Q2 2016 Earnings Call

Company Participants

- Antoine Lissowski, Chief Financial Officer & Deputy CEO
- Marie Grison, Group Chief Risk Officer

Other Participants

- Michael Igor Huttner, Analyst
- Ralph Hebgen, Analyst
- Rötger Franz, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the CNP Assurances Interim Results 2016 Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Antoine Lissowski, CFO and Deputy CEO. Please go ahead, sir.

Antoine Lissowski {BIO 4384399 <GO>}

Thank you. Hello to everybody. We are here to commence our first half 2016 financial performance, and I will go through the different pages of the document you have in front of you and reporting the page step-by-step.

Then, I start with the page five of the presentation with the key figures for this interim period. The premium income of the company was up by 6.4%. I just mentioned the changes in reported figures and not in like-for-like figures, except when I will explicitly say it.

The new business margin stays at 11.9% now compared to last year's 14.5%. The combined ratio of the company, which is published for the first time in this firm, is at 85.2%, down from last year's, it was at 86.1%. The revenues are at €1.700 billion, and last year, it was €1.666 billion. Then, the change is 2.5% up. Where administrative costs are roughly at the same level as last year, the EBIT now is at €1,280 million, up by 3.6%. The profits – attributable net profit is at €620 million. The ROE of the company is 8.5%, right above last year's. Our consolidated SCR coverage ratio is at 165% to be compared with 192%, which we reached at the end of 2015. The operating free cash flow by share is at €0.79 (2:50), where it was €0.67 last year, and the net book value per share is at €21.5, where it was last year at €21.1.

Then, let's enter into the business of the company during the period, starting by France on page six of the slide show. The premium income of the company in reported figures is up by 9.7% with certain decrease in personal risk and protection business, which stays at €2,128 million, and which is up 14.4% at €11,544 million for savings business.

The proportion of our savings and pension premiums represented by unit-links is stable at 15%, and the personal risk premiums were affected by a change of scope. We extended our business to different subsidiaries of BPCE, starting business with Banques Populaires and Crédit Foncier. And conversely, we sold the business made with La Banque Postale in this field when we sold the LBPP shares. And the global drive of a company in this area of this business is to improve the underwriting results on employee benefit contracts even by giving up some of most costly contracts.

On page seven, you have the vision of new money on the period in France. Just two main elements, the APE margin is now at 8.5% to be compared with 11.4% last year at the same period. This decrease is entirely due to lower interest rates. And it is easy to imagine that with such low interest rates, the APE margins on savings and pension business is, clearly, much below last year's. And the new business value of this period is also down to last year's at €111 million, where it was at €136 million last year. But we have, nevertheless, posted a higher contribution from our operations.

When you see the new money, the structure of sales and the sources of new money on the left of the figure, you see that, globally, we have improved our mix by increasing the net cash flow in unit-links, net cash flow of savings business.

On page eight, you have the views on operating profit, with total revenues growing by 10.4%. If we except (6:44) own fund revenues, which growth is 2.1%, we focus on operational revenues, savings and pensions and personal risk and protection revenues, which were up by 15.5% at €731 million. The administrative expenses are roughly at the same level as last year with €298 million, which results in an EBIT being up by 14.7% at €825 million.

We have also given there a view on our cost-to-income ratio, which is lower than last year's by important margin. We're now at 14.7% (sic) [40.7%] (7:42) in terms of percentage cost to income, where we were at 43% last year and above 44% during the years before.

If we now turn to Latin America on page nine, we see the structure and the amount of premium income. Here, it is justified to take into accounts the like-for-like figures, because major difference between reported and like-for-like figures resides in changes in the value of Brazilian real. And of course, regarding the premium income, it is fair to look at them in like-for-like figures.

Then the growth was 11.6% and this growth was very high in personal risk and protection business with €914 million, up by 13.8%. And also important, but less important growth in traditional savings and pension business, which represents the majority, more than 50% of the sales with just about €1 billion.

If you look at APE margins, we have slightly the same APE margin as last year. The new business value is very similar as well to last year's half of the 2015 year last year. And it is a reminder that the Brazilian insurance market growth was up by 5.5% over the last 12 months, where Caixa Seguradora recorded 0.5 point increase in market share in the first half to 5.9% in terms of market share.

If we turn to page 10 with EBIT performance in this area, it is very strong in spite of negative currency effect. If you look at the like-for-like figures, we have the growth by 7.4%. And you see there that this growth is mainly due to our personal risk and protection business, which grew consistently.

The administrative expenses are very well under control. We have shown there that the cost of – adjourning (10:47) digital subsidiary in Brazil was taken into account. It represents €9 million to be included in the global cost of administrative expenses in Brazil, which are at €76 million reported. And the EBIT stays at €508 million in like-for-like figures, and in reported €397 million, which represents, for like-for-like figures, a growth of 7.7%.

If you look now at European business from page 11, the European premium income is roughly the same as last year, just above €2 billion with APE margins staying at 17.30% and the new business value slightly up at €33 million to be compared with the €27 million of last year. There what is important to underline is the very strong performance of CNP Santander Insurance, which premium were up 33.6% in first half of 2016.

On page 12, you have different figures regarding the revenues in this area, which are up by 32% in like-for-like figures and 15% in reported figures. The administrative expenses were also slightly up, this growth being due to reorganization costs of our activities in Spain after the sale of Barclays Vida subsidiary, and EBIT of a company being, in reported terms, up by 29.5% at €58 million.

I do not come to the page 13. I jump on it, because it just remind of different figures, which were already commented. And now, I invite you to go to the page 15 with different financial elements regarding the business of a company with the level of EBIT indicated, €1.280 billion. We have also to take into account slight growth of financial cost, which is attributable to the higher volume of subordinated debt we have to remunerate. The tax is slightly up, but the average tax rate is the same as before. In fact, there was a slight decrease of tax rate in France, yes, yes (14:14), and a slight increase in tax rate in Brazil, but non-controlling interest are below. Of course, it is mainly due to changes in consolidation perimeter of a company.

The recurring profit then is at €600 million, €599 million, in fact, with a change of 10.3% in reported figures and 18.9% in like-for-like figures. It is, obviously, a very good performance if you take into account the shaken environment in Brazil, on one side, and the very low interest rates and the impact in Europe, on the other side.

Then the group results, net recurring profit is up. If you look at the lines below, you have a much lower contribution of realized gain on equities and fair value adjustment. This is due to the level of realized gain on participations, which were sold – which is much lower than last year. Last year, we sold, for €232 million of a gain, the subsidiary with Barclays. And this year, we sold only the part of our subsidiary, LBPP, the La Banque Postale, which brought only €161 million as indicated below. And added to that, we have had a negative impact of fair value adjustment in 2016, where they were positive last year.

Then, the non-recurring items offset this difference. And we have non-recurring item of €67 million. These were allocation to the provision pour excédents, the PPE of CNP, which is lower than last year's €216 million. Then, all that results in an attributable net profit at €620 million.

I was mentioning the PPE. The policyholder surplus reserve at the end of June is at the level of €7.9 billion. It represents 3.4% of technical reserves, in fact, 3.36% of technical reserves. And it seems to us important to have this increase.

If now we turn to the page 16, you have a view on the operating free cash flow and the way it is made up. During the first half of the year, we have made an operating cash flow of €541 million, which is to be compared with a global operating to free cash flow of the whole last year, which was €955 million. And these €541 million are also to be compared with the cost of the dividend of the company last year, which was slightly at that level or even below that level. That means what – that means that, clearly, there is no problem of creating cash flow at the level of company, and we will be able, at the end of the year, all things being alike, to pay correct dividend and to make additional investments.

One of the issues of the period, in page 17, is clearly the investment strategy we can have at the level of the group. On the left of the slide, you have allocation of new investments made during the first half of the 2016. You see that we allocated 71% of the investment to bonds. And on the right of the slide, you have the split of these bonds between the different categories with sovereign bonds made on longer duration, but with relatively low yield with banks' bonds bought at the duration of the maturity between seven years and eight years with higher return, and corporate bonds with lower maturity and a return of 1%. All in all, the average reinvestment rate in this period was 1.1% in Europe.

To continue on the left of the slide, you see also that we made an important development in property and infrastructure investments, which part of the investments is 12%. It is twice – more than twice the part of this investment in the outstanding assets of the company, durable (20:02) assets of the company. Then we are in process of increasing the share of these categories of investments in our assets. And it is the same for private equity with 6% of our new investments. We are much above the allocation in terms of amounts which is at 1%.

Now, I give some explanations or details on that on page 18. Just to underline our efforts to diversify the asset allocation of the company, we continue to invest in equities. But clearly, we have decided to focus a part of these investments in more defensive stocks with low volatility equity funds, funds hedged against falling (21:01) stock prices, convertibles and using also options – long-term options in order to protect the balance sheet of the company in case of a negative move of the market. And we are refocusing our investments from the U.S. stocks, which seemed to us relatively expensive now, in favor of European stocks with higher relative valuation. When the slide was made of European stocks, we're encompassing UK stocks.

Regarding private equity, and we have an over-investments in non-listed assets. You have the amount of our investments in real estate, in infrastructure and private equity during the period. We've also the figure of the IRR, on historical average IRR in the portfolio of CNP. It just a way to remind people that we have a longstanding policy of diversifications and that we consider to have accumulated now a sufficient experience in these different categories of investments to be comfortable with very important amounts of investments, which we make nowadays in this categories of assets.

And to finish with the asset allocation, we have 67% of assets in cash. It is clearly due to market volatility, to our unwillingness to invest quickly in bonds, to the difficult to find with a correct return the diversification instruments, which can offset the Solvency II cost of capital attached to these categories of investment, then we assume to have a high part of our assets in cash in a period where investment is under such culture, in general.

Now, on page 19, I come to the Solvency II coverage ratio. Our SCR coverage ratio is now at 165%. It used to be at 192% at the beginning of the year. When you see how it is made up, you immediately realize that the eligible capital decreased by roughly €2 billion and that SCR increased by roughly €1 billion. These two moves are mainly almost utterly attributable to the decrease of interest rates. This decrease has two consequences in terms of the model.

The first is that value of in-force is decreasing as the value of future results is clearly lower than expected when the higher – when there were higher interest rates. And SCR, the net – SCR, net of taxes, is of course increased because the deferred taxes on the future results are reduced. And as it was net of deferred taxes, where SCR – apart the allocation of the assets themselves, the net SCR is increased.

Then, this coverage ratio of 165% is the result of different sensitivities. I remind you that we have published in February the sensitivities of this SCR. We have immediately said that this ratio, which was at high level, would be very sensitive. It is the case. And we can analyze the decrease of 27% of SCR coverage ratio as a combination of the two sensitivities, which we had published. 20 basis points are attributable to decrease in interest rates and 4% are attributable to decrease – to the value of equities – volatility in equities.

Then, there is no surprise from our side in this interest ratio, and we consider that it doesn't inform, particularly on a different structure of the company, of increased risks. The risks are the same. The environment is different.

Now – and it is the last page of the presentation. I come to the adaptation to the inflation-free environment. We here wanted to just to show few elements, to show the high resilience of the company in this environment. First, the very low level of the yields guarantees on in-force and on new business now. If you look at the in-force business at the end of half year, we had a yield on fixed interest rates assets, which stayed at 3.31%.

And the guaranteed yield represented the cost of 0.45%. Then the margin between the yield on fixed rate assets and the guaranteed yield is still very high for the company.

And what is more interesting is that the new business margin is also existing, of course, at a different extent. The yield on fixed rate assets, which we have bought, 114% (sic) [1.14%] (27:35), it is the figure before, is much higher than the guaranteed yield we have now collecting, which the guaranteed yield is below 1 point – 0.5% (sic) [0.05%] (27:50) that means that there is almost no guaranteed yield in the new business underwritten by the company, and that even very low yield on the assets invested during the period doesn't jeopardize the model and the risks of the company in short term.

And the last element is the growth in policyholders' surplus reserve. I already mentioned the extent of this policy or (28:25) the surplus reserve. And we just underlined the fact that when you look at this figure, you have to think in terms of how many years of policyholder dividend can be paid by this reserve. Of course, when we were at the end of 2015, the average rate of the market, the policyholder surplus dividend of the market at that time, was about 2.3%. And the policyholder surplus reserve of CNP, which was around 3%, was representing one year and a half, roughly, of policyholder surplus dividend.

Now, with €7.9 billion and 3.46% of mathematical presence (29:18), we are much above expected policyholder dividend. Expected means that we think that it should decrease more dramatically than last year, and we have indicated the French investors and the French market that we anticipate to decrease it more, the policyholders' surplus dividend, to decrease it more than last year. Last year, the figure was a decrease of 30 basis points. We think we will do better this year in order to preserve and protect the balance sheet and the capacity to have returns on long term.

Okay. Now, I am at your disposal, with all my colleagues, which you cannot see, but we have very prestigious and numerous people around this table. And I will be very happy to give them the floor to answer to your questions.

Q&A

Operator

Thank you. Our first question today comes from Michael Huttner of JPMorgan. Please go ahead. Your line is open.

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

Fantastic. Thank you very much. I listened with the interest also the French – the webcast. There was one point from Solvency II, and a mention was that you would consider using negative interest rates in the modeling of Solvency II going forward. And I just wondered whether you had an idea of the sensitivity, which this would introduce to the calculation. That would be my first question.

And then, the second is you mentioned – although your CEO and, I think, you also mentioned the potential desire to cut policyholder crediting rates in this company. And I just wondered what is the figure you had in mind and what it would do to the metrics? We see the IFRS metrics. Would it have any impact at all? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Michael, on the first question, it is a right question that we have no negative rates in our models so far, and we are committed to different stakeholders and to auditors to use negative rates in the modernization (32:02) at the end of 2016. Then, it is a commitment I take to you to provide you with the figures including that. And of course, I cannot so far elaborate on the sensitivity on the figure, which I do not know now. But it is clearly the next technical challenge for a public company to redesign some of our models in order to be able to take it into account.

On your second question, what we have in mind, if you've heard well what the CEO of the company has answered to that question, the answer was clearly we have nothing in mind precisely. We are just saying that it would be necessary to decrease more dramatically and more significantly the dividend, the policyholder dividend, this year, and the fact that the 30 basis points of last year would not be enough.

For the rest, it is a message we are sending to the market, first, that clearly the CNP in itself is not at danger in the current environment. And I think that the level of our reserves with yield guarantees and so on are absolutely not difficult. But what we want to send as a message to the market, of which we are one of the major actors, and to our different partners is that it is not reasonable in an environment with no inflation to continue to pay more than 1.9%, as it was the case before. Shall it become 1.4%, 1.5% or below that, I don't know so far. And we have a whole process of negotiation with our partners before this figure is decided at the end of the year.

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

Thank you. And just a quick follow on, and I'm sorry (34:21), you said – at what stage should we become more concerned about the potential impact on the dividend of these low interest rates?

A - Antoine Lissowski {BIO 4384399 <GO>}

The impact on which dividend?

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

Your dividend. Your dividend.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, usually, when I am asked about dividend in December or January, I'd say, okay, let's wait for general assembly with the board and so on. But in July, clearly, my short view is simply to go on holidays tomorrow. The question is clearly (35:03) not in my mind.

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

Okay. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Let me advise you to do the same. Don't worry about the future.

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

Okay.

A - Antoine Lissowski {BIO 4384399 <GO>}

Life insurers are there to worry for you.

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

Okay. No, I understand. No, that's super (35:19). Thank you.

Operator

Our next questions today comes from Rötger Franz from Société Générale. Please go ahead.

Q - Rötger Franz

Yes. Hello, everyone. Just a couple of questions also to your Solvency II ratio, especially as it declined 27 percentage points. You said that you're going to decrease the policyholder crediting rate that will support the Solvency II ratio. But can you give us some kind of sensitivity of the Solvency II ratio to the change in the policyholder crediting rate? And are you considering any other countermeasures to support the Solvency II ratio? And also, what would be the level where you would get a little bit uncomfortable with the Solvency II position?

And, finally, after the – or can you give us an update on the Solvency II sensitivities? I remember, in the full year earnings conference call, you mentioned the convexity in the sensitivity of the Solvency II ratio. So, it would be good to have kind of an update. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. I give floor to Marie Grison on that topic.

A - Marie Grison {BIO 15895562 <GO>}

Okay. On the impact of decrease of policyholders' dividend and potential increase of reserve on that, yes, more reserve has a positive impact globally on the coverage ratio. But the exact impact depends on the environment condition. So, we don't have a precise sensitivity to give to you.

On the global issue of sensitivities, the fact is that there is some convexity and cause (37:12) effects on sensitivities and also on the shape of the curve. And clearly, one can understand that when you have lower interest rates, your sensitivity is bigger because you're more near to the integrated options in the models. So, that's what we can answer on that.

A - Antoine Lissowski {BIO 4384399 <GO>}

We will update the sensitivities for the annual publication, but we do not update them now.

Q - Rötger Franz

Okay.

A - Antoine Lissowski {BIO 4384399 <GO>}

And regarding are we comfortable? Yes. We are very comfortable with the present level of Solvency ratio.

Q - Rötger Franz

But where is the level where you get uncomfortable with that?

A - Antoine Lissowski {BIO 4384399 <GO>}

Do you imagine us to become an uncomfortable?

Q - Rötger Franz

So, would you still be comfortable with a Solvency II ratio of, let's say, 140% or so? How far down would you go before taking decisive measures?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, when we depict what we are doing on our business, on crediting rates and costs and so on, it is just a strategy, which is consistent with the idea to maintain the safety of the company on long term, the economic safety of the company of long term. In other terms, we are not managing the ratio for the ratio. We are managing the business model of the company in order to provide the customers and the investors with a very solid and long term company, where the question of managing the ratio in itself is really completely secondary from our point of view.

What is important is that the ratio is completely under control. What is measured at the ratio level is what could have been expected using the existing sensitivities which we have published three months or four months ago. Then, so far, the system works as we expected, and we control and we completely are consequent and consistently comfortable with the way it works.

In other words, for us, one part of the problem, the major part of the problem, is economic model which is clearly moving from the former model completely concentrated on traditional savings to more diversified model that is at work. And the second problem, which is completely minor, is to manage the Solvency ratio and it will be done by different elements, but we've no specific concern from our part.

Q - Rötger Franz

Okay.

Operator

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

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yeah. Hi, guys. Ralph Hebgen from KBW. Two things. First is the revenues on the own funds backing shareholders' funds and a proportion of BPCE. I was wondering, I believe, within that is also realized capital gains. And I was just wondering whether you can give us a feel of how much that was or, perhaps, about your philosophy of gains harvesting this year versus last year. It is, I think, common to be opportunistic, of course, in this. And sometimes you would focus most of the gains of the year in the first half of the year, sometimes in the second half of the year. So, some color on your thinking there would be appreciated. So, that was the first one.

And the second question relates to the Solvency II ratio as well. And as a follow-up to what we just heard, it would still be interesting to explore whether you have like a view relating to certain levels of solvency below you do not wish the Solvency II ratio to fall. And what you would do at levels above certain upper band. So, what I'm saying is many of your competitors have this kind of disclosure. If it falls below X%, then we will protect the ratio; if it goes above Y%, we will do something with the surplus funds. So, maybe some interpretation of that as well. Thank you very much.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. On the second question, I'm sorry I cannot add very many things to what was already said. I think that we will do something if we reach 100%. It is possible to do something if we reach the 100%. For the rest, when we discuss Solvency ratio at the level of audit committee of board of the company, there is absolutely no concern raised by anyone on that. Management explains more precisely when it can do it to all the investors how this ratio is moving and what our view is on that. And nobody is worried at the end of terms (43:17). Then, in fact, wait, the 100% in order – until we start to react.

Regarding your first question on the own fund return, I read some things you have written about that this morning. I want to be very clear. We have – with this own fund contribution, we have a target, which we set at the beginning of the year, compounded with a return on the different categories of assets, return of bonds held in these portfolios and the returns on different other (44:01) assets and capital gains program.

These different programs are not modified so far, and we have been optimistic in terms of market timing of different realization of capital gains. But we have not deviated from our budgetary target on that respect, either on the target of global contribution of this compartment of reserves (44:35) or the way it will be made. Meaning, the part of capital gains which have to be included to do that.

Then, this management is, I would say, more than the others even, completely centrally held by the company, driven by the company. And we will be exactly where we want, and it is not an issue so far to – current level of the markets at least, it is clearly not an issue. The own fund management is not under pressure for the year. It is clearly an issue as for the rest of the investments to know how to manage the asset allocation of that part of our balance sheet for preparing the future, but it is clearly not an issue for 2016.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. So, thanks very much. Just to clarify what I meant by this, it is of course entirely legitimate to look at the performance of investments and then decide, in light of what you see, how much capital gains to realize at the given time. I was just wondering how this compares with last year where I believe that you realized more of the yearly gains harvesting in the second half than in the first half. That's all I had in mind.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, to be frank, I have not in mind specific move between the two half years, last years. I will check it and we will write an answer on the website if – just to compare the amount of capital gains which were made at the first half and second half. But I have no figures in mind and I don't want to misinform you now.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you very much.

Operator

As there are no further questions in the queue, I would like to turn the – pardon the interruption. We do have a follow-up question from Ralph Hebgen of KBW. Please go ahead, sir. Your line is open.

Q - Ralph Hebgen {BIO 6297020 <GO>}

I'm sorry, it's me again. There were two other things on the Solvency II ratio, which I wanted to ask you about. The first one is just in confirmation. I believe you issued some debt at the start of the year to refinance maturing debt, which comes out at the end of the year. So, I believe it is correct to then say that, currently, your level of solvency is supported by the, let's say, temporary presence of sub-debt in the eligible own funds. And I estimate that to be an equivalent of 70 (47:49) percentage points. So, would you be able to confirm that indeed...

A - Antoine Lissowski {BIO 4384399 <GO>}

Ralph, I confirm this decision (47:58)...

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay.

A - Antoine Lissowski {BIO 4384399 <GO>}

Your figures are right.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Perfect. And the second thing I wanted to just ask is, are you now matched from perspective of duration?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, we have...

Q - Ralph Hebgen {BIO 6297020 <GO>}

Or (48:19) duration gap?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, we are monitoring the duration gap at the level of the risk group. We have a risk committee at the level of CEO of the company, and we have had a look on the duration gap during one of last meetings of these groups. And we are correctly hedged in the different compartments of our activity. Then there's no specific issue on the hedging of duration of losses and liabilities. And it is clearly a source of, I would say, of work. Why? Because under Solvency II, as you know it well, there is a cost, if you are not correctly hedged on this respect. And we are monitoring it closely and it is – we're correctly hedged and there is no specific concern about it.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Many thanks. Thank you very much.

Operator

We will now take another follow-up question from Michael Huttner of JPMorgan. Please go ahead. Your line is open.

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

Thank you very much. Just on the duration, just want to follow up. I heard – from the French conference call I was listening, I heard the asset duration, I think the figure was five years or six years. The feeling I had was at the liabilities duration, and I know it's difficult to calculate because there's no – then you have to assume how policyholders behave, is a little bit longer. Is there a figure somewhere where we can say, well, it's more than the figure you've previously published or less than the figure you've previously published? Just to get an idea.

And the other question – and it's really kind of fishing on the dark here, I think last year or two years ago, there was – the question was at what stage you would renegotiate the distribution agreement in Brazil? And I just wondered what the mechanics of that would be when it could happen, and it would stay, so we can start considering what the amounts might be?

A - Antoine Lissowski {BIO 4384399 <GO>}

Could you remind me, your first question was about?

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

The first one is has there ever been a duration number published and can you say whether we're now bigger or smaller. And the second one is about Brazil and the negotiation with the distribution.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. Regarding the question of duration gap, well, it was clearly a sort of misunderstanding between what was said this morning with – what was said this morning. Then we checked the things, and my former answer was, clearly, the outcome of this check. When I say that we are comfortably hedged in terms of duration, it is after having checked the different figures, which were mentioned this morning. Then, I confirm that the sensitivity on the savings business is very close – the asset sensitivity and the liability sensitivity are very close to each (51:49). Regarding Brazil, there is, in fact, nothing specifically new in terms of this negotiation. We have received a visit of a new CEO of our Brazilian partner. It is the first time he paid a visit to CNP – any (52:12) CEO of Brazilian group pays a visit to French CNP, when he is appointed.

He was there in Paris two weeks ago just for one meeting. And he said – he told us that he was very interested to discuss with us in due time – we don't know when this time comes, but in due time – to envisage the extension of our partnership on long term. It was purely political message without any technical or financial over specific messages. But the fact that he provided it in Paris in the course of a specific travel was in itself interesting.

For La Banque Postale (53:10) just a thing. This new CEO of Caixa Econômica Federal knows pretty well the insurance subsidiary, which we have together, because he used to be, at the Caixa Econômica Federal, manager of one of the regions of Brazil. And as – in his tenure, he won prize as one of the best sellers of life insurance contract, and he traveled in France at the expenses of our company. He spent a week a few years ago in France. It was his only week in France as head of one of the most efficient commercial divisions of Caixa Econômica Federal.

Then he has a good taste of what the corporation with the French company can bring. I think he was involved doing (54:17) something like that, and he seems to have kept a very good souvenir of this corporation.

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

Brilliant. That's Excellent. That's helpful. And then the last – and I wonder if you – and this is really theoretical, but I was looking at the websites, Googling in general. I'm trying to understand how the – if you were to reduce the policyholder participation significantly, where does that money go and how does one calculate it? My colleagues here, when I said, oh, this is what they're mentioning, they said, oh, you can't do that, it's not discretionary. And I said, no, no, it's not discretionary, there's a rule. But then I didn't know what the rule was. I thought it was 85% or something, but then I got lost. I just wondered if you can explain how this kind of transfer works.

A - Antoine Lissowski {BIO 4384399 <GO>}

Under the current regulation, this money goes to the PPE – the excess, which is kept, goes to the PPE, I mean, under the current regulation, because if the regulation was to change, money could go in another provision or something like it, but it is not existing now. And why I do mention that? Because we are lobbying on the idea that the PPEs or another provision should be used to help our customers to choose our products by paying an extra return on other producers, which are of more interest and more value for the customers and for us on long term.

But under the current regime, all the moneys go to the PPE. And after the PPE has been used to pay the current contracts of the company or at least the contract, which exist when the PPE is taken back by the customers, which are the customers of this contract. What we are trying to obtain is a possibility to transfer this excess money, kept by the company, to consumers, which accept to have longer contract or more risk or something like it. But it is just a wishful thinking of a lobbyist, I mentioned now, and it is not a regulation, which is already existing.

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

Brilliant. And the rule for general allocation is 85% of the financial income.

A - Antoine Lissowski {BIO 4384399 <GO>}

Yeah.

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

Okay. Noted (56:56). Super. That's very helpful. Thank you very much.

Operator

We'll now have an additional question from Ralph Hebgen of KBW. Please go ahead. Your line is open.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Hi. Me again. Just one last thing, could you update us on the development in Brazil relative to the planned IPO? Is this back on the table or do you know whether it will be back on the table by the end of the year?

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, we are condemned (57:31) to read the Brazilian press and the public issues made by different officials. And we understand that the intent to do something in terms of privatization and that our business from their point of view is among those who could be privatized, partly privatized at least. But so far, we have not started to make any diligence in order to make it possible.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you.

Operator

As there are no further questions in the queue, I would like to turn the call back to speaker for any additional or closing remarks.

A - Antoine Lissowski {BIO 4384399 <GO>}

Well, thank you to you for all the different question and your interest to our company. I hope to see you in September in different opportunities, and I wish you to spend a very nice holidays for those who take holidays and for those who work in UK, no holidays. Thank you. Bye-bye.

Operator

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