

Q3 2018 Earnings Call

Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Frederic de Courtois, General Manager and Head of Group Data and Digital Innovation
- Leonardo Meoli, Group Head of Investor and Rating Agency Relations and Group Head of Strategy

Other Participants

- Colm Kelly, Analyst
- Farooq Hanif, Analyst
- Giuseppe Mapelli, Analyst
- James Shuck, Analyst
- Johnny Vo, Analyst
- Niccolo Dalla-Palma, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- Thomas Seidl, Analyst

Presentation

Operator

Good day, and welcome to the Generali Group Nine-Months 2018 Results Q&A Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Leonardo Meoli, Head of Investor and Rating Agency Relations and Head of Strategy. Please go ahead, sir.

Leonardo Meoli {BIO 20776681 <GO>}

Good day, everyone, and welcome to our nine-months 2018 results Q&A session. My name is Leonardo Meoli. It's a pleasure for me to introduce today's call. In the next hour, the General Manager, Frederic de Courtois, and the Group CFO, Cristiano Borean, will be glad to answer to your questions.

Before we start, I'd like to hand it over to Frederic for some opening remarks.

Frederic de Courtois {BIO 16976110 <GO>}

Thank you, Leo. Good morning to all of you. I'm Frederic de Courtois and I'm really happy to talk to you for the first time in my new role as General Manager.

This is an important month for Generali. This is an important month because this is the last quarterly -- set quarterly result before the end of the year and this is the month of our new strategic plan. So you know that we are going to publish our strategic plan on the 21st in Milan. And we are looking forward to seeing you in Milan.

A few words on the results. This is a very solid set of results. If we look at the various components of solid growth, solid technical result and solid solvency despite the market turmoils. And all of this makes us very confident that we are going to reach all our target at year-end.

After this short introduction, I pass to Cristiano.

Cristiano Borean {BIO 15246531 <GO>}

Thank you, Frederic. For me as well, it's a great pleasure to joining you in this call. With you today in new role, of my recent position as a Group Chief Financial Officer of Generali.

As you have seen from our press release, the improvements seen in the first part of the year on the business side and as well on the capital position are confirmed by today's results.

So having said that, we are now glad to start talking and taking your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Peter Eliot of Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. And -- first question, I just wanted to ask actually how you think that the solvency -- I mean, I guess as at today, I think your ratio -- solvency ratio should be benefiting from the country's VA, so it should be a little bit higher than the end of Q3. But I mean, clearly, that's not an economic benefit.

And then you'd have sort of two definitions of solvency, 20 points apart and not moving completely in tandem. So I was just wondering if you could shed some light on how you think that the movements and how -- when BTP spreads widen, the extent to which that sort of feeds into your thinking as the solvency as a group and that was my first question.

And the second question was, I was just wondering if you could give us any more color on how you see the prior year developments developing. I mean you commented in the press release that it was stable for nine-months but I think we had a bit of a pick-up towards the end of last year. So I was just wondering if there's any more color. And perhaps if I can ask a third question, you talked about the impact of market volatility on the realized gains and impairments. I mean obviously Q4 is -- has been a bit more volatile. So I'm just wondering if you can sort of update us on your thinking there, and what we should expect. Thank you very much.

A - Cristiano Borean {BIO 15246531 <GO>}

Thank you, Peter. Regarding the first question on solvency, if we look at September and level of BTPs, we're at the level where the (inaudible) VA adjustment did not enter. So the figures we are showing you in this solvency ratio published are without any volatility adjustment triggering for the country part because it was very close but it was not there.

Regarding the movement on deal[ph] days, the country volatility adjustment is really jiggling around the trigger level. So we are in a kind of binary position. But what I will like to comment is the movement of the spread widening has been more than counterbalanced by our solvency capital generation. So basically, the effect are related to economic variances, which is close to three percentage points, has been more than covered by our normalized capital generation of the period. Regarding the prior year development we are as we said stable. And on this topic, we would like to give you more insight and color during the Investor Day so that I think you can come there and look at what we're going to say. Related to the third question on your realized gains and impairment, the third quarter was impacted with some specificities. I think there are not expectation of having less volatile third quarter versus the fourth. We do not see big differences with respect to that. Let's say, as you maybe know, the major contributor on that part was our position held in Banca Monte dei Paschi.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you very much.

Operator

We will now take our next question from Thomas Seidl of Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Three questions also from my side. First one on the Life operating result which you grew some EUR10 million Q3 year-on-year. And that despite a drop in return on investment by some 20 basis points. So I wonder what has allowed you to grow the operating profit? Was it that we had abnormal low policyholder share in the quarter or did you fully compensate the 7%, 8% lower investment revised with a better risk and expenses side? So that's my first question.

Secondly on P&C, you basically say that combined ratio that it's lower year-on-year and that can be as low as 30 bps. So the underlying loss ratio is pretty stable. But then you say

you have EUR90 million of large losses which translate into 1.8 percentage points.

My question is, do you imply to say that you have improved the underlying loss ratio excluding man-made losses by as much as 1.8 percentage point at the half year it would've been 0.9 percentage points.

And third question on your target RoE, you target 13%, but the ROE -- operating RoE is trending down since 2015 year-on-year and so my question here is what makes you confident that you can actually achieve the 13% this year? You are below that at the nine-month level?

A - Cristiano Borean {BIO 15246531 <GO>}

Thank you very much, Thomas, for your questions. So first question, regarding Life operating results, the dynamics there is let's say twofold. The first one is purely technical and you have the increase in the technical margin you can extract things for our new structure of products and hybrid products we are selling and in general moving to a more -- the pure risk part.

The second element related to the correlation between the drop in the investment result, which was coming, as you noticed principally because we reduced the capital gain realization. How this translated into the policy order share. We are managing this in a local basis accordingly to the different markets and following the approach to manage properly this following also our commercial profit-sharing objectives. So this has been managed according to this.

Second point related to the combined ratio year-over-year, the man-made losses we had, it's part of the business. I mean, you've seen bad luck. Other peers had a more natural catastrophe. This is part of a statistical fluctuation around it. We are not inducing an attritional improvement of that level. We are on the attritional combined ratio. We think we are sufficiently in line. And when we speak an improvement about the period, we are always referring to the nine-months '17. Hope I was clear on this.

And regarding your third question on the operating return on equity, when we say that we are confident to reach the 13% above is the plan period, we are at 13.4% over the plan period announced on the '15, '18 and we are confident to close this on target due to that. That was the clarification on this point.

Q - Thomas Seidl {BIO 17755912 <GO>}

On the -- for this year basically, you don't see then a need to get to the 30% because you're -- even if you're below 13%, you'll reach the three-year target?

A - Cristiano Borean {BIO 15246531 <GO>}

Indeed.

Q - Thomas Seidl {BIO 17755912 <GO>}

And on the loss ratio just on the nine-months, you're saying you're inline or you're below the nine-months '17 on attritional loss ratio and --

A - Cristiano Borean {BIO 15246531 <GO>}

We are in line.

Q - Thomas Seidl {BIO 17755912 <GO>}

In line. All right. Thank you very much.

Operator

We will now take our next question from Farooq Hanif of Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thank you very much. Good morning. Could you go back to the country-specific volatility adjuster? The comment that you're making suggests that the sensitivity now at this stage will be lower, further widening. Is there anything you can say quantitatively around that?

Second question, you've seen a drop in pensions and saving sales in Italy, is this Generali-led or is it also competition-led through the bank assurers? And lastly, so related to that, are you not tempted to push more traditional product given the high bond yields in Italy, the ability to lock in what is essentially, from a regulatory point of view, a zero risk-ish, zero risk asset? Just wondering what your thoughts on that are? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Farooq. Thank you for your question. So first question's on country volatility adjustment. Yes, you are right, in case of triggering the country volatility adjustment, the sensitivity will be lower. Just -- I recall you, at group level, the 100 basis point movement in BTP now implies, as we presented you, 12 percentage points of movement in the solvency ratio. You have to think that in a context where you enter in a country volatility adjustment regime, you have a drop in the sensitivity. And you can be closer to the seven percentage points sensitivity.

Regarding the other question in drop in saving and pension in Italy, it is not due to competition. It is a strategic positioning of the group towards the new capital-light products. And the competition from the banks is not seen on that due to the strong distribution capacity with our Asian network. And so it is mainly related to this point. Hope I clarified your question on this.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you.

Operator

Our next question comes from James Shuck. Please go ahead. Your line is open.

Q - James Shuck {BIO 3680082 <GO>}

Good morning, everybody. So three questions from my side and apologies, but I'm going to go back over some of the answers you've given. Firstly, just returning to the combined ratio and the attritional development, I mean there's quite a fair comment in the press release that the attritional -- the current year loss ratio excluding that cash actually did improve year-on-year. So I'm just kind of don't quite squared out with your comment just a minute ago that it was stable year-on-year. I appreciate there were higher man-made losses in the period. It looks like about 60 bps -- basis points, across nine-months to me. So perhaps you could just kind of just expand a little bit on that attritional development in the period, please.

Secondly, there is also -- the technical margin improvement, there's a comment again in the release that says that there was a technical margin improvement in operating profit of Life in the third quarter. And that was due to an acceleration in Q3. I presume that's an acceleration of protection-driven style products, but it's not clear to me what that mix change has driven and whether we should expect that technical margin to step up as a result. Is it something to do with the profit signature of the business being solved? Kind of linked to that, I'm just -- can you just expand a little bit on why the French technical margin is always negative, around the EUR 400 million, EUR 500 million level, and whether you expect that to normalize at some stage?

And then the final question, really just to help a little bit around Germany and the Life operating profit in Germany because in 2017, there was quite a high degree of volatility that the operating profit trended up quite a lot and you obviously sold Generali Leben. I'm just finding it difficult to get an underlying view of what the baseline is from 2018 onwards, please. Thank you very much.

A - Cristiano Borean {BIO 15246531 <GO>}

So thank you very much, James, for your questions. So the first point, maybe -- sorry, I was not clear on the point. The attritional part I was referring to was the stability with previous information which was healthier. Yes, there is a little improvement on that. So thank you for pointing it out.

Second point on the technical margin improvement in Life, that's the ratio in the quarter, yes, you have as well some technical element on risk result coming from Germany which is improving. And clearly, this is part of the repositioning of the new structure. It is also part of some risk results. So clearly with its own volatility around.

Third question, French technical margin is always negative. You have to -- good point on this, but you have to be aware that the structure of this is part of a longer restructuring happened in France related to the technical cost of the so-called longevity, which is part of the technical margin result, which has been progressively managed and is going to be managed. And so I'm not expecting to have a permanent negative technical margin related to how the definition -- how you see it.

And then if you can just re-elaborate your last question on Germany, please, because it was not really clear to me.

Q - James Shuck {BIO 3680082 <GO>}

Yes, sure. So just the Life operating profit, I mean recently it's been quite volatile. So 2017, EUR526 million is kind of up from around the EUR400 million level in previous periods and H1, H2, the run rate's kind of all over the place. I just -- particularly given the sale of Generali Leben, I don't really have a feel or any kind of clear way of thinking about what the normal level of operating profit for Germany is going forward?

A - Cristiano Borean {BIO 15246531 <GO>}

James, clearly, fair point. We are at nine-months. We are commenting a delta of a single quarter. I think you need to have better view at year-end results in order to normalize it properly. But I do get your point. It is true we have a positive result in Germany, and you have to think about that this is also part of the new repositioning. But let's take another quarter to have a more stabilized view about this. Fair enough.

Q - James Shuck {BIO 3680082 <GO>}

Perhaps you could just tell me what is the lost operating profit from Generali Leben, please?

A - Cristiano Borean {BIO 15246531 <GO>}

Sorry, we will not disclose this point.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you very much, anyway.

Operator

Our next question comes from Giuseppe Mapelli of Equita. Please go ahead. Your line is open.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Yes. Good morning everybody. I have three questions. And the first one is on Motor TPL in Italy, can you elaborate a little bit more on what's going on in terms of frequency, in terms of tariff?

My second question is on rumors reported by some newspaper on the possible novelties on Motor TPL in Italy that could be foreseen in the budget low, if you have some more visibility, if you can share with us what's going on there?

And my last question is regarding the situation in Italy from the political standpoint. Are you affected in terms of client behavior in terms of collection, in particular I am referring to October and referring to Q3 reproduction? Thank you.

FINAL

A - Cristiano Borean {BIO 15246531 <GO>}

Thank you, Giuseppe, for your questions. So the first point, related to evolution of Motor TPL in Italy. As you've seen, there is a point related to the collection, but there is a point of reverse of trend in the average premium, which is positive. And, coupled with a lower frequency, which is showing an improvement in loss ratio, this allows us to phase in, in a positive way, the next round of tariff movement.

On the other side, related to the loans -- on the budget law in Italy, we cannot comment up to now because it is only hypothesis. We need to see the final version of it before taking related to the decision. And actually, the political situation in Italy related to unit-linked production, we do -- we are monitoring it constantly, at this point, I have nothing special to say more than -- about this. I will say nothing more.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Thank you very much.

A - Cristiano Borean {BIO 15246531 <GO>}

You're welcome.

Operator

(Operator Instructions) Our next question comes from Johnny Vo of Goldman Sachs. Please go ahead. Your line is open.

Q - Johnny Vo {BIO 5509843 <GO>}

Just a couple of quick questions. Just in regards to the solvency position of the Italian subs, can you give us an update of where those solvency positions have moved to, post the move in BTP? And secondly, just in regards to effectively remittances from those entities, I mean, what are the risks around remittances to the holding company? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Thank you very much, Johnny, for your questions. On the solvency position of our Italian company, I recall you that the starting point is really, really very, very healthy. And our companies are very well-capitalized about this. On this point, coupled with the capacity and the healthiness, I would like to ask you to wait a couple of weeks and discuss it during our Investor Day because that will be part of our discussion in order to show you what is the situation.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Brilliant.

Operator

Bloomberg Transcript

(Operator Instructions) We will now take our next question from Niccolo Dalla-Palma of Exane. Please go ahead. Your line is open.

Q - Niccolo Dalla-Palma

Yes. Good afternoon. Hi. My first question is on risk of rating integration and impact on solvency. I know it must be very difficult to get precise numbers but the fact that S&P had - did not downgrade Italy at this stage, did it avoid negative impact on requirements[ph]? And how should we measure it from the outside? Again, I know it's difficult but just any indication of how relevant it would have been would be helpful.

Secondly, on Generali Leben, could you update us on the process, of course, there's no regulatory stand here, but maybe something you could say on how the approval is going. And lastly, there was some news about an agreement between DWS and Generali on -- for partnership on some products. Could you maybe explain this slightly better? There was, I think, no specific full press release on this, so maybe you can add some comments there? Thanks.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Niccolo, can you please re-elaborate the third question because it was not clear to us. Sorry for asking again, but just to be sure that we can answer properly.

Q - Niccolo Dalla-Palma

So for the third question, there was some news that DWS picked -- was picked by Generali for a funds partnership but there were limited details of what the partnership would look like. So just wondering what is -- what it actually is?

A - Cristiano Borean {BIO 15246531 <GO>}

Okay, so starting on the first point, there is cooperating migration and sensitivity. I would like to ask you to wait a little bit and let's discuss this at the Investor Day so that we will have a clear and better view also on our asset allocation and the risk of our asset allocation. Related to the second point, I would like to hand over to Frederic.

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

On Generali Leben, the process is ongoing. My only comment is that the process is ongoing as planned. So we are confident. I'd like also to remind you that the new IIM[ph] regulation is now official, which has a positive impact on the -- that we had published in our press release in the earn-out with the buyers. So this is for us an additional EUR125 million. On your third point on partnership, I have no specific comment. I mean, this is part of our new asset management strategy. So we are doing these partnerships and we start to see the positive impact in our result.

Q - Niccolo Dalla-Palma

Thanks very much.

Operator

(Operator Instructions) We will now take a follow-up question from Farooq Hanif of Credit Suisse. Please go ahead. Your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thank you again. I suspect you might bump this question, but I'm just wondering if you can also comment on internal model approval process, how close you think you are to getting more regulatory upside on solvency? Thank you.

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

Farooq, this is Frederic speaking. Just to tell you that we are going to update you on the process at our Investor Day in two weeks from now.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much.

Operator

Our next question comes from Nick Holmes of Societe General. Please go ahead. Your line is open.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thanks. I just wanted to come back on unit-linked sales. Now that the markets have fallen, do you think that the unit-linked growth story is over for the time being? And also, could you give us a bit more color on the very strong growth in Protection that you're seeing, sort of which countries and sort of which products? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Nick. So first point on unit linked, I recall that there are different forms of unit linked. You do not sell only equity -- equity linked, unit linked. There are even forms of unit linked where we are selling which are so-called volatility protection unit linked. So -- this stronger collection which we are observing in many countries, call it, (inaudible) strategy, should not be impacted because of the different capacity of offer. And then related to the protection part, I should say that the major evolution comes on one side from the European part and then there is also a growth for protection in our Asian products in China. Here it is.

Q - Nick Holmes {BIO 3387435 <GO>}

Sorry, the -- thank you. So basically, would you say that we should interpret your comments that you're still confident that unit-linked growth will be an important driver in Life?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, Nick, because unit linked are 35% of our new business premiums. So basically, we are confirming the capacity of the collection in that side. Of course thereafter a quarter, also

thanks to the differentiation in the offer we are building and the coverage of the different needs, which is key also part of our investment offer strategy in this sense. So we do not see any kind of drop, neither drop nor a potential risk, related to that at this point in the figures.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. That's great. Thank you.

Operator

Our next question comes from Colm Kelly of UBS. Please go ahead. Your line is open.

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks a lot. Just one question on the asset management business. Obviously, the strategy was put in place previously and there was obviously a strong focus on real assets investing in the illiquid space. During Q3 we had the announcement of the Aperture Investors instead of in the US, with more of a -- in terms of charging structure more than ETF like structure. I'm just wondering whether you can give any color vis-a-vis plans to roll that out in other core markets perhaps across Europe or Italy going forward? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Okay, Colm. On this point, we would like to update you at the Investor Day because we will dedicate this specific point related to asset management.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would now like to turn the call back to Generali for any additional or closing remarks.

A - Cristiano Borean {BIO 15246531 <GO>}

So thank you very much for all the questions and the points. Hope we were useful in your very important job. And I wish you a very nice period to hoping that we can see together in Milan for our new Investor Day. So I hand over, and I just would like to invite you again to see the new transformation that Generali will announce in -- on November 21. So I hand over to Leonardo.

A - Leonardo Meoli {BIO 20776681 <GO>}

Thank you, everyone. The Investor Relation team remains as usual available to answer separately to further questions and follow-up. We are very much looking forward to meeting you at our coming Investor Day on November 21st in Milan. Have a nice day.

Operator

Thank you. This does conclude that Generali Group nine-months 2018 results Q&A conference call. Thank you for your participation today. You may now disconnect.

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