Q1 2018 Earnings Call

Company Participants

- Luigi Lubelli, Group Chief Financial Officer
- Spencer Lee Horgan, Group Head-Investor & Rating Agency Relations

Other Participants

- Andrew J. Ritchie, Analyst
- Elena Perini, Analyst
- Farooq Hanif, Analyst
- Giuseppe Mapelli, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Peter D. Eliot, Analyst
- Ralph Hebgen, Analyst
- Steven Haywood, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Generali Group First Quarter 2018 Results Q&A Session Conference Call. Today's conference is being recorded.

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

Spencer Lee Horgan {BIO 4241901 <GO>}

Good morning, everybody. Welcome to our first quarter 2018 results Q&A call. As usual, we're going to have about one hour to take your questions.

And before that, also as usual, I'm going to hand it over to Luigi Lubelli, our Group CFO, for some opening remarks. Luigi?

Luigi Lubelli {BIO 4108780 <GO>}

Thank you, Spencer. Good morning, everyone, and welcome. Let me make just a few short observations on the results before we move to questions as Spencer said.

In my view, we've had a strong and encouraging start to 2018. On one hand, we certainly have growth. We have gross premiums going up by 2.5% on a like-for-like basis and we can see positive momentum in both Life and Non-Life insurance. We also have a robustly positive net inflows in Life and they, most importantly, are driven by target business lines.

Assets Under Management grew by €5.5 billion and importantly, €2 billion of those came from third-party funds. Even more importantly, our profitability is developing positively. We have an operating profit, which is up by 5% and a net result, which is up by almost 9%. What drove this, this was driven by the strong earnings strength, which, in turn, reflects our group's technical performance which continues to be outstanding.

In P&C, for example, our operating profit increased by 14%, driven by combined ratio improvement of 1.6 percentage points to 91.4%. And our current year underwriting performance has been excellent in these first three months and that was consistent across geographies, and even more importantly despite a 40-basis-point heavier burden from nat cat. As far as the prior-year development is concerned, it was essentially stable.

In Life, we have our new business margin continues to shine at 4.55%, up from 3.84% last year and that, once again, as was the case for all the previous quarters. We've seen this as a consequence of our disciplined focus on product design and mix. Within the operating result for Life, we see a positive trend of technical margins net of expenses, although we had lower financial income and realized gains this quarter, and that led to a stable outcome overall.

Holding and other activities continues to be very much in line with what we saw in 2017 and for the same reasons, by the way, which is thanks to the favorable development of the Investments, Asset & Wealth Management business activity.

On the non-operating side, I wish to highlight the continued, I must say, improvement of the investment results, thanks to the continued, once again, fall in the amount of impairments. The operating performance and lower impairments were the key drivers of the strong growth in our net results despite the higher tax rate we observed this year.

Lastly, I can confirm that the Solvency position of the group remains strong. Our Regulatory and Economic Solvency Ratios both increased by 3 percentage points from year-end levels to 211% and 233%, respectively.

So, summing up, the positive momentum in these results continues to demonstrate that our strategy is the right one and that we are successfully executing it with discipline and determination.

And with that, I'd pass on the word to Spencer to open the floor for questions.

Spencer Lee Horgan {BIO 4241901 <GO>}

Thanks, Luigi. Yes, operator. Can we take the questions now, please?

Q&A

Operator

Thank you. We will take our first quarter from Peter Eliot from Kepler Cheuvreux. Please go ahead, sir.

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

Thank you very much. I have three questions, please. The first one was on Italian Motor. I mean, I noticed there was kind of 4.5%. So, I'm just wondering if you can talk about the outlook there and any potential turn in the market.

Secondly, you noted the high tax rate and that it's sort of partly due to mix, but 33% still seems quite high given that corporate tax rates are falling. I'm just wondering if you're able to give any guidance on the future tax rate we should expect.

And finally, I appreciate you can't talk sort of directly on market rumors, but obviously there have been some sort of press reports in Italy about potential distribution agreements and swapping the stakes. So, just wondering if you can sort of say any words on the potential to sort of expand distribution reach. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Good morning, Peter, and thank you for your questions. All very relevant, by the way.

So, with regards to the Italian Motor outlook, I certainly can understand your question. The truth is that we continue to see a market that you would term as soft overall as a market and that continues to be the case. And we continue to follow the path we believe in, which is to maintain a strict and technical underwriting approach.

Of course, we are as competitive as it gets when we try to - when we go for a business, but we know we have to do it at certain terms. Clearly, in this market, taking a different stance may only lead to problems in the future. We acknowledge the fact that this is leading us to perhaps a lower top line figure, but we rather have it this way with this quality of business. So that's the way we see it now, but I recognize the fact that you would ask for that.

In terms of the tax rate, yes, you're right, i.e. - and thanks because this is a very relevant question for the results. I imagine that it's come to many minds. I would say that basically in terms of the reasons behind it, we had a different composition of investment income, which therefore - composition not just by source, but also by geography, which led to some different taxation which was comparatively higher than a year ago in the same quarter. Something similar was seen in the case of Banca Generali a week ago.

And then, we also had some one-off items in terms of deferred tax position, which being one-off will be diluted over the year. So, I cannot tell you exactly what will be in the coming quarters the rate, but I would say that this quarter, it will most likely be diluted as an impact of - over the next quarters because you have some one-off elements in it.

And you are right in your initial assertion that, indeed, we do not comment on market rumors. So a rumor it is, of course - if we had news, you would certainly hear about them from us. But for the moment, there is nothing I can tell.

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

Okay. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Very welcome.

Operator

We will take our next question from Thomas Seidl from Bernstein. Please go ahead, sir.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Hello. Good afternoon. Good morning. Three questions also on my side. First, Luigi, on the combined ratio improvement with rather normal PYD and nat cat at 1.6% improvement, over the last quarters, we discussed mainly pricing being in line with claims inflation. So, I just wonder, where is this market improvement then coming from if pricing was just compensating for claims inflation in the recent quarters? That's first question.

Second one on growth. You compensated the drop in Italy and Germany, in the Americas, Southern Europe region with more than 21% growth in the competitive Motor business. It's a vast region. Can you point us to any spikes in terms of countries and other - also, whether you think Motor growth is good in these regions?

And thirdly, on Life, you commented on a contraction of the financial margin. My usual question has - in this quarter hence investment income fallen quicker than the in-force guarantees. Thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Good morning, Thomas. So, thanks for the questions. Also, in this case, I think you're hitting on important nails. The improvement, the improvement essentially and simply comes from the maintenance of the underwriting approach we've kept throughout. So, I think also elaborating on the answer to the previous question, I think by now, it is pretty clear that Generali is quite selective on the business it underwrites and the terms in which it does so. And hence, this leads us to have a good loss ratio and that was the outcome.

We just had very good current loss experience. Perhaps it has to be said as well that last year, we did have some large claims, especially in Eastern Europe, which were not repeated this year. We also had some impact in Germany a year ago that also contributes to the decline. But the reality is that the biggest driver is simply plain, good current underwriting loss – current loss result experience.

I would say I would acknowledge the fact that this quarter has possibly been benign as you would say. So, it's been a very good quarter. So, it could well be that we had some greater large claims or whether – or what have you in the following quarter – so in this quarter, the quarter we're in now. But by and large, that was the driver of the performance.

With regard to – if I understood well – where the growth came from in Motor.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

It's true that we had – well, we had it from several places. But, indeed, Latin America was a growing place. I would say that Central, Eastern Europe was also a place where we saw growth in Motor. So, we had a good development there as well.

We had it in a few places. You're asking me whether growing in Latin America is a good thing. I think they're growing anywhere it fits well and the return is a good thing. The business in Latin America, I mean, we are very proud of our company in Argentina, which is where most of this business comes from. The company is noted for its good performance on the market because it consistently underwrites its business very well. So, from my perspective, yes, it's a good business that we're doing out there.

I was – if you don't mind repeating the – your last question because I couldn't quite catch it. I'm sorry.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Specifically also (00:12:43) you commented in the press release that the financial margin in Life has contracted and I wonder whether this means that in this quarter, the investment income has fallen quicker than the in-force guarantees. Is this the driver?

A - Luigi Lubelli {BIO 4108780 <GO>}

No. Look, the driver is very basic and nothing that you don't already know about in terms of trends. You've observed two trends, one which is obvious. I mean, we reinvest the maturing investments at current rates.

And so, as we've done so over the recent years, it clearly has a downwards pressure on our current investment income. In addition to that, the realization income in this quarter was materially lower than it was in the same quarter of the previous year. So it's quite bread and butter in terms of explanation.

Actually, I think what is – I mean, personally because of these opinions of everything, right, I actually think that the good news about – I actually like the operating result of Life this quarter because we've had very good technical performance that could make up for that and keep it stable at a level which is undoubtedly good. So, these are the reasons.

In terms of the guarantees, basically we've gone down to zero on the guarantees of the new business that we said in Europe now. So, I cannot tell you exactly what the speed at which both failed. But in terms of the approach we're taking to the business is exactly the one we've always claimed we would apply. And de facto, the – basically the average guarantee in Europe in the first quarter, I mean it runs down to zero. So, it's a very...

Q - Thomas Seidl {BIO 17755912 <GO>}

On new business, but on the in-force business.

A - Luigi Lubelli {BIO 4108780 <GO>}

But, of course, it declines, right? So we are not giving the disclosure, but if you take what we had at year-end and consider the fact that we've added the new business at zero, it cannot but go down.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. Thank you, Luigi.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're very welcome.

Operator

We'll now take our next question from James Shuck from Citi. Please go ahead, sir.

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

Thank you and good morning, everybody. Three questions from my side. Firstly, just to return to the Life operating profits, I mean you mentioned that the better technical margin, the lower financial margin leading to stable overall. If I kind of look out from here, are those the trends that you would expect to continue?

So, would you expect to see that financial margin continue to come under some pressure? And if so, can you just shed some light a little bit geographically where the improvement in technical margins coming from and the deterioration of financial margin? So, are we looking at a stable kind of outlook for operating profit or at some stage, should we start to see the Life new business growth feed through into these Life operating earnings?

Secondly around restructuring charges. If I look at your restructuring charges kind of the last five years or so, they've been consistently triple digits. You've given guidance already that 2017 to 2019 should be €700 million of restructuring. Just thinking ahead to the plan – and I appreciate you don't want to talk too much about what you'll be saying in November, but are we sort of now at the end of the restructuring phase or are we going to continue to see big restructuring charges a recurring feature?

Final question is around the insurance distribution directive. I'm particularly interested on how this will impact your tied agency networks, particularly in Italy. To the extent that you're able to manage your Life sales through controlling commissions, do you see like a certain loss of control of your ability to sell light (00:16:36) products as the IDD (00:16:37) comes in in October, please? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, James. So, very good questions. Let's see. Indeed, as I said, we had a better technical result. We're not disclosing where it came from, but I can tell you that it was, let's say, from our larger countries primarily as a driver in terms of the technical improvement. The reinvestment rates are going – and this quarter, they were lower than they were the same quarter of the previous year. So that was the experience on that side.

Where are we going from here? I think that is something we discussed in the full-year results presentation. We described to you what – how the new business margins will influence over time the cash generated from the business, which is approximate the operating results. So, our expectation continues to be – the gradual expectation continues to be that gradually, you will see this flowing through to the operating result.

You also have to bear in mind that we've had, let's say, five or six quarters of business written on these margins, which clearly flows through, but it takes time. So, we continue to have a positive view over the development of these businesses going forward.

In terms of restructuring charges, this is a very good question. We have gone through the Italian restructuring. That's already behind us. We announced the German restructuring, it's underway. And most of the charges were taken in 2017. So, those are already behind us.

I would say that now, we are undertaking initiatives of a certain relevance in France and Switzerland as other geographies where we're doing that. And I cannot cast my words in stone, but I would say that there aren't those many geographies left to do something about. So, as a trend, you would expect most of the relevant restructuring actions to be behind us either in conception or in execution. So, that would be my answer to that.

On the impacts on the tied agents for the moment, I would say for the moment, we're not anticipating major changes. But I do take note of your question. I'd like to deep-dive on it and perhaps give you some more info because I think it's a relevant question at the first half results. But then, generally speaking, it's not something we're noticing as a big issue so far.

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

Okay. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're very welcome.

Operator

We will now take our next question from Farooq Hanif from Credit Suisse. Your line is open. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Just two questions left. Similar question to one that was asked earlier on Motor, but just Non-Motor in Italy, the drop in commercial, is that competition or just a desired change mix? And then, on the Solvency II ratio move, I'm sure if I didn't ask it, somebody else would ask it anyway, but just if you could give some more details on the components because, obviously, the spread compression was positive in Italy. If you could help with that, that would be great. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Sure. Good afternoon, Farooq. Look, the GC&C drop is basically, once again, same side of the coin as we were saying before on other business lines. It's a challenging market and we try to underwrite at terms which we find attractive, though that wasn't the case. And this is – especially this one is a business you rather treat carefully about.

So, I would say it's basically the impact of competition. The rest of – also I would like to say because I think it's important that the rest of the Non-Motor business is stable.

So, with regard to your question, if you'll bear with me for a moment because I – okay. Thank you. So, in terms of the normalized earnings, we had about 5.4% increase due to internal capital generation. From that, you have to deduct the dividend for the quarter, which is 1.4% (00:22:26).

So let's say the net of the dividend, the capital generation was about 4%. We have a positive impact from the Netherlands, which is out of scope and that is about 1.5 percentage points. The economic variances were positive at slightly above 1%, and the impact from the AOPA (00:22:51) changes overall, there were about 2%.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thanks very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Very welcome.

Operator

We now take our next question from Nick Holmes. Please go ahead, sir.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi there. Thank you very much. Just a couple of questions. First one is anything you can say about what sort of areas you might be looking at in your next strategic plan? I know its little kind of (00:23:17) but would capital management figure could be highly up (00:23:20) in that review?

And then, secondly, with unit-linked sales, these are looking really good at the moment. What's your view about the outlook, especially if markets actually do get a bit worse? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Nick. Thank you for the questions. Yes. I think you should expect that also because we are already delivering on that. I mean, I think it's something – actually, thank you for this question because it's a very relevant one. I think we are showing evidence of certainly paying great attention to that.

The geographical footprint initiatives that we took, of course, driven by the fact of getting capital from areas where we think it's employed and yielding returns, which are not satisfactory for us and redeploying that capital in higher yielding initiatives. So the geographical footprint was born, in it of itself, out of a willingness to achieve higher returns.

We showed certainly a – I think this year, overall, the fact that we – in total, we'll be returning a total of €1.6 billion of capital, if you sum up the dividends. And the reduction in the amount of subordinated debt also tells you that our group is paying attention to that. So, clearly, this is something that is quite high on the pecking order of our strategic activities now. And, of course, it's something we'll talk about at the Investor Day.

As far as the...

Q - Nick Holmes {BIO 3387435 <GO>}

Sorry. Luigi, just before you move on, just very, very quickly, how high would debt repayments be on your list of priorities with your surplus capital?

A - Luigi Lubelli {BIO 4108780 <GO>}

On that precisely I would like to discuss at the Investor Day. It's one of the potential ways in which we can employ capital. I wouldn't say it's going to be the only one. It's been one and it's something we've decided to do now and when we announce it to you. But, of course, there are other ways to deploy capital that we can use. And, of course, we will let you know at the time. But I wouldn't say this is the only one. For sure not.

Q - Nick Holmes {BIO 3387435 <GO>}

Right.

A - Luigi Lubelli {BIO 4108780 <GO>}

So in terms of the outlook on unit-linked, on one hand, I would say that, as you know, after the first quarter of 2016, we emphasized the design of the unit-linked products based on lower volatility components precisely to partly shield the customer from the risks of these lower market performances.

Then you also have to bear in mind that the products that we are selling are hybrids. And so, they have a savings component that acts as a backstop at environments like this one, so partly compensating for yield – for the customer if the market underperforms. So these are elements that I – which I understand answer your question on this front.

Q - Nick Holmes {BIO 3387435 <GO>}

That's great. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

We will take our next question from Mapelli Giuseppe from Equita. Please go ahead.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Yes. Good afternoon. I have only one question that is related to the amount of TPL plan that you are experiencing in Italy. In the second half of 2017, you experienced basically a bottoming out of the average premium. Can you give us an idea what has happened in the first quarter because you stated that there is still, let's say, a soft market here in Italy? I would like to understand if we should assume a negative or a positive Motor – the average Motor TPL premium trend. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Hi. Good afternoon. Well, I would say that in this quarter, the average premium was more or less stable compared to the end of last year roughly. Roughly.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Okay. So, it's still down year-on-year.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

We'll take our next question from Michael Huttner from JPMorgan. Your line is open. Please go ahead, sir.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you. You've answered many other questions, but if I maybe ask again the question about when these lovely margins will come through in Life in profit, if I try to - the operating profit capital generation seems to be somewhere between €1 billion and €1.1 billion.

Last year, we were running at €900 million a quarter, so that's a growth of somewhere between 10% and 20%, call it 15%. The operating profit you reported is up €3 billion, so the disconnect is increasing, if anything, rather than narrowing. And can you maybe give us a feel for when one will catch up with the other or - that would be really helpful. I suppose really what I'm asking, is it going to come beyond the next three-year planning period, which you'll announce in November, or will we - might we see something as early as 2019? That would be my first question.

The second is, is there any update on Generali Leven (00:29:21)? The third one is on bank competition. We heard from one of your peers today, this big French company, that it's hurting them in France in terms of volumes. Maybe not in pricing, but volumes definitely. And I just wondered what are we seeing in Italy at the moment.

And then the final one is in Germany, which is, I suppose, your second biggest country where the pricing is up fantastically according to your competitor. What opportunities do you think that could offer you? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. So, let's see. Well, firstly, I'm very glad to think that our margins are lovely, I shared with you. Let's say, I think - but, of course, I'm very glad to repeat what I said in the previous question as I said on the same subject.

As I said, we did provide you the information on how - or the pattern, the shape of the contribution of cash flow from these products going forward. We did so in the - with the full-year results. I think – I mean, I understand the impatience about seeing this, which is fully understandable, and the expectations that the too much (00:30:46) is just only legitimate.

I think the most important element here is that we are underwriting well. This can only be seen over time in our margins. It's just a matter of time. As I was saying before, bear in mind, just in order of perspective, just in order of the scale of what we're putting on our books relative to what we have on our books already that we have had, let's say, six consecutive quarters – seven consecutive quarters of this kind of margin. So, it is being seen.

We also – if you remember the chart, you saw that the chart had an initial negative component at the very first inception and then – with the strain and then piling up over the years, right? So, there's element as well. But I mean, we certainly maintained the fact – and it cannot be otherwise if we are writing a business that's intrinsically more profitable than the business we used to write.

Please remember that until two years ago, we had margins which are on the former scale. We're at 25% kind of, and which would be something around 2.5% on the present scale because there's a factor of 10. So, clearly, that has to be seen going forward, but it has to take its time in order to come through. So this is my view on the indeed lovely margins that we are having.

With regards to GEL (00:32:25), nothing to tell you at this moment. Nothing that we have not already said about this in the past.

Competition is certainly an interesting question. I wouldn't say that we have seen that now. I wouldn't say that the competition dynamics on the Italian market in the first quarter of this year have been in any shape or form very different from what we have seen a year ago. I'm not saying that we do not have other players that are trying to make a mark on the market. I would just say that it's not something that was noticed in this quarter.

This is something we openly talk about. I mean, it's a competition. It's the essence of our existence, right, on the market. So, I always say the same thing. Selling is one thing. Handling the business that comes thereafter is a different story. So, I would certainly encourage everyone to think it over a longer term, but to go strictly to your question, nothing that we have seen in this quarter.

With regards to Germany, it's certainly a market – I understand – I'm not sure you were referring to the whole market at large or specifically. I was under the impression you were talking about Non-Life.

Q - Michael Huttner {BIO 1556863 <GO>}

Non-Life. Yes, yes, Non-Life. Absolutely.

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A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah. Non-Life is going well. We are certainly – I would say that our stance now is a distribution-driven stance. On one hand, we are being very careful on the business that is coming through from channels such as brokers. For instance, we are very careful on being selective on that front. But I think on the other hand, what's important is what we announced with the restructuring, right?

We have a new and enhanced partnerships with the DVAG. And the DVAG is clearly – I mean if there's anything good going on in the German market, it will surely go through DVAG. They're a prime distribution channel and they're very proficient at what they do. So, certainly, I think we're possibly in a better position now than we were formerly on the distribution side in Germany.

Q - Michael Huttner {BIO 1556863 <GO>}

Lovely. Thank you so much. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Welcome (00:35:09).

Operator

We'll take our next question from Andrew Ritchie from Autonomous. Please go ahead, sir.

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

Oh, hi there. Two very quick ones. Over the quarter, you – having sold Belgium or announced the sale of Belgium, you've exceeded the €1 billion target. I think you're at €1.1 billion. So, what should we think of – and this isn't an attempt to ask about Generali Leven in a different way. What should we think about the disposal program at this point? I think the press release on Belgium hinted that you were still reviewing ongoing. Should we just assume higher than €1 billion now? What's the latest update on that?

Second question. Could you just clarify where the restructuring expense is in Q1 or whether they're dramatically lower than Q1 last year? Just a quantum would be helpful. Thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Andrew. So, well, I think it's a fact that the €1 billion target was exceeded. So that's beyond dispute now. We said that we had in mind at least €1 billion of proceeds from this, and basically that's where we stand. There is more to come. I think some very large items have gone already, but we do have some more – let's say that the process is not finalized.

And on Generali Leven, as I say, I said before there's nothing to update. Now, I understand your point of view that if we were to go for a sale of Generali Leven, yes, of course, it would be larger than this amount. But it's nothing we have yet talked about. So for the moment, the only disposals we can talk about is those we already discussed.

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

So when you said there's more to come, you mean you're not including Leven. You're saying there's more to come excluding Leven.

A - Luigi Lubelli {BIO 4108780 <GO>}

Correct. You're right.

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

All right.

A - Luigi Lubelli {BIO 4108780 <GO>}

And as far as your question is concerned, the – no, restructuring charges are basically broadly in line with the same figures as the same quarter of last year.

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

Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Welcome.

Operator

We'll take our next question from Steven Haywood from HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Thank you very much. Your new business margin is developing extremely well. You're at 4.5% now and I thought – previously discussing that 4% may have been the maximum level that you could achieve. So I was wondering, is this 4.5% the max? Can it go any higher? Is Q1 seasonal? Is it because you shut down businesses that were a drag on the new business margin? Any reasons behind this sort of increase would be helpful.

And then just following up on a previous question, you talked about the deferred tax impact. Now, is that all coming from the U.S. or is there other impacts as well? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Steven. Thank you for these questions. So, it's a very interesting one on the new business margin. I don't think we ever said kind of 4% is the highest you can get. You have to understand that certainly it's not a seasonality element, but what you do have is you have a – I would say let's start from a different angle. What drove this quarter? Where does it come from?

On one hand, you have a breakdown by lines and by countries. So that has changed compared to last year. We had a greater weight of unit-linked and the way in which the rest of the business came from was differently weighted compared to a year ago. And so, that did contribute to the increase in margin.

The other drivers that we have, let's say, between the combination of management actions and financial variables, although we did not disclose the figures, I think it's important for you to know that roughly two-thirds of the improvement came from management actions and the rest came from financial warranty. So that's the explanation of that.

Is this the highest? Well, I hope it's not. But of course, this is an element that varies over time. I think – I've always stressed the same subject and same point of view, I would say, and I will repeat it on this call in the sense that I think what we have done at Generali is design our products well and execute well our strategy accordingly.

So, margins will fluctuate. Of course, they may be higher in these ones and may be smaller in these ones. But I'm actually more confident about the fact that they will be market-leading at any point because we've done, I think – what the recurrent performance across quarters shows that we've done our homework well on this front.

As far as the deferred taxes, no, no U.S. The deferred taxes element is an element in Europe, not in the United States.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Excellent. Thanks very much for your help.

Operator

We will now take our next question from Elena Perini from Banca IMI. Please go ahead.

Q - Elena Perini {BIO 4202240 <GO>}

Yes. Good afternoon. I have only two questions left. The first one is on your combined ratio. Is there any positive impact coming from the release of reserves?

And then the second one is if you can add some more color on the trend of your asset management businesses. One year ago, you presented your new strategy. So I was wondering because you are mentioning the favorable development of Investments, Asset & Wealth Management. If you can add something more on this. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. Good afternoon, Elena, and thank you for these questions. Look, on the combined ratio, the short answer is no. I mean, there's a small variation, but it's not consequential on the overall variation. Overwhelmingly, the improvement in the combined ratio comes from the current loss ratio. So, I wouldn't even term it as material. The difference in priority and release (00:42:35) is they're kind of the same as a year ago.

As far on the asset management, very good question. The strategy is being executed also there. According to what was said, we are certainly pushing on real assets. We are certainly sourcing more assets from third parties. We are certainly developing the multi-boutique approach. We already made announcements in that regard with respect to new agreements.

And the main driver in the – what you would see as the holding and financial line in our half yearly and full-year results is mainly driven by the investment and asset management activities. So I would say that, yes, the execution of the strategy and its impacts on the funds under management and the P&L are indeed proceeding according to what was expected and announced.

Q - Elena Perini {BIO 4202240 <GO>}

Okay. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

We will take our next question from Ralph Hebgen from KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Hi, guys. Thanks for taking my question. Just one thing, I understand, of course, that you cannot respond or comment on any press rumors in Italy. But perhaps could you just share with us some general thoughts on where you see your distribution channels – the mix of the channels going forward in the future, in particular your thoughts on the revival of the bancassurance channel, which I believe was much more prominent in your mix up for a moment until, say, 5 to 10 years ago. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Ralph. It's a very interesting question. As you can imagine, this is an aspect we pay enormous attention to. That's my first answer to your question. And secondly, I would say also necessarily we're agnostic about the subject. But we certainly – I mean it's not as if there is a channel we comparatively like or dislike. We want to have the appropriate shelf space on every channel that deserves it. I think it's more important what kind of businesses and what terms we can get through those channels. But certainly, there is not a priori it's (00:45:21) by principle a willingness to shun bancassurance.

So bancassurance is there. We do distribute through bancassurance. You are right. We are not commenting on this sort of channel on what is being said in the press, but we can comment about the fact that we're certainly open to entertain discussions with any distributor that comes to us with something that we consider sensible from a business standpoint. So I would, by principle, then not say no on to any channel.

It's true that what we've done in Generali, for instance, we put some emphasis, but not because we dislike the other channels, but because it's a sign of the times. We are developing both what you would term as digital distribution and both what you would term as the equipment of traditional distribution with digital tools. So, that is something that we have been doing in Italy. But as I say, it's a sign of the times. It's something that we that we have to do.

Now, these days in Italy, you no more sign a contract on paper for a life product; you do it on a tablet PC. Our agents are equipped with plenty of digital tools to interact with their customers and we also have digital distribution. So that is a development. But I wouldn't say that means that we prefer the digital channels; it's just that we have to develop that.

I wonder if – because your question was very wide, have I answered it, Ralph?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Thank you very much. Absolutely. In fact, it gave rise to a thought which I had. A quick follow-up perhaps, if I may. At some point in the past, I can't remember exactly when, you were also updating us on plans you had to increase the throughput of P&C products through the Allianz sales force specifically, which I thought was very interesting at the time because of the Allianz sales traditionally are focused very exclusively on the sale of the investment and Life product. But can you just update us where that is going or where are you in that process? Is that still something which you are targeting as a strategic goal?

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Yes, apparently, this belongs to (00:47:52). I wasn't there, so it's some time ago. I would say that it's not the aspects we're emphasizing the most these days. What is true is that we are emphasizing the Non-Motor sales certainly as a sales effort throughout our distribution channels in Italy. We're certainly emphasizing that.

I will also acknowledge the fact that it's not terribly easy in Italy to increase the distribution of Non-Motor, Non-Life, but it's certainly something we are pursuing. As we said, in this quarter, the figures were stable. The decline was solely due to the commercial business, but it's certainly something we are after through all channels, not just Allianz.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Lovely. Thank you very much for your time.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

We'll take our final question from Johnny Vo from Goldman Sachs. Please go ahead, sir.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Thank you very much. Just coming back to a question that James Shuck asked, just in relation to the bottoming out of the investment margin in the Life business. I was wondering when or how long will the current yields equal book value yields such that we hit the sort of floor. Is it one, two years' time? That's the first question.

The second question is just a conceptual question. Just in terms of the Solvency and all this new business you're putting on, can you just describe when this or how long this converts into cash? Because clearly it creates capital, but it takes a while before that converts to cash. So, can you just describe that mechanism? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Good afternoon, Johnny. Let's see. Your first question, I'm afraid, is on the borders between finance and astrology in the sense that it's difficult for me to say that, let's say, that this is not something we know. So, what we have been doing is work on something we can know. So, the low yields for a moment are a fact. And when we write business, we assume that that is the environment we are operating in. So, if yields rise, so be it, right? We'll be very happy to have them.

For that reason, we have...

Q - Johnny Vo {BIO 5509843 <GO>}

It's just one of your competitors had basically said, look, there's a one more year of a dip in terms of that investment income before it rises because the current yields equal the book value yields. But if you can't do that, that's understandable.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah. I mean, I'd say that the – we have a duration – I'd say, technically speaking, we have Life's asset duration above eight years. So, the decline will be slow. So that is the most technical answer I can give.

I would say, on our side, and you will see that, we have stepped up our investment capabilities and our investment focus on the so-called real assets because there, we can pick up some more margin in terms of investment yield and work on something we can control. And, of course, we're also working on the spread on products, right, on the guarantees that we pay. So, those are the levers we can control and can help us meet this environment. Then if we have rising yields, so be it.

I think your second question, I understand there's a variation on the subject of the questions that we're asked on – about Life margins because mostly what we're putting there in terms of internal capital generation comes from the Life new business margins.

So, same answer as we gave before. It's going to be gradual, but I think it's also going to be certain. So, I think that that is something that you have to bear in mind. I mean, these products are being written at higher margins than previous products. They are on our books. And after an initial strain phase and let's say accumulation phase, we are certainly confident about the fact that their contribution to profitability and cash generation will be seen.

Q - Johnny Vo {BIO 5509843 <GO>}

But I guess the key is like, obviously, it's still been Solvency. So there's an expectation from people that Solvency equals cash. But clearly, as you said, there's strain and various other things.

A - Luigi Lubelli {BIO 4108780 <GO>}

Solvency equals cash, depending also on the profile of the business that you have.

Q - Johnny Vo {BIO 5509843 <GO>}

Yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

If you are a Life long-term writer as we are, it turns into cash at a slower pace than perhaps somebody who writes shorter-tail businesses. As I said before, I think from my perspective, what counts is that we're doing it.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. That's great.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay.

Operator

There are no further questions. So I'd like to hand the call back over to Mr. Spencer Horgan for any additional or closing remarks.

A - Spencer Lee Horgan {BIO 4241901 <GO>}

Thank you very much to everybody for joining us. Just one additional administrative point from my side. If there are any of you who are anticipating the excitement our local SFCR documents, you'll find those on the group website on Monday. Other than that, thank you very much for joining us. I wish you all a good weekend, and that we'll hear from you soon. Thanks.

Operator

This concludes today's call. Ladies and gentlemen, thank you for your participation. You may now disconnect.