

Q1 2020 Sales and Revenue Call

Company Participants

- Andrew Wallace-Barnett, Head of Investor Relations
- Etienne Bouas-Laurent, Group Chief Financial Officer

Other Participants

- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Ashik Musaddi, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Jon Hocking, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- Thomas Fossard, Analyst
- William Hawkins, Analyst

Presentation

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Good morning, everybody and welcome to AXA's Conference Call on our Activity Indicators for the First Three Months of 2020. I'm pleased to welcome Etienne Bouas, our Group CFO, who will be taking you through the highlights of the release covering both the usual activity elements for the first quarter and also the additional disclosures we made in respect of COVID-19. At the end of his introductory remarks, Etienne will be happy to take your questions.

Etienne, I hand over to you.

Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you, Andrew. Hello and good morning to all. Thank you for joining the call. Starting first with the 1Q activity indicators. As you can see from yesterday's release, AXA performed well in the first quarter of 2020 recording strong revenue growth plus 4% at the Group level, and importantly across all our business lines, preferred segments and geographies.

Let me go rapidly through some of the details. First, revenues in P&C increased by 3%, supported by the 5% growth in commercial lines with price increases across the board. Notably AXA XL grew by 8% with continued strong price increases for the quarter, plus 10% in insurance and plus 6% in reinsurance. We see price increases continuing into April.

Health revenues grew by 8%. All our countries contributing to this achievement. Additionally, Life & Savings revenues increased by 4%, most notably from unit-linked and protection products. Finally, our Asset Management segment recorded strong performance with AXA IM revenues growing by 11% in the first quarter, mostly supported by net inflows and positive market impacts.

Moving now on to the balance sheet. Our balance sheet continues to be resilient even in the face of this volatile market conditions. Our Solvency II ratio was 182% at the end of March, resilient and performing in line with our published sensitivities. Our debt gearing is now below 28% on the pro forma basis, adjusting for the repayment of 1.3 billion sub debt on April 16. You would have also noticed that both S&P and Fitch have reaffirmed their ratings on AXA over the past weeks at AA minus with a stable outlook.

Let's speak now about COVID-19. The safety of our employees was, and remains our first priority, and they have been able to continuously work remotely, in order to provide undisturbed services to our clients. As a responsible insurer, we have also taken several exceptional measures to support our clients and the society at large. In France, for example, AXA is the largest private contributor to the state solidarity fund. In France, we have also given two months premium refunds for impacted SMEs and have extended work stoppage insurance coverage for pregnant women and people with chronic disease. We have as well in dedicated funds to help the medical staff and to finance the research against the virus.

As explained before, we grew strongly in the first three months of the year. However, we can expect COVID-19 to have a progressive impact on our revenue growth. We have seen a decline of around 5% in March discrete on the like-for-like basis, and initial trends indicate a decrease of around minus 12% in April. We can expect this impact to be more pronounced in Life & Savings and to a lesser extent in P&C and in Health.

In terms of claims, we have seen limited amount of notifications in relation to COVID-19 at the end of March. However, we do expect the confinement measures enforced by the different countries to have a material impact on the level of claims for this year, most notably in event cancellation and in business interruption. In event cancellation, a preliminary estimate would be around mid triple-digit million euros, before tax and net of reinsurance. For business interruption, it is too early to make an estimate at this point.

In terms of earnings. While it is too early to provide a guide -- precise guidance on the different impact, we believe that the overall effect of COVID-19 taking into account revenues, claims, expenses, financial markets and the cost of exceptional solidarity measures will have an overall material impact on the Group's earnings in 2020.

In terms of assets, it is important to note that our asset portfolio remains of high-quality, primarily composed of goviz [ph] rated AA on average and corporate bonds rated A on average. As you can see in the additional disclosure in our press release, within our corporate bond portfolio around 90% of our assets are rated at or above BBB with a significant share back in participating products. We also have limited exposure to the most vulnerable sectors in the current context.

To conclude, the Group has performed well in the first quarter with 4% growth in revenues, supported by all business lines and preferred segments. Our balance sheet remains resilient in the context of volatile market conditions. While it is too early to give a precise guidance, we believe the impact of COVID-19 will be material for the Group's earnings in 2020, as it's no doubt the case for the insurance sector as a whole. Looking forward, we are confident in our strategy and its execution and the need for enhanced insurance coverage in our preferred segments confirmed our growth potential post-crisis.

I'm now ready to take your questions.

Questions And Answers

Operator

(Operator Instructions) We have our first question from Mr. Peter Eliot from Kepler Cheuvreux. Sir, the floor is yours.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I had two on business interruption, please and one on Switzerland. On business interruption, Etienne, I was just wondering, could you update us on your view of the proportion of your policies that specifically exclude pandemic risk from the terms and conditions. And also, you say it's too early to make an estimate of the claims costs, but I'm just wondering if you can give us a little bit of comfort in terms of -- there is ballpark, we're talking about in terms, if you know, is this an earnings event, yeah, I mean, just comfort that this is an earnings event that you envisage rather than a potential balance sheet event.

And then on Switzerland. Two years ago, I guess you essentially gave away some life business to the local players. Now it seems, it's coming the other way. I mean I appreciate that this is semi-autonomous business and doesn't have the market risk of the business that has gone away from you. But I'm just still wondering if maybe you could add a few words about why -- why you're a better owner of that business than the local players. So yeah any -- any extra color there, would be very helpful? Thank you very much.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you, Peter. So the vast majorities of contracts across the Group are not exposed to COVID-19. And why, because as you all know BI coverage typically triggers in the case of physical damage in the insured premises. And second, we apply ISO standards wordings in most cases as well, and notably for our business sold in North America. So there are

some cases, where we may have exposures. It's by exception, and we have the following cases, Where there is an explicit pandemic extension, ADT is the [ph] cases sometimes, but really exceptions.

Second, where the policy wording is subject to interpretation, and this is being reviewed on a case-by-case basis. And third, and this is the most frequent case, when in some jurisdictions, industry wide solutions and concessions are made. This is the case for instance in Germany for coffees, restaurants, hotels. This is going to be the case maybe in Switzerland, also sometimes in the UK further to the positions taken by Ombudsman. So industry wide solutions. So therefore, I can confirm to you that it's an earnings impact and not a balance sheet impact.

Regarding Switzerland, what happens is that actually in the Q1, you saw that the -- this business -- the semi-autonomous business is growing. Because some of our competitors changing their conditions in their traditional business are losing their customers, who are very happy to find alternative solutions like the solutions we're providing in Switzerland. And this is what this business in Q1 delivered very well.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you very much.

Operator

Thank you, sir. Next question is from Mr. Andrew Sinclair from Bank of America. Sir, please go ahead.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Thanks and good morning, everyone. Three from me as well, if that's okay. Firstly, it was just on travel. Just wondered if you could give us any more context on travel claims, which I'd assume would mostly be front-loaded so far -- we've seen so far there. Secondly, on the bank cancellation, thanks for giving that guidance, which I see is for mostly in the next 6 months to 12 months. How much exposure do you have beyond that? For example, let's say Olympics was canceled next year after its postponement could have an impact -- other big events scheduled next year, et cetera.

And third one from me is, you've got three good sized disposals are meant to be completing this year, and AXA Life Europe is still not completing again, possibly missing another guidance for completion date. Just could you give us an idea of -- do you still expect these three deals to complete when and will there be any adjustments to the price? Thanks.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So I start with the third one, which is relatively simple. The two transactions, you're referring to are AXA Bank Belgium and the CEE disposals. This processes, first there is absolutely no discussion about the price. So no worry to have on this point. Second, the process is going on in a completely normal way. It's just then a question of execution of

the deal, which might from time-to-time be postponed by one month, two months, three months. So it's purely a question of months and not a question of price or a question of any kind of other possible questions like competition or whatever.

So we're very confident that these transactions will be closed. I cannot guarantee you that the timing will be in Q3 or Q4 or -- if there is a delay, it might be January more than December. This we don't know. But at least one of the two should close this year. And the second one at this stage is scheduled for Q4. So confidence on these two transactions.

Regarding travel, this is a business with less than EUR1 billion GWP more, I would say mid triple-digit as we say, most of which is realized by our Assistance business, which is a service like business. So we have an impact. But I would say that it's not the biggest hit we'll have.

Regarding events cancellation. What we have done is that, based on our -- what we see, the assumptions we've taken is that there would be a loss of 70% of our exposure for -- from March to September, and from September to March 21, we have taken 25%. So this is the way we did it. So it gives you an idea of our total exposure with (inaudible). But this is the assumption we have taken.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Right. And sorry, just -- just for -- you're saying that the context of travel claims not the biggest hit you'll have. I mean it's -- are you talking triple-digit millions, are we talking double-digit millions, any context around that?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Look, if it was mid triple-digit, we would have said it. So it's much less.

Q - Andrew Sinclair {BIO 21847791 <GO>}

Okay. Thanks.

Operator

Thank you, sir. Next question is from Mr. John Hocking from Morgan Stanley. Sir, please go ahead.

Q - Jon Hocking {BIO 2163183 <GO>}

Good morning, everyone. I've got three questions, please. On the property covers that AXA XL writes in the US, which might include BIs. I wondered whether those are written on the standard ISO wording or whether there is sort of separate wording, give us some excess and surplus business.

Secondly in XL's reinsurance book, is there any trade -- really trade credit exposure.

And then finally, just looking at the sort of rate environment in the commercial wholesale business from your comments and others this morning, it does seem that there is quite a good rate hardening stories. Is there any appetite to change the Group capital allocations and try to take advantage of that? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So starting with the third one. You're right to say that on the commercial lines, the prices are going up. And this is what we expected when we released our numbers on the 20th of February. This is what we said. And it's very true notably in North America. And I must confess that -- we're -- in terms of price increases above our expectations, right now. And this gives me the opportunity to say that, excluding COVID-19, XL's business is well on track with our expectations.

So regarding capital allocation. I mean there is no -- there is no problem to grow at the moment. There is not a capital shortage in the businesses, which want to benefit from this price hardening. Let's put it that way.

Your first question related to the property, so the BI coverage in the US. I think so -- your question was, is all your business ISO -- with ISO wording. And to my knowledge in the very vast -- the vast, vast majority of the cases, it is ISO. So the US, the only question is, at the moment is will there be a political move or regulatory move to force anybody to pay more than what is contractually stated. And this threat has been existing for the last six weeks, I would say, with ups and downs. But we're pretty confident that it will not go through because it's -- it would be anti-constitutional. So at this stage we're pretty confident for the US business.

And your second question was (Multiple Speakers)

A - Andrew Wallace-Barnett {BIO 18671460 <GO>}

Maybe, John, could you rephrase your second question. Yeah.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Yeah.

Q - Jon Hocking {BIO 2163183 <GO>}

The second question because I wonder whether you -- sorry, Andrew. I just wonder, whether you've got any trade credit exposure and the reinsurance book at XL because you don't seem to -- you haven't mentioned it and in the release. So I'd like -- I'd say (inaudible) might appear.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So there is some exposure on the reinsurance of trade credit. I will not give you any number in terms of claims because today we have no claims. However, it's an assumption. The GWP to give you an idea \$300 million [ph].

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. So pretty small. Thank you very much.

Operator

Thank you, sir. Next question is from Mr. Farooq Hanif from Credit Suisse. Sir, please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. I hope -- I hope everything is going well. Just a few questions. You've been kind enough to give some GWP numbers. Can you give a BI GWP number or proportion of premiums. In terms of motor claims frequency, some companies have had early data on lower loss ratio. Can you give us an idea of how much kind of frequency has gone down, and to what extent your refunds will be applied for the months of frequency has gone down.

And then a bit more comment, please on expense reduction. So I think that you've talked about measures that you could take. Now some of this of course will be because of lower acquisition costs. But what are the measures, can you take to offset some of the earnings impact. Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So first question relating to the BI numbers. I answered in the first part of this session with -- what I can say. So it's an earnings impact, it's not a balance sheet impact. And giving GWP numbers will not be, I think a good indication for what you're looking for.

So the second question is motor claims frequency. What we observed across the -- depending upon the countries, our frequency during the confinement [ph] periods down between minus 40% and minus 80%. So potential reforms. It's difficult to tell you. At this stage, we don't refund the premiums for two reasons.

First, our priority is to support our customers, who are really in trouble financially or from a health point of view. So we're dedicating all our efforts on this population -- of this segment of clients. It can be physical person. I refer to the people with chronic disease, pregnant women, but also it can be SMEs or very small enterprise. Second, the year is not finished. So in the loss ratio for motor, you see obviously that we anticipate Q2 to be excellent in terms of loss ratio. However, there is also Q3 and Q4.

So let's see how the customers will behave because they might use less public transportation. The oil prices will be relatively low and all of this -- should be looked at on medium term basis and not very short term. So some mutual companies have started to refund. It's -- at this stage, not the majority. And we're very keen to look at the overall balance of our P&L before refunding retail clients after just one or two months of pretty good expense.

Expense reduction. You're right to say that acquisition costs are reduced. So what we're looking at is actually our expense ratio overall, which means that we have to tackle part of our fixed cost. And obviously, we're reducing a lot of general expenses and reducing as well our investments.

Q - Farooq Hanif {BIO 4780978 <GO>}

Do you think -- sorry, if I may come back. Do you think that will be -- I mean, obviously do you think that could be quite significant. So you have the tools to offset a lot of the claims, no revenue reduction.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

No, when I am speaking about expense ratio, I'm referring expenses related to revenues. You cannot offset with cost with the higher claims. I mean it's disproportionate.

Q - Farooq Hanif {BIO 4780978 <GO>}

But I mean, what I'm saying is, I guess to make it clearer. Do you think you can maintain expense ratios or do you think there will be a spike, but you're trying to limit the spike.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So it's very much depends on -- you know, the forecast for the revenue decrease. So far what I'm just telling you is that the objective we have set to our entities is to manage at expense ratio. So in some cases, they will do a bit better and some of the cases a bit -- they will not make it. It very much depends on your business mix, various countries, the competition pressure, a lot of things.

So in the countries, where you have major drop in revenues, it would be more difficult, and some of those it -- it will be moderate. It would be easier. So it's more -- I'm giving here you the idea, how we manage during the crisis. We (inaudible) out expense ratio and we do the best to try to maintain it.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much. Thank you.

Operator

Thank you, sir. Next question is from Mr. James Shuck from Citi. Sir, please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Thanks and good morning, everybody. Three questions from me, please. Firstly, the life investment margin, I think Ambition 2020, you had a plan between 55 basis points to 65 basis points from the life investment margin with 65 bps in 2019. Can you just comment on the outlook for that margin, whether you're [ph] still confident you can reach that interest. And then how much really you got in terms of policyholder sharing versus the minimum levels, please.

Secondly, could you just provide an update in terms of Q1 nat cat and large losses at XL. And how is the underlying performance of that business so far year-to-date?

And my final question, just around on the health side of things, please. Presumably with people being followed and with medical practitioners being reallocated to different places, that's going to lead to a spike in health costs in time. If you could just shed a little bit of light over how to think about that vision in the current environment, please? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So first, the investment margin. You're right will be a bit lower. Why because the dividend yield from equity -- private equity, even real estate will be lower. It will not be -- it will not impact. We're not touching the guarantee level. So -- if you look at the -- really what we make the difference this year investment margin doesn't come as you know, the main driver. We didn't refer to it in our press release. We referred more to the fees earned on equity positions whether through AXA IM or through our unit-linked business.

Second nat cat losses. I think we're in line with our budget. So it's -- there were some nat cats in Australia and in the South of the United States in Q1. Nothing really special in April. So we're pretty in line with our budget.

And lastly on the health side. Today, we don't see an increase in claims partly because people don't go to the hospital or to the doctors. So it's a little bit like the motor business. In some places people don't use their -- or don't go to this -- don't spend on the health side because they are scared to go to public spaces, and because they can -- they are consigned. So this is what's happening on the short term. And there might be a spike in health cost in -- maybe in Q3. But overall, we don't see -- we don't expect a major deterioration.

And the last point is the mortality. We flagged -- when the crisis started the risk we had on the mortality, which was to say for around 1 million deaths in the world. We could have an impact of EUR100 million net after tax for us. We're still away from this number. However, at this stage we have not seen -- we have not observed any deviation in our mortality rate on our clients.

Q - James Shuck {BIO 3680082 <GO>}

Okay. If I could just return quickly to XL, just the underlying performance in Q1, and what your reserve experience has been year-to-date, please.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So I told you before that XL excluding COVID-19 effect was in line with our expectation. So which means that it's true for the nat cat, it's true for the large claims. So it's across the board.

Q - James Shuck {BIO 3680082 <GO>}

FINAL

Bloomberg Transcript

That's great. Thank you very much.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

I -- I said as well that prices were above our expectations. And notably on the excess -- famous excess casualty lines, and it's continued in April.

Q - James Shuck {BIO 3680082 <GO>}

All right. Thanks, Etienne.

Operator

Thank you, sir. Next question is from Mr. Nick Holmes from Societe Generale. Sir, please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, Etienne. Couple of questions, please. Firstly, can you update us on discussions about your dividend with the ACPR?

And then second question is sort of looking at COVID more widely and coming back on some of the questions, you've had, what -- what would you say as your biggest worry. Is it actually top line revenue or is it claims, which one sort of in your management discussions you're most concerned about? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So on the dividend. Of course, I'm not going to tell you today, what will be the ultimate decision. But I can give you some element of context, in case you don't know -- you don't know it. The Board had made a proposal for the Annual General Assembly to pay EUR1.43 per share, which means 7% increase in dividend. Afterwards, there was -- I would say an information published by the (inaudible), but most importantly for us by the ACPR urging French insurance companies not to pay dividends, before October at least.

So we decided to postpone the General Assembly in order to take the time to understand exactly the position of the ACPR and to have a chance to dialog -- to have a dialog with them. So this is what's happening, and you'll know more in the upcoming weeks because the decision will be -- the new proposal is it's new -- will be made in May.

Regarding the COVID-19, I'll not answer precisely this question, because you're trying to assess and to put the number on the one aspect or the other. I can say that it's still a bit early. I would say that top line of profitable business, it's very costly. So I would say, the top line in life doesn't worry me too much. Because especially if you look at 2020 because the first year is not where you get the most, the biggest profitability because it's a -- their construction of long term business -- a long-term business.

In terms of P&C, it can be very costly, if there is a severe drop in revenues. And of course claims, I'll not comment. So I'll not make this comparison. But I'm sure you have already

an idea of what's more costly.

Q - Nick Holmes {BIO 3387435 <GO>}

Sorry, I'm just coming back very, very quickly. So to reiterate on dividend. Is it correct that your clear intention and wish is to pay your 2019 dividend. Do you think you have the financial ability to do so?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Sorry, if I was not clear. The liquidity, the solvency and the profitability of last year's allow us to pay this dividend. And this was based on -- all of this that we made this proposal to the General Assembly. So the only thing, which was new for us was the statement of the ACPR, so the French regulator.

Q - Nick Holmes {BIO 3387435 <GO>}

Yes, that's very clear. Thank you very much, Etienne.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you, Nick.

Operator

Thank you, sir. Next question is from Mr. William Hawkins from KBW. Sir, go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you very much. On business interruption, I appreciate you don't know an absolute number yet. But could you comment a little bit on what you're thinking about the mix of the claims that you're seeing with regards to the three areas that you talked about right at the beginning. So what you're seeing in some of geographic mix in terms of US versus non-US. And what you're seeing in terms of your carrier exposure in terms of XL versus the rest of the group. I'd be interested to get some of that field? Thank you.

And then secondly, a couple of months ago, I think actually you used to talk about 100 and 200 year pandemic hit of EUR1 billion. We've learned a lot about pandemic (inaudible) what we need three months ago. So I'm just wondering to what extent do you think your original models were valid. And without going into too much detail if they're not valid, what you're learning?

And then lastly, on the solidarity measures, you gave the -- the good examples in France. Is there any way that you can put just a global number on what you think is the cost of the solidarity measures to you at the moment, please. Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So as usual, I'll start with the third one. It's difficult to know as well because the solidarity measures have started, but it's not yet finished. You see that as long as the confinement is

there, there are still a lot of discussions and people in need for support. So I can tell you that group-wide, it's a few hundred million euros.

And then, let's be careful because we're not always clear between what is solidarity -- sometime solidarity measures, and what is BI, if you see what I mean. Because sometimes we're in between.

Regarding the pandemic hit, and the original models, it's true that we're realizing that the pandemic hit, it's not just a spike in mortality rate. It's much more than this. And therefore, I would say that the original models from this point of view have to be reviewed. And as we just discussed the mortality, the cost of the mortality even if it's million of death is not what hits us the most. It's the resulting systemic risk and related to -- I would say, the drop in GDP and the risk related to events cancellation, to business interruption and so on, on the one side. And the financial implications on the other side, on the asset side. So -- so it has to be reviewed clearly.

And when you discuss with the actuaries here, this is clearly on their agenda. This is something, which will be reviewed this year for that models.

Related to BI. I will -- so BI, it's not XL or not XL. It's across the board for all commercial lines, right. It's a commercial lines issue. I told you that there were a lot of discussions in Switzerland, in Germany, in the UK, in the US. So it's across the board. It's overall. So I'll not give you the split.

And in terms of US, non-US, my guess is that it might be a bit more costly on the non-US part. But it's still early, too early, because if you look -- if you speak with our US colleagues so that -- not colleagues, but our US peers, they will tell you that they see the risk also in the US. So it's -- really, I don't want to answer not because I don't want to give you the numbers, but because it's really too early. And I don't want to make any commitments. It's too early, really.

So we'll know more quarter-by-quarter and every time we have an information, which we think is reliable and which is sensible, we'll provide it to you. But today, we went beyond the revenue indicators because we knew that there was a need for information. But we're a little bit at the limit of what we can tell today.

Q - William Hawkins {BIO 1822411 <GO>}

That's helpful. Thank you. And what you're saying clearly is that business interruption losses are global, they're not just US.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Yes, exactly.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

Operator

Thank you, sir. Next question is from Mr. Andrew Crean [ph] from Autonomous. Sir, please go ahead.

Q - Andrew Crean {BIO 16513202 <GO>}

All right. Good morning all. Can I ask three questions. Firstly, could you give us a bit more detail on social inflation in the US. So I know -- it was -- you're in a sort of discovery period in the fourth quarter, as to just don't know how much it was accelerating. Can you talk a little bit more detail in the first quarter's to whether that settle down, and that you'll comment about that this year -- issue.

Secondly, you gave at the full year, your schedule of debt redemptions, which could be between 6 points and 9 points hit solvency. Are you in a position now to say which end of that scale is going to be?

And then thirdly, Solvency II. Firstly, could you give us an update from March as to where the coverage is. And also whether the sensitivities you've given historically still hold or whether you've been hedging heftily in the recent period, and therefore, your downside sensitivities maybe slightly less?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So regarding the social inflation, I would say that we've not observed any -- any new information, any changes in Q1. So we just -- so the price is going up. But the claims, no new information, I would say. Nothing that changes the view we gave you on the 20th of February. Second, the debt reimbursement. Your question was -- what kind of impact on Solvency II. Is that correct.

Q - Andrew Crean {BIO 16513202 <GO>}

No. I think you said it would hit Solvency II by between 6 points and 9 points this year.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Yeah.

Q - Andrew Crean {BIO 16513202 <GO>}

And I was wondering with your current plans, whether it's more likely to be 6 or 9.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Okay. So the debt we have reimbursed, the EUR1.3 billion has an impact of minus 4 points. So if you want to say -- to know if it's minus 6 or minus 9, I would bet for minus 6 rather than minus 9.

Q - Andrew Crean {BIO 16513202 <GO>}

Thanks.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

And your question related to the Solvency II number. At the end of March, which was 182%. I would say end of April, the main event is certainly the debt reimbursement. So on a pro forma basis, if you start from 182%, you could reduce by 4 points -- four [ph] percentage points

Q - Andrew Crean {BIO 16513202 <GO>}

Was that better market?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Yeah. All the -- the other elements, I would say are not material.

Q - Andrew Crean {BIO 16513202 <GO>}

And the downside sensitivities still work?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Excuse me.

Q - Andrew Crean {BIO 16513202 <GO>}

Did the downside sensitivity -- have you hedged the balance sheet more -- more heftily since the year-end?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Sorry, no. No change on the hedging. No change in the hedging, and maybe because we're speaking on Solvency II, I said, you know in the previous response -- answering to the previous questions that our actuaries are looking at traditional models, which is true, but with no impact on the Solvency II model. It's too early stage.

Operator

Thank you, sir. Next question is from Mr. Ashik Musaddi from JPMorgan. Sir, please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you, and good morning, Etienne. Just few questions all on capital. First one, again, sorry, going back to Solvency II. I mean currently your Solvency II ratio is about 182%, and you have redeemed some debt. I mean what gives you confidence on this ratio, given that credit market continue to remain volatile, interest rates have started going down again. And if I remember your hurdle is 170% to 220%. So I mean, you're not really far away from your hurdle rate. So what gives you enough confidence that the solvency capital needs is okay, yeah, from a 6 months to 12 months due. That's number one.

Secondly is can you give us some clarity on how the local subs capital is at the moment. Is there any breaches in those local subs, which could impact the cash remittances from the subsidiaries based on the current due?

And lastly, the new sensitivity you have provided on credit rating downgrade, it's pretty interesting because it's only 6 points for 20% of your portfolio getting downgraded, which is like a big portfolio getting downgraded by one full letter, and it only impact by six percentage point. Can you give some clarity as to how that works. Any -- any thoughts on that would be helpful? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So the -- first of all the solvency ratio is the number you know, and then -- you have all the sensitivities to figure out what it could be, under which circumstances. So here I'm not going to provide you with our estimate of what it will be. So -- and just to be more precise at the end of April, when we said you can reduce by four percentage points. The main reason is that the lower rates were offset by narrower [ph] spread since March. So all of this is moving.

The other point, which is important in my view is that the 170%, even if we were to reach it, would have no consequences. So you know that we have different targets. We have 170, but we have also 140. And the regulators has 100. So don't overestimate. You know, the fact that would be at 171 or 169 or 165. I'm not sure it will have an impact in the short term.

The second point is, we have no breach, I would say at the local subsidiary -- local entity level. And the -- I can tell you that in the current environment, the fungibility continues to work within the Group. And that our liquidity position as a result is strong at the holding level.

And then your -- the new sensitivities, we have provided of minus 6 points. I would say that the -- when you're -- the high rated -- the highly rated part of the portfolio, when it goes one letter down, it doesn't cost us that much. So it's more at the bottom. And at the bottom, our exposure is pretty limited. So this explains why the minus 6 points might see - - might look limited to you at this stage.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thanks a lot.

Operator

Thank you, sir. Next question is from Mr. Michael Huttner [ph] from Berenberg. Sir, go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. Hi, Etienne, and I had three questions. One -- it is really ten trick [ph] questions, you'll love them. On debt gearing, you said below 28% pro forma. And I

always wonder, what this pro forma mean, what am I supposed to think here. I just wondered if you could give us a kind of a ballpark figure of what an actual figure would be.

The second is you have this really interesting comment about solidarity effort and there is an overlap with business interruption. I just wondered, where you're going to book these solidarity effort. I don't understand what they could be.

The third question is on the -- you gave some positives in the press release, which was on investment income, where you gained in adjusted earnings and net income of 200 million and 300 million. Can you -- why did you give those figures, is it because you think they are sustainable through the year? Or is it just to give us a kind of a breath of fresh air. I doesn't quite understand because (inaudible) from them I'm kind of thinking, oh my gosh, is there a positive here, which we're missing.

And then the last one, the -- I struggle a little bit with the press release as a whole because there is figure for event cancellation, but no figure for business interruption, and that seem to be the -- the really big one, which is kind of the elephants in the room. And so far, I haven't -- I haven't gained much -- much clarity on that. Anyway, sorry, too many questions, and I hope you can help me out.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Don't worry, Michael, they are clear questions. So the pro forma on the debt gearing, it's just that if you don't -- if you take the balance sheet at the end of '19 and you reduce your debt by EUR1.3 billion, you come to the number we have indicated. That doesn't mean anything else than that. So it's a very, very basic calculation, just to give you a flare, an idea.

Second, the solidarity efforts. You wonder how we will book them. Most of them will be booked under underlying earnings. There might be -- there might be one or two exceptions. If you know we are -- like in France, we're just wondering if the -- the amount, which has been paid because it's not deductible [ph] and because you know it was -- there was no choice basically could be considered as an exceptional items, but it's more the exception. So I would say the majority of these impacts should be in the underlying earnings.

Third, your question is don't make it too complicated. We gave these numbers first because we knew that the question would come. And because we have the numbers, we know this information. So because we know it's tricky calculation. We gave it to you. Not to give fresh air because we do not know when we decided that we would deliver this information, what would be at the end of the day, the impact. And so it's just clarity. We don't see anything else than this. And we don't expect you to take -- to take that as a good news or the bad news. It's clarity and information and make the best use out of it. But it's more to help you.

Lastly, I understand that you would like to know more about business interruption, but please understand that the nature of the claims is much easier to grasp -- to get on ---

there is very short term risk on events cancellation because it was immediate. We had information much earlier than on the business interruption. So if you -- if you think for the next time, we should not give any numbers related to know -- related to us to know. But event cancellation, we know much more. So that's it. It's nature of the claims, which makes it easier.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah. Understand. Thank you.

Operator

Thank you, sir. Next question is from Mr. Thomas Fossard from HSBC. Sir, please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning, Etienne. I have got two or three questions. The first one would be related to the recessionary impact on your top line development actually you're providing some numbers for March and April and you're highlighting that the Life & Health businesses was significantly impacted. I was wondering why (inaudible) because I was expecting your business to be more on regular premiums and single premiums. So maybe you can help us to understand why the Life & Health revenues are, I would say more impacted.

Second question related to this is, on the P&C side. Could you maybe touch upon the part of your P&C revenues, may be more in the commercial lines, which you believe is recessionary exposed or sensitive.

And the -- so the next question will be related to the Life & Health reserves. Are you seeing, I would say early sign that the policyholders are changing a bit in terms of behaviors, and you're seeing some, I would say some temptation to surrender the policies at the present time? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So I start with the third question. You have seen that the net inflow are -- don't signal the change in behaviors. And in terms of -- retention -- at the end of March, the numbers were pretty stable. They were up of course in the P&C business, but in savings business or in Life & Health business, no change in behavior.

Second, in terms of top line trend, I would say that the Life business is by far the most hit business because you have the single premium in savings, which have a huge impact. So it's particularly true in -- in the -- in France, Italy and Spain. And so the drop is in the area of minus 20%. So it's clear. But it's really this effect of accounting, right. It would be encountered differently in terms of pure income impact, it's much less than that.

P&C is the second business, which is hit with a negative trend in April between minus 5 and minus 10, depending upon the country. Italy there also -- France and Italy are the most hit countries, and Health is very, very resilient. So I wouldn't put Life with Health in this context.

And for the P&C, of course, the GDP drop will have an impact on the top line because some premiums are indexed on the level of activity. So we'll see, but it will have an impact on the commercial lines. So you'll have some positives on the hardening of the prices and some negatives linked to let's -- let's call it GDP.

Operator

Thank you, sir. We have no other questions. (Operator Instructions) We have another question from Mr. Michael Huttner. Sir, please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Sorry about that. Hi, thank you. The -- I think on -- at the beginning, there was a question on AXA Life Europe, and I just wondered if you -- if you could say a little bit more on that.

And then I'm going to press a little bit just on the (inaudible) sorry the -- is it down or up from the 27.5. I'll put it in another way, if you want to redeem any more debt, would you actually -- would you hit your 25% to 28% target by the end of the year? Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So AXA Life Europe, so you're referring to the disposals and sorry, if I misunderstood the question. I was -- I answer -- I thought that the question was related to the two transactions announced [ph] this year. AXA Life Europe is transaction, which has been announced in 2018 -- at the end of 2018 and which is still under discussion, given its complexity, so the buyer and the seller always motivated to make the transaction. But the discussions with the regulator, but that will be 9.5 hour complex long lasting, and this is the only thing I can tell you on this.

On your question, Michael, your second question related to the debt gearing. Can you precise a little bit more, what -- what do you mean that?

Q - Michael Huttner {BIO 21454754 <GO>}

I'm worried because you didn't answer it well, that's why I asked for the first time once again gosh, am I missed something. So you said pro forma 27.5 or 28, whatever the figure is, but insisting on pro forma when the world has changed so much, I'm kind of thinking -- what is the figure now. And so, another way of asking it instead of saying well, can you give us a figure now, maybe you don't have it, I don't know is if you were not to redeem any more debt beyond the 1.3 billion, where you have done, would you at the end of the year still be in your 25% to 28% target range. That was all. Thank you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Okay, which is another way to ask, what will be our earnings this year. So -- and then this one, I will not answer. Because the gearing, it's not only the question of debt, it's also the question of retained earnings. The OCI does not play a role, and therefore I'll not answer this question, Michael.

Q - Michael Huttner {BIO 21454754 <GO>}

Understand. Thank you.

Operator

Thank you, sir. We have no other questions.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

In that case, we thank everybody for joining the call and hope you stay safe and well. And we're happy to answer any of your questions and follow-ups over the next days and weeks, and we wish you a very good day. Bye-bye.

A - Andrew Wallace-Barnett {BIO 18671460 <GO>}

Goodbye to all of you. Thank you very much.

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