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Q4 2018 Earnings Call - Q&A

Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Frédéric Marie de Courtois d'Arcollières, Group General Manager
- Leonardo Meoli, Group Head of Investor & Rating Agency Relations, Group Head of Strategy
- Philippe Donnet, Group Chief Executive Officer, Managing Director & Director

Other Participants

- Alberto Villa, Analyst
- Andrew J. Ritchie, Analyst
- Farooq Hanif, Analyst
- Gianluca Ferrari, Analyst
- Giuseppe Mapelli, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Michael Huttner, Analyst
- Niccolo C. Dalla Palma, Analyst
- Nicholas Holmes, Analyst
- Peter D. Eliot, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Generali Group Full-Year 2018 Results Conference Call. At this time, all participant lines are in a listen-only mode. There will be a presentation followed by a question-and-answer session.

I would now like to hand the conference over to your speaker, Leonardo Meoli, Head of Investor and Rating Agency Relations. Please go ahead, sir.

Leonardo Meoli {BIO 20776681 <GO>}

Welcome, everyone. Today, we're here to talk about the Generali full-year 2018 results. Before we start the Q&A conference call, let me hand it over to the group's CEO, Philippe Donnet.

Philippe Donnet {BIO 4657671 <GO>}

Thank you, Leonardo. Good morning, everyone, and thank you for being here. I assume you already read our presentation and press release on 2018 full-year financial results. It's definitely a very positive set of results. Before leaving the floor to your questions, I would like to highlight some facts.

First, Generali over delivered on its 2015-2018 financial targets in terms of cumulative net operating cash, cumulative dividends, and average operating return on equity. Not only we did meet our targets but we also exceeded them. This is proof again of our ability to execute with discipline.

Second, the company posted in 2018 a net result increase by 9.4% year-on-year. This increased profitability is underpinned by the best technical performance among peers in terms of new business margin and combined ratio. Volumes were also strong as shown by the growth in Property & Casualty premiums and significant performance of Life net inflows.

Third, we are able to propose to shareholders a dividend per share of €0.90, a 5.9% increase from 2017 dividend.

And last, we are now well positioned to deliver Generali 2021. We are ready to leverage our strength to accelerate our growth and to pursue our ambition of becoming lifetime partner to our customers.

Over the next three years, we commit to three new financial targets. We aim to grow earnings per share by 6% to 8% on average annually. We aim to increase dividends with the payout range between 55% and 65%. We aim for higher returns for shareholders with an average return on equity above 11.5%. I look forward to update you – to updating you on a regular basis on Generali's progress against these targets.

Our General Manager, Frédéric de Courtois; and our Chief Financial Officer, Cristiano Borean; and myself are now available to answer to your question. Thank you.

Q&A

Operator

Thank you. And we're going to take our first question from Peter Eliot. Your line is now open.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. I wanted to ask first, I guess your target of 6% to 8% EPS growth, when you set that and went through the various drivers, I don't remember hearing if that – that was coming partly from restructuring costs falling away, but obviously that you had significant restructuring costs in these sets of results. So, I'm just wondering, I mean, as those do fall away as you seem to be saying, does that represent a tailwind? And can we expect even more than the 6% to 8%, or am I getting a bit carried away there?

Secondly, I just wanted to understand a little bit better the development of the in-force runoff. I mean, if we look at the in-force own funds capital generation, it's fallen from €1.6 billion last year to €1.3 billion. And I'm just wondering the sort of the drivers of that. And when we look at your business mix, very impressive increase and ahead of target. Obviously, if you strip out Generali Leben, then it would have been slightly light. But then – and I guess we've had the market impact. So, I mean, can we expect that to continue? Just maybe a little bit more color about how we should expect those things to develop would be very useful. And if I can add just a quick numbers question at the end (01:51) I was just wondering if you could confirm how far we were below that at the year-end. Thank you.

A - Frédéric Marie de Courtois d'Arcollières

Thank you, Peter. I'm Frédéric. I'll start with your first one on the restructuring costs. Yes, so, you're right that restructuring cost has increased last year at the end of the year. This is mainly due to Germany and very much linked to the sale of Generali Leben. What we plan is that this restructuring cost will decrease over the planned period. And what I can tell you is that in the €200 million objective that we had – that we have announced during our plan on reduction of expenses, these are total expenses, so they include restructuring costs. So, in other words, the decrease of restructuring costs over the next three years is embedded in the €200 million target that we've given at the Investor Day.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Very clear. Thank you.

A - Frédéric Marie de Courtois d'Arcollières

And then, to answer the second question on development of the in-force runoff, it is basically related to the release of the prelims (02:42) in the real world versus risk neutral and the spread and the beginning of the year was lower than in 2017, then in 2019 it will be higher.

And on the third question, you asked about the country VA, how far were we to the level? Actually, it is really a couple of basis points, but it has not been activated.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. Thanks very much.

Operator

Thank you. Your next question is from the line of James Shuck. Your line is open.

Q - James A. Shuck {BIO 3680082 <GO>}

Hi, good morning, everybody. I had three questions please. I also just want to focus on the non-operating profit outlook for 2021. So, obviously this period, we've seen the restructuring charges which you just talked about, but they are not gains but it's kind of offset by impairments, the kind of netting to a negative number as well. Could you just give guidance about what you're including in the plan for 2021 to non-operating items excluding the debt costs, please? Because obviously, there should be some kind of harvesting rate on the capital gains if you're including those or not. And then, be more specific about the restructuring charges whether those are actually going to zero by 2021. That's my first question.

Secondly, slightly numbers orientated on the actual results themselves. So, there was a big positive in the other businesses within the holding company items, so €150 million swing. I think went from €55 million to €160 million or so on the operating profit. Is that a new base? I think it might be something to do with private equity gains, but just keen to know how much of that is one-off. It seems to be netted off within the consolidation adjustment that went up as well that might explain it, so netting to zero, but not too clear on that. If you could just shed a little bit of insight on that, please.

And then finally, just on the cash remittances. So, €2.8 billion in 2018. How much of that would you actually view as being exceptional upstream cash? So whether that's capital management actions, or deployment of surplus capital, or cash from the underlying units? And then, when I think about the €3.1 billion you had targeted over the three years, could you just highlight for me how much of that €3.1 million is kind of recurring and sustainable and how much of that is actually coming from deployment of surplus cash from the operating units, please? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Okay. James, good morning. The non-operating results outlook. Let's start from the different components. First of all, you have noticed that we had higher depreciation on the asset especially in the fourth quarter, which happened because of the market. We will be more and more focused on this item going forward as you know, since we've set the targets on earning per share. Regarding the non-operating holding expenses, especially the part of financial debt will be on a significant driver of production as you are expecting going forward.

On other net – non-operating net expenses, the point are – restructuring cost, you've seen an acceleration in the second half of 2018 after signing the deal with Leben, which is accelerating the transformation there. So, this is, going forward, something you should expect to be less relevant and – less and less relevant in the impact. And this is consistent with what we announced in the Investor Day. VOBA amortization is basically stable and moving of really marginal movement year-after-year. And regarding the other components of the expenses, you should think about going forward a further stability. This is the first point.

Then, regarding the second question, relating to the other effect in the positive development in the – which could be netted in consolidation adjustment. Let me first start saying that these elements includes also the consolidated private equity investments we have, which are consistent with our private asset investment strategy and which are giving more and more result (11:06) which what is already announced in our strategy. And you can expect this to be a consistent item.

Clearly, being consolidated, when you look on the part of the segment reporting, there is an effect also in the final operating result of consolidation. But there are two other elements which are also important in these development which are related to some real estate funds, which are starting to generate cash flow, which is a fully consolidated part. And an investment in our Asset Management in South America, which is growing well. This is the second element.

Regarding the third question, the gross cash remittance, how much is the exceptional? Well, we have highlighted that France, for the second year in a row, did some excess capital remittance for something which is around €0.1 billion, which is something in the order of slightly more than €100 million. This is consistent with our strategy that we announced to keep healthy solvency levels in our operating entities but upstreaming the excess cash related to capital above a certain level of solvency, which is not put at work at the same level of return on equity we could pursue with other growth strategy we would foresee going forward. So, what I'm saying you how much is exceptional is likely more than €100 million.

Q - James A. Shuck {BIO 3680082 <GO>}

In 2018, okay. So, the three-year plan of the €3.1 billion, how much of that is kind of coming from exceptional management action type upstreaming (12:55) and how much is generally sustainable?

A - Cristiano Borean {BIO 15246531 <GO>}

James, to be sure, you're asking from the 2019 to 2021 period?

Q - James A. Shuck {BIO 3680082 <GO>}

Yes. Yes. That's right.

A - Cristiano Borean {BIO 15246531 <GO>}

I mean, we disclosed during the Investor Day already, as you know, that has been and there will be an uplift coming from the excess capital repatriation. But you should expect anyhow a huge increase coming consistently with the increasing the results. And so, there are the two elements, but you should not focus too much only the excess capital but because the solid part of growth will come from the result and the upstream of the maximum amount of the results (13:38) to the remittance ratio we announced.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

Operator

Thank you. We will now take our next question from Farooq Hanif. Please go ahead, your line is now open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thanks very much. You talk about pruning in your motor business, especially in Italy to protect profitability. How much of that is coming from margin pressure and competition and how much is just shifting the mix of the portfolio. You mentioned corporate, so are we talking about fleet business?

Secondly, just going back to James' question about the consolidation adjustment, it went up and you talk about higher intergroup proceeds from investment funds. If you could just explain that one more time, that would be helpful. And then lastly, on the Solvency II model, there is still I think some further move outstanding to the full internal model. Could you tell us what the potential impact of that might be and when that might happen? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Farooq. So on – the line was not so good, but I try to understand you, I try to answer your first question on the pruning for the motor business. So, what we mentioned is that this is mainly related to Italy. We've done some pruning in order to further improve the technical results. And you can see for Italy that we had stable motor average premiums last year, which is good news. So, the addition of some pruning which led to reduced frequency for Generali and stable leverage premium led to a significant improvement of the technical result for motor in Italy.

Q - Farooq Hanif {BIO 4780978 <GO>}

And is that – I hope you can hear me, is that pruning in the fleets business, in the commercial business or is it retail?

A - Cristiano Borean {BIO 15246531 <GO>}

No, none specifically. Mostly retail, but I would say overall.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Do you want me to repeat my other questions or...

A - Cristiano Borean {BIO 15246531 <GO>}

Farooq, it's Cristiano. So, going on your second question, if I understood properly, sorry because the line was really, really very disturbed. This was relating again to the explanation on the higher consolidation adjustment, is that correct?

Q - Farooq Hanif {BIO 4780978 <GO>}

That's correct, yes. If you could explain what you meant, yeah.

A - Cristiano Borean {BIO 15246531 <GO>}

Okay. So, let's clarify this point. We had built some private equity fully consolidated funds and investments and some real estate funds, where basically we have a higher result which is panning out and which has to be accounted in a full consolidation view of this result. But when this result is distributed to other line of business like Life or non-Life, this has to be netted out in the consolidation of adjustment principle. And the contribution is on that. And sometimes, it could happen as well, for example, on a very simple asset we have. The higher the dividend of Banca Generali would be which is fully consolidated, the higher also will be this consolidation adjustment, for example, to speak for another asset, for example. So, I hope I answered this point.

Second point, if I understood again well, I hope, was the gap expected between the Solvency II regulatory as we are reporting and the potential debt existing we have full internal, is it correct?

Q - Farooq Hanif {BIO 4780978 <GO>}

That's correct, yes.

A - Cristiano Borean {BIO 15246531 <GO>}

Okay. And the answer is as we are reporting now, we're going only for the regulatory. I just recall that in the model, we did not include Spain, but we are expecting to soon adjust it inside and the operational risk part of it, which is still not in the full part.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just quickly return to consolidation adjustment? So, if you continue to have good private equity gains, then we should expect elevated consolidation adjustment?

A - Cristiano Borean {BIO 15246531 <GO>}

Yeah. This is exactly, and clearly you should not lineary manage this because the timing as well on where you allocate this between Life, non-Life, and how much you distribute throughout the lifecycle because you know that the lifecycle of private equity in the - value through dividend is not a linear one. But you should not fully linearize it.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very, very much.

A - Cristiano Borean {BIO 15246531 <GO>}

Because you need a weighted dividend.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you.

Operator

Thank you. We will now take our next question from Nick Holmes. Your line is now open.

Q - Nicholas Holmes {BIO 21515144 <GO>}

Hi, there. Thanks very much. A couple of questions. Firstly, with the BTP spread impacts. I wonder, just can you tell us what the impacts is for spread widening over 100 basis points? What I'm thinking is that presumably the sensitivity is asymmetric. So, would the minus 7 percentage points be different to the next 100 basis points?

And then secondly, just looking at the French combined ratio, this is still a bit high at 100%. And I just wondered what your thoughts are about why it is a bit high and what you can do about it. Thank you very much.

A - Frédéric Marie de Courtois d'Arcollières

I'll start with...

Q - Nicholas Holmes {BIO 21515144 <GO>}

Hello? Could you...

A - Frédéric Marie de Courtois d'Arcollières

...the second one. I'm Frédéric. Thank you, Nick, I'll start with the second one on the French combined ratio. So, you're right that our French combined ratio is 99.9%. So, you have to know that this includes the French part of our global corporate and commercial business. And we had extremely bad results last year due to a lot of manmade losses on the corporate and commercial business. You know that corporate and commercial business for us is a separate business unit. So, if I look at the French business unit only, so excluding corporate and commercial, the combined ratio is very close to 97% which is a further improvement of the combined ratio. So, we are on the right track to improve our retail and SMEs combined ratio in France. And Nick...

Q - Nicholas Holmes {BIO 21515144 <GO>}

Very clear.

A - Frédéric Marie de Courtois d'Arcollières

Cristiano, for the first question clearly. So, you have seen what happens if spreads opens up, it is the effect of the VA country and your question was related. What if spreads close down? So, narrow instead of opening up. What would be the sensitivity? It's asymmetric. I'm concerned because we are exiting from the region of the volatility adjacent country, we stay in the classical one and it is opening up, we could - it is narrowing versus opening, we got minus 100 movement, we would end in a sensitivity closer to the one which is close to last year which was a double-digit one, 10 to 12 as you remember.

Q - Nicholas Holmes {BIO 21515144 <GO>}

Yes, sorry, I was really thinking about say there was a 200 basis point change, what the impact on that would be. It's wrong to take minus 7 and multiply it by 2 for a 200-basis-point impacts.

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A - Frédéric Marie de Courtois d'Arcollières

Sorry. I got your point. The answer is broadly yes. You stay for between 7 to 8 extra add-in point sensitivity, say 7 points for the first 100 and between 7 to 8 for the second 100. This is the answer.

Q - Nicholas Holmes {BIO 21515144 <GO>}

Okay. And sorry, just a final point. Would that continue with additional 100 basis points? Is it a linear extrapolation or is there some differentiation?

A - Frédéric Marie de Courtois d'Arcollières

Broad and linear differentiation.

Q - Nicholas Holmes {BIO 21515144 <GO>}

Broad and linear, brilliant. Brilliant. Okay. That's very clear. Thank you very much.

Operator

Thank you. And our next question is from the line of Michael Huttner. Your line is open.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much. I have a not so little question, I'm afraid. And the first one where - on the slide where you show the potential cash for deals, €2.5 billion from disposals which I assume would be reinvested. When you originally talked about Generali Leben you also mentioned that there was a €800 million or €900 million of debt repayment and I can't see that there. I just wondered where that figure and how you think about that figure now. Is it not something that you think of as money available? Is it to reduce leverage, whatever?

And the other is something a little bit older, still on the topic of leverage. In January, you issued €500 million which means that technically, according to the calendar of debt repayments, at best you could do €1.5 billion through to 2021 rather than the top end of the target range, €1.5 billion to €2 billion. And I just wondered if you could explain your thinking there.

And then, the final question is you raised, and this is really lovely, the target for net profit from asset management from €300 million in 2020 to €400 million in 2021. That's a huge jump, right? So, pre-tax, I don't know, €130 million. At the moment, it's improving at the rate of somewhere around €70 million per year. And can you explain a little bit your thinking there why you can - how confident are you on where you see this big rise coming from? Thank you so much.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Michael. It's Cristiano. I start with the first one relating to understanding on the cash flow from the potential sale of Generali Leben. What we presented is the total amount of cash of €1.9 billion you had in mind. But then, there are €882 million which are reduced loans and there are internal loans repayment as well, which has to be deployed before remitting to the head office the amount which is broadly in line to the €1 billion. And we will not use this extra €900 million to deleverage the external debt. It is more for an internal debt that the Generali Leben had. This is important to clarify.

The second question related to leverage. Yes, fair enough. We issued €500 million in January. I recall that we reduced the – we will reduce another €50 million because we already reduced €700 million at the call date of Tier 1. And so, the net effect will be minus €250 million of this operation and then fair enough, in order to reach the top end, there is still room to move. And as I told you already during the Investor Day, that is managed in a proactive way and we have a very clear view on which are the sources of debt we want to keep in the balance sheet, looking at both angles of liquidity and quality of capital. So, these are the driving, let's say, stars, the polar stars and then which we will move going forward in the next months, years to manage this target.

Q - Michael Huttner {BIO 1556863 <GO>}

Just to understand and I understand you're talking about the quality of the debt here. I was – I just wondered if you can also, maybe give me a hint on the number, quality is lovely, but I was hoping you'd reduce debt by €2 billion and here the number is €1.5 billion, is what you're indicating about sources of debt, et cetera, that you may be finding willing sellers before call date?

A - Cristiano Borean {BIO 15246531 <GO>}

Michael, to be fair, what I already said during the Investor Day was that clearly Solvency II regime, you have quality of capital which is important. And so, there is a different treatment between senior and subordinated debt. And the way we also operated in the issuing of the €500 million with a specific structure makes you understand it, but we are looking at all sources of quality of capital cost of it. And we are consistent with that and we will consistently act toward that. I cannot comment on further things because we need to be absolutely effective and work in a tactical approach towards this because it's really dependent on many considerations around that.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. I understand. And my last question, please.

A - Frédéric Marie de Courtois d'Arcollières

I'll start on asset management. So, yes, you're right, our target for 2021 is €400 million net result. And I like to make two comments on this. You remember that we have 6% to 8% target EPS growth for the group. And the difference between the 6% and the 8% is capital relocation. So, we – to analyze the €400 million, you need to have in mind that €350 million will be internal, so we'll be in the 6%. And €50 million will be, let's say, capital reallocation. So, our multi-boutique strategy. And we contribute to the 8%, so this is my first comment.

Second comment, what are the drivers of this ambitious growth? Roughly speaking, you could say that 50% of this growth comes from internal sources, so review from mandates, investment in more real assets, 25% comes from growth of external mandates and more inclusion of Generali unit linked – of Generali funds in our unit linked. So, I would say, it's partially external and partially internal. And the last 25% is more or less the €50 million I've mentioned, so it's made up of new boutique.

Q - Michael Huttner {BIO 1556863 <GO>}

All right. Thank you very much. Well done. Lovely. Thank you so much.

Operator

Thank you. The next question is from Gianluca Ferrari. Your line is now open.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Hi. Good morning. I have a couple of questions. The first one is on something Frédéric mentioned during the speech related to higher distribution cost in Italy for selling non-motor products. Non-motor was down at 1.5% year-on-year. So, I wanted to know if you can elaborate a bit more on which kind of initiatives you put in place to push non-motor products in Italy.

The second is on man-made losses. If you can elaborate a bit more on what was here. I suppose the Genoa-Morandi bridge, was there any involvement in the Bologna accident and what else outside Italy with this respect? Thank you.

A - Frédéric Marie de Courtois d'Arcollières

Gianluca, I'll comment on your two questions. The first one is you know that we have a very good combined ratio in Italy on P&C non-motor. So, Generali Italy decided to have various marketing actions and incentives to develop and to grow the non-motor in Italy. So, you can see the cost of this. Of course, at the end, it will bring a better technical result because the objective is to develop a highly profitable line for Generali Italy.

On man-made, is your question specifically related to Italy or is it a broader one?

Q - Gianluca Ferrari {BIO 15042989 <GO>}

No, no. A broader one.

A - Frédéric Marie de Courtois d'Arcollières

So, I will not comment on specific manmade losses. I mean, we had – in terms of geography first, I mean we had a lot of man-made losses in Italy, France, Serbia, and also Austria last year. So, about geographies which are, by the way, consistent with our geographical footprint.

If I look at the man-made loss that we had last year, so it represented 1.5 points of combined of claims ratio, which is about 0.6 to 0.7 points higher than last year, and it is about 0.3 points higher than the average of the past five years. So, if you ask me what would be normalized – and again, it's about five years' average, but a normalized man-made loss amount for Generali, it is 0.3 points lower than what we had this year.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Thank you very much.

Operator

Thank you. Our next question comes from the line of Andrew Ritchie. Your line is now open.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

So, hi there. Thanks. So, just following up on that, if we want this sort of, broadly speaking, normalized, the P&C results, your only suggestion would be to lower the loss ratio by 30 bps for an average man-made. I mean how would you characterize nat cat versus budget and PYD versus a normalized level? I'm just trying to get a sense of how you would think of what the true sort of normalized combined ratio was.

Two other very short questions. So, in slide 16 is a helpful reminder of the small – small-scale M&A the group has done recently. Can you tell us because the disclosure haven't been disclosed for each transaction. What the total amount is that you've spent on those deals, and what the associated expected earnings from those deals so far would be in the next 12 to 18 months?

And the second question, slide 33, is a reminder of the progress you've made on reducing the average guarantee on the lifeboats. I guess I was surprised it fell – the pace of production was much more significant in 2018 versus previous years. So, the guarantee in the back book for 25 basis points. Is there anything one-off in there, is that stripping out Generali Leben, is that a straight like-for-like and is that just simply the weight of new business having that effect. Thanks.

A - Frédéric Marie de Courtois d'Arcollières

Andrew, thank you for your question. So, if you look at the combined ratio, the nat cat of 2018 at 1.7 points is exactly in line with our historical average based on the past five years. So then, about nat cat, is five years long enough. You have to ensure but again if you normalized everything above five years, nat cat is in line with the average of the past five years. And as I said, man-made is 0.3 points higher than the past five years.

I'll move to the question three on reduction of the guarantee. It includes the disposal of Generali Leben and Generali Leben had an impact of 20 basis points on the reduction of the guaranteed rates. So, of course, it's a specific impact and it explains the acceleration compared to the previous years.

On your second question on M&A, I will make an answer which is not totally satisfactory to you because we have not disclosed the amount for every deal – every of these bolt-on deals, so – but you know that these have been only bolt-on deals and the order of magnitude of the sum of all deals is in hundreds of millions. Let's say (36:04). But we've not disclosed more than that for the time being.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay. Great. Thank you.

Operator

Thank you. Our next question is from the line of Johnny Vo. Your line is open.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Thank you. Just two questions, if I may. Generali Italia, the sub, I think in 2017 it had a solvency ratio 257%. Can you tell us what the solvency was at the end of 2018 for that sub? And the second question just regards to the solvency development which is clearly done well, what is the lag between the solvency development and your ability to extract additional remittances from the development? Thank you.

A - Frédéric Marie de Courtois d'Arcollières

Johnny, sorry. For the first question about Generali Italia Solvency II, we did not disclose it now. I can tell you that it is lower but it is not materially. From the point of view of the second question, if you can please repeat to be sure that I understand properly. So, it's Cristiano again to – can you repeat?

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Just in regards to solvency, it's developed very well. So, what is the lag between your ability to extract between the solvency development and your ability to extract the excess capital from that?

A - Cristiano Borean {BIO 15246531 <GO>}

Okay. Fair enough. This is quite consistent with what we, I think, already discussed during Investor Day, especially in the Life Component. Do you remember that the transformation of the business started in 2016? And basically, the change in the products is materially going up but you see in the solvency, the PV of all of this, and so we need to have this time time lag among the two. What is important if you just look from a normalized capital generation capacity is that we are adding better quality and this is allowing us to have less capital to be trapped to ride the business. So, we have this effect which is allowing us as well our remittance capacity.

So you have to link these two things. There is a component of pure cash results, the one I was speaking this so-called industrial profit development we presented during\ the Investor Day and the other one is the lower capital absorption from the new business we are underwriting as well which is releasing some trapped capital. These are the two components you have to keep in mind.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Brilliant. Thank you.

Operator

Thank you. We'll now take our next question, comes from the line of Giuseppe Mapelli. Your line is now open.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Yes, good afternoon. I have only one question and it's relating to motor TPL. We like to understand this. You are experiencing significant shift of the motor TPL from B2C business to a B2B due to the impact of fleets long term rental, car sharing? And if yes, in which way are you tackling this kind of change and what could be the impact on the profitability of the motor TPL due to this change going forward in the mid-term? Thank you.

A - Frédéric Marie de Courtois d'Arcollières

Thank you, Giuseppe. So, simple answer, we are not experiencing a significant shift from the B2C to B2B2C. We don't see it yet. However, let me remind you what we've said at the Investor Day with the mobility platform that we did in Italy and that we're having to extend to other European country. We want to be prepared for this. So, we believe it will increase and we are building the platform and the tools to face this new market scenario. But again, we don't see anything yet in the figures.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Okay, thank you.

Operator

And we have another question from the line of James Shuck. Your line is now open.

Q - James A. Shuck {BIO 3680082 <GO>}

Oh, great. Thank you very much. I had a couple of follow-ups. The first one, just the global corporate and commercial which just dragged on some of the results in France and Italy in particular, can you just remind me what is the total size of premium for that unit and as a standalone unit what was the combined ratio in 2018, please?

Second question, I guess just taking a step back with these numbers and I kind of keep gravitating to the non-operating profit items which were disproportionately negative compared to where you might expect them to be by 2021. It's quite easy to kind of paint a scenario where there might be €300 million or €400 million of swing on a pre-tax basis and in that number if you're thinking about all of the exceptional items and maybe even give me some benefit for harvesting gains, but we can debate it. But it looks like it's contributing about three points or so to the six points of pre-capital deployment EPS growth that you've got as part of your three-year target.

The low debt costs add 1 point to that, and then the Asset Management is about 2 points. So, when I take a step back, it's sort of implying to me that there's no growth of this business anywhere excluding those items. So, either I'm being very conservative with that view or you're being conservative with how you're painting it, or there are big headwinds in some of the other geographical entities. So, if you could just shed some light on that for me, please, that would be very helpful. Thank you.

A - Frédéric Marie de Courtois d'Arcollières

Thank you, James. On GC&C, so Generali Corporate & Commercial, so this business unit write about €2 billion premium. So, this is the size of the business unit. You have to know that this business unit is very much focused on one hand to specialties and on the other hand to mid-corp. So, we underwrite very little jumbo accounts, and we want to stick with this strategy.

Last year was not a good year. I mean, we had a combined ratio of between 101% and 102%, so which means that the result was breakeven. We had, as I said, a lot of man-made events. I noticed that it has been the same for our peers. I mean, on the market, we've seen more or less similar results. However, we have implemented plans to be even stricter in the underwriting and even more focused on what we underwrite. So, we believe that this business unit can be profitable if it remains very strict in the underwriting and very focused on specialties and mid-corp. On the third one, Cristiano?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. So, James, to try to summarize it, if I understand your points to be sure to answer it properly, is that you're saying that we were sufficiently conservative in our opinion in evaluating EPS growth potential due to the fact that you foresee a better non-operating result outlook. Is it the point?

Q - James A. Shuck {BIO 3680082 <GO>}

Well, slightly a better non-operating, the lower debt, and improvement in Asset Management. It doesn't look like you're factoring in any greater elsewhere in any of the other divisions in the core business. So, either there's headwinds or there's conservatism I'm just keen to understand that.

A - Cristiano Borean {BIO 15246531 <GO>}

Yeah, I stress already what we've said during the Investor Day that we were conservative especially in the hypothesis of the financial market development. When we showed you the development of our results, we did not took bets on the market, development on – rate development, which as you can see, now it is a good way because the movement is against what we had in November. So, I confirm that we were conservative in estimating our potential growth, not making assumption of specific rates movement as we said, we'll stick to what we found in that moment, which is, I think a safe terrain to guarantee the execution and the targets of this plan.

Q - James A. Shuck {BIO 3680082 <GO>}

My point wasn't really about rate assumption and conservatism. It's just that the reversal of non-operating items combined with lower debt. And if you hit the asset management target that you've set, that gets you 6 points anyway. So, I'm just kind of struggling - ex that doesn't look like there's any growth anywhere else. But I hope that's clear. Is it - didn't you understand where I'm coming from?

A - Cristiano Borean {BIO 15246531 <GO>}

Sorry, so, you say the asset management and operating for you - in your estimation, this alone is a 6% development, this is your point?

Q - James A. Shuck {BIO 3680082 <GO>}

Yeah.

A - Cristiano Borean {BIO 15246531 <GO>}

I mean, I think this is your point, but what I confirm you is what we presented you at Investor Day. And we will keep growing the business consistently there. So, I could not totally agree with you. I have to stick with what we presented you because it is what our - in the figures from our plan.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Yeah. I tried. But thank you very much.

Operator

Thank you. Our next question is Alberto Villa. Your line is now open.

Q - Alberto Villa {BIO 16005221 <GO>}

Yes. Hi. Good afternoon. Just a quick question on the M&A side. Apart from the bolt-on acquisition you made in 2018, did you make any progress in developing M&As for 2019? So, can we expect other bolt-on acquisitions? And where are you looking apart from the multi-boutique strategy in Asset Management going forward? We - I remember we discussed it also on the Investor Day and the other rate. Is there any new consideration we have to keep in mind going forward or the discussions we had at the Investor Day are still valid? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Thank you, Alberto. It's difficult for me to comment specifically on this point, so I'll stick to what we said at the Investor Day, which are our criteria on the strategic fit, the financial fit and the cultural fit. And that we want to remain extremely disciplined. Then obviously, our M&A team is looking at opportunities. And it includes the multi-boutique strategy that we're having to continue to implement, but again, no news on that front.

Q - Alberto Villa {BIO 16005221 <GO>}

Any geography or segment that you would like to grow through external, build?

A - Philippe Donnet {BIO 4657671 <GO>}

Well, this is Philippe speaking. On the geographies, talking about the insurance business, we said that we would further strengthen our leadership position in Europe. So, Europe remains essential geography. On business lines for the insurance business, we are definitely – would definitely consider Property & Casualty business, health insurance business, assistance business, and protection business. On the Life side, our unit-linked business.

Talking about Asset Management, we would look also out of Europe. I mean UK, U.S. and Asia remaining in the strategy for the Asset Management, which is focused on the acquisition of competence rather than the acquisition of volumes. Then as Frédéric said, we remained very consistent with the strategy and very consistent with our financial discipline.

Q - Alberto Villa {BIO 16005221 <GO>}

Okay. Thank you. Just a follow up if I may. Obviously, in the AGM, it would be approved a renewal of the buyback plan, which is a pretty routinary. I would just ask if you have any plans to activate this buyback any time in the future. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Alberto, so it's Cristiano. You speak about the buyback for the long-term share incentive plan or buyback for the proposal for the share plan for the employees? This is what we are...

Q - Alberto Villa {BIO 16005221 <GO>}

I was thinking about something going beyond that. Is there any chance of having a buyback beyond these plans?

A - Cristiano Borean {BIO 15246531 <GO>}

What we presented yesterday after the Board of Directors is a buyback authorization to be proposed to our shareholders and the assembly for the employee share plan. And I give the word to Frédéric.

A - Frédéric Marie de Courtois d'Arcollières

I'll complement the answer which is the one that I did at the Investor Day. Outside of the incentive plan to do a share buyback is not our priority. However, if we don't find good opportunities to reallocate capital, this is obviously something we will consider.

Q - Alberto Villa {BIO 16005221 <GO>}

Okay. Thank you very much.

Operator

Thank you. And your next question is from Niccolo Dalla Palma. Your line is open.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Hi. Just a quick follow up on the French business and the improvement in the technical results in life. You referred to longevity being one of the drivers. Could you elaborate on what exactly has changed and is it recurring or one-off? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Good morning, Niccolo. Yes, it's Cristiano. So, what is happening there is that our pension business has suffered in the previous year of the increased provisioning for the longevity risk, as we already I think explained at times. What is in the balance sheet of 2019 is that you can see a reduction, a very large visible reduction of this provisioning grade. And that this is consistent and recurring going forward. So, it is a recurring element coming from that part.

Q - Niccolo C. Dalla Palma {BIO 16052945 <GO>}

Okay. Thank you.

Operator

Okay. Our next question is from Michael Huttner. Your line is open.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you so much. Just two maybe questions on Solvency II you mentioned Spain the next positive and of course France is coming off, this is the and also operational, risk is coming on and France the pension fund is coming off. I just wondered if you could give a net figure for the impact of these three items, the impact of Solvency II. And then, you spoke helpfully about the cash coming from the reducing capital allocated to the Life bank back book because you invest in new capital Life products off and the traditional. And I just wondered if you can give a kind of figure for this to help you maybe any answers to give a figure of €500 million and the Investor Day you've said now €300 million. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Michael. Cristiano. So, the expansion of the internal model to Spain and the operational risk is clearly as you can understand. Something which is undergoing discussion is the regulators, so we cannot disclose the impact because it is still unknown given the final impact that mostly been approved. So, we cannot comment on things which are not still there. I'm sorry but this is the rule of the game with the regulators. And regarding the cash coming from the reduction of the capital light product, let's say acting as a washing machine in our balance sheet.

Let me try to comment on this point that you see from exactly, when you look at the managed capital generation, the capital that you release is 1.5 versus the capital that you absorb by which is 1.3. So, there I think you get that blend of the lower effect that we can expect going forward. And this is part of the contribution of why we are in this – in the correct spot to deploy all the remittances target that we committed in the plan, because this is a facilitator towards our target. I hope this gives you more clarity on this point.

Q - Michael Huttner {BIO 1556863 <GO>}

Oh, very clear. Thank you. Thank you so much. Thank you, Cristiano.

Operator

And our final question is from Farooq Hanif. Your line is open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Going back to the comment you made about P&C reserving. Can you give us a bit more of a guide to where you we're seeing the biggest buffers geographically in your business? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Okay. It's, Cristiano answering, Farooq. First of all let me state that our reserving levels still are at the highest level of the standards as we presented on November and there are absolutely no material change around that. The geographical distribution of these buffers is difficult and it's different in variety and we did not disclose it so far. Clearly, you can imagine it is Europe-based, but I'm not stating country-by-country because it's different situation country-by-country.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

There appeared to be no further questions at this time. I'll now hand back to the speakers for closing remarks.

A - Leonardo Meoli {BIO 20776681 <GO>}

Thank you, everyone. Please for additional, do refer to Investor Relation at generali.com. I'm now handing over to the General Manager for his final remarks.

A - Frédéric Marie de Courtois d'Arcollières

Thank you, Leo. Thank you to you all. First, just let me summarize in what in one word what we've said. We've presented today a very strong set of results. And I would like to highlight especially the strong industrial performance. What I call strong industrial performances is that with – on the insurance side, we beat Life and P&C. We've been able to grow volumes and margins, margin for the Life side and keep the margins at a very high level for the P&C side.

We've been able to grow the Asset Management result in line with our plan and expectations. And we've continued to very much focused on cost. So, we believe that we are extremely well placed for the new Generali 2021 plan. And I would like to remind you the two appointments that we have in the coming weeks. We have one appointment for the first quarter results, for the first quarter call on May 14. And we have one meeting with you at our new Exploring Generali event in London on May 24, and we expect to see you there.

Thank you very much and talk to you soon. Bye-bye.

Operator

Thank you. That does conclude the conference call today. Thank you all for participating. And you may now disconnect.