FINAL

Bloomberg Transcript

Y 2020 Earnings Call

Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Giulia Raffo, Head of Investor and Rating Agency Relations
- Philippe Donnet, Group Chief Executive Officer

Other Participants

- Andrew Ritchie, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Colm Kelly, Analyst
- Farooq Hanif, Analyst
- James Shuck, 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 Full Year 2020 Results Conference Call.

(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; and welcome to everybody on the call. Before we open the Q&A session, I would like to hand over to our Group Chief Executive, Philippe Donnet for some opening comments. Thank you very much.

Philippe Donnet {BIO 4657671 <GO>}

Thank you, Giulia. Good morning, ladies and gentlemen; and welcome to the presentation of Generali's 2020 financial results. The COVID-19 pandemic has proven to be the worst crisis since the second world war. In the face of this context, our Group achieved outstanding financial results that demonstrate Generali's strong resilience both in terms of technical excellence and capital position. Thanks to our strategic positioning and agility, we were able and continue to be able to navigate the crisis from a position of strength. We also had the digital and technological platforms in place to ensure business continuity and to support our customers even in the most critical times reinforcing our role as lifetime partner.

Before we open the Q&A session, I would like to start with four key messages that best characterize our 2020 performance. First, for the second year in a row, we posted record operating result, reaching EUR5.2 billion with strong contributions from P&C and Asset Management. These accomplishments clearly proves the solidity of our business model and our diversification.

Second, even in the pursue certainly low interest rate environment. We maintained our strong capital position with a solvency ratio of 224% stable year-on-year confirming our excellent position as best in class within our peer group. We achieved this result also thanks to our record capital generation of EUR4 billion.

Third, as a result of this achievements we will propose to our shareholders a dividend per share of EUR1.47 split into two tranche. The first tranche of EUR1.01 for 2020 to be paid this may but by more than 5% compared to last year. The second tranche of EUR0.46 related to the second part of the 2019 dividend, which we had to retain will be payable in October in the percent of supervisory recommendations preventing it.

Finally, at our Investor Day last November, we confirmed our full commitment to the targets of our three-year strategic plan, Generali 2021. We remain very confident about our execution and to that results demonstrate that we are well on track to deliver on these targets.

Thank you again for your attention. And now, Cristiano and I are happy to open the floor for your questions.

Questions And Answers

Operator

(Operator Instructions) The first question is from Andrew Sinclair with Bank of America. Please go ahead.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Thanks; and afternoon, morning, everyone. Three from me, if that's okay. Two on P&C and one on the cash.

So, firstly, just you've clearly had a very strong year on P&C, despite lower reserve releases, just really wondered on that, have you actually increased the buffers in your reserves on P&C?

Secondly, on P&C pricing, just really wanted to give us an update and thoughts in your key markets in particular, how much of frequency benefits for 2021, do you think will be competed away on pricing.

And third question really strong cash remittance in 2020. Just really wondered any guidance on 2021 and also could you update us on holding company cash balances just now feels like that must be a pretty strong number right now? Thanks.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you very much. I'll ask Cristiano to answer your question on the PYD and the old cash and then Philippe will answer your question about the outlook in P&C.

A - Cristiano Borean {BIO 15246531 <GO>}

Hello, Andrew. So regarding the prudence and evolution of our P&C, as you can notice. First of all, I would like to draw your attention on the best estimate and view, which is reflected in the capital generation part, which year-on-year basically on the P&C contribution almost doubled. Relating to our prior year development we already stated also in the healthier in nine months results, but this level is not the recurring level, you will see going forward. So there will be more a normal level towards the previous one you've seen, I would like also to train your attention in the fact that our best estimate liabilities has been always very and well prudently signed and as more as time goes by. We have each year, some positive change coming from best estimate assumption, which means that we were prudently underwriting and this is progressively reflecting out of that.

Having said that, there are other non-technical items where that prudence was there on the IFRS result -- not reflected in the best estimate liability is better, which are in the IFRS balance sheet.

On the P&C business, there are a few different impacts and obviously the lockdown 2020 had a positive impact of positive one-off impact on the claims frequency on the motor insurance business. And I would say that in 2021 because of the partial lockdowns in some countries or cities because of the current views in some countries are cities, the claims frequency the motor insurance claim frequency will remain quite low, but it will still be one-off impact on the contrary, there has been some inflation on the motor and spare parts prices.

So, this technically -- this is a reason to increase the prices on the motor insurance business. But it depends on the local competition in some countries, the competition is stronger than in other countries. So once again, the price making ability, the price making power depends on two things. The quality of your distribution. The more your control your distribution, the higher is your price making power. And I've always saying these and then it also depends on your market share. And on your market position.

And in Generali, we have been always consistent with this we have a stronger proprietary distribution and this increases our price making power and we aim to have even stronger market position and market shares in most of the countries, especially in Europe, which will further increase our price making power.

Having said that, talking about a retail insurance, the market is overall quite quite competitive. It's different on the large corporate and commercial business where the market is hardening significantly because of the reinsurance market hardening and definitely as as a player in this market. We will get some benefit on these for Generali corporate and commercial.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, the HoldCo cash, year-end 2020, we had EUR4.76 billion has all the -- cash positioning. I recall you that within this amount of money, there is the retained EUR0.46 of dividend not paid-in in year-end of '20 and that has been reported this year. And so if you take into account the evolution and the guidance for 2021 for remittances, which should stay in the EUR3.1 billion-plus level you get to us. Our level of final year cash, which is a slight is stable to slightly higher to the level of 2020 because you have to remember that we will spend the EUR724 million of the catch-up of the EUR0.46 that we were referring before.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Strong numbers, I guess. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question please.

Operator

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

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I had a couple of similar questions to Andrew. Actually, I mean, on the cash, I mean your 2018 Investor Day you targeted 3.4 billion for capital redeployment, I mean the very strong numbers that you're reporting. Now, I mean I'm guessing that you're going to have made a lot more than that's available and obviously sort of where in the last year of the plan. So I was just wondering, could you remind us how that's been used so far and any sort of update on any plans for the remainder.

And secondly, on the non-life prudency very clear answer on the PYD etc. I'm just wondering, would you say that you've also been quite prudent and striking your current year loss picks, given the current environment.

And maybe a third question you mentioned just transcript in the Joint Venture with Accenture. I was wondering if you could just talk maybe a little bit about the benefits of that might bring and also the associated costs. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

I will start answer the first one. Cristiano will add more information. We are basically we've been investing, we've been redeploying so far EUR1.8 billion in some, I would say, small and medium acquisitions, sir. By the way, most of the companies that we acquired has been integrated. The last one was Exane Greece; and as soon as the closing is done, we will start the integration. But for example, despite the COVID crisis, which has been quite severe in Portugal, we were able to complete the integration of (inaudible) in almost nine months so all these acquisitions were fully in line with the strategy and the -- the integration has been successful. So we will be able to get all the expected synergies from from these acquisitions. So we have basically an order EUR2.3 billion to redeploy according to the Generali 2021 plan.

Definitely, we are looking at opportunities with the same discipline, because without our discipline, maybe we would have done more acquisition, but we have been very disciplined, that we will continue being very, very disciplined, actually we always benchmark. You have to understand that in our mind acquisitions M&A is not an objective acquisition and M&A are the mean to create value for shareholders. So we always benchmark acquisition and acquisition against not making the acquisition in terms of value creation for shareholders. So I don't know what we will do before the end of the year. It depends on the quality of opportunities and the consistency with both our strategy and our financial discipline.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. To integrate the first point, having taken into account all the money deployed before paying for the agreed AXA Greece operation, we will have EUR2.3 billion -- EUR2.5 billion before this payment.

Second question related to, how do we have been prudent in the P&C IFRS accounting downs where he is compared to the previous year. Yes, we had something in the order of 0.5 percentage points more prudency in the current year IFRS accounting and I recall again what I told before to Andrew there are anyhow other technical and non-technical items exposed to where we were also prudentially accounting not too reflecting the full operating result the complete benefit as it is reflected in the operating capital generation.

With regard the third point, the joint venture we were setting up and we set up this to have a mutual benefit between exchange of knowledge on one side and because also of the progressive aging in the IT department and the need to refresh to the -- to the best incoming standards of innovation and we use this format in order to have a mutual exchange between benefit of knowledge on one side and benefit for us of the efficiency and more let's say efficacy in the deployment of our infrastructure especially. So we should reflect in a progressive reduction of some running cost for infrastructure after the starting set up going forward.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question please.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you so much.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi everybody and congratulations on the results today. So just going back on HoldCo cash capital management, I noticed that you had particularly large upstream from Italy and CEE Austria Russia this this year. So can you talk about further opportunities for exceptional capital management for example did your extension of the internal model for operational risk for example create opportunities to upstream in 2021 and 22.

Secondly, on the changes in management structure. Can you just talk a little bit about what you think it wasn't working well. Particularly on the ALM side but you think is now going to improve under the new management. And same question for the Deputy CEO role.

And then the last question is, I noticed the gap between your new business reinvestment yields and guarantees has close a little bit in life, so it's kind of wondering what your outlook is for the investment margin, how that will translate into IFRS going forward and what your concern is about that. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. I'll ask Philippe to answer the question on the management structure and then Cristiano will answer the rest. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you Farooq. Well, first of all, our previous organization was working well. It's not because it was not working well that we decided to change it. It was working well, and I would say that the proof is the quality of our 2020 Results. But it doesn't mean that something in when something is working well, you should not change it because you can always improve something which is working well.

And first of all, we are in the middle of a crisis, because actually the COVID-19 crisis is not finished yet. So this organization is more a crisis management organization, because it's simpler it accelerates the decision making process and this is what we need in this kind of crisis time. Then the asset liabilities management was working well. But we want to make it even stronger. Why is that as you have understand the COVID-19 financial consequences with the stronger public debt in most of the countries put additional pressure on the interest rates. And this is important to us as one of the major life insurance groups. So it's important to be even more proactive for example on the in-force management. It's important to be more proactive on the asset liability management. It's important to manage basically liabilities together with assets. And this is the reason why we've been innovating we've been innovative creating a new position of Group Chief Insurance and Investment Officer. Doing these, we will manage together -- we will manage insurance together with investment, which means that we will manage liabilities together with assets.

Another reason of making this reorganization. It was to put more focus on the asset management business, because we want to further grow our asset management business. So it was important for us to have a business you need for Asset and Wealth Management reporting with the CEO reporting directly to me like any other important business units.

And the third reason was to accelerate the digital transformation. Thanks to the creation of this new position of Chief Transformation Officer, putting together strategy, operations, IT and digital. These are the reasons for the change in the organization.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you, Cristiano.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. Thank you, Farooq, for questions. Thank you for the compliment. Let's start with the HoldCo cash and it is correctly spotted that Italy and Central Eastern Europe Austria. This case did really contribute with especially extraordinary capital management actions that were other entities, which also supported, but the two largest contributor for the EUR1.2 billion capital management action of 2020 we're coming from Italy and Austria. Going forward, are there further opportunities to upstream some more capital from capital management actions. The answer is yes, but the answer is not at the same level and not at the same pace. So you should expect that going forward, something which is lower as a contribution coming from the fact that we -- we will complete the vast majority, between '21 and '22 of the extra remittance part apart from the ordinary -- the ordinary net result component. So clearly, you should expect something compared to the 1.2 this year in the next two to three years of being in the order of slightly less than half of it 0 0.5.

The third the questions on the new business reinvestment yield in the outlook for the miss in margin, we need to understand the effect of what you have seen in the drop. First, there has been eight basis point impact coming from dividends and rents less of 2020 which were as we think a very, a very specific one-off on the total book amortize cost return. Second, the outlook will be impacted by the normal dilution of the rates, but at a lower pace compared to the 2019 to 2020 delta you observed. This is because, mainly in 2020 we did at the risking activity and as well and asset liability management and effect. Which I will comment later.

I need also to recall you one point when you see the average guarantee of the book and also of the new business and the written, in that average there is no calculation contribution base coming from the product-saving product. We are selling in Italy, which are representing 34% already a full sale of savings in the Group which has no guarantee only debt benefit and so they are not part of these average.

So in reality, the implied let's say guarantees lower, but you can count on it because it is not a guarantee just a clarification on this point. And going forward, the investment yield in life, we could expect them to have and amortize return in 2021, which is in the order of 18 to 19 basis points lower. And don't forget that now we have reached a very important point of ALM restructuring of the risking, which allows us, thanks to the very high level of solvency. And also thanks to the operating, operational risk improvement in the -- in the in the SCR solvency capital requirement module to have a very high level of solvency you're also in the operating entities, allowing us to manage. Eventually, the opportunity of risking or re-risking in in a much more, let's say, disciplined way having reached a very solid base to start growing and add the extra profit to sustain lesser margin.

But the basic stories first, we have to do our baseline, the baseline has been set and now we can, we can profit from this new environment, also this higher yield environmental compared to what we had in the plan.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much for the comprehensive.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question please.

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there. Just coming back, Cristiano, you mentioned the outlook for current income, what, is there a headwind in 2021 still from lower current income, I'm thinking particularly from real estate and to some degree equities. I'm not sure with us. It seems optimistic to assume that normalizes in 21. Let me just clarify what the headwinds are still from sort of COVID related impacts in 2021 related to current income.

Second question your restructuring charges have settled at a lower level. I mean, you did 130 million roughly in 2020. I mean is down just starting to be over two years from the historic run rate used to be 200 to 300 million, is that the new level for restructuring charges, although I'm -- is various new initiatives being launched. So will the restructuring charges, go up again in 21.

And the final question in asset management, the metric went backwards in 2020, what was the percent of revenue from external clients, which fell from 33 to 30 and you have a target of more than 35 which implies a pretty substantial increase in 2021 from external clients. What I think the reason itself was because you had outflows, but what is the -- how do I have confidence you can the external revenue is there a strong pipeline or how are you going to hit that target of a particular target in '21.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano, they are all yours.

A - Cristiano Borean {BIO 15246531 <GO>}

Okay, Andrew. So I agree with you, but we did not see the full end of the recovery for equities and real estate. What I was mentioning is that the impact of 8 basis points in 2020 should be lower in 2021. And don't forget that we had also started from the end of 2020 and progressively also redeployment in the so-called the real asset component, which is catching up a little bit, which helps to support also the run rate of the fixed income increasing progressively the the so-called the real asset the component by, in the last three years by almost 2.5 percentage points on the asset allocation. So this is the reason why. So we are not fully capturing in, but we are recovering a big piece in the -- if you just like and you a derivative. If you look at the dividend swap market. You have seen that there is a big catch-up in the last quarter also on all the financials, and which is a positive.

Second question on restructuring charges. Yes, we are done down from the ground rate I recall you what I told you during the the I told us to the market during the Investor Day in this in November. There will be something in the order of 30 million less restructuring charges in 2021 compared to what you have seen in 2020.

Third point Asset Management. Yes, the metric on external percentage -- external revenue -- revenues coming from external client went down in 2020. There was an effect of one-off in 2019, which was accounting for EUR23 million of our specific one-off coming from a closing of a client selling asset, which gave us that one-off, that's why you're seeing relative terms. And that's why we are convinced that in 2021, the mix will stick to the existing target.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question please.

Operator

The next question is from James Shuck with Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi. Good morning, good afternoon, everybody. First question, on the own funds generation in 2020. So, just looking at the life contribution, the new business value was up that the life own funds generation was down, I think, it fell from EUR3.0 billion to EUR2.7 billion. So just expand a little bit on some of the moving pieces behind that.

And linked to this, some -- the P&C own funds generation, I think, you mentioned that it doubled in the year, which it has, but last year was very low. If I look at your own funds generation, P&C and compare it with the operating profit for 2020, net of tax, the numbers are actually pretty close, and yet you seem to be guiding down towards the reversion in the P&C own funds generation back towards the 2019 level. So if you just elaborate a little bit on that, that would be helpful.

Then on the SCR release, you get really good disclosure, picking apart the movements in SCR particularly on the life side to new business and the release from the back book. I'm just making released from the back book is trending downwards. So from 1.6 to 1.4, net answer 1.3. Can you just elaborate on the glide path for that SCL release, that would be helpful.

And then my final question, I couldn't see a date for the new three-year plan. Obviously, it runs at the end of 2021 and I presume you're going to have a Capital Markets Day at the end of this year. Philippe, I don't to be a just it's all. But I'm just keen to know whether -- are you still going to be the person to see the new three-year plan through. When does it get signed off by the Board and is there any pressure to be more aggressive on the M&A side of things. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

James, sorry, we couldn't hear well your last question. Sorry. Can you repeat it please?

Q - James Shuck {BIO 3680082 <GO>}

Yeah, certainly. It's just about the new three-year plan. I presume you're going to have a Capital Markets Day at the end of the year, can't see a date for it. But Philippe, I'm wondering if you are the person to see this through with your mandate extends to the next three-year plan. And when it comes to discussions with the Board, are there any kind of push-back and initiatives may be to be more aggressive on the M&A side in particular.

A - Philippe Donnet {BIO 4657671 <GO>}

Hi, James. So I hope I understand well the first question related to the contribution of new business value. But you say, yes, the new business value is up, but the contribution is down. I think, the effect is also related to the fact that you have the real world versus risk neutral as well effect which has to be taken into account and which was releasing for as a positive effect of 3.9%, 4%.

And referring to this point don't forget that the results or the fact that you were mentioning the SCR. So I am answering your third question, you were mentioning also the SCR release from back book is trending down. Why? Because, clearly there is a higher impact from the ultra-low rates we experienced in 2020. So there is a kind of balancing effect. And notwithstanding this, you have seen that there is anyhow a positive release of SCR, because we have still EUR100 million SCR less coming basically from all the life part. So this is related to the new business value contribution and the SCR on the own funds generation in P&C compared to to the operating result to be sure if I understand your -- your question is that you were asking the differences among the two and where you are looking at it the deltas, just to be sure to answer correctly your question.

Q - James Shuck {BIO 3680082 <GO>}

Just by simply you seem to imply that the own funds generation P&C was at an exceptional level this year. And yet, it seems to be pretty much in line with the post-tax operating results. I'm puzzled why suddenly come down with to what it was last year.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. Don't forget that you see one thing in the P&C component, the difference between real world view and IFRS and in the best estimate. Don't forget that if you just mix up all the element of the soup, I agree with you that the EUR4 billion was an exceptional year. And if you just more look at in a run rate, it is more coherent with the EUR3.5 billion we were mentioning in 2018 when we presented the strategic plan.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Then Philippe you can follow-up online later. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. On your last question, James, first of all, all of us are still very much focused on delivering the targets of our current strategic plan Generali 2021. As you know, this plan was very ambitious before the COVID-19 crisis. It's even more ambitious in the middle of this crisis, and we are very committed to deliver all the target despite the challenges. So it requires a lot of attention.

Having said that, we started -- we already started working on the preparation of the next strategic cycle, but it's obviously too early to comment it. We will present it either end of this year or early next year as soon as we will be ready. I don't expect any change home on M&A, we once again M&A is not an objective. It cannot be a strategic objective. It's a mean to achieve objectives and our approach will remain the same disciplined and opportunistic, which means that we can be aggressive when we think it's appropriate to be aggressive. So I do not expect any disruption on on these. I think that our ambition to become lifetime partner to customers will still be a good ambition because we are not there yet. And we still have some efforts to do to become really the lifetime partner of our customers, but this is what will create a lot of value for our shareholders.

Talking about the renewal of of the Board of Directors. The whole Board of Directors will be renewed at the General Assembly the shareholders' meeting next year. And when it will be the time our Board of Directors will start working on the process for the renewal for the whole board.

Do you find in the mandatory retirement age, Philippe?

A - Giulia Raffo {BIO 21037091 <GO>}

James, sorry. We didn't hear?

Q - James Shuck {BIO 3680082 <GO>}

I was just a last question, Sorry, sorry if I'm taking up too much time, I was just wondering if you face any mandatory retirement age as CEO, Philippe.

A - Philippe Donnet {BIO 4657671 <GO>}

Not at all. There is no, no limit, no mandatory limit at all.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Okay. Let's hope you have for the next one. Thanks very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. Next question please.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you very much. First with your management changes you're continuing to underscore the importance of technology and innovation in your Group. What do you think that means in terms of what we're going to see as analysts over time Generali financially speaking is very secure and performing well as a mid-single digit EPS and DPS growth kind of business. And do you think your ambitions in technology basically just contributes of that or can you envisage those ever going to be a time when you say that as a result of the technology opportunities, you can either see a step change upwards in some of those numbers or maybe the need to actually pull back on some of those numbers because there could be a massive investment opportunity. So I'm just want to get a feel when we cut to the chase on this technology stuff, is it all wrapped the bigger picture or could it actually become a bigger driver.

And then secondly, please. You guys have been very clear about the debt leverage and the deleveraging that you've been doing and I think you've indicated clearly that there is more to go in your plan for this year. I mean, I'm just wondering to what extent are you allowing for the fact that that's kind of tying your hands for any M&A opportunities because your leverage in theory now is low enough where you could re-leverage if you saw an opportunity and the fact that you're guiding to the market clearly that your leverage is going down. Are you looking at that as a binding constraint for M&A or is it conceptually possible that you say, well, we know we were taking leverage down organically, but now we think our leverage should go up because we've seen a good opportunity.

And then thirdly, if I may, sort of getting into cheeky territory with the M&A conversation, but I wondered if you could just you've already talked a bit about this, but it's really notable that you continue to talk about asset management as an inorganic growth opportunity over time. And in reality, you haven't really done very much and I just kind of wonder how you're sort of thinking about that. Longer term. And then also with regards to CEE you just upstream to huge amounts of capital from one parts of that region. Can you envisage scenarios in which you may actually be downstreaming capital for inorganic opportunities in Central and Eastern Europe. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

I'll start with Philippe.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you. William, yes, technology, it's a bit like M&A takes is a mean it's not an objective. So we are investing in technology and digital transformation in technological innovation, because it helps creating value for all stakeholders. Not only shareholders but also obviously customers and distributors. This is what we are doing. So, we want to have more digital interaction with our customers. We want to have a more digital interaction with our agents and we want our agents to have a more digital interactions with their customers. So this is good for both customers and distributors.

And we also want to leverage technology to reduce our cost to improve the quality -- of our administration processes. This is what we said when we presented our Generali 2021 plan a few years ago, we said that we would invest 1 billion of the three years of the plan in energy with this objective. This is what we've been doing, I would say that the COVID-19 crisis has been accelerated this digital transformation because in two weeks we were able to send that 90% of our employees at home, working from home and ensuring the business continue to the full business continuity.

Same, same things for our agents. We actually who accelerated the adoption of the digital tools in order to continue the interaction with our customers in all countries. So this has been very, very efficient in terms of acceleration. So I think this is good for -- when we talk about cost reduction, don't forget that we also decided to increase the target of the -- the cost reduction target of the plan. At the beginning, it was EUR200 million and when we updated the market last year, we said that the target was upgraded up to EUR300 million. And I would say that this is a first result of the acceleration of the digital transformation.

But on top of this, and I think this is really important, the lifetime partner ambition creates value not only for our customers, because it's good for our customers to have a long-term relationship with us, but it creates value for the shareholder, because more and more the value of the company will come from the value of the quality of the relationship -- the long-term relationship with customers.

And this is also based on technology. It's not based only on technology, it's also based on the quality of the personal and physical interaction with our sales people with our agents. So we confirm the validity of what we always said, the winning solution that is the combination of technology together with people in the insurance distribution. This is creating a lot of value for all stakeholders.

A - Cristiano Borean {BIO 15246531 <GO>}

William, it's Cristiano. So for regarding the leverage just one one small correction to what you said, we never said that. We will go into reduce farther the leverage, we said that we achieved our targets. Clearly we stay flexible and opportunistic in any case on how to deploy cash. I remember you that for M&A, we -- as I said, after deducting for the AXA closing transaction, we will get slightly above EUR2.3 billion. So it is in this logic that you have to look at the equilibrium of the capital structure. I think that our leverage ratio today has been at the level which was the one we wanted to reach not only at an absolute level, but also in a relative level, which is good in order to think how we want to look at things.

We are always opportunistic, we look and we assess each single opportunity according to the value creation and today opportunities of M&A that creates just to clarify, but we are not going to further reduce by constraint; we never said it, you have optionality.

A - Giulia Raffo {BIO 21037091 <GO>}

Philippe?

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. On the asset management, our growth strategy is mostly based on our multi-boutique platform. And we've been very successful in growing our multi-boutique platform, acquiring competences, skills, expertise that we didn't have in-house. And when you look at the numbers in 2020 for the growth of the earnings from the asset management, we can say that this strategy has been successful. We've been also proactive in making a small and medium acquisition in the Asset Management. For example, the Lumina boutique, Sycamore in France, which is a leader of the ESG investment and also Union Investment in Poland.

We've been also proactive in making acquisitions -- insurance acquisitions in the CE as well with the rear tick Slovenica and Concordia company in Poland. And we will remain very very opportunistic. The CE is very strategic to us. We are already the leader in this part of the world. But if we can find good opportunities to further strengthened our leadership position there, we will definitely do it. We're remaining very disciplined.

Q - William Hawkins {BIO 1822411 <GO>}

That's great. Thank you. And apologies for the mistaking my question. Thank you.

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>}

Oh, hi there. Thank you very much. Two quick questions please. With the dividend, I wondered how confident are you that the regulator will approve your second dividend? And do you think we'll have more of a level playing field, so dividends across the EU this year.

And then second question is with your life back book, are there more disposals like Generali Leben that you're looking at. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Over to you Philippe.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you, Nick. Well, the recommendation from our regulator, who is the Italian regulator IVASS basically based on the recommendation coming from the ESRB. And this ESRB recommendation is pending on September 30, which means that as of today if there is no renewal of this ESRB regulation, we will pay our second half or EUR0.46 second half of dividend. I am very confident that this is going to happen. That is going to happen this way. This has been discussed with with our regulator with whom we have positive in constructive dialog. This is the most likely scenario. So this is -- I would say the only condition for the payment of the second tranche.

So I obviously cannot give you any certainty. I can only tell you that time very confident it's going to happen. This way, on the life back book first of all, when I look at the current situation. Even more happy that we did the Generali labor in the preparation of a few years ago we said in November, during the Investor Day that we would become even more proactive. On the in-force management and you know if we decided to put together in our new organization insurance and investments. It's also to push the in-force management because our Group Chief Insurance and Investment Officer is fully empowered now on the in-force management and he and he has all the levers in his hands.

Q - Nick Holmes {BIO 3387435 <GO>}

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

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 morning, good afternoon. Thank you very much. And as Farooq said earlier, these outstanding results, I could have only wished for the EUR0.46 now. Anyway, I know and and lots of questions but additional on apologies. A, could you give us a little bit more of an update on Cattolica where we've seen lots and lots of press releases.

And the second, I think Cristiano, you pointed out that the in the unfunded port, nonlife was funding good and a check. Yes exactly as you said, it's doubled to EUR1.856 billion, you said, no, it's going to recur. But my question here really is does that mean that the combined ratio you reported the 89%, could have been 86%, that seems to be the difference the extra EUR800 million in -- 3% combined ratio give or take I think question.

On COVID, could you give us a precise breakdown. I think you split life and non-life, but I wondered, within these, if you could give us a precise breakdown of the impact frequency volume effects, whatever it would be, it would really help. And also if you can maybe say what you think will come on COVID for 2021. And then on my back book deals, I just wonder if you could say which countries -- I'm reading between the lines, so completely wrong probably. I'm kind of thinking it's most likely this to come from France. Thank you.

And I'm sorry I had a last question, if I may. On asset management, why did you have net outflows?

A - Giulia Raffo {BIO 21037091 <GO>}

Michael, sorry. Just to be clear, you managed to sneak five question after all.

Q - Michael Huttner {BIO 21454754 <GO>}

Sorry (Multiple Question)

A - Giulia Raffo {BIO 21037091 <GO>}

Just to make sure we understood correctly, your fourth question is, are you trying to get the sense of geographical priority for in-force management and you hinted to France? And then your last question is the reason for the outflows in asset management, right.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah. Giulia, thank you so much.

A - Giulia Raffo {BIO 21037091 <GO>}

You're welcome. Now, we will start with your first one on Cattolica and I'll ask Philippe to answer that.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. If you don't mind, Giulia, I will answer on Cattolica and on the in-force management. On Cattolica, I would say that things are proceeding smoothly. We -- thanks to the capital increase, we became the first shareholder of Cattolica with 24.4%. But this goes together with a strategic agreement with Cattolica regarding asset management, reinsurance, Internet of Things and health insurance.

We are very happy with the way it proceeds, because we are implementing the strategic agreement. It has been implemented already completely for the reinsurance in the Asset Management. So we are very happy with the the implementation of our agreements. So we are very happy with our investment in Cattolica.

On the in-force management. We have a very granular approach. So it's not a matter of geography, it's a matter of policyholder's fund. So we are looking at every single policyholder fund and we are looking at the guarantees. We are looking at the assets and we will take the decision based on these. So no. Looking at the geographies.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano, floor is yours.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, Michael. Good morning. So regarding the P&C, yes. I appreciate that you all look at the own funds, which is very insightful in my opinion. And I see from your question, which is getting there. I would like. Just to highlight if you just look at the unwinding of the price previous year compared to what we are putting in the IFRS account, you understand that our prudency was slightly above the level of the unwinding you have seen. So, clearly, yes you didn't see the full result in the IFRS account of the best estimate, let's call, current year, because we were prudent in allocating normal reserving and also because we did, as I already said also to Andrew and others, the fact that there are other post in the non-technical item which we put prudency in the balance sheet. So the point is -- the answer is not -- yes, not far from what you are saying even lower.

The COVID effect in 2021; what we learned this year? First of all, we are very under control on the business interruption. In fact, we have done a full due diligence of all our closes in the insurance policies and we don't see our risk increase around this point. So there is basically everything under under under control, what we are observing as a COVID the fact there could be some potential and trend, but lower than the -- 2020 in the frequency. So clearly there could be up as a start of the year with lower frequency, especially in the motor part, but not at the level observed during 2020 I should say, slightly less than half of it. And on the -- on the -- let's say, rent and dividend as I was mentioning also before to in Ritchie clearly the point of fully restoring the dividend capacity and the rent capacity is not fully phased in. But we are more in health, recovering that part.

Going to the question on the Asset Management outflow, sir. I think that we need to split the effect between something more than EUR3 billion split between Lumyna which is our very good performing boutique, which got a very big mandate from hedge fund in London based in London. And also our China operation, which increased externally. And that this is counterbalanced from exit from our general investment account mainly for institutional clients, which we're managing book of government bonds at very low margin so margin margin wise is very limited. And as well from some exit of zero impact on revenues on asset under management from our previously sold entities of Generali Leben in Belgium,m where basically the owner decided to split it out, but we see no impact because of the way the contract is written hope I gave you insight.

Q - Michael Huttner {BIO 21454754 <GO>}

That's brilliant. Thanks, Cristiano. Thank you. Thank you very much.

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>}

Thank you, Giulia, and hello Philippe and Cristiano just a few questions I have, I will not five but maybe two, three, first of all, I mean, going back to Michael question about combined ratio and the prudency. I mean if I understand correctly, you reported 89.1% of which a 50 basis point was a one-off COVID-related positive so your clean was 89.5%. And if I just heard correctly what Cristiano said, I mean, it is a very conservative number. So what sort of combined ratio are we talking about going forward. I mean, are we talking about like low-90s for a prolonged period now? Or are we still talking about like below 90s or just above 90s? Any thoughts on that would be great, because I think the general expectation is still slightly above 90s combined ratio is what is the general perception, but it looks like you're doing far better than 90%, I think. So that's the first one.

The second question is, if I think about cash you have, I mean, you have EUR4.6 billion cash at the moment. And the math you gave at the beginning of this call, it looks like by the end of this year you would be around EUR4.5 billion cash as well, which is definitely a level which is too high in my view. So you could easily have to EUR2 billion, EUR2.5 billion of extra cash. Now, you want to do M&A, I agree, but for how long would you be holding this cash in hope for doing M&A? I mean, are we talking about this year, next year, any timeframe would be very helpful. I mean, why would you not buy your own shares at 9 times earnings rather than going and buying something at, say, 12, 13 times earnings. So that would be my second question.

And third question, just a very short one is, can you comment a bit on this speculation about M&A in Poland that you would be interested and thinking about stuff in Poland. I mean, do you have any potential synergy benefits in that market, which could -- how we can think about that would be helpful. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Thanks a lot, Ashik. I'm going to ask Cristiano to start and then Philippe will close.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Ashik. In the answer to Michael to help, I don't want to make confusion. So I need to be very, very clear about this point, if you look at our COVID record the combined ratio of the group Generali we felt COIVD impact would have been 90.9% -- 90.9% This is the IFRS accounting view combined ratio, and it is a good accounting view of the future trends you can expect in the years to come, which we always said the corridor was in the 90 to 90 plus level.

Another thing is when you look at the best estimate part where do you put prudency into it and I was referring to that answer where we announcing to Michael. Okay. So this year clearly there has been prudence put aside at a higher level and the 05% more was referring to the higher level of prudency compared to the usual regular one you put every year. Okay.

Second point on cash. On the year-end level and then I hand over to Philippe. On cash, you should expect to have a level not too different from the year-end, without thinking into account any any effect of M&A.

And don't forget that the level of 2020 has been artificially increase the by the lack of the second tranche payment, which I recall you, it will be EUR724 million, so basically to make it simple, would have been closer to 4 billion. Don't forget that we always said, but we want to hold a buffer of cash, which is fine to be always in the order of the EUR750 million to EUR751 million. Also in these uncertain times because it is important to be prudent around the potential evolution as we always speed and we have the opportunity to manage it.

So if you just do the math and take all these pieces together, you see that there is not on top of the EUR2.3 billion of excess cash an amount which is an excessive. Then I hand over to Philippe.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Just on this one. So if I, my understanding is correct, what you're saying is 2.3 is what you want to hold and then on top, you want a cash buffer of EUR750 million to EUR1 billion of that takes me to EUR33.2 billion. And if we take the proper dividend of 2019, then you would be at EUR4 billion. So is that the right one math or I mean, what I'm trying to understand is, I think EUR3 billion cash -- I mean EUR4 billion cash holding is still pretty high. You don't need to hold more than EUR2 billion. I would say what is the reason why you would need to hold EUR3 billion, even EUR3 billion.

A - Philippe Donnet {BIO 4657671 <GO>}

Yeah, we, we don't it's impossible to forecast what acquisition will be made to -- We will not be made by the end of the of the year. Our objective is definitely not to to keep too much cash for a long period of time. If we don't make any acquisition according to our Generali 2021 plan. We will take the appropriate decision in order to create value for for our shareholders.

I will not comment on the rumors on the specific situation. I can only say that definitely Central and Eastern Europe is -- is a priority for us. We are a very strong and very successful in this part of the work and we would consider any appropriate operation to further strengthen our leadership position there. Remaining very disciplined once again.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. And really good one. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. We have time for one more question.

Operator

The next question is from Colm Kelly with UBS. Please go ahead.

Q - Colm Kelly {BIO 19140684 <GO>}

Yeah, thanks very much. Just quite quickly on the Solvency to target of 180 to 240. I mean it is quite wide relative to peers which has proven to be a very sensible approach in the context of the year. We've had in 2020. But given how strong the solvency position has emerged from that very tough test last year and that we're still working through and also given the amount of improvements you've made and derisking actions you made to the balance sheet to lower risk and lower volatility is that solvency target range still seen as appropriate for the -- for the Group or do you see potential for that target range to be tightened going forward.

And then just lastly on the life normalized capital generation. It also applies to the operating profit. Clearly it's fallen from the 2019 level of of EUR3.1 billion, which is for understandable reasons, but is it your aim our expectation that life normalized capital generation can return to that 2019 level this year or do you think it might take a bit longer given given lower investment returns. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

I would start answering to the question in the Cristiano will add comments, but I think that in the middle of a crisis like this one, I think it's very good to have such a strong solvency ratio. Don't forget that solvency ratio is is their issue, which is quite volatile as well. So we are very happy to have such a strong capital position. And if I look back in the history of the Generali it was not the case in the previous crisis in 2008 and we've been paying for this and I'm very happy that we navigate this crisis in a very, very different condition.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. And to integrate what Philippe said, I would like to stress that 2020 was a very interesting proof point of of the importance of such an operating target corridor because we experienced a to be not very far from the top and not very far from the bottom throughout the year. This is exactly built around the Generali structure of the balance sheet in the liabilities and this is the -- the corridor, which is allowing allowing us to operate appropriately according to our strategic target and that it is very important to keep this in mind, because of the structure of our of our portfolio is made in a way that we are and we needed to keep this corridor. Also thanks to the and the capital we can create a in the transparent from capital into cash in the period.

And exactly going to this point. The normalized capital generation from 2018 and 2019, 2020 has been has been falling because of the lower -- the lower rear world assumption compared to year end 2019 and 2018. And so there was a lower expected extra return and because the 10-year yield from BTP, for example dropped housing basically from one year to the other. And also there was a lower release of the risk margin.

If we look going forward, will we be able to get to a more 2019 level? I think, it is very important to keep in mind that the transformation of the product that we are doing and the larger increase of the share of product with no guarantees would that benefit only guarantees are helping us to to create farther new business value and the fact that we are increasingly very well the share of unit linked. We are also seeing these increase in the beginning of 2021 or unit Linked and Protection share, is bringing us towards a sustained new business value capacity of creation back to more normal level.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. That's excellent, thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. We need to close the call now. As always, the Investor Relation team is available to take any further question or follow-up, you might have. Thank you all for the attention. Have a good day. Bye-bye.

Operator

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