Q3 2021 Sales and Revenue Call

Company Participants

- Alban de Mailly Nesle, Group Chief Financial Officer
- Andrew Wallace-Barnett, Head of Investor Relations
- Frederic de Courtois, Group Deputy Chief Executive Officer

Other Participants

- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Dominic O'Mahony, Analyst
- James Shuck, Analyst
- Louise Miles, Analyst
- Michael Huttner, Analyst
- Oliver Steel, Analyst
- Peter Eliot, Analyst
- Thomas Fossard, Analyst
- William Hawkins, Analyst

Presentation

Operator

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

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Thank you and good morning everyone and welcome to AXA's conference call on our nine months activity indicators. I'm pleased to welcome here with us this morning, Frederic de Courtois, AXA Group Deputy CEO; and Alban de Mailly, AXA's Group CFO. They would take you briefly through the highlights of both of last night's press releases and then they will be both happy to take your questions.

So to start things off, Frederic, I hand over to you.

Frederic de Courtois {BIO 16976110 <GO>}

Thank you, Andrew. Good morning to all and thank you for joining us for fiscal. I'm very happy to be with you today, and I would like now to briefly comment on the releases from yesterday evening. Starting with the nine month activity indicators, as you've seen, AXA delivered again a very strong performance. Total revenues increased by 7% year on year. The growth dynamic we have seen since the start of the year is continuing across all business lines and geographies. In particular, commercial lines revenues increased by 7% in a continued favorable pricing environment. Our Life business remains very strong, up plus 12% with a high quality mix. Health grew by 4%, and Asset Management performed extremely well up 17%. Our balance sheet continues to be very strong with a Solvency II ratio at 214%.

Alban will go through the results in more detail in a moment. As you saw, we also announced yesterday the launch of the EUR1.7 billion share buyback program, which is expected to start around November the 8th. It reflects the strength of AXA's balance sheet, notably very strong capital and liquidity positions and demonstrates the Group financial discipline. It is also a reflection of the confidence we have in our business profile, strategy and prospects. On top of this, in line with our commitment during our 2020 Investor Day, we intend to launch a further share buyback program for up to EUR0.5 billion next year to offset earnings dilution from the disposals announced after December 1, 2020. So disposals include Greece, Malaysia and Singapore. The Solvency II impact of these two share buyback programs should be a reduction of roughly 6 points and 2 points respectively.

Overall I am very pleased with the performance of the Group, as we are delivering on our strategy. The Group is growing with the very high quality mix, business mix and we remain very focused on achieving strong technical performance. Also and very importantly we can expect -- you can expect us to remain disciplined in terms of capital management, including further life in-force optimization. The environment is conducive for these transactions. And this is a strong focus for us as you know.

Thank you very much. And I now hand over to Alban.

Alban de Mailly Nesle {BIO 20387796 <GO>}

Thank you Frederic. And good morning to all.

So I will now run you through the key figures of the release, which as you have seen are very strong across the board. So starting with P&C. Revenues increased by 5% with a strong performance in commercial lines up 7%. And personal line revenues were stable. In commercial lines, we saw a strong performance in both AXA XL and in France. And if we look at AXA XL, the price effect on gross written premiums was plus 11%, reflecting strong price increases on renewals, plus 15% in insurance and plus 9% in the reinsurance. Those levels are broadly in line with the first half of this year. This was partly offset by exposure reduction as a result of our continued portfolio re-underwriting. And overall AXA XL revenues grew by plus 6%. France is also performing well, up 12% also from higher volumes and favorable price effects. In personal lines revenues were stable. We are seeing good growth in non-motor across all our geographies. And in motor pricing is fairly stable overall, which is a good achievement given the current context.

As you've seen the third quarter has been another active net CAT quarter for the industry as a whole. We have indicated a preliminary estimate for Hurricane Ida of around EUR0.4 billion at AXA XL before tax and net of reinsurance. This corresponds to roughly 1.5% market share for AXA XL, at the bottom end of the typical 1.5% to 2% range, and reflects the impact of measures taken to reduce CAT exposure over the past years. Regarding the European floods that we had in July, there has been some upward revision in insured loss estimates across the industry. At AXA no change on the primary side as the higher gross losses are covered by our reinsurance protections. But we've seen some increase at AXA XL Re. But overall, our estimated impact remains unchanged at EUR0.4 billion before tax and net of reinsurance.

Now moving to the other lines of business. In health, revenues are up 4% with a good performance in Group business up 5%, notably in France from higher volumes as well as continued growth dynamics in Mexico. And in individual health, revenues are also growing up 3% notably in Europe. Now moving to Life & Savings. So there again the performance in Life was very strong and with a high quality business mix. On the revenue side, Life & Savings is up 12% driven notably by France and Asia. And if you look at net inflows, the business mix remained very favorable with strong inflows in protection at EUR2.9 billion, unit-linked and GA capital light combined at EUR3.3 billion and outflows in traditional GA savings of minus EUR4.1 billion. France continues to deliver very strong results driven by individual savings business. We recorded strong sales in unit-linked, notably in individual retirement and Eurocroissance capital light products.

Group business sales were also up in the third quarter notably from a large GA capital light contract. In Asia, Japan and Hong Kong also continued to perform well with a strong focus on a high quality mix, notably in protection and GA capital light. Finally in Asset Management, AXA IM recorded a revenue growth of plus 17%, driven by higher management fees, linked to favorable market conditions, strong inflows and an improved business mix. In the first nine months we recorded EUR13 billion of net inflows at AXA IM, notably from third-party clients in both core and alternatives.

Now moving to Solvency II. Our Solvency II ratio stands at 214% at the end of September. This is a very strong level and it represents an increase of two points since half year. This improvement versus half year reflects a positive operating return net of accrued dividend, slightly more favorable market conditions and a plus two point benefit from our reinsurance transaction in Hong Kong. And this was partly offset by an increased exposure in private equity.

So to conclude, the full message I want to leave you with. One, we are delivering strong and disciplined business growth. Second, the pricing environment in P&C commercial lines and notably at AXA XL remains attractive. Third, our life business mix is a very high quality and we are focused on accelerating our in-force management actions. And fourth, our balance sheet is very strong and you can expect us to remain disciplined in terms of capital management.

So we are now happy to take your questions.

Questions And Answers

Operator

Thank you. (Operation Instructions) The first question comes from Peter Eliot from Kepler Cheuvreux. Sir, please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I had three questions please. Firstly, thank you very much for the good news and especially on the share buyback. I was very interested in your comment Frederic also on the sort of possible further actions in respect of life in-force actions. I'm probably being very greedy here, but I'm just wondering whether at some point we might -- you might look at sort of formalizing a capital management policy on back book deals in the same way that you have on disposals, but maybe one for a later date. But I'd be interested in your thoughts.

Secondly, on the affordability, you mentioned the strong solvency and cash flexibility, I mean, I guess on the cash side, you were expecting to end the year above the top of your target range, but probably not EUR1.7 billion above. So I'm just wondering if you could sort of update us on your thoughts now about sort of how comfortable you are being at various points in the range or what's the other moving parts that we don't know about.

And then finally, you were quoted yesterday, I think of saying EUR1.2 billion for XL is still achievable this year. I was just wondering if you could clarify what assumptions you -- what that assumes in terms of sort of claims from now to the end of the year or maybe to put it in another way, what would need to happen for you not to be able to achieve the EUR1.2 billion. Thank you very much.

A - Frederic de Courtois {BIO 16976110 <GO>}

Thank you, Peter. I'll take the first one and I'll leave the two following ones to Alban. So on your question on life in-force and capital management policy. First our capital management principles have not changed. And just to remind you what the principles are, you remember that we have committed to compensate for the dilution of EPS in case of disposal. And this does not include the in-force actions. And we've also committed to benchmark and challenge any potential acquisition against a share buyback, and this remains valid.

Sayings fees, we are committed to very high discipline in the way capital is deployed. And I think that today's announcement is a proof of this. More specifically on in-force actions, I confirm what we have -- what we had said during the half year accounts, the environment is good for this kind of project. And we plan to be more ambitious on this front. But of course it takes time, you know that kind of operation usually takes 18 months to complete. So we will see. But again, we are committed to be more ambitious on this front.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

Hello, Peter. Also on your second question, on the cash, as you pointed out at half-year, we were above the upper end of our range. Since then we've had good remittance and we expect further good remittance by the end of the year, plus as you are fully aware, the proceeds of some disposals, obviously the share buyback will reduce that cash amount at the end of the year. And we will fully update you in February with the full year -- with the full year results. But good cash position overall.

And on the EUR1.2 billion, so yes, we said that yesterday at the press conference. The major assumption is that the fourth quarter does not include a major cap or several large caps at AXA XL. That's the major assumptions to achieve the EUR1.2 billion overall for AXA XL. I just want to give you an update for the Group of where we stand versus our Cat aggregate protection. We are EUR50 million away from the attachment point of that aggregate protection. And you will remember that there is a EUR50 million deductible, so it would take EUR100 million cap to start biting into the Cat ag. We also remind you that it's a EUR650 million capacity placed at 68.5%.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great. Very, very helpful. Thank you very much.

Operator

The next question comes from Andrew Sinclair from Bank of America. Sir, please go ahead.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Morning. And thanks everyone. And as Peter said, great to see the capital return today and (inaudible) rightly rewarded in the share price.

Three from me. Aggregate reinsurance cover, I guess I apologize if -- sorry, disposals -- sorry, I mixed up. Sorry, disposals, I just wonder if you can give us an update on where we are in the disposal processes for Malaysia, Singapore related to the buyback and also for AXA Bank Belgium? Secondly was just on reinsurance protection, you said for the European storms you got some reinsurance protection there. But can you give us an idea of Hurricane Ida as well, how much protection could you see specifically on that and how much protection remains for the European storms as well. And just on the -- thirdly just on the exposure reductions in XL, it does feel every time we -- you report that you've reduced the property Cat exposure further in XL, just wondering if you could give us a bit of color on how much lower that exposure is today than when XL's was acquired and how much further you feel you can go in that exposure reduction? Thanks.

A - Frederic de Courtois {BIO 16976110 <GO>}

Thank you Andrew. I'll take also the first one on disposals and let Alban on the two following ones. So on what we have in the pipeline, on AXA Bank Belgium, we are confident to close around year end, I mean, all signals we have are positive on that. We've completed the dossier to the regulators. So now we are -- we are very confident that we will close -- we will close around year-end. On Singapore, Singapore the closing process should go fast, I would say, forecast also something around year-end. On Malaysia, it's always slower. So our best estimate is Q2 next year, again with a bit of uncertainty. But again, at this stage on this three closing, there is no worrying signal. And again, the good news is that an AXA Bank Belgium all signals are positive now.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on your questions on the reinsurance protections on European floods and Ida. The way it works on the insurance side, so that would cover AXA Germany, AXA Belgium and AXA XL insurance exposures in Europe, we are protected from EUR350 million on, and for capacity of EUR1.2 billion, which means that, we are now clearly above the EUR350 million loss on the primary side for those floods. And therefore are covered for any deviation.

On the reinsurance side, we don't benefit from the same, and therefore that's why we slightly increased our assessment of our loss on the reinsurance because then we don't have the same excess of loss cover. On Ida it's mainly the -- it's mainly AXA XL Re, which is affected by Ida. And with the same sort of protections we have some quota shares with XL Re. But we don't benefit from an excess of loss protection. Overall if there is a new event, as I said in one of the first questions, the, I mean the whole Group, including XL Re would be protected by the Cat ag provided that the -- that loss from a new Cat reaches EUR100 million.

On property Cat at XL, we have reduced by 40% our XL Re exposure since we bought XL on Cats. Now we are looking at the end of the year to determine, I mean, what we want to do with our exposure for next year. And that will highly depend on the price increases that we will see. We still believe that Cat are not adequately priced on the reinsurance markets. And if we don't see a significant increase in prices, we can reduce further our exposure at XL Re.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Sure helpful. Thank you very much.

Operator

The next question comes from Michael Huttner from Berenberg. Sir, please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Good morning. Thank you very much and congratulations for such lovely news. And everything lovely here. And I had just a little question, so on the buyback, I think you said many times disciplined capital management et cetera. But is this a one-off, this huge number, EUR1.7 billion, or is there a kind of thinking that you could do more there? On the Life deals, can you give any kind of clue or hint what reasons or what size we might be looking at? And then on the -- on COVID, you -- or I think AXA XL released EUR600 million at the half-year reserves, and I think you don't look at reserves at the nine-month stage but you must have some kind of thinking. Is there -- given how COVID claims in P&C are kind of running off, is there room for more releases at some stage? And my last question -- and really great [ph] to hear is indeed 214%. What is the number of the operating capital generation? Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

Thank you, Michael. I'll take the first one and I'll give Alban on the three following ones. On the first one, I cannot say more than what I've said. We will stay very disciplined, and again, the -- today's announcement or yesterday's announcement is a proof that we are disciplined. And I can assure you that we will stay very disciplined.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

On your Life -- on your question on Life transactions, what we have in mind, as you remember, we have EUR280 billion of GA account -- general account reserves. We have in mind to cede EUR30 billion to EUR50 billion of reserves through reinsurance or through sales of books, that's the target we have set ourselves. On XL, so we will review the COVID reserves at the end of the year. That part of the equation for the 1.2, but it's a bit too early for me to say what will be the outcome on this. And the 214% solvency, there was 1 point of operating return this quarter, so slightly less than the usual 2 points and that's because of the Cat in Q3.

Q - Michael Huttner {BIO 21454754 <GO>}

Brilliant. Thank you.

Operator

The next question comes from William Hawkins from KBW. Sir, please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, gentlemen. Thanks very much. A very simple boring question, first of all. Can you tell us the own funds and SCR behind the 214% please? Secondly, has the adverse development cover for XL attached by the end of September? I mean, I think you're booking that quarterly for Enstar. So I am intrigued to know whether that's attached, and if it hasn't attached, what's the probability of it attaching by the end of this year?

And then lastly, could you just give us any kind of headlines you want to in terms of what's going on with claims inflation? Are there any hot spots that are emerging that you think we should know about? And also, again I'm sorry, it's a slightly woolly question, but how do you want to continue to think about this, because you open up the newspapers and they are just full of inflation everywhere. You talk to every insurance company and it's like they are living in a different universe, and I appreciate you're on top of all of these risks and you're thinking about them, but to me there's a real disconnect that I'm trying to get my head around. So are there any hot spots in claims inflation and how should we be thinking about the disconnect between worries in the papers, no worries in the industry? Thank you.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on the 214%, the denominator, the SCR is EUR28.8 billion. And for the numerator is this times 2.14. On the ADC, so we do through reserves reviews twice a year and it will take place in Q4. So at this stage, there is no change to the ADC and therefore, it hasn't bitten into the ADC at Q3.

On inflation, so a few things. One, claims inflation is something that we've had almost forever. What I mean by this is, when you look for instance at motor insurance and spare parts, notably because there is a lot more of electronic parts in cars and in the way the cars are built, there has been spare parts inflation in motor insurance and we've managed through that by better procurement, by negotiations and so on. And we embed in our pricing in, in our reserving, this -- these assumptions of inflation. So I agree with you, there is a surge in general inflation now, but it doesn't mean that that surge in general inflation triggers additional inflation in our businesses in -- for instance, in spare parts. It might, but it's not absolutely obvious that it will, but we are vigilant about this as you can imagine. So we will take that into account in our pricing in our reserving, but for the time being our thesis is that it is a temporary surge linked to the economic recovery and the bottlenecks that come with it. And we will review that periodically. And notably, I think a good moment to look at that, it's probably at the end of Q1 or Q2 next year, when normally that temporary inflation should have faded. But as I said, it's part of our normal pricing and reserving process.

Q - William Hawkins {BIO 1822411 <GO>}

That's really interesting. Thank you.

Operator

The next question comes from Dominic O'Mahony from Exane BNP Paribas. Sir, please go ahead.

Q - Dominic O'Mahony

Hi, folks. Thank you for taking our questions. Three from me, if that's all right. Just firstly on asset management. I think the implication of the statements you made is that the Oaks [ph] business is growing well. I wonder if you could give us any more color on that, what sorts of asset classes you're growing and really what this means for fees and indeed whether this is third-party internal [ph] or mix, and indeed whether that means that the revenue margins -- sorry, the investment margins you get on the Life side, actually you might be benefiting from that? And second question, Asia high potentials, growth is sort of -- is actually a little bit behind where rest of the Group seems to be. I'm aware that there is a negative in health in China from the non-repeat of a digital partnership. I'm just curious to hear your views on where the Asia ex-Japan growth comes from going forwards and what your sort of direction of travel is?

A third question on France. Life growth is very strong. I'm just trying to work out whether this is in some sense a rebound from the pandemic effects, or were there actually the sort of the newer products, the retirement products, newer car insurance [ph] products, whether actually there's structural growth there, which means that actually we should be expecting significant growth sort of ahead of historic trend going forwards? Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

So I think you Dominic. On asset management, so Alts is effectively growing, but core is also growing if you adjust for the issue that we have created ourselves. What I mean by this is with the Hong Kong transaction there are EUR5 billion of general account assets and therefore, EUR5 billion of assets with AXA IM that have -- that we have lost. So we need to adjust for that to see the performance of AXA IM as such. But at Alts, it's growing on the two main pillars that are structured finance and real assets. For the nine months 2021, structured finance grew AUM by EUR2.8 billion and real assets by 5.7, and that's both coming from AXA and third-parties.

On high potentials in Asia, I think we have China on one hand and we have Southeast Asia on the other hand. On China, there has been two changes in regulations in the last month that have affected the insurance market in China. The first one that we already discussed is on the -- on motor and there has been deregulation and that deregulation has led to a significant increase in combined ratio. We believe that we are probably in a better shape than many of our peers there, but nevertheless, we need to focus on profitability and therefore, it leads us to reduce our exposure in motor in China, to focus on the profitable segments.

The other change in regulation came on the digital platform, selling health business, where the way it is sold is -- has been made more stringent by the regulator. So that also has an impact on the -- on China health. We are focusing obviously on other distribution channels, notably our branch network that has in the past focused on motor and that we are moving also to health that we have sound growth in health in China.

On the Southeast Asia businesses, there is growth, but I will just remind you that the -- those companies are accounted for under the equity method and therefore the revenues are not highly visible, but there is good growth in Southeast Asia, nevertheless, and notably the APE, which as you know, takes into account our quota share of those companies, the APE are up 11% on our high potentials.

Then on your last question in France, I would say there are -- I mean there is good growth, as you saw, both in P&C commercial lines and in Life. I P&C commercial lines we benefited from very good commercial dynamic, also from the fact that there is an economic recovery and that part of our revenues are based on our own customers' revenues. And there is the third aspect, is the fact that on average prices increased were 3% in France. So it's a rebound, we shouldn't expect such a growth in the coming quarters, but the level itself is sustainable.

On the Life side, I think it's a bit of both. We have a rebound simply because there was a lot of savings accumulated by our customers last year under the COVID period, and now those savings find their way to our life policies, notably unit-linked and Eurocroissance and retirement products. In that sense, there is a catch-up, but we believe that we have a very good distribution network in France to sell those products, and that there is a very good environment, notably a very good tax environment to incentivize our customers to take that kind of product. So we believe that there will be further growth in that business going forward. I would only add that in France the growth on savings is a very high-quality growth because we have a share of 55% of unit-linked and Eurocroissance which is still very much above the market, I think around 14 points above the market. So there is growth, but there is also quality of the growth.

Q - Dominic O'Mahony

That's great, thank you so much.

Operator

The next question comes from Andrew Crean from Autonomous Research. Sir, please go ahead.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, everyone. I had three questions, if I may. Firstly, could you give us any thoughts about the renewal of your aggregate cover for next year, as to whether you'll be able to get 100% cover rather than 68.5%? Secondly, you are talking about the Life in-force optimization. If you do deals there, you could either do them by a reinsurance contract or you could do it by disposal, both of them achieve the capital now, but the loss of future earnings. If you do it by disposal, you say that you return the capital to shareholders, but if you do it by a reinsurance contract you weren't. What is the logical consistency in that thinking? And then, thirdly, in terms of your capital management, I mean, you've obviously dealt with the issue of disposals and you've dealt with the issue of testing acquisitions against the benefit from a buyback. But the elephant in the room remains the fact that you're going to be generating 18 to 22 points of operating capital generation, less 12 points of dividends, gives you anywhere around eight points of organic capital generation every year, which is about EUR2.3 billion, and you don't seem to want to tell us what you will do with the excess. Why is that and what should we conclude?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on the aggregate cover -- and thank you Andrew for your questions. We are, as we speak, in the process of designing a program for next year and fundamentally where we want to go is in -- as far as our risk appetite is concerned, is risk appetite that would be flat or reduced. We don't want to increase it in terms of Nat Cat. Given what I said earlier on the reinsurance market and the fact that we will -- or not reduce our exposure on XL Re depending on the prices we get, we will see whether -- I mean we will see how we want to structure our reinsurance program between the various tools that we have, quota shares, sidecars, excess of loss and aggregates. The -- at this stage, I really cannot say whether we will buy an aggregate and how much. What we see, what we hear from the market is that the rate for [ph] market is hardening and that will be probably more expensive. So we need to manage our risk appetite probably down but not sure yet at this stage, but we also need to manage our earnings, and so we'll see what's the best mix between all these four tools that we use. So sorry, not to be able to give you a better answer, but that's where we -- exactly where we are today.

A - Frederic de Courtois {BIO 16976110 <GO>}

Andrew, on your two next questions. So the first on life in-force, you are right, that when we are doing this kind of operation, in fact, we have three options; reinsurance, sale of a portfolio or sale of a company. And as I said, we are going to accelerate on this, and generally speaking, we prefer to do disposals -- company disposals or portfolio disposals for all the reasons you can imagine. Seeing this, our commitment to do share buyback and to compensate for the dilution does not include the life in-force actions, I mean, be it reinsurance or disposals.

On your last question on the elephant in the room, as you call it, first, on this, I would say this is not big news, but the company has always three options to invest its capital. We can either do internal growth, we can do M&A or we can do share buyback. We want to grow through internal growth, we have many options to grow through internal growth, and we are keen to have growth on our pressured business lines. On M&A, we do not exclude to do M&A. As we've already said, we are going to do M&A in a very disciplined way. This will be bolton M&A, this will be acquisitions in businesses we like and in geographies where we already are seeing that opportunities currently are scarce, the prices are high, so we will see. And then we have share buyback. The only thing that I can tell you is that we will stay very disciplined and we will always give priority to the value creation and to our shareholders.

Q - Andrew Crean {BIO 16513202 <GO>}

Thank you.

Operator

The next question comes from James Shuck from Citi. Sir, please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Thank you and good morning everybody. My first question is around -- again on the Life in-force transactions, and thanks for the EUR30 billion to EUR50 billion target or a number that you gave us. And then just interested to know how you think about the free cash flow conversion, because I think by 2023 you're talking about EUR5 billion to EUR6 billion of remittances. The cash conversion or IFRS earnings is quite low. So when you think about seeding those potential reserves, then is that a -- is that a stock issue, something that just helps the Solvency II at Group level or is there an ongoing benefit that's possible in order to help improve that cash conversion, which I think is dragged down mostly by Asia Life. And if you're able to tell me the capital that's allocated to that EUR30 billion to EUR50 billion of GA reserves that would be very helpful, please.

And secondly on XL. So the EUR1.2 billion for this year, which looks like will be more or less met, obviously next year we should start to see some more exposure growth and yes, obviously, the benefit from raised [ph] earnings through. Can you just comment on what you see the outlook for earnings for XL going into 2022, please? I'm also keen to get a view around the ROE of that division and any thoughts around the global minimum tax rate and what a normalized tax rate should be for XL, please. And then final question just around the dividends. So, obviously, where we see today the buyback, I mean, essentially out of the catch-up from the second tranche of the 2019 dividend that wasn't paid. When it comes to thinking about the 2021 dividends, should we be thinking that you're looking at some kind of catch-up still, because the 2020 dividend was flat versus 2019? I know the payout ratio went up because the earnings came down, but nevertheless, it was flat. So when it comes to 2021, are we looking at some kind of catch-up? And you did move up the payout ratios a couple of years, in fact, three years ago now, but you haven't actually made a move on moving up that -- the underlying payout ratio towards the mid-point, let's say. Thank you very much.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on the in-force transactions, I think you are right -- you said it rightly. The purpose of these transactions is to transform capital, which is in our in-force books and therefore not liquid, into cash at the holding company level. So it's not about the Group solvency -- might help with the Group solvency, obviously, but the idea is to align better the Group solvency and the cash that we have at the holding company. That's the purpose of this. On the capital that backs those books, it really depends on the books. So at this stage, we are looking at different countries, different books and so it's a bit difficult to give you an overall number.

On XL, so we will not give guidance for XL for '22. What I'll just say is that XL like any other company in the Group needs to take its share of the growth in earnings that we want to have within the Group.

The ROE, as we see it, in the way we allocate capital to the entities is when XL is at EUR1.2 billion, between 14% and 15% of the capital allocated. On the global tax rate, what I suggest is that we come back to you with full-year earnings because we'll probably know a bit more then on the way it works, because we have a view on the 15% that will apply in number of jurisdictions that today are below. Ireland has moved up, Bermuda, Hong Kong and so on. But there is still a number of question marks on the basis to which those 15% will apply and how it will be calculated. So it's too early for me yet to say how much it would cost us.

A - Frederic de Courtois {BIO 16976110 <GO>}

And on the dividend, the only thing that I can tell you is that we stick to our dividend policy and we want to achieve progressive and regular growth of our dividend in line with the earnings growth.

Q - James Shuck {BIO 3680082 <GO>}

Okay, thank you very much.

Operator

The next question comes from Oliver Steel from Deutsche Bank. Sir, please go ahead.

Q - Oliver Steel {BIO 6068696 <GO>}

Good morning. And it is quite an appropriate time to be asking my questions, because the first question I had was in relation to the 3% to 7% per annum earnings per share growth guidance that you talked about a couple of years ago. Does this -- is there anything here? I mean obviously the share buybacks that you are talking about should circa 3% earnings per share. So I'm wondering if there's anything here that then stops you pushing up towards the 7% level on a per annum basis.

And then the second question I've got is on the cumulative dividend target that you set. I think between '21 and '23 you were targeting EUR11 billion of dividends. Does this EUR1.7 billion count towards that target, or should we consider it as separate?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on the 3% to 7% EPS target that we've given ourselves, so obviously, the share buyback will help and we are, therefore, confident in our ability to be within that range. And you've seen for -- until H1 this year where we are, but as I said, we are confident in our ability to achieve that range.

On the dividend target, we have not given EUR11 billion target for dividend. The target we gave ourselves was more on the remittance from the entities, which was EUR14 billion during the plan period. So there is no change, because there is no target as such, and we plan to apply our dividend policy as stated, irrespective of the share buyback.

Q - Oliver Steel {BIO 6068696 <GO>}

I hesitate to challenge you on that, but I'm fairly sure when you set the cash roll forward targets for 2021 to 2023, the dividend -- the dividends were cited as being EUR11 billion.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

No, you're right, but it was -- and sorry if there was a confusion. That was indicative and as opposed to the EUR14 billion remittance that we stated from the entities that is a target for us. So -- but irrespective of that, again, the dividend should be considered with our dividend policy and irrespective of the share buyback.

Q - Oliver Steel {BIO 6068696 <GO>}

Okay. So we should be -- effectively we should go with the payout ratios being the sort of the main [ph] guidance?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

Yes, absolutely.

Q - Oliver Steel {BIO 6068696 <GO>}

Okay, thank you.

Operator

The next question comes from Thomas Fossard from HSBC. Sir, please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Hi, good morning everyone. Two questions left on my side. The first one would be regarding the Group risk appetite. It's likely that the reinsurance protection is going to -- are going to be more expensive into next year. You've got strong solvency ratio, actually you are highlighting that you're willing to take slightly more risk on the asset side. I was wondering what's your view regarding taking more liability risk or I mean volatility risk in you balance sheet at the present. I mean, more a theoretical [ph] question to understand how you will approach potential -- potentially higher prices for reinsurance cover into 2022.

The second question would be related to Health in France. Maybe this is a highly political question, but there are some, I mean, projects to somewhat nationalize French health insurance in the context of the French presidential elections. What's the risk of this -- of such a plan taking place? I mean have you got a feel or any comment on that side of things? Thank you.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So thank you, Thomas for your questions. On the Group risk appetite, we are not great fans of volatility. What we want to do is to grow our business, first, with the condition that it's profitable and second, that it doesn't bring too much volatility. That's exactly what we've been doing at AXA XL, where we have, as you know, reduced the line sizes on the number of lines of business and we have increased prices to reach the cost of capital or better in all our lines of business. And we will not move away from that philosophy.

As far as Cat is concerned, we are both long and short Cat risk. So on the XL Re side, we don't want to increase our exposure, that's for sure. But we will adjust our exposure, depending on the price increases that we see, or don't see this year. And on the protections that we buy, again, we will not increase our risk appetite to Cat. We will -- depending on the prices that we see, either by more protections or not. And if we cannot buy more protection, we will reduce our primary exposure, notably on the reinsurance side. But that's the equation that we have to resolve these days with, clearly, prices that are up on the reinsurance and retro market, but to what extent that's still the question.

A - Frederic de Courtois {BIO 16976110 <GO>}

On your Health question in France, my first comment is that these are no more pre-election discussions. Based on a whole survey that have been done, what we can see is that both clients and doctors like very much the current system. They like it because that's a high-quality system and they like it also because this is not a two-speed system as it may exist in other countries. So seeing this, we do not say it cannot be improved and we are very open to discuss about potential improvement, but we are convinced that globally the systems works well, and again not only insurance companies are saying it but the client and doctors.

Operator

The next question comes from Louise Miles from Morgan Stanley. Madam, please go ahead.

Q - Louise Miles {BIO 20765435 <GO>}

Hi, there, good morning. Just a couple of questions from me, please. So on AXA XL Re, there has been a (inaudible) news flow on this division lately. How -- can you just remind us how important this business is for you strategically? And I think at the first-half earnings, you mentioned that there is a possibility for you to further reduce your equity hedging. Did you actually end up doing anything on that in the third quarter and are you still thinking of doing being more here the rest of the year and into 2022? And then finally, you mentioned also at the first half that you're expecting pricing at XL to be -- to occur at a slower pace going forward. I mean if I look at the release, it doesn't really look like that was the case in the third quarter. Can you just give us a very quick overview of where you -- when you expect pricing to slow down at XL? Thanks.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So, XL Re is an important business for us, it allows us to diversify our exposure, notably on Net Cat because it gives us access to some payrolls [ph] that complement our portfolio usefully, and therefore, give us better diversification, and it allows us also to have access to some P&C markets that -- in which we are not, and then for some of which we have exited in the last month and years. So it is an important business.

On the equity hedging, we have not reduced equity hedging, but as you may have noticed, we have decided to invest, so to speak, 2 points of solvency in private equity investments. So overall, that increases our equity exposures, but we prefer doing that through a private equity investment rather than through a reduction in equity hedges. In 2022, we'll see, it will depend on market movements.

And sorry, on -- yeah, on pricing at XL, so we see very strong price increases in some lines. Just to mention a few, for instance, cyber is up 71%. The international lines are up 42%. So there are some lines that needed that kind of price increases and we are pushing for those increases to restore profitability. And going forward, we believe that '22 should still see overall price increases, but not to the tune that -- what we've seen over the last 18 months, that should -- that should slow down, but nevertheless remain positive.

Q - Louise Miles {BIO 20765435 <GO>}

Very helpful. Thank you.

Operator

The next question comes from Michael Huttner from Berenberg. Sir, please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

I'm very lucky. I'll keep it really brief. Thank you very much. And on motor, a colleague had an accident and the issue isn't the cost of the spare parts, it's really difficult to get hold of.

So the period of higher car -- higher car is incredibly expensive, is not a few days, it's more like three weeks. I just wonder if that's in your numbers already, in your thinking.

And the second is, you made these lovely new commitments on the ESG on October 28, which is wonderful, wonderful, wonderful. I just wonder, is there a cost to this, or how do you think -- how do we think of it in terms of money?

Q - Peter Eliot {BIO 7556214 <GO>}

So, Michael, sorry, the line was bad on the first question, can you just repeat it? I got the second one (multiple speakers).

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah. Sorry about that. I was just saying is the cost of motor claims insurance going up because it's not the cost of the spare parts, but the delay in getting them and while there is a delay, then the policyholder gets a higher car and that's expensive a bit.

A - Frederic de Courtois {BIO 16976110 <GO>}

From -- so from what we see there are two sources of inflation in car claims. One is the spare parts as such, and second is the cost of labor that might also increase, given what we see in some areas about labor shortage. That's not certain, but you start seeing that. The spare part component is more important. So it's really those two.

On ESG, so as you saw, we tightened our rules in terms of investments and in terms of underwriting. But on the underwriting side, we have said that, I mean our philosophy is not to stop doing business, is to help and encourage the oil and gas companies to embrace the transition. So we are giving ourselves 2022 to talk to those companies, and 2023 also to give them a chance to move away from the non-conventional oil production or to exploration in greenfield in a number of places, as you saw in the press release. And then we'll see. What I can tell you is that energy overall, so it's mostly done at XL, and it represents probably 2% of our overall P&C premiums. So we will see in '22, '23, rather '23, the nature of the business we will do with that -- those oil and gas companies.

Q - Michael Huttner {BIO 21454754 <GO>}

Brilliant. Thank you so much.

Operator

The next question comes from Dominic O'Mahony from Exane BNP Paribas. Sir, please go ahead. Dominic O'Mahony, you could ask your question.

Q - Dominic O'Mahony

Apologies, classic mute ever. Frederic, when you were talking about the uses of excess capital, you mentioned the organic growth, M&A and buyback. What you didn't answer that list was debt reduction either -- either external debt or internal debt. I wonder whether that might be part of your toolbox or whether actually you're saying that's probably unlikely. (Inaudible) the question is if you do major Life in-force actions there could be quite a significant change in the capital that might in turn impact your leverage ratios. I'm just wondering whether that's -- whether I'm barking up the wrong tree or whether that's something you're thinking about? Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

Now, thank you. On this, you're correct that this is part of the toolbox, especially from a cash point of view. Saying this, we have a very clear policy on leverage and we stick to this during our plan, so there is no news on this.

Q - Dominic O'Mahony

Okay, thank you.

Operator

The next question comes from James Shuck from Citi. Sir, please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Thanks for taking my follow-up. Just quickly on AXA XL, I think you mentioned 14% to 15% return on allocated capital, based off the EUR1.2 billion. That looks like there's only EUR8 billion of allocated capital in XL. That looks a very low number given there's EUR20 billion of revenues at XL. So just any comment to that level of capitalization and capital -- how you actually allocate capital for that business would be helpful. And then secondly, just on the -- I mean, the tax rate at XL has moved around quite a lot. The 1.2 guidance for this year, I mean what's a normal tax rate for XL, please, obviously subject to the GMC, which might change that, just anything [ph] helpful on that?

And then finally, just returning to the point about the cash remittances. So I understand the Life in-force transactions which are looking to redistribute some of that liquidity back to holdco. It's the ongoing cash remittances that look like -- the EUR5 billion to EUR6 billion in relation to IFRS earnings, which seems to stem from Asia. So just any thoughts about how you can improve that cash conversion on IFRS earnings on an ongoing basis, please. Thank you.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on the ROE at XL, the way we allocate capital is a function of the SCR used by each company in each line of business. The fact that -- you know that P&C risk diversifies extremely well, simply because you don't have the same losses, the same issues on reserves, premiums at XL in a given geography and in France or wherever else. So the amount of capital that XL uses, seen from Group standpoint, is not that high, and you have the detail of the breakdown in the appendices that we give. And that's the beauty of the P&C business, or the health business as opposed to savings, where on the savings part you have a lot of financial risks and those financial risks do not diversify well, rather they accumulate, because when you have a global crisis, it will affect all asset classes at the same time, everywhere. So that's very important to keep in mind when we think about our businesses and the way we allocate capital. On the tax rate at XL, I would say it's around 15%.

A - Frederic de Courtois {BIO 16976110 <GO>}

On your last question on cash conversion and the EUR14 billion. So, first, the EUR14 billion already included some management actions. Saying this, we have more appetite on in-force, so we will see what happens. Again, on in-force, there is always an execution risk, then there is a time lag and so on, but clearly, we have more appetite on in-force. What can we do to further improve this cash conversion? Our cash conversion is very high, especially from the European countries. On countries with a lower cash conversion, so we have historically XL, which is directly linked to the XL results, and as we've said, we are confident that XL is strongly improving and will continue to improve, so, I will say, solving the result issue, we solve also the remittance to peak. Then we have the two spots of Hong Kong and Japan. We are working hard on this. I mean the transaction in Hong Kong was part of the solution. Japan, the remittance in Japan is improving strongly and regularly. So we are very focused on these three areas. So, XL, Japan and Hong Kong, and we are confident that we can continue to improve the remittance from them and we have the relevant actions in the pipeline on this.

Q - James Shuck {BIO 3680082 <GO>}

That's great, thank you very much.

Operator

There are no more questions, speaker.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

Then, thank you very much all for attending this call. And nice to see a number of you in London next week.