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Q3 2019 Earnings Call

Company Participants

- Guido Maria Nola, Chief Financial Officer
- Matteo Del Fante, Chief Executive Officer, General Manager & Director

Other Participants

- Alberto Villa
- Anna Adamo
- Ashik Musaddi
- Federico Braga
- Filippo Prini
- Gian Luca Ferrari
- Giovanni Razzoli
- Matija Gergolet

Presentation

Operator

Ladies and gentlemen, thank you for holding, and welcome to today's Poste Italiane's Third Quarter Nine Months 2019 Results Webcast. After the presentation, we will have a question-and-answer session. (Operator Instructions) I must advise you that this webcast is being recorded today on Wednesday, the 6th of November, 2019.

And I would now like to hand the webcast over to your host today Matteo Del Fante, Chief Executive Officer. Please go ahead, sir.

Matteo Del Fante {BIO 6237992 <GO>}

Good afternoon, ladies and gentlemen. Thank you for joining us today. We're pleased to present Poste Italiane results for the third quarter and first nine months of 2019. I will take you through the key highlights before handing over to Guido for a more detailed business review. I will then provide some closing remarks before, as usual we open up for questions.

Slide number 3 please. In terms of major highlights, our uniquely diversified business model has delivered sustainable revenues, adapting to changing macro and market environments. The industrial transformation carried out during the first phase of Deliver 2022 is providing a strong platform for innovation and new commercial initiatives that will drive future growth.

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We remain fully focused on cost discipline, balancing headcount reduction with specialist hires that actively support our transformation. An increase in non-HR cost is aligned with our plan and directly support business growth. We are on track to meet all targets for 2019 at both a group and segment level thanks to the continued effort of our people.

As announced in July, we have introduced an interim dividend policy with EUR0.154 per share to be paid on November 20th, one-third of the Deliver 2022 dividend per shares for the full year, which would be equal to EUR0.463.

Moving to financial results at a group level on Slide 4. Revenues continued to increase, up 1.8% in Q3 and 1.7% for the nine months, confirming our ability to extract greater value from our distribution network and our successful diversification across segments.

Reported EBIT for the quarter was up 1% to EUR459 million and EUR1.5 billion for the nine-months, an increase of 2%. EBIT on an adjusted basis was EUR463 million for the third quarter, almost flat and EUR1.3 billion for the nine months, up 10.5% versus the same period of last year. Reported net profit grew 2.6% for the nine-months and was in line with the third quarter of 2018. We continue to focus on a day-to-day delivery against our five-year plan, Deliver 2022.

Moving to revenue on Slide 5. Revenue trends across all segments were in line with the long-term drivers presented in our strategic plan. By focusing on our customer needs and developing a more diversified offer, we are adapting to a changing macro environment.

Starting with Mail, Parcel & Distribution. Revenues in the nine months were down, impacted by lower mail revenues and some one-off effect as well as the phasing out of passenger revenues from Mistral Air now re-branded as Poste Air Cargo. Parcel revenues continue to increase at a sustained pace, thanks to strong B2C volumes from an increasing diversified customer base, confirming the long-term opportunity from e-commerce that underpins Deliver 2022.

Financial services revenues were broadly flat in the quarter, but up in the nine months when excluding capital gains, leveraging on our distribution network and commercial initiatives.

Payment, Mobile & Digital and Insurance were strong growth engine in the third quarter. PMD showed continued revenue growth, both for the quarter and for the nine-months, driven by successful commercial initiative that capitalize on the synergies between telecoms and card payments. Insurance Services posted revenue growth both for the quarter and the nine months in life and P&C. Life revenues growth was coupled with the successful diversification towards multi-class product, while all P&C products lines continue to grow.

Moving to EBIT on Slide 6. All of our segments are on track. Mail, Parcel and Distribution EBIT was impacted by combination of lower mail revenues, lower intercompany revenues as well as a higher cost linked to business transformation. Part of this cost increase relates to the ramp-up of the Bologna hub, which along with the full implementation of the Joint

Delivery Model by year-end will generate efficiencies from 2020 onwards. So the complete roll out of our Deliver 2022 strategy for mail and parcel will create additional cost efficiencies.

All other segments show continued operating profitability progression. Growth in financial services operating profitability was high single-digits, supported by higher intersegment revenues and lower cost while Payments, Mobile & Digital as well as Insurance Services are growing on a double-digit basis.

In the first phase of Deliver 2022, we laid the foundation of our operational transformation, these included restructuring our traditional logistic network for e-commerce, expanding our product offer to meet customer needs, investing in digital and physical infrastructures, creating new partnership to facilitate commercial initiativ and setting a clear path for our people through training and development. Thanks to this major initiative, the perception about Poste is changing.

We now enter the next phase. Building on these foundations by focusing on customer experience across all segments to extract additional value. To this end, I would like to welcome Melany Libraro, our new Head of Customer Experience Transformation, who brings extensive experience in leading online marketplaces and operating with major international tech companies. Melany has brought in to anticipate and meet customer needs in a user-friendly way. This process begins with our 70,000 colleagues who carry out more than 5 million customer transaction every day. As users and ambassador of our products, this colleagues are the main actors in Poste -- customer experience and are critical to the successful -- to the success of our distribution platform.

On this Slide number 7, we have highlighted some of the major initiatives already underway. In Mail, Parcel & Distribution, we're focusing on client friendly delivery to improve customer experience. And our alternative delivery network now includes over 4,000 locations, ahead of expectations for 2019. In financial services, we're building an innovative asset gathering business, leveraging state-of-the-art digital properties and enhancing our multi-channel wealth management platform offer. An example of this transformation is our partnership with Moneyfarm, a digital wealth management product company.

We're also increasing our focus on third-party product and our new personal loan offer is now in place. These lines, remember you, carry no credit risk for Poste.

In PMD, we continue to expand the range of innovative services available via our PosteVita up, including high frequency payments and QR code payment pilot projects. Our goal is to make Poste digital payments product, a part of everyday life by targeting customer spending, where hard cash is still dominant.

In insurance services, tangible results are already visible. MiFID II and IDD data presents an opportunity to profile our customers and upgrade our system to support the salesforce customer interactions. As a result, we have designed multi-class life policies tailored to

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these different customer needs. And today after less than one year, over one-third of new life gross written premiums are multi-class products.

On P&C, we're ready to launch a motor insurance product using a distribution model which will offer seamless user experience thanks to state-of-the-art IT platform and an efficient claim management process. We're not going into more detail today, but we'd like to take this opportunity to invite you to a post innovation workshop that will be held in London for those of you that are interested and available in January 24, and there we will explore these growth opportunities in more detail. More information will follow from our Head of IR, Massimiliano.

Let me now hand over to Guido who will take you through a more detailed business review. I will then provide some financial comments before we open up to questions. Over to Guido. Thank you.

Guido Maria Nola {BIO 20719012 <GO>}

Thank you, Matteo, and good afternoon, everyone. Let me take you through each segment, starting with Mail, Parcel and Distribution on Slide 9. Overall segment revenues were down 3.5% in the quarter and 1.3% in the first nine months of 2019. This trend was expected and we are on track to meet our target for the full-year. To better compare results year-on-year, please remember the nine months 2018 included EUR12 million of passengers' revenues from Mistral Air, which is now Poste Air Cargo.

Mail revenues were down 8% in the quarter, while in the nine months they were down 5%, in line with our long-term guidance. This higher quarterly decrease was due to several specific reasons. First of all, this quarter is the first period that no longer shows the benefit of the mail product repricing, which became effective in July 2018.

In addition, some mail volumes, such as vehicle and road tax notification as well as ordinary banking bulk mail have been postponed to Q4. Furthermore, in Q3 2018 we booked subsidies for newspapers and magazine delivery related to the first half of 2018, which for 2019 are booked in the relevant quarters.

Intercompany revenues were also down, mainly related to lower fees from postal savings and payment slips. Parcel revenues accelerated strongly, up 14% in the quarter and 13% in the first nine months, outpacing the market. This is particularly meaningful as the initial benefit from the transformation of our network was already visible in the third quarter of 2018.

Operating profit for the nine months 2019 mirrors this trend with EUR55 million lower internal and external revenues. EBIT was also affected by EUR118 million in higher expenses related to business growth such as the ramp-up of the Bologna parcel hub and the D&A related to CapEx. Additionally, we are not yet fully benefiting from efficiencies on ongoing industrial transformation projects, which will have an effect in the future. These include Bologna hub, the total implementation of the Joint Delivery Model, the creation of a unified SDA-Poste Italiane single commercial offer for parcels. To conclude, EBIT is in

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line with our 2019 full-year target with Q4 expected to show an improvement year-on-year on an adjusted basis.

On Slide 10, we look at the core volume and pricing trends for Mail & Parcel. Starting from the left hand side, overall mail volumes fell only 1.5% in the third quarter, mainly due to a greater contribution from lower margin products and 7.1% in the first nine months of 2019. Higher record in mail, on the other hand declined 7% in Q3. This was more than in recent quarters, in part due to the postponement of some volumes to Q4. Average prices for mail were up 2% for the first nine months due to the repricing introduced in July 2018 while tariffs decreased 7% in the quarter due to the mix of volumes and the fact that unit prices are now comparable year-on-year.

Moving to Parcels. Volumes increased more than 17%, boosted by a nearly 30% increase in B2C volumes for the nine months. These results are encouraging as they are comparable like-for-like with the third quarter last year where the first results of Deliver 2022 had begun to show. The average price index for parcel was down 3% in the quarter and 4% in the first nine months, reflecting the changing volume mix with a greater contribution from B2C, while within each product the average tariff is broadly unchanged in the quarter.

Moving to Payments, Mobile & Digital on Slide 11. Card payment and telecom activities drove revenues and EBIT progression. Revenues grew by 10.6% in the quarter and 9.8% in the first nine months. Card payments were up by 11% in the quarter, driven by a higher number of Postepay cards and a strong increase in payment volumes across both physical and digital channels.

For telecoms, revenues in the quarter rose by a strong 17%, with our commercial initiatives helping us successfully navigate a highly competitive environment. Postepay Connect, our bundled telecoms and payment services offer, capitalizes on the convergence between the two business lines to effectively support revenue growth. Poste mobile SIM penetration is high with seniors while Postepay evolution card are primarily used by younger customers. Postepay Connect captures value by effectively cross-selling sims to younger consumers and up selling cards to seniors. In particular, the gradual shift of Postepay towards higher margin Evolution cards further supports revenues as a result of increased recurring fees and higher usage. Other payments revenues, which include traditional payment services fell to the decreased tax payment fees in the period.

Moving to financial services on Slide 12. Recurring distribution revenues continued to contribute to the top line, delivering a reduced reliance on capital gains. Segment revenues were stable in the quarter and nine-months and up in the year-to-date when excluding capital gains, leveraging on our distribution network and commercial initiatives.

Net interest income is in line with our target of EUR1.6 billion for 2019, thanks to the proactive portfolio management actions taken during Q4 2018 and Q1 2019 when we purchased bonds at a higher yield to anticipate maturities and new flows expected for 2019.

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Fees from postal savings distribution is in the nine months were down but in line with our 2019 target of EUR1.8 billion. New campaigns are in the pipeline for the fourth quarter designed to leverage on the significant upcoming expiries. Our focus on third-party products continues. Loan and mortgage distribution fees rose 18% in the first nine months and will be further supported by the new offer now in place with Intesa personal loans and UniCredit salary backed loans. Asset management revenues were up 12% in the same period, supported by positive net inflows.

Going forward, low interest rates are a clear headwind, but we are well positioned and compare favorably with our peers. This is thanks to our average portfolio duration of 5.8 years, much longer than other Italian financial institutions and the flexibility we retain to actively manage our portfolio to capture potential market opportunities. We are currently assessing the impact of lower rates on net interest for 2020 onwards while identifying the measures which will allow us to grow in a sustainable way with a changing product mix.

Let me remind you that our diversified business model can adapt to changing market conditions, thanks to a wide range of financial and insurance products tailored to our customer needs. We did not capitalize -- we did not realize any capital gains in the third quarter. Thanks to favorable market conditions, we have secured most of the remainder of the capital gains planned for 2019, which will be realized in Q4. These conditions also allowed us to secure a relevant part of the capital gains planned for 2020 through forward contracts, increasing the visibility of 2020 revenue streams.

EBIT increased both in the quarter and in the first nine months. This was due to higher intersegment revenues with insurance being the major contributor and lower costs in comparison with the same period in 2018, which saw higher costs related to correspondence and real estate funds provisions. We confirm that financial services EBIT is in line with 2019 targets.

Moving to group total financial assets on Slide 13. Total financial assets have increased by over EUR26 billion since the end of December thanks to both market effect and net inflows. Deposits were up EUR6.2 billion related to a seasonal contribution from public administration current accounts, retail deposits and Postepay. Insurance products recorded EUR3 billion net inflows, thanks to multi-class products. Mutual funds posted net inflows of plus EUR0.3 billion in a complex market environment. Flows from postal savings were negative as expected, and in line with target for 2019. In a fast changing market environment, we continued to develop suitable products for our customers by focusing on their needs.

Moving to slide 14 on insurance services, where all product lines contributed to an increase in segment revenues of over 16%. As highlighted, the strong performance in the quarter and the first nine months was driven by both life and non-life products. Life insurance revenues were up, thanks to business growth capital with the successful diversification to multi-class products as well as enhanced profitability. Multi-class product penetration is expected to further improve thanks to the increasing volume of expiring Class I policies. We also increased investment margin, supported by favorable market condition.

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In the current low interest rate environment, our realized gains increased to over EUR15 billion at the end of September. This gives us greater confidence in reaching our target investment margin to stabilize policyholders' returns. Revenue contribution related to P&C grew strongly, up 20% in the first nine months, underpinned by solid growth across all products. EBIT for the first nine months grew by a strong 23.4%, well on track for 2019.

Let's move to Slide 15 on solvency. The solvency II ratio increased from 242% to 295% at the end of September as the positive development in BTP market more than offset the impact of a further reduction in risk-free interest rates. The narrowing in the swap rate negatively impacted the solvency II ratio due to a mismatch in asset and liability duration and the increased value of embedded options. The decrease of BTP swap spread resulted in a higher solvency II ratio benefiting from unrealized gains in the investment portfolio.

In particular, unrealized gains amounted to EUR15.1 billion at the end of September, reducing market and underwriting risk. We confirm for 2019 a dividend upstream of 50% from PosteVita to the parent company with no impact on the group dividend policy. This will be worth some 10 percentage points of solvency II ratio for the full-year 2019. Transitional measures have been approved by the regulator, but their benefit is not included in the figures shown on this slide. Those actions were part of the ongoing capital management actions implemented to provide an additional buffer to weather potential volatility in the future.

Moving to solvency II ratio sensitivity on Slide 16. We stand at 295% at the end of September, a level which is above our managerial ambition through the cycle driven by a positive BTP market environment. On this slide, we have outlined the impact of various scenarios, a sudden increase of Italian spread by 100 basis points and 200 basis points. The outcome of these two scenarios are comparable because at plus 200 basis points, the country-specific volatility adjustment would be triggered. All scenarios presented here confirms that we are well-positioned against potential market volatility. We have already demonstrated our ability to strengthen PosteVita's capital base at no cost to our shareholders and continue to implement measures such as product and investment portfolio diversification to manage volatility in the long-term.

Moving to group costs on Slide 17. HR costs showed a year-on-year decline in the first nine months. The wage component increased, fully embedding for the first time the first salary revision in three years. This was more than offset by an acceleration in FTE reduction. Early retirement charges were just EUR13 million. The bulk of these charges will be booked in the fourth quarter. Since the quota 100 pension reform was introduced in 2019, we have gained additional flexibility as it allows us to offer early retirement to more people at a lower cost per capita. Non-HR costs increased by 5.9%, in line with our expectations. This mainly relates to Payment, Mobile & Digital variable costs and the ongoing industrial transformation mentioned in the Mail, Parcel and Distribution section.

On Slide 18, we look at Poste continuing workforce evolution and the new hires and headcount reductions, which support Deliver 2022. Our average headcount decreased to below 130,000 FTEs at the end of September, in line with our plan. This is the result of an average reduction of more than 7,000 due to turnover and subsidized exits, leading to over 13,000 exits since December 2017 out of an overall goal of 25,000 by 2022.

Our ability to actively manage headcounts is confirmed and supported by quota 100. Since full year 2018, we made on average 2,800 new hires, including last-mile delivery professionals as well as digital and financial advisory specialists. We continue to execute our hiring plan support transformation. Our average cost per FTE has increased since year-end 2018 to support business growth. At the same time, the value-added per FTE has increased as our workflow strategy delivers higher productivity.

Let me now hand back to Matteo for closing remarks on Slide 19. Thank you.

Matteo Del Fante {BIO 6237992 <GO>}

Thank you, Guido. Before taking your question, let me close with some key points. These results demonstrate again our continued progress against the commitments that we laid out in February 2018 with our strategic plan, Deliver 2022. The new interim dividend policy aligns the company to the best practice and demonstrates our ability to meet our targets. While the wider macro environment has changed with even lower interest rate, we're able to adapt and are confident in the power of our diversified business model.

Our cost discipline supports growth in a balanced way, while we're accelerating our CapEx plan to fuel the ongoing industrial transformation. All in all, this allow us to look ahead building on our strong foundations by focusing on customer centric innovation across all segment to extract additional value.

Looking ahead, we will provide you new guidance for 2020 within the Deliver 2022 framework in March next year alongside the announcement of our full year results for 2019. What I can tell you today is that we are very confident that our operating profitability will continue to progress going forward. We can now open to question please.

Questions And Answers

Operator

(Question And Answer)

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Alternately you can submit your questions at any time via the Q&A function on the webcast.

And your first audio question comes from the line of Gian Luca Ferrari of Mediobanca. Please go ahead. Your line is open.

Q - Gian Luca Ferrari

Yes. Good morning, everyone. The first question I have is on the NII trend, in particular, this EUR410 million in Q3 is basically confirming the trend of Q1 and Q2. I understood you will come back in March on what we should expect for next year. But I think Guido mentioned some potential measures to offset the impact of low rates. Would those

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measures imply to increase the EUR300 million expected realized gains next year? Or you are thinking more about other businesses contributing more. We saw an amazing result from insurance, for example, that could offset pressure on NII. I was wondering if capital gains could be activated much more than the EUR300 million you are projecting next year?

Second question is on another amazing number is on HR costs that are basically not growing at all. You mentioned the quota 100 as a potential contributor for additional flexibility. Could we expect for the coming quarters and years? Basically a cost base and HR cost base pretty stable. So not even reflecting inflation. Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

Okay. NII is clearly a topic in current market environment, but I would like to say that is not a topic that is creating any concern to us. We maintain our commitment to reduce reliance on capital gain. In Deliver 2022, we had for next year, EUR340 million of capital gains and a portion of those has already been secured. And without anticipating our March guidance, I can tell you that at the moment, we're planning to stick to the plan. You have to remember that in February '18, when we presented the plan and in March 19, when we gave guidance within the Deliver 2022 framework, we had already envision for 2020, lower NII for 2020. It was actually if you go back to our presentations, it was EUR1.5 million versus the EUR1.6 million that we had committed for this year.

And we have to bear in mind that since we presented the plan beginning of 2018, we have experienced over one year of spread, BTP spread widening because we had a window from May 2018 to August this year. And in that period, we invested EUR7 billion, around EUR7 billion of cash in higher yielding than we had anticipated in February 2018. That has allowed us to increase duration, and this is clearly helping also the mark-to-market of our portfolio.

Bear in mind that we have an additional support coming from the fact that on the liability side, the repo or the lower rates we pay to some customers. Clearly, we have some additional savings versus the plan. So all-in-all NII not a concern. We were not talking about the negative mark-to-market of the portfolio and we don't talk today about the positive mark-to-market of the same portfolio, so business as usual.

On HR costs, please, Guido?

A - Guido Maria Nola {BIO 20719012 <GO>}

Yes, I will just point you to a couple of things I mentioned already in my speech and try to make a sense out of them for you. So first of all, as I said, we have significant more flexibility coming from quota 100. You have to think that -- just to give you a rough number what we were expecting to be the cost of subsidized exit today will cost us roughly EUR10,000 less in the new environment. So that kind of flexibility can be transformed in more people at the same cost or less people and less cost and we retain that flexibility also because I mentioned that we've done 13 out of 25,000 reductions that

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we had in the plan, which makes it -- bring us to a very, very good starting point for the remainder of the plan.

Also in the speech I mentioned, one thing that I want to reiterate. Last year, the revision, so to your point of inflation, last year the revision in the contract was done, following three years of lack of revisions. So that revision had to take into account for three years, the contract has not been reviewed. So that was kind of a one off. The new contract will be reviewed sometime at the beginning of next year for 2020, but the starting base is completely different, because we start from a much better contract negotiated last year.

Q - Gian Luca Ferrari

Okay. Thank you.

Operator

Thank you. And your next question comes from the line of Alberto Villa of Intermonte. Please go ahead.

Q - Alberto Villa {BIO 16005221 <GO>}

Yes. Good afternoon, I have a question on Slide 28 about the trend in net inflows in the third quarter, if you can give us some more color about -- well, you had net outflows in the quarter. I was wondering if you can give us an idea about what you're expecting for the fourth quarter and the contribution of retainment inflows. It seems that the mix is definitely favorable, I guess, from what you said during the call that the expectations are from growing net inflows into the insurance. I was wondering if you can give us an order of magnitude of net inflows you're expecting for the fourth quarter and maybe also for 2020.

And also on the postal saving offering. Can we expect some news about eventually the offer you have I think you are going to negotiate with the CDP next year in terms of both of the offering to make it more appealing for the customer under the current interest rate environment. And eventually if the current interest rate environment can put at risk the commission you're getting from CDP? Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

So, I will take the first part of the question,

I guess, the two are very much linked. But what we can tell you on the fourth quarter is, again, I will point you to the fact that even the third quarter was positive in our view, because as you mentioned, the retail net inflows were significant at EUR1.3 billion. So the reduction in the quarter is due to, mainly public administration deposits that as you know are quite seasonal. So, we continue to see that positive trend into the fourth quarter. The first couple of month's data and the weekly progression are giving a lot of comfort. And this is true for the main contributors of postal savings and then the others mainly, but then deposits as well obviously. So, I can tell you that the Q4 and is absolutely in line with the

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target for the year and the progression is proving right even in the first few weeks of this quarter.

A - Guido Maria Nola {BIO 20719012 <GO>}

On postal savings, specifically, you've seen on Page 29 of the appendix that in the first nine months, we improve our performance versus last year by EUR750 million. And in terms of new products in a lower rate environment, there is work every day basically to support our commercial offer. And specifically in the next week, we're going to have two new products. And before the end of the year probably another two, so we navigate these low rates environment on a basically a week-by-week basis with CDP and we don't see any sign of weakness in the appetite of our clients for the products and for postal savings. You have to remember that last part of the year is a period where we have a lot of redemptions. So, we have also the opportunity on one side and the challenge to keep the flow, but so far, so good. We check, obviously, on a daily basis production, but we are very comfortable at this point in time.

Q - Alberto Villa {BIO 16005221 <GO>}

Thank you.

Operator

Thank you. And your next question comes from the line of Anna Adamo of Autonomous Research. Please go ahead. Your line is open.

Q - Anna Adamo {BIO 16893946 <GO>}

Good afternoon. I have two questions, please. Firstly, I noticed that Poste generated negative draws this quarter. Expenses were rising faster than revenues. Can you clarify how much of the cost base was inflated by additional CapEx and investments this quarter, which, as you said will generate additional efficiencies in the future? That's my first question.

Then on insurance, the Solvency II ratio is back to very solid levels, well above the guidance. But we all know that this ratio is sensitive to spreads. And are you, therefore making any progress on the migration to internal models to create an additional buffer 1 times and less favorable? Thank you very much.

A - Guido Maria Nola {BIO 20719012 <GO>}

Anna, if you don't mind, I'll start from the second one.

As you know, we talked, I think, even on this call about this point. And my question -- my answer will not be too different from before, meaning that as I said, we're working on it. And as you know, this is a very lengthy process that even the regulator tells us it's going to take between two and three years. But what I can add this time is that we are working and we have been working with a -- an advisor, a specialist advisor to implement a model that helps us anticipate the Solvency II evolution yes on a standard basis, but this is really the

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first step for us to prove and get a lot of insights. First on how to implement an internal model, how to structure the team and then really how to use the data that this model provides us to manage even going forward the evolution of the business. So that's what I can tell you on internal models.

A - Matteo Del Fante {BIO 6237992 <GO>}

On the first question on overall, I believe, revenues versus overall cost, I think, on the revenue side, we have shown certainly a strong performance on in line with the plan and we reiterated our confidence to meet the plan for 2019 in terms of guidance. On the cost side, I will probably repeat some of the considerations of Guido, on the HR side, because basically, we are starting for the first year to have the full impact of the new labor contract and that clearly shows. And at the same time on the non-HR cost, we had two elements

number one, the development cost related to variable cost of our growing business and that's going from parcel distribution to PMD cost that has increased. And then there is the business transformation mainly in logistics that has some D&A impact that you have seen and some additional cost. One item that I would like again to reiterate your attention is the fact that when you go to Page 18, our value added for FTE has grown from last year by 6 from 62 to 66. And I believe that the Deliver 2022 plan was to bring it to 70. So we are nine months into 2018 and we already reached 66. So efficiency in that respect is clearly ahead of the plan.

Q - Anna Adamo {BIO 16893946 <GO>}

Thank you.

Operator

Thank you. And your next question comes from the line of Ashik Musaddi of JP Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Hi, good afternoon, Matteo. Good afternoon, Guido.

Just a few questions. First of all, your NII moved up. If I look at quarter-on-quarter, which was a bit of a surprise, because interest rates have been going down for the last three quarters in a row. So what's driving your NII up that would be our first question to learn? And then like how should we think about next couple of quarters at least in the short term in terms of NII projection? So that's number one.

Secondly, you mentioned about this transitional measures has been approved under Solvency II. Can you just give us some more clarity what these are? How big it could be? And what will it protect you for? I mean, will it protect you for interest rate? Or spread or what will it protect you for? So that would be the second one.

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And third one is, mail volumes they didn't decline that much. But mail pricing did decline. I think you mentioned about the volume, the mix shift from recorded to unrecorded. So, how should we think about more mail volume decline going forward? I mean are you still comfortable with your 5% total mail revenue decline guidance? Or shall we think about anything else? So these three questions would be great. Thank you.

A - Matteo Del Fante {BIO 6237992 <GO>}

Yes. I'll take NII, Ashik. Hi.

I think the duration of our portfolio of almost six year is telling you that there is clearly a lag in between interest rates moving and impact on our interest margin. And the lag is clearly higher than the one you would probably see in any financial institution that for what I know, have a significantly lower duration, generally speaking. So, you don't see today, but you might see next year the impact of lower rates in 2019. Having said that, we had EUR1.5 billion for next year and as I answered before, we're very comfortable with that target and we keep our line of reducing reliance on capital gain, which are there. But as I said, we try not to use them and keep -- and speak to our Deliver 2022 plan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, clear to know.

A - Matteo Del Fante {BIO 6237992 <GO>}

Yes.

A - Guido Maria Nola {BIO 20719012 <GO>}

And I'll take transitional, as I said, the measure was approved. In the next quarter, we'll show the number effect but what we care is not much about the number because we manage without taking that into account, but we -- it is one of our managerial actions because we spent quite enough time with the regulator on this measure, because we believe this can be useful in volatile quarters and especially the BTP volatile quarters when you find yourself with a -- especially when the spread is high, but not high enough to trigger volatility adjustment, this gives enough comfort in my mind to the regulator that we are totally under control.

We know that from a business perspective, we are totally under control. We went through this with you and all the others, because we discussed our business model, but we want to make sure that it's evident to the market and to the regulator that we are completely comfortable. So it's just a way to weather volatility, as I said in my speech.

Q - Ashik Musaddi {BIO 15847584 <GO>}

No, I mean I think this is really a good thing, because if this -- if you get the transitional measures, and clearly you don't need to go to the internal model route, I mean, in two, three years' time, you can do it peacefully. So no rush in. With the transitional measure, it will definitely help you to address uneconomic volatility. But one thing I want to check is

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like what does it protect you for? Is it -- does it protect you for BTP spread as well or just interest rates?

A - Guido Maria Nola {BIO 20719012 <GO>}

Yes, it's -- as you know, the main effect for us is BTP. So yes.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Yes, that's good. Okay. Thank you.

A - Guido Maria Nola {BIO 20719012 <GO>}

But you can find detail on the attachment -- I'm sorry, on the second part of the Appendix of the Presentation is on page of -- Page 35.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, okay.

A - Guido Maria Nola {BIO 20719012 <GO>}

Last point on mail decline. So well, I think this year, it's been really a year, where we showed that the first quarter that was slower than we expected, a very good second quarter, and now is one that is slower than we expected. Yes, there is certain volatility on volumes, but we totally confirm the 5% longer term decline, which is what we had during the plan. And also, I think the first signs of volumes for this current quarter are showing what I said in my speech some of the volumes that we were expecting in Q3 coming in Q4.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, that's very clear. Many thanks for this.

A - Guido Maria Nola {BIO 20719012 <GO>}

Thank you.

Operator

Thank you. And your next question comes from the line of Matija Gergolet of Goldman Sachs. Please go ahead.

Q - Matija Gergolet {BIO 3561672 <GO>}

Yes, hello. Good afternoon. The first question is about HR costs. Going back to the slide, which you show at the end. You basically showing that for the first nine months, your HR costs are pretty much flat. I think you were guiding back in February that you would expect a bit of an increase in the cost because basically of the increase in international contract. Should we expect like an acceleration in the fourth quarter? Or basically you are slightly ahead on the HR costs compared to your plan? That's my first question.

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Secondly, going to payments and mobile, there seems to be quite a bit of a change in the revenue trend in this quarter compared to the first half of the year, with no sharp acceleration in telecom and some deceleration in card payments revenues. Can you elaborate a little bit on why is that happening? Are you shifting revenues from one, let's say, subdivision to the other? Or is there some underlying change in the trends that we should be aware of?

And thirdly, maybe just a comment on the P&C, what is your latest thinking about motor insurance, about entering that market? Or what's your latest thinging there? Thank you very much.

A - Matteo Del Fante {BIO 6237992 <GO>}

I will start with the last one. Thank you, Matija.

On motor, we are getting ready to launch a pilot project with employees of the company only. That's usually the way we test our products. As I said in my introduction, we have 70,000 client-facing colleagues. And if they like the product, it means that they will clearly recommend it and sell it.

On the second question on PMD, we are showing a strong resilient in telco. I agree with you, we are supported by our fixed-line business. So there is a reslilience in that space in the other revenue level. I think that also card payment is slightly lower; I agree with you. We are growing only 11% in the quarter versus the 17% over the nine months. But I think this is still good double-digit growth. So we stick to our plan. I think what is important that in all these businesses, we can leverage significantly on the trust that our clients put on Poste. You have, in our mobile business, a much lower churn rate than competition. You have a much lower less than half lapse rate in insurance. You have in the appendix of the presentation the quarter results of 2.56 if I remember correctly. So we have a very stable and client base that really trust us. And I believe that if we continue giving them services and develop our client-centric business model, this will only improve.

On cost, I can tell you, yes, it's slightly better than what we anticipated in February. We are ahead of plan in terms of FTEs and you can see it on Page 17 on the EUR168 million reduction. Maybe a portion of this will be reabsorbed by year end. But we're still in progress, but certainly, we're ahead of the plan and some of this margin will stay with us for the whole of 2019.

Thank you, Matija.

Q - Matija Gergolet {BIO 3561672 <GO>}

Okay. Thank you very much.

Operator

Thank you. Your next question comes from the line of Giovanni Razzoli from Equita. Please go ahead.

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Q - Giovanni Razzoli {BIO 7269718 <GO>}

Thank you. But my question was already answered. Thank you.

Operator

Thank you. And your next question comes from the line of Federico Braga of UBS. Please go ahead.

Q - Federico Braga {BIO 19916816 <GO>}

Yes. Good afternoon everyone. Thanks for taking my question. Just two questions left from my side. The first one is on the capital ratios of the banking business, CET 1 ratio and leverage ratio fell sharply in the quarter. So, I was wondering if you could give us a little bit more color on the drivers there. And in particular with regards to the leverage ratio 2.7% if you plan to bring back this ratio to 3%? Or what's the approach there?

And then the second question is a follow-up on the telco revenues. In the quarter the pricing picked up pretty well. If we look at the ARPU of the mobile division, it increased by -- increased double digit in Q3 versus Q2 of this year. So I was wondering what's the key driver there if it's a product mix? You mentioned pretty good results in the fixed line contract. So I was wondering what's the key driver there? Thank you very much.

A - Guido Maria Nola {BIO 20719012 <GO>}

Sorry, my mic was off. So, I'll start again.

Leverage ratio, it's good to clarify that there's no specific regulatory requirement for Bancoposta on this ratio. Obviously, the ratio that we have in our risk appetite framework. But you need to consider that we are peculiar and this is why it doesn't apply to us actually, because the increase in asset value related to lower BTP spreads obviously does not impact the dominator and the nominator in the same way you would do to a normal bank. So, we -- yes, it is below. But we're not particularly concerned by it, also because it comes, because of a positive effect from BTP spread reduction and the value of our portfolio to increase. And that's on the leverage ratio.

On telecom revenue, I just would point to what Matteo was saying before on our ARPU, which is particularly lowered compared to others. And in this quarter I think I would add the positive contribution, which you see in the same line from fixed lines, which had a very good quarter and to continue to progress with the additional commercial offers into this new quarter.

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Operator

Thank you. Your next question comes from the line of Filippo Prini of Kepler. Please go ahead.

Q - Filippo Prini {BIO 15149583 <GO>}

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Yes. Good afternoon. Two brief questions. The first one is on the expected year retirement cost for this year and next year, if you can remind us which is the expectation. And still on this point, I would like just a clarification. Is it correct that before on the call you mentioned that with quota 100, you would expect to have a saving of EUR10,000 there on cost retirement per employee?

And the last one, I noticed that at the end of your presentation, you mentioned about providing the new guidance for 2020 next March. Does this new guidance would include also your dividends? Or do you if you can tell now that you plan to stick to your regional plus 5% growth in DPS also for 2020. Thank you.

A - Guido Maria Nola {BIO 20719012 <GO>}

I will start with the dividend. I think I read on some of your reports, probably was not you, Filippo, but with the current market value of the share, the dividend yield has clearly gone down. And some of you are pointing out to this situation. We have not opened the dividend file. And so at the moment we stick to our plan. And I think that's all I can say at this point in time.

On the first question on labor. I think the way we look at it is that quota 100 has basically accelerated our and supported our plan in two ways because we end up as you highlighted having a lower cost per head versus what we anticipated. And clearly give us an additional buffer of early retirement versus the plan. So all-in-all, is helping our transformation.

On early retirement charges. So I'm going to the first part of your question, we have provision 2018 for a significant transformation that we actually -- you actually see on the -- today on the nine months. We are sticking to the plan for year-end in terms of additional early retirement. And then I think we would have at the end of 2019 than a meaningful portion of the transformation we had in mind when we launched the plan in February 2018. So probably one of the big item of a revision of the plan, which is a topic for clearly next year would probably go into more detail on this specific factor. So, how much do we still need to keep this pace, which we clearly have the ability to do without impacting our transformation and our ability to generate additional revenues.

Q - Filippo Prini {BIO 15149583 <GO>}

Okay, thank you.

Operator

Thank you. We have no further questions at this time. I would now like to hand the call back over to Matteo Del Fante for his closing remarks. Please go ahead, sir.

A - Matteo Del Fante {BIO 6237992 <GO>}

Thank you again to all of you for joining us today and for the questions. The next event, as anticipated, for investors and analysts will be the Poste Innovation Workshop in London

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on January 24. Details to follow from our IR team. And thank you again. I hope to see you all there.

Thank you very much.

Operator

Thank you. Ladies and gentlemen, that does conclude your webcast for today. Thank you for participating, and you may now all disconnect.

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