Q1 2020 Earnings Call

Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Frederic de Courtois, General Manager
- Giulia Raffo, Head, Investor & Rating Agency Relations

Other Participants

- Andrea Lisi, Analyst
- Andrew Ritchie, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Emanuele Musio, Analyst
- Farooq Hanif, Analyst
- Gianluca Ferrari, Analyst
- Johnny Vo, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Generali Group First Quarter 2020 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be opportunity to ask a question. (Operator Instructions)

At this time, I would like to turn the conference over to Ms. Giulia Raffo, Head of Investor and Rating Agency Relations. Please go ahead, madam.

Giulia Raffo {BIO 21037091 <GO>}

Thank you. Welcome everyone to Generali first quarter 2020 results conference call. Here with me, we have our General Manager, Frederic de Courtois; and our Group CFO, Cristiano Borean. Without further introduction, we would like to open the Q&A session. Thank you very much.

Questions And Answers

Operator

Excuse me. This is the Chorus Call conference operator. We will now begin the question-and-answer session. (Operator Instructions) The first question is from Andrew Sinclair with Bank of America. Please go ahead.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Three from me, as usual, if that's okay. So firstly, I just wondered if you could talk about claims experience in terms of the movements and, say, normal claims experience you saw in Q1 during lockdown as we saw slowing activity. And likewise, I realize it's early days, but as lockdowns have started to ease, what are you seeing in terms of the normal claims activity?

Secondly, just on travel. I just wondered if you could quantify for us what travel experience -- what travel claims experience you've seen so far? Ideally, what's the net? And how far out you provisioned for lockdowns staying in place versus potential incremental claims?

And third question is just on reinsurance. Just really wondered what engagement you've had with your reinsurers so far -- ability to pass on claims and likewise, an ability for reinstatement for coverage, perhaps, or maybe both?

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you very much.

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

Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Frederic? Yes?

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

Yes. Thank you, Andrew. On the claims experience, first, you've seen that our combined has improved by about two points over the Q1 which is made of 1.5 points on claims and 0.5 on expense. On the 1.5 on claims, in fact, we have 2.5 improvement on the current year claims ratio and then 1 point negative due to cat and due to lower prior year's results -- slightly lower prior year's result.

So, your question is where does it come from and what could we foresee for the future? Obviously, it comes from a significant lower frequency -- claims frequency during March due to the lockdown on the motor business, but also on other lines. What could we foresee for the future? So, the month of April is already pretty clear and we see the full impact in the month of April of the lockdown. Then as the lockdown gradually released, it's extremely difficult for us to make any forecast. For sure, in May, the lockdown is only partially released, so we will still see some impact.

After that -- after the end of the lockdown, again, very difficult to foresee. We see contradictory signals from China where people are using their cars and are not using any more public transport. So there are a lot of trends that we cannot foresee. But again, we have a pretty clear view of the impact on -- in March and April and May already.

On your second question on travel, so, on travel, actually, which is a business of Europ Assistance the -- we have two impacts. We have one impact on claims and one impact on premiums. And by the way, the biggest impact we have is on premiums because we don't have premiums flowing in at this moment. But specifically on your questions on claims, we foresee an impact of about EUR40 million gross and EUR20 million net, so not extremely significant. On reinsurance, that's -- I think that's too early to discuss about our ability to pass on claims. You know that the main uncertainty on the market is around claims on business interruption. We have an extremely low exposure on business interruption, both because we are not a commercial lines insurers. We are just exposed in our SME business. But -- and also because based on the analysis we've made on our business in Continental Europe, we have extremely clear worries. So I cannot tell you yet exactly what is our ability to pass on claims, but I think I'm discussing with the reinsurers, reinsurers have committed on the fact that if claims are paid on a technical basis, I mean, they will follow us.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Very helpful. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. We can move to the next question please.

Operator

The next question is from Peter Eliot with Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. If I could maybe have two follow-ups on Andrew's, first of all. I'm just wondering on travel, Frederic, I was just wondering if you could sort of comment how fixed the nature of your expenses are. And so as you see the -- as you commented on the big impact on premiums just wondering to what extent you can offset that -- the expense impact? And the second follow-up was just on the reserve releases. Apologies if I missed it. I think you said minus 1 point from cat and lower reserves combined, and obviously, the cat was almost 1 point -- sorry, cat was 1 point higher.

So I guess we're talking sort of 2 points from reserve releases, but if you could just confirm my numbers there that would be great.

And then if I could ask two of my own. The premiums in non-life non-motor were really strong. I was just wondering if you could just give a bit more details about what drove that. And maybe optimistic -- just sort of any comment that you can give on the -- what you're seeing in April and May on the premium side of things?

And then the second question is you made some comments on the 2020 outlook today. I appreciate it's very early, but I'm just wondering if you could say anything about 2021. I mean, I asked, because I think Philippe was on record talking about the target still being valid. So I'm just wondering if you can add sort of any confidence on the EPS target in particular. If you can say anything there that would be very useful. Thank you very much.

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

Okay, Peter. Thank you. So, first on travel. You know that in the travel business, most of the expenses are variable expenses, because we pay high commissions to the intermediaries, still we have fixed expenses. So the name of the game for the time being in Europ Assistance is to significantly decrease fixed expenses, but again, most of the expenses are variable for the travel business. On reserve release, as I said, that 1 points on main -- 1 points on cat and reserve release. So in fact cat is 0.8 worse compared to last year and reserve release is 0.2 worse compared to last year.

So last year on reserve release, I had the benefit of 4 points on reserve release in Q1 and now I have a -- this quarter has a benefit of 3.8, so really non-material. On premium, so I guess, your question is only related to P&C. So I will answer on P&C. Yes, premiums have been strong in Q1. Actually, premiums have been in line with the -- growth of premium has been in line with last year. So nothing unexpected given that the lockdown had started this -- only mid-March. You have to have in mind on all of this that on P&C, of course, the lockdown is impacting negatively the new business, but the lockdown is also impacting positively the retention.

So hard to say at this stage, if it's -- if one is exactly balancing the other, but I would say not far from this. On 2021, so you've seen that on 2020, we've made a statement in the outlook and we obviously can come back to fees if you want to have more elements. On 2021, I think there are a few important elements. The first one is that we are confident in our strategy and its underlying fundamentals. And I think that our operating performance in Q1, which is very good, confirms our strategic approach. So, of course, all of us meaning management, employees and agents, we are all working very hard towards our planned targets. It is an unprecedented moment in time and it is very difficult at this stage to say exactly how quick will be the recovery of the macroeconomic environment. So we do not have yet a full visibility and we will have a much better visibility in a few months. And you know, Peter, that we are planning an Investor Day in November, and I think the Investor Day in November will be -- would be a good time to give you a full update on the progress of our plan and our targets.

Q - Peter Eliot {BIO 7556214 <GO>}

Right. Thanks very much indeed.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. We can move to the next question please.

Operator

The next question is from Andrew Ritchie with Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Oh, hi, good afternoon. Just some quick questions from me. Do you see in -- particularly in auto lines, personal auto pressure for premium rebates coming through? I guess, it hasn't so far by way of insurers giving back to consumers some of the good claims experienced. We've seen that in a few other markets. Maybe if you just give us a sense of that in your core markets? The second question, what's the Group done on asset positioning as the crisis has unfolded in terms of, have you bought additional downside protection by the way of hedges? Derisking any parts of the portfolio? Maybe just give us an update as to what you've -- how you've responded to the market moves on the asset side? Thanks.

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

Thanks Andrew. I will answer the first one on motor and we leave Cristiano on the second one. So on motor, yes, we see some pressure on our various markets. We've seen some pressure in -- especially in France and to a certain extent in Italy. We've seen also some movements from some of our competitors even if quite limited. So on our side what we are doing is giving support to our customers on the motor business in terms of suspension of premium and/or focused discounts. So we haven't announced yet measures like the ones announced by some of our peers. We believe it is too early to do it. So we focus on targeted measures on the field. It's too early to do it also because it's extremely difficult to know how the claims experience will evolve after the lockdown. So we will -- again, we pursue our policy to make targeted measures on the ground on discounts and suspension of premiums and we will see what we do later. We have not made any decision.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So when you say suspension of premiums you mean forbearance on renewals. Is that what you mean?

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

Yes. And also the fact that in some companies we have special contracts which says that when the client is not using at all the car we -- yes, we suspend the premiumor --

Q - Andrew Ritchie {BIO 18731996 <GO>}

I got it. Yes.

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

It is a four English words, sorry to say.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Temporary suspension if the vehicle isn't being used.

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

Exactly. Yes.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi Andrew, Cristiano for -- good morning for second question regarding asset positioning. So first point, the Group reacted on two sectors. The first one was mainly related to the Life portfolio and the fact that due to the prolonged and the view of prolonged low rates, there was some asset repositioning through increase of duration of our fixed income portfolio with seek for quality both in government and in corporate bonds in order to get the appropriate duration lengthening because of the natural lengthening of our liabilities in such an environment.

You have to understand that liabilities increase duration also when there is a stress on other risk factors not only of interest rates because of the loss-absorption capacity of lower liabilities changing in cases of stress of equity of other factors. So clearly the Group first positioned itself to prolong duration investment. And in the first -- in the quarter, we had an investment with almost three years more duration compared to the quarter '19 -- the first quarter '19 in the Life book. On top of this we -- we're putting hedging on equity exposures protection with -- we started with some out-of-the money protection in different form combination of put and whatever. And this now -- these positions are in unrealized capital gain, quite substantial because we started with some EUR5 billion protection. Clearly these gains moves contrary to the movement of the market. So being these protection mainly maturing between 2020 and the last -- a small piece on Generali 2021, we need also to understand that their contribution was partially already accounted and we have something in the order of slightly more than EUR70 million, EUR75 million net result protection coming from this hedging strategy. On top of this, we did an innovative hedging of our unit-linked fees at end of '19. We started with our country in France where basically we were crystallizing the level of the fees that we can extract with the level of the markets on the equity book of unit-linked of a substantial part of it as of the level of year-end '19. And this is protecting us to have a lower P&L volatility from the fees arising from the unit-linked book. On top of this, to prolong duration, we sometimes buy forward some bonds in case -- that in case of the prolonged low rates would protect us for low rates environment. Hope I will -- I gave you the answer.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Just to check two things. Your -- when you said three years longer, you mean new money -- new money is being invested three years longer in Q1 versus --

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. Yes indeed, Andrew. Exactly two -- you know that we have basically some billions per quarter to be invested in Life and these are used exactly to prolong the duration accordingly for this.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And the hedges you've borne on equities they were out of the money. But now you've got a gain on them. They're now in the money. Is that --

A - Cristiano Borean {BIO 15246531 <GO>}

Indeed, they are.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Fine. Right. Okay, that's it. Thanks very much.

A - Cristiano Borean {BIO 15246531 <GO>}

Welcome.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Michael Huttner with Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Good afternoon. Thank you very much. Just three questions please. You said, you'd like to provide an outlook at a more granularity on your 2020 outlook both in operating profit and net profit. And if you could do that, that would be wonderful. And the second on the solvency, there was a small miss -- miss is the wrong word. It was a little bit lower than maybe we'd expected and it's come down a little bit more in May. And I just wondered if you can highlight any kind of reasons for the difference or trends that we're probably maybe not fully thinking about? And the third one, and it may be a bit premature, but is on dividend. So here, given the environment today -- the regulatory environment, how likely or how much more confident are you that you will execute on your plan to pay the remaining EUR0.46 later in the second half? And on the dividend going forward, if I look at consensus, it's down a bit which would imply using a payout ratio that the dividend might be down a bit and there's no official as yet, but I just wondered maybe you can say something about that? Thank you very much.

A - Cristiano Borean {BIO 15246531 <GO>}

Thank you, Michael. It's Cristiano. Hi, Michael.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah, Cristiano. Hello.

A - Giulia Raffo {BIO 21037091 <GO>}

I suggest, Cristiano --

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

So maybe I'll start on the outlook 2020. Cristiano will answer on solvency and the second tranche of the dividend and I'll come back for the dividend 2020. So Michael, on the operating results in 2020, we expect globally the impact of COVID-19 to be low to mid triple-digit hundreds million of euro. And so what are the various parts of this? And there are a lot of moving parts. The first one is that we expect around EUR100 million from P&C COVID-related claims. So this is one part. The second part is that we expect an impact of around EUR150 million from lower rents and dividends. And the third negative part comes from some volume reduction and measures that we have to support the agent network, our clients and communities. And these measures are of course the EUR100 million fund that we've -- that is already in our quarterly results, but also some other measures that we are taking on the ground as the one I mentioned on the motor business for instance. So I would say, these are the three negative impacts on our operating results. Of course, there will be some mitigation and the mitigation are at this stage quite difficult to estimate. But the two main ones are, of course, the fact that we will have a positive impact on our costs and the positive impact is linked, on one hand, I would say to the natural reduction of costs due to the fact for instance that we are not traveling anymore and so on. So naturally flowing in, but also on some specific measures that we've taken to reduce costs this year especially, of course, on personnel expenses, compensation and so on. And we have of course a second positive impact and you're seeing it already in Q1 which is the reduced claims frequency on the P&C side. And on this, we remain cautious. So we know that we have seen impact in Q1. And for sure, we will have seen impact in Q2 as we see it. We have a big question mark on what will happen after the lockdown. And the question mark is on one hand on motors. So will people drive more? And will the frequency on motor increase after the lockdown? First, as I said, we see that in China people are using more of the private cars. So this is the first question mark. And the second question mark is that we usually know from our experience that economic crises are never good for the commercial lines P&C business in terms of claims for many reasons.

So even if we are not so much exposed to fees -- I mean we have to have an exposure to SMEs. And so again, short-term strong positive impact on claim frequencies. Mid-term, big question marks. So that's why we've -- our outlook for 2020, the best outlook I can give to you is this low to mid triple-digit number on our operating result, knowing that there is quite a lot of uncertainty and volatility around this. Cristiano, I leave you the word on solvency and dividend -- second tranche of the dividend.

A - Cristiano Borean {BIO 15246531 <GO>}

Thank you, Frederic. I think if I understood there is also a question on more granularity on net result. Did I understand well, Michael?

Q - Michael Huttner {BIO 21454754 <GO>}

Yes, please.

A - Cristiano Borean {BIO 15246531 <GO>}

Okay. So, also to answer, I start with this one, which is to give you the full picture, on top of the EUR655 million of net impairments coming from the asset in the available for sale category we impaired where I would like to point out that there was a larger effect also of non-deductibility. So a tax impact, which is hitting severely the tax rate of the quarter due to this effect, because there are some, especially in Italy, tax, which cannot be recovered. So you cannot write a deferred tax asset in case of that. We have an effect of EUR15 million net result coming from impairment of Argentinian bond, we did already at year-end. But due to the deterioration of the situation of the foreign one, we did a further EUR15 million.

Then I recall you, as I think we already said, but we put also the EUR100 million COVID fund impact, which is basically EUR75 million net of taxes full in the first quarter, due to the accounting rule of the expected commitment we did. And this has been fully booked in the first quarter result. All in all, without these kind of specific effects, if you just recall that in the first quarter '19 you had less than EUR100 million net result impact coming from impairments, you can understand, what was the driver of the movement and what were the major driver of the movement in the net result. I hope, I gave you more insight on that. And I would like to jump on the solvency.

So first of all, the movement from March 31, so the 196% to the last updated figure we gave this morning to the journalist when we requested on May 19, which is almost 190%, means that there were drivers in the market from March to May 19, which were bringing farther a little bit down the solvency, which were mainly the effect of the BTPs and really a little piece of drop as well of negative help coming from lower rates in the curve, swap reference curve.

Having said that, going on the second part of the dividend, first of all, I hope you all noticed that yesterday the dividend really were cashed in the first tranche. Now, as you know, our general assembly, the second tranche will be paid by year-end and it is subject to the Board's verification. Inter alia of some compliance with the limits set by the Group in the risk appetite framework as of September 30, 2020, and as well on the positive confirmation of the compliance with the norms and the regulatory recommendations concerning the dividend payments at that time, since we know that they could evolve, they are evolving. We don't know what could happen. We need to take into account all the really existing potential future constraints to take this decision. I recall that the Group risk appetite framework, which was presented in the Generali 2021 Investor Day we -- they identified the so-called operating target range for Solvency II, which was in between 180% and 240%, with a soft limit of 150% after stress.

So during the Board, which is scheduled for November 11 for the approval of the third quarter results, the Board will assess the compliance of all the limits set by the risk appetite framework as per end of September, and will evaluate all the prevailing norms on the regulatory recommendation and we'll take into account the development also by end of September and the moment of the valuation. And then the Board will express the decision on the second tranche of the dividend with the most informed valuation. As of today, the level we have of solvency is within and complying with our risk appetite framework as you noticed.

Q - Michael Huttner {BIO 21454754 <GO>}

And then --

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

Michael, I'll comment then. I think you had a question on the next year dividend?

Q - Michael Huttner {BIO 21454754 <GO>}

Yes please. Yes. I'm very greedy.

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

Sorry, yes. Yes, you are. So, a few comments on fees. First, we have very good cash flexibility for various reasons. I mean, the first one is, we've entered this crisis with a high level of cash in the holding company, as you know. The second reason is that our business units are well capitalized. And the third reason is that we've already been able to pay this year most of the dividends from our operating companies. So our level -- we have a very good level of cash flexibility. My second comment is that we are confident in our strategy, and we are confident in its underlying fundamentals. We are confident in our technical results. We are confident in the -- as I've said before, in our technical capability and technical excellence, even in a difficult year like this one.

The third comment I would like to make is that we are very aware of the importance of dividends, of their stability and predictability. And we've already said in the past, and Philippe has also said it that for us achieving our target on the dividend is a priority. So saying all of this, we obviously have to take into account the context. And you will understand Michael that it is too early to comment on our dividend for 2020 and that our Board will assess over time what is appropriate. But I think with the three comments that I've made, I have given you some flavor.

Q - Michael Huttner {BIO 21454754 <GO>}

That's wonderful. Thank you. Thank you very much indeed. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Farooq Hanif with Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thank you very much. Just going back to the comment you made about overall operating profit. I mean a lot of the discussion is focused on P&C. So on the one hand, I can see revenue dropping. But on the other hand, some better margins. So I just want to understand, I mean is this mainly going to come from non-life or Life, the sort of drag factor? So I would have thought you'd have some sort of impairment-related investment margin related to the volatility as well.

And the second question, so looking at claims frequency. You've mentioned, motor claims frequency dropped. Could you give us some sort of guide? Other companies have talked about a 2- to 4-point benefit in the lockdown period before premium refunds. What about non-motor? So what's sort of going on there that supports us?

And I guess the last question is going back to what Michael just asked. You're implying that you will -- you could be potentially depending on the Board in a position to not follow your 50% to 60% net income payout target if impairments are high. Is that the kind of message that you're trying to get across for 2020? Thank you.

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

So thank you, Farooq. Now I'll start with your last question. I want to make it clear that the message is that paying the dividend in line with the targets of our plan is a high priority for us, and we believe that we have -- with the strong liquidity that we have and with the resilience of our business, we have good fundamentals to be able to say this. Then I have made a cautious statement saying that, of course, the context is still very volatile and that it's too early to say, because it will be our Board decision. But our message is that our priority is to stick to our dividend plan.

Coming back --

Q - Farooq Hanif {BIO 4780978 <GO>}

Just -- yeah -- just apologies, Frederic. My understanding is one slightly confused. My understanding is that your dividend plan is the payout ratio on net income. That's why.

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

No, you -- okay. You remember that we had -- when we communicate our plan, we had two objectives. And we say that the two objectives are important than dividend. We had an objective on the payout ratio and we had an objective on how to allocate the cash flow that we have and we have given an absolute amount of dividend that we want to pay over the next three years. So we had said that the payout ratio is a long-term trend as a strategy, and that as a mid-term trend for our plan, we had this absolute amount. So when I'm saying that our objective is to stick to our plan, I also say that our objective is to stick to the absolute level that we have committed to in our plan. I hope it is clear.

Q - Farooq Hanif {BIO 4780978 <GO>}

That's very clear. Thank you.

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

Then on your two other questions, so on P&C and Life, so the EUR100 million impact I've said on claims due to the COVID is linked to P&C. On the Life side, actually the impact is quite insignificant on the protection business. Of course, we have quite a lot of protection business. But due to the age band and especially death policies but due to the age band of the clients affected by COVID and the age of the people usually insured, the impact of the COVID on the claims on fees is, I would say, is quite marginal. On the health side, so we are not a huge health player. We have two contradictory trends. One is, of course, an increase of claims linked to the Coronavirus. Another one linked to the fact that people not affected by the Coronavirus have not visited their doctors or their clinics over the two months -- over the lockdown period. I would say these two effects are more or less balancing, but I would say that's too early to say.

If I look at your next question on motor and non-motor, I think we need to look at technical indicators. If I look at the lockdown period, so when all countries were in lockdown, what we can see is that globally motor frequencies on the -- actually on the attrition on motor frequencies have decreased by about 60%. And we see that on non-motor, frequencies have decreased by about 30%. So, again, this is I would say the best month to look at it is probably April, because we had all the countries in lockdown in April. So based on this, I think you can make some estimates. Of course then, as I said before, you have to take into account that we take some measures on the ground to especially to give some additional discounts to our customers and so on, but this is what I can tell you.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's really kind. Thank you so much.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from William Hawkins with KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, gentlemen. Thank you very much. On the Solvency II ratio, when you think about the decline that you've experienced year-to-date and the impacts of capital markets, do you think that capital markets have affected you roughly as you anticipated with regards to your published sensitivities, or have there been any particular outliers or funny correlations that you've kind of learned over the past five months? And adjunct to that, should we still be using those sensitivities of our kind of back of envelopes for how your solvency ratio moves from here, or is there anything which would change from what you told us at the full year?

And then secondly, you already kind of touched on your capital management process. But in after the Michael question, you were talking more about the time line rather than substance. And I just kind of wondered if you could share with us, whether you have had any update in your thinking about capital management as a result of the regulatory intervention that we've seen in the past couple of months, given that you have suspended your dividend when you were still within what you told us was your comfort range of 180% to 240%? Has that led to any discussions about how you think about ranges or modeling or is it just business as usual, but we're suffering a market dislocation?

And then lastly when your EUR100 million pandemic funds contribution, are there other costs that are likely to occur in the next three quarters that would also be booked below the line like that, or have we now been seeing that figure? And whilst I appreciate you might consider it semantics. Can you remind us why you're booking that as a non-operating item? Because in many ways it feels to me yes, it's related to the emergency we're all going through but it really is it's a soft element of the underwriting costs of your business. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano, please?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. So, hello, William. So I start -- can I start with the last question which is accounting, easy point. Regarding the way we booked in the non-operating item component to the COVID fund is simply because this is a one-off effect which has no relation to the fact that we are operating the business in the normal time. Take into account that there are initiatives which even for more than EUR30 million to EUR40 million are only related to supporting real people which are not even clients of Generali. Really giving protection mask and helping the Italian so-called Protezione Civile.

So this is nothing related to the operating recurring thing. This is why we decided to book according to accounting principle as a constructive obligation fully in the first quarter.

Second point going back to the solvency ratio. Solvency ratio, the clear impact of financial market is moving parts in the sense of how we measure our thing. But if you allow me to say, I noticed that the consensus before this call was in the 198%. We published 196%. So the consensus is based on the sensitivities you basically on average are doing. And in this context of unknown linearity applied to us, contingent joint effect of all the risk factors opening, low rates, equities down and credit opening up including BTP spreads is showing a certain sense level of predictability, which I would be delighted to say that it is quite predictable according to what is the outcome compared to the expectation.

What can change at first quarter half is the fact that for example, you have with a slightly lower impact and slightly lower effect on interest rates. You have some one to two percentage point sensitivity in the interest rate down, which could be slightly different. But it is slightly more than one point, which is sufficiently marginal compared to the stress situation of the market so far. For with regards the capital management process -- let me just continue the argument that Frederic did before relating to our capacity to upstream in the head office, because we are and we were able to already collect more than 80% of the expected remittance for a year on our subsidiaries. And this has -- the other part is not blocked, it's suspended because there are subsidiaries which are expected to give this piece are simply doing this later. In some cases, will do in the next quarters and in other cases, they will be done after October.

So we have our major subsidiaries which are very well capitalized to bear even this part of the unpaid dividend still. And these subsidiaries are very resilient on the situation. That's why when we look into perspective, the capital management approach we had this year, this one allowed us to cash in a large amount of the expected and also the exceptional one-off capital management operation we were planning to be cashed in and remitted to the head office in 2020. So what is interesting is also for you to know that we've had a cash position as of end of March of EUR4.1 billion after having paid back EUR125 billion of senior in January and a certain amount of something around EUR600 million for the two companies in Portugal.

And I have to tell you that after the payment of the first part of the dividend, we are -- as of today, we are well above that level. Just to put this into context.

Q - William Hawkins {BIO 1822411 <GO>}

That's great.

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

And I'll just comment, William. I think William, if I'm correct, you had a question on will there be -- apart from the fund that we have created, will there be other costs. And --

Q - William Hawkins {BIO 1822411 <GO>}

Yes, precisely.

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

Yes. So the basic answer is, yes. Let me tell you more. So the fund is dedicated -- was dedicated to sustain and support first communities and I think on this, we were -- we've done a lot and I'm not expecting much more. It was the first target of the fund. It was also to sustain in some specific circumstances our agents. And again, we've done it already. I mean there may be some more to do, but I'm not expecting significant numbers. And the fund was also built to sustain and support some clients in difficult situation. On fees, and I have mentioned it before, we still have a question mark. So this is all about what I call the discount or suspension of premium and be it for motor clients or SME clients. So we are doing it on the ground. So I can tell you that there will be some additional costs that you may not see on the cost line, because it may impact the premium line or it may impact the technical results line on our P&L. But there will be additional cost and they are difficult to quantify at this stage.

Q - William Hawkins {BIO 1822411 <GO>}

That's brilliant. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Nick Holmes with Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you very much. Just a couple of follow-ups please. Firstly, coming back on equity exposure. I wasn't quite sure what you were saying earlier. I mean, are you saying that you are now pretty much fully hedged for downside risk? I mean, can we be -- can we take that as the assumption going forward? And then second question is looking at revenue pressures, just wondered how worried are you on the Life side? And in particular, of course, unit-linked, what sort of pressures do you see there? Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano?

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

Cristiano and then I'll take the second one.

A - Cristiano Borean {BIO 15246531 <GO>}

So just to clarify equity exposure. What I mean that we have that level of hedging, we've started an out-of-the-money hedging, and this now gets in the money. The part which is in the money is counterbalancing the further reduction on a piece of portfolio. But this is a hedge, which will expire throughout the time. So we will need to review our hedging policy according to the level of the market and expectation our investment team will have and also to protect the capital. What is not -- I would like to clarify, it is not that the full portfolio is protected. This is not true. And on top of this, I would add that the fact that if in June when we will close the book, we will book the impairment for a certain amount depending on the level of the market. Then there will be a portion of our portfolio which is in the order of more than 25%, which is in the so-called, once impaired always impaired category, which could be in that category and means that you can have some volatility level in the balance sheet, which has to be managed then accordingly. So I would like to clarify the two points on this. Hope, I gave you clarity.

Q - Nick Holmes {BIO 3387435 <GO>}

Yes -- no, I think you did. Thank you.

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

Hi, Nick. I'll answer to your second one. I guess it's mainly focused on the Life business. I think I answered on the P&C side, when I said that more or less on the P&C side, lower new business is compensated by higher retention and that we expect this to continue. On the Life side, what is interesting is that the figures and volumes are better than what we had expected and I'll give you some more on fees. And especially, the product mix has been significantly better than what we had expected over the first two months, but also in March, April and May. So on the volumes, so, as of now, we are on the APE at a decrease of a low single-digit percentage, after a decrease of the APE in April by 15%. So not insignificant, but, again, better than what we had expected on the new business. What is interesting with this crisis is that the product mix is much better than what we had expected on two fronts. The first one is that we are selling more risk products on the Life side, so protection products, and we are expecting this trend to continue. I mean, we've made the big market surveys in place -- in all the countries where are and we see that clients are more -- much more open to buy this risk -- or protection products.

So this is -- I think, this is a trend to stay. The biggest surprise is on the unit-linked side. You know that we usually -- in a previous crisis, we had seen clients dramatically reducing their unit-linked -- the purchase of unit-linked. We have seen also clients massively reallocating from unit-linked to general accounts and usually with a bad timing for them. And the trend that we have -- the good trend that we have seen in January and February on unit-linked is continuing in March, April and May. To give you an example, the unit-linked at the end of April are increasing by 30%.

So at the end, we are left to the much better product mix, because general account sales have usually been down whereas unit-linked sales have been up and protection sales have been up. So in -- that was a long answer for short question. We are not worried on volumes and we are not worried on mix. So we see again a good mix. And we've seen also over the past two weeks volumes on the Life side recovering quickly.

Q - Nick Holmes {BIO 3387435 <GO>}

That's great. No, that is very interesting indeed. Sorry, can I just have a very quick follow-up, which is revenues this time on the P&C side, you described suspension of most of the premium. Is that a cash rebate this year, or will it be taken off renewal next year?

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

So, again, there are various modalities in place. It depends on the contracts, but no cash rebates. It is just about postponing the renewal.

Q - Nick Holmes {BIO 3387435 <GO>}

It's just about -- okay. So the revenue pressure is put into the future? Yes. That's great. Thank you very much.

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

Thanks.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Gianluca Ferrari with Mediobanca. Please go ahead.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes, good afternoon everyone. I have three questions. The first one is, if you can share with us any exposure to retirement houses, the so-called (inaudible) and if you see any potential claims in general liability or any IBNR here in Q1?

The second is, if you have any update on the EUR655 million impairments? As of today, do you think the situation has materially changed any way, or we are almost there?

The third and final one is a bit of additional color on the cat losses, where they were generated in the quarter? Thank you.

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

I'll start on the first one, leave it to Cristiano for the second one. And I'll take the third one. So Gianluca, so on retirement houses, yes, of course, we looked at the exposure we have across the Group. Of course, we have exposure to retirement houses with some focus on Italy, but nothing specific or nothing specifically material. So, there is some uncertainty around this, there is some uncertainty on the responsibilities. And I'm expecting fees to stay for quite a long time, but we have no -- we have no specific -- and again we've assessed our exposure, we have no specific warranties. Cristiano, on the second one.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. Gianluca, so on the second point of impairments, I would like to give you some -- a little bit of additional color. Please I would like to profit from your question to remind everybody that this first quarter is not an accounting closing. Hence, we are not accounting this in the book in the first quarter. We need to wait June 30. And so we need to wait the level and the amount as of June 30 to book this and then definitely pass through P&L. And the final amount that will be passed will depend on the levels as of end of June and the actions that will be done up to that moment.

If we just check the situation in these days, I should say that we have an improvement of high double-digit million euros compared to the one we were showing in the first quarter account compared to the EUR655 million.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Thank you. Thank you so much.

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

On your last question on cat losses, mainly storms in Q1, Germany and a bit of Central Europe and France.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Thank you so much.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Johnny Vo with Goldman Sachs. Please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Yes, thank you. Good afternoon. Just a couple of questions. Just the first question, I wonder if you have made any adjustments to your internal model with regards to more negative assumptions you're putting through. That's the first question.

Second question is in relation to sensitivity to downgrade in particular to BBBs, if you have any that you could provide.

And the third question is just in regards to remittances and you spoke about this. But if local regulators in particular say -- the French regulator says that all financials should not pay a dividend, will you observe what the local regulators tell you to do? Thank you.

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

Good morning, Johnny. So, let me start if I can with the remittance fees and the local regulator approach. So, as I told before, I would like to stress one point. We have a calendar which we were already planning on to which we were -- wanted to cash in with our subsidiaries and we are strictly following this calendar. So some as I told you since we obtained slightly more than 80% of the expected remittance, the calendar has been set accordingly and happened before some constraints. What we are managing with the regulators and what is outstanding is mainly related to companies which are in the top five best capital solvency in -- even in these days. That's why is putting ourselves in the confidence of obtaining it. Then, it is true that each regulator -- I think about a specific regulator in Central Eastern Europe countries which were very vocal and explicit even in blocking for the full year. But these are impacting in a minor way the potential remittance we have. So that's why our plan of remittance is on track to be completed without any major effect. And what I mean by major, we are really speaking about some few percentage points.

For with regards the approach, we will for sure follow any indication of the regulator. And our rule is to commit to what the local regulator applies as a basic rule on the companies. Notwithstanding that, we have solid proof points and action to present how the remittances are sustainable and can be executed.

For with regard the first question related to any adjustment in our internal model for negative assumption, we did not readjust the internal model. The adjustment, which happened in the first quarter was the ultimate forward rate and the reduction of the eligible own funds for the IORP business as agreed with the French regulator, which will be the last cap you will observe going forward, because now we reach the level of percentage recognition of all funds in that business and this is what is the change let's say of the model.

For with regards the analysis of the BBB exposure, let me remind you one thing, which is I think it is quite important. Of course, we are continuously monitoring the quality of our portfolio. And, of course, even in the investment strategy when we had the chance, we profited to let's say rebalance due to the higher credit spread of the period rebalanced to better credit quality, the portfolio in order to manage in a proactive way the potential future risk.

We have a high quality corporate bond portfolio as you know, because 90% are investment grade. Then what we did? We did for sure some analysis in order to understand what could happen in stress scenarios. And that we run various potential stress scenario concerning both migration, default risk across the different portfolio. And just to give you a sense of this, the combination of rating migration and default of what we can share similar to 2008, 2009 downgrade and the full experience coupled also with a one-notch downgrade also for our BBB government exposure, Italian exposure would fall in the region of the order of almost 15 percentage point impact.

Q - Johnny Vo {BIO 5509843 <GO>}

That's five-0? 50?

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

No One-Five, 15. Almost 15 -- don't let us jump off the chair please. One-Five.

Q - Johnny Vo {BIO 5509843 <GO>}

Perfect, perfect. Thank you.

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

Welcome Johnny.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Ashik Musaddi with JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Good afternoon. Just a couple of questions again on capital. First of all, the money you mentioned to Johnny -- that you mentioned a one-notch downgrade of a BBB to what level, BBB minus, or is it -- are you talking about one letter downgrade, which will have 15-point impact, or just one-notch downgrade? So that would be the first question.

And secondly, I mean, is there any other -- you have taken a reasonable amount of impairment in first quarter, EUR655 million, and you're saying that some of that might be reversed in second quarter. But I mean, is there any other asset classes where you have -- you're a bit more worried that the impairment could go up if there are like some defaults or some downgrades? I mean, is there any -- some assets, which are very close to getting into impairment risk again? Thank you.

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

Hi, Ashik. Just to clarify exactly, what I mean is one-letter notch, one full letter or notch down of the Italian serving, so full. And the zero -- 2008, 2009 experience of default and credit migration on all the rest of the portfolio. Hope I was clear. Full letter.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. That's very clear. Thank you.

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

Okay. Regarding the impairment and the worriness about the future, clearly what is important is to understand for sure your point is if the market has a negative downturn compared to end of March and there are -- there will be no action in between then you can end up with a higher level to be booked in the balance sheet, again, because there is this asymmetry between tax recoverability between bad and less bad impact. And this is a very important element to be kept into the mind. So there is not a fully symmetric effect even on the tax recoverability. So the better will be the market as of end of June you have a higher catch-up. And you have also some digital effect because don't forget that we have the so-called threshold. So a loss in value, which is set for us at 30% compared to book value. So if the market has a recovery, this effect could trigger back to a lower impairment. This is not true if things goes down. Clearly there is the protection of the portfolio then that could become even more positive as a payoff for the equities but not the full portfolio is protected. So you are perfectly right that the level could increase in case of a higher downturn. We increased for your information, further in the month of April, some hedges which is bringing us now to a level of higher protection on the portfolio. So having basically EUR5 billion of portfolio now protected. Okay?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Frederic I just have one follow-up on this. I mean, whatever impairments you have taken in first quarter, I mean in which book is it sitting at? I mean is it sitting at the Italian business, French business, German business, any thoughts on that?

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

The largest part is in the Italian business. Then there is a part in German business. And then after the French one and other minor effect on the other minor companies. But the largest part -- and especially the largest part, also due to the net effect, because of tax non-recoverability is -- the major part is in Italy the effect of tax not recoverability. And so, we have this plus some, non-deductibility of the impairments on the German non-life business, as a rule.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thanks, Frederic. Many thanks for discussion.

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

You're welcome.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Emanuele Musio with Morgan Stanley. Please go ahead.

Q - Emanuele Musio {BIO 19781440 <GO>}

Hi, thanks for taking my question. A quick one on solvency, please. I mean you already discussed about market impacts and so on. So it is a quick follow-up. If you could please provide a breakdown of the minus 23 percentage point movement in your solvency ratio due to market movements. And also you just mentioned 15 percentage point impact for a full letter downgrade. I didn't get -- is this including govies? So these two please.

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

Hi. Emanuele, Chao, yes the -- I answered the -- second question was specific on the one letter down in the govies as well. On the variances of the solvency, I can tell you that, the movement of the market, the contribution of interest govies incorporate overall. I would say that, you have spreads and VA is more on the line of 3.3. And equities are more on the line of eight. And then, you have what is expected on interest rate which is in the order of seven. Then you have the volatility there and other part. This is basically the effect.

Q - Emanuele Musio {BIO 19781440 <GO>}

Okay. Thank you. And interest rate, how many points?

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

Seven.

Q - Emanuele Musio {BIO 19781440 <GO>}

Seven? Okay. Cool. Thanks.

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

You're welcome.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question. We have time only for one more question. Thank you very much.

Operator

The next question is from Andrea Lisi with Equita. Please go ahead.

Q - Andrea Lisi {BIO 20482284 <GO>}

Hi. Thank you for taking my question. Just a quick question on your real estate portfolio, we know that a significant portion of your portfolio is related to offices. And a lot of them obviously were closed with the lockdown, people working at home, I just want to ask you what impact do you see there? What are the risks on -- that you see on your real estate portfolio? Thank you.

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

Yes. Hi, Andrea. So on the real estate portfolio, the action we are taking -- it's true that we have offices. But we have also long-term rent in these offices. And we have also very good relationship with our clients related to this. So we are maintaining a strategy to let's say follow through the needs. And this is why we were saying that we could expect some effect on rents in order to make the trade-off in some cases between lower rents and taking the unused part or increasing the relationship and finding common solution which is what we are doing now. So all in all, I could expect by real estate a high double-digit net impact.

Q - Andrea Lisi {BIO 20482284 <GO>}

Thank you.

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

While I recall that our portfolio under IFRS rules is at cost. So the unrealized capital gains are not in the balance sheet. I just recall for everybody.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you very much.

Operator

Giulia Raffo, the floor is back to you.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you very much. As always, the Investor Relations team will be at your disposal for any additional question or follow-up you might have. We look forward to meeting you in person in the future. Hoping that, we'll be able to do so in a short period of time. And our next event will be for the half-year results at the end of July. Thank you very much. Have a good day. Bye-bye.

Operator

Ladies and gentlemen, thank you for joining. The conference is now over. You may disconnect your telephones.