, while you're on that point, you're still not intending to pay a dividend from XL next year in light of this year. Is that correct?

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

Yes. Yes, absolutely. Because XL, you saw at half year, had a negative earnings. So when you have an entity with negative earnings, usually they don't pay dividend the year after.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

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

It's very clear, yes. So on the business mix shift. So you saw our communication on the Lloyd's and -- from the Lloyd's and UK office. We have decided to put enough around half of the financial lines of the UK and Lloyd's business because we think that in the medium term, they will not come back to a level of profitability with enough security, given all the risks we see associated to this business despite the price increases.

It's -- this being said, it's within each subsegment of the Company, we are fine-tuning the approach. So it's not such a radical move, it's more line-sizing. So we already explained that their contract, we don't want to have more than EUR25 million of risk. There were a substantial amount of contracts, which had a EUR50 million of risk. We are increasing the attachment points in excess -- in case of excess of loss. So accounting with a higher retention from the clients.

We are then fine-tuning per geographies, per really contract subsegments underwriting. So it's not that we are changing radically the Company. It's really a mix of stopping, fixing, increasing the different activities in a very, very granular way. And this -- we'll come back to this with much more explanations soon, I would say. So don't worry about that.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

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

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Three for me, please. The first one on your EUR1.5 billion guidance. I mean, I guess, at H1, that consisted of EUR1.9 billion of adverse claims offset by EUR0.4 billion of lower frequency in France and Europe. I'm guessing that both of those numbers have increased a bit, but perhaps you could confirm that. And I mean, I guess what we've also seen so far is more restrictions in Europe where you saw the sort of the frequency benefit. So I'm just wondering if we get more restrictions in the US or if that changes? Is there any risk of -- creep there? Just wondering if you could comment around that. Right.

The second question was on nat cats. And I guess your EUR0.3 billion estimate is a bit lower than last year, while many in the industry have sort of reported slightly higher amounts. And I'm just wondering if there's anything sort of in particular you'd like to highlight there as a reason that, that's come down a bit?

And then finally, just a follow-up on XL. I mean, I guess, post EUR1 billion capital injection, we're looking at a solvency ratio of about 140%. That's obviously higher than it is at the moment, but it's still lower than it has been in the past. I mean do you have a sort of feeling for what level is the right sort of level? Or is that the wrong way of thinking about it? Any light you can shed there would be great. Thank you so much.

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

So hi, Peter and thank you for your questions. Your first question relates to the EUR1.5 billion. And so I think you referred to the mix, and how this mix of claims have evolved between half year and full year across entities. So we always say that there might be some variations across geographies because indeed, you -- we, I think, had some more good news on the retail front, especially in motor in the retail side. And some movements between the geographies, maybe a bit more in France, a bit less elsewhere in terms of claims cost.

I think this is the comments we made already and which revealed true at the moment. The second, but -- maybe if you have a more granular question on this, I'm happy to answer. I just was not sure if I got fully, your question.

The second part, which is related to the nat cat. Obviously, we reduced our market share in nat cat. You remember the -- we have reduced our underwriting a little bit. We have also a quota share of 15% on nat cat. And therefore, our exposure can be considered as reduced by more than 10%. We are -- market share worldwide has certainly gone down from 1.6% to 1.4%, which explains part of the fact that we are a little bit below last year, while one might have expected a higher cost.

Regarding XL, we don't make comments at a granular level on how we capitalize versus the Bermudan regulators' rules. What I can tell you is that we have the same approach across all the countries. We are within our risk appetite framework. And we consider that after this capital increase, we will be at the right level to pursue the activity of XL without any kind of constraints to subscribe more business.

Peter, did I answer your questions?

Q - Peter Eliot {BIO 7556214 <GO>}

Yes. No, that's right. Thank you very much.

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

Thank you.

Operator

Thank you. Next question from William Hawkins from KBW. Sir, please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you very much. Etienne, I'm sorry. I'm going to come back and ask you to talk a bit more about regulatory conversations that you're having. I understand the answer you gave to Farooq. I wonder if you could talk a bit about what you may be hearing from AOPA rather than the French regulator? And also whether you think there's just going to be more nuance in what regulators say going into 2021?

This year, it's been reasonably black and white, hasn't it? Regulators went from saying yes to then saying no to then saying yes again. But when you look at the banking sector, there does seem to be more of a focus of intervening and payout ratios and all that kind of thing. So I'm just wondering if you're having any more nuanced conversations locally, and what you're hearing from AOPA?

And then secondly, please, could you also just update us on any thoughts with regards to the sensitivity to the low interest rate environment? This always feels like old news and then something else comes along. So particularly for this quarter, any important changes to update us in terms of product evolution? I know the general trends towards protection, I'm just asking specifics.

And then even you guys did still have IFRS issues from low yields, thinking of French annuities in the first half of this year. Can you just update us again on whether there's any particular earnings issues we need to be aware of as the low interest rate environment endures? Thank you.

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

Good morning, William, and thank you for your questions. So on the AOPA, I think you know, and you hear a lot of things as well. I'm not sure that I have to comment anything. There are ongoing discussions. Nothing concluding at this stage. I think that you have some -- certainly, the AOPA is on the conservative side. I'm not sure they have changed their position versus the recent months or -- or last year, even. But I'm not -- it's too early for me and too sensitive to comment on any kind of nuances going forward into 2021. I think it's too early, and it would be really a speculation from my side.

So I don't think I am in a measure to comment in a very concrete way on the regulatory updates. I think it's too early and not -- we don't have any hard facts at this stage. Regarding the sensitivity to interest rates, of course, when interest rates go down, you can expect lower investment income. This is very true for P&C, a bit less for life, given the longer duration of the assets, and given our capacity to adapt the crediting rates in most other countries.

However, where you have a good point is that it's true that we are repricing our products in a lot of countries at the moment in order to reduce the level of guarantees, if there are any. And this is an ongoing trend and will continue, including next year. I think there is a real shift in the way the life business is being done.

And coming back to P&C, I think that this is part of the reason why we see as well this price hardening, especially in the commercial lines. There is lower investment income. It has to be offset by a higher technical margin, and this is a sound evolution. Regarding your hint that we might have a big hit on -- there might be a big hit due to interest rates. At this stage, I don't see any reason to have perhaps a specific query on our earnings or more than business as usual.

Q - William Hawkins {BIO 1822411 <GO>}

That's great, Etienne. Thank you.

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

Thank you, William.

Operator

Thank you. Next question from Michael Huttner from Berenberg. Sir, please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

So I just wondered can you give us a little bit of a feeling where the sensitivity lies. Is it just French specific? That's what it sounds like to me, in which case, it really is difficult for French insurers. I'm not sure the regulator understands that. But anyway, that's the main question.

And then on the cash flow, you've given us a few indications on cash. So there's something left in Switzerland. I just wondered if that's the third of the original amount of EUR700 million for next year. And would it mean if I add the numbers in terms of cash flow, we had EUR4.9 billion, I think, at six months. If I add the EUR1 billion we're talking about now, that means EUR5.9 billion. And I just wondered if we could see a similar number for 2021. Or do you think that would be down?

And then the last question, and you alluded to it, is on the reinsurance recoveries. How confident are you or how big is it in your EUR1.5 billion number, EUR1.5 billion number that you (inaudible) to reinsurance recoveries and other discussions around that? Thank you.

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

Good morning, Michael, and thank you for your comment on the good numbers. Good to hear from you.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah. Very fantastic. Really well done. I wish I had the -- your management's -- yeah, it's really good.

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

So your first question related to the regulators again. So first of all, I don't think that it's purely specific to France of -- some other regulators are in the same I would say, spirit, mood or approach. I guess that there is -- it's not specific and it's not specific to insurance. I think that certainly, the French government and authorities are very worried about the economic situation as a whole. And this has an influence on everything. They are worried about the economic situation. They are worried about the sanitary situation. You have seen that the confinement measures are certainly stricter in France, can add Belgium to France as well, than in other countries.

So there is a real concern, a macroeconomic and sanitary concern about the situation. And this has an impact on all the rest, not only on the regulation and insurance. But on the way they see or they want to protect, according to them, the economic sectors. So -- and it's difficult to say much more than this, right? It's really certainly this worry, and we felt that from the beginning, they were really, really afraid. Maybe because French doesn't have a very strong economic culture. I don't know. I let it to you.

Regarding the cash. Obviously, the cash upstream next year will be lower than the cash upstream this year because it's a direct consequence of the level of earnings of the previous year. So if you make the math, obviously, will come to a lower number. On the reinsurance, every time we tell you, we don't disclose the gross and net amount because we are in discussions and I should say, negotiations with the reinsurance companies. So it's a very sensitive information.

What I can tell you, again, is that we are confident with the numbers we have taken into account in our calculations because they are the result of a very fine-tuned and granular approach, taking account different scenarios to ensure that at the end of the day, our amount be fair in any circumstance, and that we don't get a bad surprise at the end.

Q - Michael Huttner {BIO 21454754 <GO>}

That's very clear. Superb. Thank you very much and good luck with the French lockdown.

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

Thank you, Michael.

Operator

Thank you. Next question from Andrew Crean from Autonomous Research. Sir, please go ahead.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, Etienne. Two questions, if I can. Firstly, you're, I think, now celebrating your second birthday of ownership of XL. And throughout that period, nat cats have been above your expected rate. Could you say whether your expected rate is too low? And whether in the next renewal season, you're looking to buy additional covers to reduce the volatility of XL's results? First question.

Second question, I'm going to come back to this question of regulators. You seem not to wish to answer any questions about AOPA or the ACPR, which leaves the investors with a view of deep uncertainty of your 2020 dividend. Are your answers actually merely political because you may have the regulators in the room? Or is there something substantive there? And is there any efforts being made by the industry privately to equalize the playing field between the different national regulators?

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

Good morning, Andrew. Regarding the nat cats, I fully understand the -- your questions because we have been above our budget for the second time. And I think it's a very sensible question you are asking. I don't think that taking more and more reinsurance is the solution because it's very costly. And at the end of the day, this is our -- part of our business model. What I propose is to get back to you to the market pretty soon with some clarification on what it means for us. In the meanwhile, what I can tell you is that when I see the prices -- the price increases we are seeing at the moment, part of the answer is in the price increases we see at the moment.

So on the reinsurance, if you see on average, plus 10%. This covers, of course, nat cat. You will see that there is some correlation between the expenses -- sorry, the claims incurred and the price increases performed. I don't say this is the only solution, but this is part of the solution, and we'll come back to you very soon with more concrete answers on this very important question.

The second question on the level playing field. You know that it has been our wish that there be a level playing field in Europe, which is, I think, common sense. Where there is -- and I think this is not only AXA, this is most of the insurance companies as you hinted. The second wish is that decisions on dividend be made on economic factors. So within -- not capitalizing on the Solvency II framework. And not a sort of approach, sort of, yeah, black or white approach based on macroeconomic factors because we think that it would undermine the credibility of Solvency II, which is a framework which has its disadvantages, but also has the merits of being pretty conservative. And having an influence on the way we manage our businesses.

So I think this is it, and I see a convergence among the various bodies representing the insurance industry, like the PIF, CRO, COO Forum, Insurance Europe. All these bodies going to the express themselves, I think, in the same direction.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay. Thank you.

Operator

Thank you. Next question from Nick Holmes from Societe Generale. Sir, please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. Just a couple of quick follow-ups. Firstly, with XL, do you think it's on track for EUR1.2 billion underlying earnings, if you take out all the bad stuff, the COVID, US civil unrest and the nat cat hit?

And second question is just coming back on the reinsurance protection. Can you remind us what levels you actually have at the moment, if you were to take some -- or if there were to be in the industry, some bad nat cats this year? Thank you.

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

Hello, Nick. Good morning and thank you for your question. So I will not comment just right now on the normalized earnings for full year 2020, I think it's too early. But this is something on which we will, as well, come back to you soon, I would say. But please understand that it's difficult to comment on H2 normalized earnings during -- so right now. Even if your question is absolutely justified, and I would say, if you exclude all the one-offs, we should not be that far away.

Second, on the reinsurance protection, how can I tell you? We have, I think, a very solid protection in terms of high-severity amounts. The difficulty is the high frequency. And this is what's happening at the moment, again. So low to medium events -- medium-sized events. And on this, the only protections we have and which we disclosed in the beginning of the year was to say we have a quota share of 15%, and we have reduced our underwriting. But this does not prevent us from incurring more losses, if there were some more small events, I would say.

And therefore, it's very difficult for me to tell you. Don't worry, the cap is -- there is no cap as such. So we are well protected against very severe events. But you cannot protect yourself against events, which for instance, are below EUR50 million. On this, you just have to live with that, and it's part of the business.

Q - Nick Holmes {BIO 3387435 <GO>}

So it's really frequency rather than severity that you would be worried about. Would that be fair to say?

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

Exactly. And this -- it comes back to the question of Andrew a bit earlier. You have different possible answers. More reinsurance, I don't believe in that, too costly and not possible below certain threshold. Second, price increases for sure, and this is a priority. And there might be other options, which we'll discuss very soon with you.

Q - Nick Holmes {BIO 3387435 <GO>}

That's great. Sorry, just very, very quickly. So with the underlying performance at XL, any quick comments on anything that's particularly good at XL that you can see at the moment? Obviously, you're aiming for a higher-pricing, better-quality business. Any sort of wins that you feel XL is really making at the moment?

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

Yes. Absolutely. I think that -- and again, I think we will be very keen to give you more granularity and more details on XL soon. I would say that, first of all, I reiterate the price increases. When you look -- the amount of these price increases, given the size of our business, if you convert that into earnings impact, it's significant, really significant. You might argue, of course, but this is in response to higher loss ratios, yes. But the price increases are much higher than the loss increases and the loss trends at the moment. And this is certainly going to continue for a while based on what we see on the market at the moment. So we see a very, very favorable tailwind in pricing continuing.

Second, the organization, which has been -- the new organization in terms of accountability, which had been announced by Scott Gunter, quite rapidly after his arrival, I think, two months after his arrival has been implemented and is in place since the end of October. So it took him six months to put in place a new organization, which is a quick. And they are really re-underwriting the way a little bit. I described it earlier, the full portfolio, which is a good sign.

And it's with a quite high level of retention on the portfolios we want to keep and on which we, anyway as well, increase the prices quite significantly. So I think it's -- the momentum is absolutely great, and we are extremely confident that you will see very good numbers next year.

Q - Nick Holmes {BIO 3387435 <GO>}

That's very clear. Thanks very much, Etienne.

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

Thank you, Nick.

Operator

Thank you. Next question from Jon Hocking from Morgan Stanley. Sir, please go ahead.

Q - Jon Hocking {BIO 2163183 <GO>}

Good morning, everybody. I've got two questions, please. Just coming back on to the dividend. And maybe to ask the question slightly differently. You've continued to accrue, mechanically, in the Solvency II numbers for the EUR1.43 that was originally declared for 2019. And obviously, with the COVID losses, et cetera, that's going to result in a payout ratio above the 50% to 60% guidance.

Aside from the regulator, is AXA at the Board level happy with that? And is it sensible to think that you would actually pay a dividend, which is above the payout ratio range guidance given the extraordinary circumstances in 2020? Or is it just that you're mechanically accruing that? So is there any information contrary to that is, I guess, the question.

And then secondly, Etienne, you mentioned that the simplification process is ongoing, and you've had quite a few disposals already. Is it reasonable to think there's more opportunity for disposals as we go into 2021? Thank you.

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

Good morning, Jon and thank you for your questions. To be frank, in the solvency ratio, we apply the formula in a sort of mechanical way. Why? Because at the end of the day, the decision to pay a certain level of dividend is the decision of the Board. And the Board decides and will decide at the end of February. Second, the payout ratio of 50% to 60% is, I would say, a guidance, but it's not a rule we have to abide by, right? It's not any kind of regulation.

So it's there to help. But if in exceptional circumstances, we are free to use another payout ratio, whatever it is, right? And so we are not forced to link it with -- to any kind of rule. So we are completely free.

The second thing is on the simplification. I think you're right to say that the simplification will not stop at the end of this year. It will continue in '21, maybe in '22 as well, and there will be more to come certainly.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Just to come back on the dividend point. So you said in your comments that you're looking it from an economic perspective, so in terms of solvency, cash and, I guess, underlying earnings potential, there's no reason why you wouldn't declare a dividend. So that's the way which the Board will look at it? So the payout ratio is right not to attach to its attention to that. Is that the message? Or am I putting words in your mouth?

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

Yeah.

A - Andrew Wallace-Barnett {BIO 18671460 <GO>}

Maybe Jon, just pose your -- just repeat your question. We just missed it.

Q - Jon Hocking {BIO 2163183 <GO>}

I'm just trying to get with the level of the payout ratio point. So -- because actually, I'm saying in exceptional circumstances, you may want to look for it. But say, as long as the solvency is in the right zone, the holding company's liquidity is in the right place, the underlying earnings capacity is there then it is reasonable to think that the Board might look through the payout ratio. Is that the message?

A - Andrew Wallace-Barnett {BIO 18671460 <GO>}

You mean go above the payout ratio?

Q - Jon Hocking {BIO 2163183 <GO>}

Yes, exactly, yeah.

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

Okay. Now I understand, sorry. Sorry, Jon. Yeah, we think that there are -- there is a good case for the Board to consider going above the payout ratio. But I'm very cautious because the Board decides. We propose -- we make some suggestion to the Board and the Board decides. So we need to be extremely cautious as we think there is a very solid case.

Q - Jon Hocking {BIO 2163183 <GO>}

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

Operator

Thank you. Next question from Thomas Fossard from HSBC. Sir, please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Good morning, Etienne. Two questions on my side. The first one would be on the DPS again. Is there any current thinking within AXA to move to an interim dividend. I'm not saying that if we solve the issue with the annual dividend, but is it something that potentially could be on the card? And are there any regulatory hurdle, if this was your choice to move to this twice a year DPS cash out?

And the second question would be, you're going to have an Investor Day on the 1st of December. Could you shed some light on the -- not on the content, but on the agenda and the topics you're going to present in a couple of weeks' time? Thank you.

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

(Foreign Language) Thomas, and thank you for your questions. On the interim dividend, this is a question we are -- we have sometimes from some investors. It's true that in the current context, it might have helped. We are not there yet. So I think at the moment, really, it's more about the previous questions related to the regulatory environment, which prevail. Once this is clear, we'll have a look again at this question. I already say that it's not a bad idea to have twice a year, but there are some constraints related to that, which we need to clear.

On the Investor Day, what I can tell you is that it's an important meeting for us and for our shareholders. We will address topics, which we think are important to them and to us with certainly an important element on the strategy and focus on some business developments, which matter to all of us.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thanks.

Operator

Thank you. Next question is from Oliver Steel from Deutsche Bank. Sir, please go ahead.

Q - Oliver Steel {BIO 6068696 <GO>}

Sorry. Hello. I had it on mute. Two questions from me. The first is, do you have any extra clarity at this stage about the benefits of moving XL to your internal model? And sort of by early November, one might hopefully you've got a bit of extra clarity on that. And secondly, just going back to the last question. I think Thomas said at the interim results that you weren't intending to announce the three-year plan at the Investor Day. Is that still the intention not to make that announcement?

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

Good morning, Oliver. On the internal model, there is no news, I would say, because our application has been filed as said in August. This is -- the regulators take a few months. So there is no new development, which is good news in a way. Therefore, we expect no surprise for the end of the year. So not much more to say at this stage. And on the Investor Day, I think that I told you everything I could in the previous answer to Thomas, which was a little bit short, I must confess, but reflected what I can tell you at this stage.

Q - Oliver Steel {BIO 6068696 <GO>}

Okay. Actually, can I ask a third question since I'm on, which is that are you able to break down the premium growth in the third quarter at XL between pricing volume and then the actual economic effect of COVID? Because I mean, you've obviously lost some average premium per policy as a result of economic activity declining. I'm just trying to isolate that third element.

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

So I think that basically, the premiums offset the volumes. And within the volumes, what I think is that the -- so if I give you numbers, the pricing effect was plus EUR1.4 billion. The exposure was minus EUR1 billion. And then -- so this is the reduction of exposure to minus EUR1 billion. And then there is some volume decrease related to the COVID-19. So the indexation of our policies on the level of activity of our clients.

So there is a slight positive between pricing and the underwriting and a negative on top of -- related to the lower volumes due to the review of our estimates for the end of the year. I think we gave a breakdown in a precise manner at half year. I'm looking if we have more precision here.

Yeah, so the provision for premium adjustment linked to COVID remains quite in line with the 1H estimate, which was around minus EUR0.9 billion GWP.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you very much.

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

So excluding COVID adjustment, revenues of AXA XL would have been up 7.5% in nine months '20, and plus 4% in this quick Q3.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you.

Operator

Thank you. Next question from Pierre Chedeville from CIC Market Solutions. Sir, please go ahead.

Q - Pierre Chedeville {BIO 15076220 <GO>}

Yes. Good morning. Two questions. First question regarding asset management business. I wanted to know regarding fees that you mentioned increasing by 3%. Is this increase only due to the increase in assets under management? Or if it is also due to a different mix in the products that you have under management, and notably, real assets where you are one of the first in Europe? And I also wanted to know regarding the net inflows. If you disclose part of ESG net inflows for this activity.

My second question relates to your reporting. I was quite surprised to see that for this quarter, you didn't make any comment by countries, but by business line, health protection, et cetera, life, but not by France, Europe, Asia, et cetera [ph]. I wanted to know if it was due to the exceptional period that we are going through.

If you prepare, once again, a change in your reporting and in your strategic view, which would not be anymore by country, but return, I would say, return to the future to the business lines? Thank you.

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

(Foreign Language) Pierre, thank you for your questions. So on the asset management, there is no real business mix shift at nine months. So it's pretty -- the overall assets under management going up. And then on the transaction fees, they are quite -- it's always on the real estate side, that we had some increase in fees. We don't disclose net inflows with ESG, without ESG. We have an ESG policy in our core companies across the board.

Regarding the reporting, this way of presenting is pretty aligned with what we have tried to do in 1H already, which is to have, as a first indication, the lines of business, and then we keep all the split per geographies, mostly in the appendices. And this is in response to some investors' request and especially analyst request to have more simple presentations by line of business to get clarity. If you take, for instance -- we are becoming more and more a P&C company. So when you are a P&C company, people tell you what's your combined ratio.

So starting with the line of business allows us to clarify the big value drivers and then the split per geography is more in the appendices. So the attempt -- and sorry, if we failed, was to give you more clarity with this line of business approach. And then you have all the information per country. And we think that it's easier for the investors to understand our business.

Q - Pierre Chedeville {BIO 15076220 <GO>}

I don't say the contrary. I'm not saying it's not clear. I'm saying that it's a complete change from a previous strategic view from Thomas who wanted to talk about countries and not anymore about business lines. That's what I'm saying, but you can change in life.

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

Okay. I think this is not -- what is true is that we are managing countries. So in terms of empowerment, when you look at the way the management committee is built, you have a CEO, the CEOs are per country and not their line of business. It is completely true, and this is the way we manage the business. However, in terms of reporting, we think that showing the line of business first is much clearer.

Q - Pierre Chedeville {BIO 15076220 <GO>}

Okay. Thank you very much.

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

Thank you, Pierre.

Operator

Thank you. (Operator Instructions) Last question from Michael Huttner from Berenberg. Sir, please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. I'm not going to congratulate you again because you really are doing a fantastic job. But I have two questions. One is, I'm sure you've done it, but when you're speaking with regulators, did you point out that Coface was allowed to do a buyback, and that's quite recent. I know this wasn't a big buyback, but still indicative that -- we were all hoping that it indicated that things were more relaxed?

And then the second, this is a question I have from investors. Next year, so 2021, can we look forward to positive premium growth? I mean, clearly, Q3 growth has recovered in non-life. So I think the figure is plus 2%. And with health, we're plus 3%, Q3 on this year versus Q3 last year. But can you give a feel for how you would see this developing in 2021? Thank you.

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

Hi, again, Michael, and thank you again for the first part of your comments, which are very much welcome. So don't hesitate every time. Regarding the Coface, I think it's a logical step. As you said, it's a very, very small transaction. I think this is a positive signal. But even -- and when I say signal, I hope I'm not exaggerating. I hope it's a positive signal, showing that our regulators can show some flexibility, which I think is great if it's confirmed. It's very difficult for me to comment more than this.

Regarding your second point, which is the business momentum. I would say, in October, we saw a very similar trend as in Q3 when I say -- we saw its very initial forecast. But this gives us a good level of comfort for, okay, what would be a sort of normalized underlying growth trend? Very difficult at the moment to make predictions because as you know, the GDP estimates fluctuate quite a lot. You have different scenarios.

So we need to be very humble with our predictions. But I take the October and the Q3 numbers as -- first in health. Whatever the economic situation, there is a need of the customers, which is not decreasing and there is continued inflation.

So this -- both components show that we should be able to have a positive development over the next years. In P&C, you really have two different markets. I think retail and commercial lines don't behave in the same way. You see that commercial lines are very much impacted by the GDP growth directly. However, the pricing is de-correlated. And I told you a little bit earlier, we see that this price -- hardening pricing environment should continue in '21, maybe not to the same -- at the same level, which is extreme at the moment, but it should remain positive.

The retail is, in a way, indexed as well a little bit on the GDP, but much less than the commercial lines. On this, we see much less price increases. So we think that the name of the game will certainly be on the quality of the underwriting, pricing and the cost reduction.

And on the life, we see that protection. Protection should be at least stable. The savings is much more volatile. But the revenues in savings, the way we have accounted for, make little sense. So it's more the net inflows. And on the net inflows, as you could see, what matters for us is to increase the net inflows on capital-light products and not on the classical guaranteed books. The classical guaranteed books, we are not looking for positive flows.

Q - Michael Huttner {BIO 21454754 <GO>}

Very clear. Thank you very, very much.

Operator

Thank you. There is no more question by phone. Sir, back to you for the conclusion.

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

So yeah. I don't know -- I will be very short, actually. So first of all, thank you for your very precise questions and strategic questions, which are not all easy to answer, but we tried and I tried my best.

I just want to reiterate that we are very happy with our Q3 numbers and especially the stickiness of our clients. It's very important because there has been some noise around the business interruption. I can ensure you that our clients are with us. It's very important. And the quality of the franchise of AXA is stronger than ever.

Second, when we say that our balance sheet is strong, we say we -- it's not marketing, it's based on facts. And the liquidity and the solvency are extremely solid. And you can count on this for -- to stick to that until the end of this year. And we are very happy to, in advance, to interact with you for the IR Day, which will come in four weeks. So very, very soon.

I hinted that we would get back to you with some element of information soon. So I guess you see the link, you are too clever not to see it. And so again, thank you very much for your attendance, active participation and questions, and see you very soon in four weeks. Have a very nice day, all of you.

Operator

Thank you. This concludes the conference call. Thank you all for your participation. You may now disconnect.
