Q1 2021 Earnings Call

Company Participants

- Cristiano Borean, Group Chief Financial Officer & Manager In charge of Preparing Financial Reports
- Giulia Raffo, Head of Investor & Rating Agency relations

Other Participants

- Andrea Lisi
- Andrew Ritchie
- Andrew Sinclair
- Farooq Hanif
- Gian Luca Ferrari
- James Shuck
- Michael Huttner
- Peter Eliot
- Stephen Hayward
- William Hawkins

Presentation

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining The Generali Group First Quarter 2021 Results Conference Call. As a reminder, all participants are in a listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions).

At this time, I would like to turn the conference over to Ms.Giulia Raffo, Head of Investor and Rating Agency Relations. Please go ahead, Madam.

Giulia Raffo {BIO 21037091 <GO>}

Thank you, and welcome everyone to Generali Q1, 2021, Results Conference Call. Here with me we have our Group CFO, Cristiano Borean, and we are ready to take your questions. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Excuse me, this is the chorus call conference operator. We will now begin the question-and-answer session. (Operator Instructions). The first question is from Peter Eliot with Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I have three questions, please. The first one was just on the sort of competitive pressures in non-life. I guess your two main competitors in Italy are both talking about sort of quite negative pricing pressure there in non-life. You seem to be a little bit more bullish reading between the lines and looking at your outlook, I mean, I appreciate you comment on competitors, but I'm wondering if you could just give us a bit more detail on what you're seeing and what drives the statements you made in the outlook? Thank you.

And then the second question, the non-life investment results, I'm just wondering if you can give us a bit more hints as to the moving parts there. Because if I look at your underwriting result, that improved by 90 million on the prior year comparative, but the operating result only improved by 60 million. So I guess there's been a sort of 30 million drop in investments and other against, what I would have thought, was a relatively easy comp. But any insights you can offer there would be great.

And then finally, asset management, the cost to income ratio showed a pretty strong improvement. Is that a sort of sustainable figure or are there any one-offs in there? Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you, Peter. Over to you, Cristiano.

A - Cristiano Borean {BIO 15246531 <GO>}

So, thank you, Peter, and hello to everybody.

So point number one, competitive pressure in the P&C outlook is specially focused on our Italian peers. What I would like to highlight is that the figures you've seen on collection in the first quarter are pretty strong and they are a combination of both motor and P&C part of our growth. What is important to know anyhow, that in the motor segment, there is a pressure on the total prices and this stems out in a kind of above something in the order, slightly above 4% drop in the average premium for the motor TPL [ph] component, which yes, having seen the figures of our competitors, is slightly lower and it is related to the retention and the strategy applied last year.

On, overall, the other component of the second question, of the other component in the P&C part, and what are the different moving parts in the result of the investment results versus the other result of the contribution, I would tell you that the effect on the technical increase of the result driven by the combined ratio, is bringing up 73 million out of the growth. And then there is a basically flattish plus 5 million in investment result. And then we have another component, which is 60 million less than the previous year contribution, which is other component out of the calculation of the technical result, which are mainly driven by some small positive one-off in VAT in the Central Eastern Europe of 2020, which has not been replied, and some further charges on VAT in the Italian country in this year, plus a small effect of the so-called leasing amortization, IFRS 16, on our Portuguese acquisition, which accounts for a EUR60 million drop on our comparable basis on the other component -- voice component.

The third question you asked, asset management cost income ratio, is it sustainable? Please take into account that in the first quarter 2021, we do have an effect, which was not there last year of the so-called performance commissions, and the fact that this year, we have EUR13 million of performance condition [ph] and we are basically zero, close to EUR2 million, last year. So clearly, there are different effects, on first in the cost income ratio and asset management, there are both the strong denominator and the fact that in the numerator, the COVID has meant lower traveling and marketing expenses than the run rate, which would have implied and phasing in of the other IT expenses.

So, clearly all-in-all, is it sustainable? You should take into account all these moving parts and going forward, you need to take into account that embedding as well, the performance commission, which last year, were in the order of 100 million, clearly that number has been dropped in the yearend 2020 figure and we do not expect to have the same level of performance commission as of today. But we could experience last year at least in the budget, we will see, clearly this is very dependent of the volatility and evolution of the market and our strategies.

Q - Peter Eliot {BIO 7556214 <GO>}

That's very clear. Thank you very much. That's it for me.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Andrew Sinclair with Bank of America. Please go ahead.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. Good morning, good afternoon, everyone. (Inaudible) update there, well done. Three for me if that's okay. Firstly was just on Swiss reserve strengthening. I just wondered if you give us a little bit more color. How much was there about in Q1 this year and has your expectations for the total amount in 2021 changed versus your prior guidance?

Secondly, just wondered if you can give us a bit more granularity of the moving parts in the Solvency II ratio?

And third, was really just trying to get to the bottom of underlying progress and the combined ratio underlying evolution there, Q1 2020, clearly would have also had some COVID frequency benefits. I think prior year development has remained pretty low, and just really wondered how you see underlying progress sorry, pretty partly worded question there, but just some color on the underlying progress in the combined ratio? Thanks.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. Hello. Good morning, Andrew. With regards the first question on Swiss reserve strengthening, yes, for sure I will give you some color. In the first quarter 2021, we put something in the order of 75 million in Swiss Francs currency of our location and we proceeded probably grow linearly throughout the year, maintaining our cautious statement and confirming the November Investor Day amount for 2021. In the first quarter 2020, there was a slightly higher amount of reserving. It was a slightly more than the double of this figure so -- because of, as you remember, the first quarter was a very volatile quarter. So we put aside a little bit more.

Related to the second question on the granularity on the moving parts, on the solvency ratio, it is important for you to be aware but we got 4 percentage points, almost a drop, coming from the regulatory changes which is nothing bad to the ultimate for rate reduction plus the change in the portfolio, almost 6 percentage points of capital generation, which I would like to highlight, it is EUR1.1 billion, accounting for almost 6 percentage points. And the economic variances were bringing up the solvency from yearend level by about 11 percentage points. And basically the rest is capital movement which is the product accrual of the expected dividend, which is a 2 percentage points.

Third question related to the combined ratio underlying evolution, it is important to highlight that we said in the first quarter 2021, our COVID striked out -- without COVID combined ratio would have been 89.7%. So in the evolution and waiting to see in the next three quarters of the year, especially in the second half of the year, a higher increase of frequency because in the second quarter still, we are observing extended, less intense but still lockdown in countries and especially in Germany or France. We are thinking of moving in a normal way, in the corridor between 90% and 92% of combined ratio and lending in the lower end of that corridor and please take into account that in the first quarter, we had some few natural catastrophe lower than average, which also brought a little bit down the combined ratio by 0.7, if I remember properly, percentage points -- 0.9.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thank you. So just to go back to the such results strengthening [ph], so guidance for the full year is unchanged?

A - Cristiano Borean {BIO 15246531 <GO>}

Yeah. For the full year it is unchanged. I confirm we say in the ballpark of the CHF300 million as announced during the Investor Day in November, notwithstanding the better improvement condition, we still see at this stage volatility and uncertainty and we keep our normalized linear strengthening as announced.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Understood. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there. I wonder if you could give a bit more color behind which specific regions or territories were driving the growth in new business, life new business. And I guess I'm just trying to understand, you would still regard the new business production, I presume, as a little bit hindered by lockdowns that we've seen in Q1. So would you expect that new business volume to pick up over the year as those lockdown effects unwind.

The second question, just coming back to non-life premium growth, is there any outlook that you expect the growth rates to be higher than they were pre-pandemic? I'm still puzzled what's driving that. Because it's not pricing particularly for your portfolio. So what is driving the expectation that growth rates post-pandemic are going to be higher than pre-pandemic? I guess they're not there yet but I'm assuming that's something you expect to gain as lockdown effects unwind? Thanks.

A - Cristiano Borean {BIO 15246531 <GO>}

Thank you, Andrew. So, first of all, the drivers of growth for the life new business, I do confirm that during the month also of April, we still see a good improvement of the evolution, especially also in the unit linked component, which shows a point which is mainly related to the fact that people are basically putting a little bit more at work the cash that they hoarded in the bank accounts and this could drive a little bit of more interesting investment as soon as the situation can get there. Compared to our outlook, we are still very cautious in the uncertainty related to the speed of recovery. But clearly, the countries show double-digit growth in the premium on the preferred segment of unit linked and protection in the business premium dimension. And so going forward and you should expect a little bit more focus in the unit linked as soon as the situation stays and unfold in a more predictable and growth driven way. Our focus will be, for sure, to steer the production as have you seen the more as possible in the super capital light and the unit linked product.

For what regards the P&C part, the premium growth is higher than the pandemic phase. Let's say, potentially in the future, and as well now we look and look at the figures, and we have seen also in 2020, that our agents apparently do not appear too much impacted by the lockdown in the capacity and this is confirmed quarter by quarter, partially also because of the special relationship that they built with our clients and also because of the investment in the way to open seamless interaction with them in the so called the physical approach. What is important is the driver are in some cases, pricing on specific lines. I think about in France, pricing in the motor business. Then there is some agreement of fleet that we had in Italy with Fiat Chrysler's automobile which is driving up the volumes and we see in the non-motor, a good growth also in the accident segment. And in general, people are a little bit more conscious after the pandemic and protection, as long as we see economic recovery, could be brought up if we (inaudible) as a European especially Union to manage the growth appropriately to support the small medium enterprises.

Don't forget that our mobility business is growing in the mobility space because of our capability of the Internet of Things platform which we are developing not only for us but also from other peers, as you know, from our agreement with Cattolica which is offering a possibility to give to the client extras [ph]. So this is basically what we see as the driver and don't forget that we have also fleet agreement even in the Central Eastern Europe, which are very profitable and we think that going forward, the mobility business is a big driver for growth in the premium because of the new habits and the new way the people will bring their experience in moving out as well we don't have to forget even more for Generali is a small portion because it accounts only for 10% of the total premium that the growth in the global corporate and commercial repricing and that is re-repricing driven is important. Just to let you know, our segment Global Corporate and Commercial grew by 8.5% as a premium growth in the quarter-over-quarter.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thanks very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks so much. So, first question is your number of your peers I think are quite clear about doing bolt-on acquisitions and choosing between that and buybacks, and I see your capital position as being just strong and stable. I'm just wondering in the next phase, would it be possible, I mean, would you consider sort of widening your remit [ph] of bolt-on M&A going forward, perhaps in P&C, in emerging markets. Just interested in your thoughts because you seem to be focusing a fair amount on the boutique asset management strategy, but obviously, there's a wider potential here for you given your platform.

And the second question is on acquisition expenses, I mean you talk about in your, in both your non-life and your life comment about higher acquisition expenses. And is this related to product mix or is this kind of a lockdown related investment effect? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hello, Farooq. So bolt-on acquisition or buyback. So regarding our active strategies, as I already told you many times, I just want to recall that we have 2.3 billion for capital redeployment in our hands. What is the logic and how we should see now and also going forward, the let's say, alternatives. Number one, we do want to look for M&A but not in a forced way. M&A for us it just has to be seen as a way to create value for our shareholders, and in general, M&A has to be seen as a value to diversify the sources of our cash flow as a Group. So, diversifying both geographically, but especially also in the business line, be it growth for P&C, protection, which I recall you protection, as even a lower capital consumption from investment side than P&C, and as well in the asset management space to further diversify. So this is the way we look at things compared to buyback, which is in a certain sense of investing in yourself, which means having the same pie, but with less people at the party is a difference compared to having a different topping on the cake, which would like to put. Because this we think as an M&A strategy, if done properly according to our discipline into our parameters of strategic fit and cultural fit, do make value in reducing the risk on the sources of cash flow.

This is how we look. We do not exclude any options in case we don't find future solution, any solution. But please look at the way we look at M&A in this context. For what regards the P&C acquisition cost, I would like to recall you, the increase is 0.7 percentage point and it is mainly related to two reasons; higher commissions in especially the P&C motor segment in Italy, where we did agreement from B2B2C, as I was mentioning before and where we have also fostering in our sale of motor in the so called non PPL component. So the other our coverage like cashco [ph] which are very profitable. So it's an investment to extract our profitability. And the second part is also related to the portion of higher commission paid also in the non-motor retail business to make this growth.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, great. And seemingly similar in life as well?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, in life you mean about acquisition cost?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes, please.

A - Cristiano Borean {BIO 15246531 <GO>}

Yeah, acquisition cost in life are going up for the same reason. We had a strong growth of protection and unit linked. So, we are fostering protection especially in Asia, don't forget but we are growing in Asia and they're in China especially, where we do not apply the fair acquisition cost accounting so the moment you pay for the protection it is embedded in a longer-term premium, you immediately expand it. So you see this effect but when you create further longer-term value and as well don't forget that we are also having some more pushes in order to grow the unit linked business at a double-digit pace as we are doing.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Michael Huttner with Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. Thank you very much. Hi, Cristiano. Hi, Giulia. Three quick questions. The first one is on the life backed book deals. I just wondered if you could say, in the outlook you can talk a little bit about how big this could be or the potential timing. The second is on the fabulous growth in capital generation. So 1.5 billion for annualized, I think get to 6 billion. And I think last year you had 4 billion, so that's a 50% increase and I just wondered, if multiplying by 4 is the right way to look at it or maybe there's some unusually good trends in Q1 that should kind of try and normalize. And third one, maybe going back to Farooq's question on deals versus buyback, the sense I had from your answers that deals are essentially a little bit more attractive, because it diversify your business mix and your cash flow was buybacks as you said just increase the slice of cake for each remaining holder. But if you could maybe give provide more of a feel, it's just that we're so close now to the end of your three-year period and there's still over half of the capital you divisionally allocated to deals, it seems a little bit more likely than we've done before. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, Michael. So question number one. Life back books, where do we stand? So as we highlighted already last time, we are working on an expansive analysis which has been completed. And now we are in the phase of preparing all set of streams of actions, which are also important to frame not only this year, but the future group strategy, continuously looking at opportunities.

Well, what I can tell you is that you should not (inaudible) any more details of the size of Generali living [ph] which really changed the profile of the risk of our German subsidiaries. But you can see more smaller pieces, but added together, could anyhow get the effect of having a positive benefit in the capital trapped [ph]. It is important to highlight that clearly, this has to be managed appropriately, including the fact that in the bigger so far disclosed also on the cash and the free cash after the so called net holding cash flow, free cash after dividend payment for the future, we did not embed any deal because clearly, this and such kind of deal has to be made at a fair price. So it is very important to find also the combination between demand and then offer.

Second question. Sorry to contradict you, it is not 1.5, it is 1.1, the capital generation in the quarter. So clearly, if you annualize it, you go slightly above of our last year figure, but you should not annualize it and multiplying perfectly by 4 because clearly in the first quarter

2021, you have frequency benefit, which were not there in the first quarter 2020. Clearly, there has been the shift the second quarter 2020 so more frequency benefit. So going forward, you should get for sure above 3.5 maybe you get, you can get close to this 2020 level of 4 billion, but for sure it is not 1.5 times four and because it is 1.1 and it is likely nonlinear.

M&A versus buyback, these are more attracted to us not necessarily because of making deals, but for the reason we were looking at as I told you, diversifying the sources of the cash flow. So as I can make the pictorial example, we look for the topping and not to less people invited as a preference, because if we diversify those sources, we can go on in building more resilient cash flow generation, and cash flow sources all across the board for the group, which has been in a certain sense, to be reflected in a better value, and in a better cost of equity, which should be reflected in these diversification. So, this is why we do seek for this. I do understand that your view here looking at the watch, time is running out. But we are not at the end of the road. 2021 is still there and we are always very disciplined and looking for M&A opportunity. So I can confirm you that we will not change our disciplined approach and we will continue to seek these opportunities because we do think that there are opportunities that could be brought on in the market in this situation.

Q - Michael Huttner {BIO 21454754 <GO>}

That's brilliant. Thank you so much, Cristiano. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

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

Q - James Shuck {BIO 3680082 <GO>}

Hi Cristiano. Hello, everybody. Good morning and good afternoon. First question around the remittances. So because honestly, I think you were driving towards 3 billion to 3.1 billion in 2021. And if I look at the SFCRs, the foreseeable dividends from the European operations sort of imply quite a lot lower than that number. I appreciate there are other moving pieces such as whole [ph] and internal loans and capital distributions. But can you just help me bridge from the 1.8 billion of insurance Europe foreseeable dividends plus kind of maybe about 300 million from asset management and other towards that 3 billion to 3.1 billion, is that still on track? And what are the moving pieces outside of those foreseeable dividends?

Second question is around the asset management business. So I think you answered the question early on about cost income ratio being perhaps a little bit flattered in Q1. You do have an operating margin target above 45%, and it's been consistently above that in 2018, in 2019, 2020. So just wanted to know, is that 45% still a valid number or should be expected to churned up more towards 55%, which it has been in recent years?

And then the final question, just a little bit more conceptual around digitalization and some of the benefits that you're experiencing. Your networks are doing well, continuing to sell many of the life products and P&C products and you seem to be taking market share on the motor side. Presumably, you're becoming more efficient in the investments you made are helping with that. Do you envision some reorganization of the agency distribution networks as a result of this digitization and the trends that we're seeing through COVID? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hello, James. So thank you very much. First question about remittances. I've seen, heard your comments and I first would like to confirm two figures. Number one, it will be between 3 billion and 3.1 billion, the total remittance of the year for sure. And the second thing which I think could be very useful for you, I do want to confirm you that as of next week, because there is something coming, we will have 90% of the total remittance of the 3 billion to 3.1 billion already in the head office. So and then the rest of the 10% which is missing will be evenly split between the third and the fourth quarter.

So the difference between the SFCR unfortunately, we do not publish all of the SFCR of the companies in the group. As you know, we have regions where there are many operations, which are contributing to the final remittance. And just to take the example of the Central Eastern, where we publish basically only one or two of them, then you know that we have holding where money flowing from the holding and in some cases, the arbitrator's choice between a capital repatriation or a loan repayment, is a choice which is done also looking not only at the dimension of the dividend, but the dimension of the balance sheet in the net result. This has been pursued throughout this year. And then we have some effect of loan repayment which were not captured were in the SFCR I've seen for example, but you really need to go in the nitty-gritty.

It is in the French one, I can confirm you, we did the repayment of the subordinated debt which is there. And 200 million, which are written in the SFCR issue find, we can show you and highlight you there. So basically, the delta you see is evenly split between a combination of money in the holding which are not accounted there in the perimeter and another part which is made by loan repayment and movement as I was mentioning to you.

Second question, asset management business. Operating margin above 45% -- at 45% is still a valid point. I think that you have to keep in mind that this operating margin has been made when we were not thinking of having, in the budget, the effect of the performance fees, which is clearly moving a little bit in a different way. So clearly, it is important to have in mind that that was a kind of potentially shifting point. On top of this, you need to be aware in how, but having completely the so-called low hanging fruit, the part which was simpler to be done with the internal optimization of the revenue stream from the capacity in the end of the group, so the non-external revenues. Now for the external revenues, we are investing in distribution on the asset management part, where we are investing and we are creating a team.

I would like to recall you, just to complete the first question on the remittance, I would like to clarify that we publish on our site, there are the links, but the one you are referring you are looking only in Central Eastern Europe of our (inaudible) but there are others which are clearly contributing to that and -- but it kind of access browsing through.

On the third question, on digitalization. Digitalization we invested. We invested at the yearend 2020 of the 1 billion more than 800 million. So we are in advancing, we will invest more than 1 billion by the end of this year and this is a fundamental opportunity. Here, yes, COVID comes as a foster, an opportunity to change not only the way we work within the employees of Generali, but the way our agents worked. We had a lot of support in order to allow them to interact in what we call this physical approach, where the client was wondering and wanting a human person to talk to, to decide on specific coverage but allowing them to decide what is the channel. And the client, thanks to COVID, is more and more keen to interact also in a digital way. More than reorganizing the agent channel distribution, we already equipped them for this new digital world and we are strongly pushing even in region which are growth region, and extremely digitally native like Asia, we think, we have project for fostering the agent distribution exactly because we do believe that this is a very positive supporting element in fostering our growth of a insurance product.

Q - James Shuck {BIO 3680082 <GO>}

That's very helpful. Thanks very much Cristiano.

A - Cristiano Borean {BIO 15246531 <GO>}

Welcome.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hi Cristiano. Thank you very much. Back on your P&C combined ratio please, could you talk a little bit more about whether or not you're seeing any inflationary trends affecting the cost of claims. We seem to be hearing a lot of things. You know some companies are very concerned about the rising costs of parts and labor. Other companies are saying they're not seeing anything at all. So, I wondered, if you could kind of give us your state of play in terms of inflation risk.

And then related to that, the 89 points -- sorry, the 89.7% normalized for the first quarter, my understanding is that because there's so many moving parts, that's effectively just telling us what your budget was for the first quarter. If my understanding is correct, I mean, how are you thinking about the risk that you go above that by the full year? Because if the 89.7% is your budget, hopefully you'll still be on track. On the other hand, maybe you're still thinking, your budget means that at some point, the numbers going to be a lot worse to average down to that.

And then on the solvency and financial flexibility, the 234%, first of all, I know it's small but the 11 percentage point benefit from markets, could you give a hint of how much of that came from eligible owned funds versus reduction in SCR? And then more importantly, how are you thinking about your limiting factor for capital management right now, because it's lovely to see the solvency II ratio go from the 220s to 230s, but maybe that's completely irrelevant for how you think about your business, because all of this is just market noise. So I'm wondering when you're actually thinking about how you're managing capital, what's kind of the limiting factor or the binding constraint right now? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, William, so question number one, inflationary trends and cost of claims. What is important is when we highlight about our increasing cost of claims especially in the motor business, I do confirm that we are experiencing something in the order of 4% increase, which is a joint effect of spare parts producer, let's say, moving the value chain and taking into account the fact that there is the COVID stress and so they are picking out of the pocket of the insurers, and increasing the spare part costs, plus a macro trend of increase in the spare parts coming from more equipped and more technological cars.

Here, we have two effect. On the frequency, we do still see a decreasing frequency in the first quarter, which is positive and more than 4% of this inflation growth, as you can understand, since we had a positive benefit. And as well there, there are two forms of benefit. The number one is spending again, the opposite of the macro trend when you have a highly technological car, you have less frequency of accident but more costly when it happens. And as well on top of the macro trend, there is the movement really of the lowering of frequency coming from lower COVID, which is more than counterbalancing the short-term increase in the spare part due to the COVID situation. So, all-in-all, this is a positive effect as long as it stays.

What is the risk on inflation and how we do manage it? One of the best lever to manage the risk of inflation due to the shorter end of our liabilities, which on average are in the order of four years, because if you take the short in the longer business, it is to improve the speed of payment in the claims, which is the best way to hedge yourself against an inflationary trend. And paradoxically, it is also good when rates goes too far down in the investment side like it was in the previous year. So in the previous year already, we started programs in many countries but especially in Italy, to improve the speed of payment, which put us in a way to be less exposed to an inflationary cost because reserves claims stays less at a time in our reserve waiting. So we have less risk of this growing.

Then second question related to the COVID effect and the budget for the combined ratio. Clearly, don't forget but the 89.7% has 0.8, 0.9 percentage point of lower natural catastrophe. So when you speak about what is our budget for combined ratio, you should take into account that our first quarter did not experience the same level of the average run-rate of net cut [ph] as we project. So, going on, I confirm what I was saying in the previous answer to the call, which is, we do look at a range of movements in a normalized post-COVID world between 90% and 92%. And we do think that we will end in the lower end of the spectrum or else equal as per the information we have today.

Solvency II capital generation, yes, it is a factor of movement and if you want, I can give you the pieces as of our calculation. So our numerator, the own funds, it is EUR44.4 billion of own funds at yearend 2020, the public figure. And we had an increase of own funds by EUR500 million because of interest rates and a decrease of EUR300 million in SCR. Don't forget that our SCR at year-end 2020 was EUR19.85 billion. So you have to add EUR500 million of own funds and deduct EUR300 million of SCR to get the 6 percentage point of benefit on the economics solvency ratio (inaudible) movement. Corporate spread is basically stable because we have a small reduction in the own funds of less than 50 million and a negligible change in the SCR, so it's basically flattish, is close to zero.

Government spread here it is the improvement. You get EUR600 million own funds increase and likely more than 100, in between 100 to 150, solvency capital reduction for a net 4.5 almost reduction, then equities did create 1 billion of own funds in the first quarter movement and did as well increase by almost 400 million the solvency capital requirement. These are the major driver of the movement, William.

Q - William Hawkins {BIO 1822411 <GO>}

Fantastic details. Thank you very much.

Operator

The next question is from Andrea Lisi with Equity. Please go ahead.

Q - Andrea Lisi {BIO 20482284 <GO>}

I have several questions from my side. The first one is on the trend in your business margin, if you can provide more color on that and in particular, how do you expect it to evolve during the year given the current environment and in particular, how much can you further lever on the product optimization to preserve it?

The second question, maybe you already told it but I may be missed is on the combined ratio. If you can tell us which is the contribution of the release of reserves from prior years? And just wondering on investments, if you can provide us an update on investment yield in both life and P&C and if you have changed a bit your durations?

And then several question on the asset management side. The first one is if you can provide us an update on your external growth strategy here which are the features of maybe of the potential companies you will look at. Then if you do expect next quarters or years to improve margins on the assets under management, we see that 17 bps, 18 bps, if you plan to increase it, and another question is on which percentage of assets under management can be further internalized. And if you can tell us, (inaudible) does your target of assets under management to third parties over total assets under management in a medium term timeframe. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Okay, Andrea. Let's start with the set of answers.

First one on new business margin, a little bit more become more color what can we do more? First of all, I would like to give you one figure which helps in understanding how we can continue to create value. You know that new business value is calculated with the beginning of period hypothesis. So we use the yearend 2020 financial condition to project the value created in the first quarter. If we would have used the March 31 financial market condition, the 4.44% of new business margin would have been read as 4.92. So there are 48 bps more value coming out from only the financial conditions which is exogenous let's say.

But let me tell you, since we had an increase of our marginality, I do want to recall you that if I compared to the previous quarter 2020, we had worsening of 66 basis point in the capacity to have new business margin in the first quarter compared to the first quarter 2020 because of different market conditions, which implies that we were able to overcome thanks to product mix, something which is in the order of between geographies and product mix to almost overcome one percentage point of improvement of margin. Is it ever ending? The answer is no. Clearly, we need to maintain and we have lever thanks to the mix and the reshaping of the guarantees which I do recall you now all of the EUR100 sold of premiums in Italy on savings, 64 are sold without any guarantees, not to the debt guarantee which is really much less capital intense than before and explains even in a lower interest rate environment, with compared to the first quarter 2020. But we are able to maintain our, if not slightly improve, our margin on the saving business. So this is the way we are doing and keeping on and changing the mix and increasing the value because of the higher weight of unit linked and protection going forward.

Second question combined ratio contribution of the reserve release is a 3.7 percentage points, broadly in line with last year, which was 3.8. So we are stable and we keep preserving prudently also in the current year, due to the uncertainty of the situation.

Third question, update on the reinvestment in life and P&C. Life or investment field in the first quarter was 1.57% and in P&C was 1.22%. Asset management update on external growth strategy. We do look asset management as a multiplier of diversification of sources out of the spread based business, which is the classical traditional life, and as a booster to enhance our offer of life products to our clients with a complete set of investment strategies. So I recall and confirm you that we do not look for scale, but we look for skills which is the key element that allow us to improve the plate of offer and get into high seas business. So we do not search for low seas business. We do search for private liquid asset quantitative strategies, everything which has a high seas business. So compared to the low-cost only driven synergies of ETS like [ph] investment.

Relating to the percentage of asset management what can be further internalized, is we continue to increase and we are working at a percentage which clearly needs to foster external distribution effort and this is why it is connected to the answer I gave below, we are thinking to invest more in the cost of distribution because of the fact that we need to expand our offer and as well, attribute this also to increase the unit-linked offer given also to others and other distributors which can blend the offer especially in the ESG space as we are pushing towards. I think, I ended.

Q - Andrea Lisi {BIO 20482284 <GO>}

And just an update on margins. Do you think that maybe also with your action --

A - Cristiano Borean {BIO 15246531 <GO>}

Sorry, sorry. Because it was a long set, I forgot one. I'm sorry, Andrea, so the improvement of margin. So we have the room to further internalize the funds which are currently managed externally, because for the reason I was telling you, as long as we will increase our asset management capabilities, we can recapture partially money which are paid out. Especially, the expansion of the multi boutique platform for both the unit linked and the general account offering could get benefit, because this multi boutique strategy as I was telling you before, is enjoying a higher ratio of fees verses the assets under management and we need to strike a kind of right balance between to invest and to grow in an efficient way, because the goal in this kind of business is the profitable growth part.

Q - Andrea Lisi {BIO 20482284 <GO>}

Okay, thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Gian Luca Ferrari with Mediobanca. Please go ahead.

Q - Gian Luca Ferrari

Thank you. Good morning, everyone. Ciao Christian. Ciao Julia. The first question is on the non-operating result, the 275 million. You gave out a non-operating investment income you're just mentioning qualitatively, lower cost of debt. I was wondering if you can give us the number, the exact number of the non-operating holding expenses and hopefully also Q1, 20.

Second question is on the tax rates at 1.4 is you can share with as a guidance for full year 21.

The third is on hedging strategy so we saw in Q1, bullish markets, pretty low ball. If you took that chance to revisit your hedging strategy or if nothing else happened with that respect. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hello, Gian Luca. So non-operating result, what is important is as you correctly highlighted, the reduction of the non-investment operating results, so with regards to the other net non-operating expenses, they amount to 122 million and the previous year, they were at EUR156 million while I recall you that the last year there was also the accounting for the COVID fund. And in this year, we had some farther negative effect from the hyperinflationary accounting in Argentina. Some other charges and some cost for restructuring IT, more than restructuring cost for some IT in the first quarter.

Second question related to the guideline on the tax rate, we do confirm our guideline of a tax rate in between 30% to 33%, which was the corridor guideline already set and clear. It was absolutely destroyed in the first quarter 2020 because of the non-deductibility of the vast majority of the potential impairment, which as you know, they came back because the only accounting closing is a healthier being the first quarter just known IAES 34 [ph] closing, so there is the possibility for the reversal.

Third question related to our equity hedging strategy in Q1 with such strong market, what we did is, we did selectively increase the hedging in some portfolio. One thing which we are doing is also not on broadband side more in some countries which are most sensitive in their so-called time value of options guarantees in their own component so in the force like for example, in France, and as well we increased how were hedging ratio of an element which is very important in our capital management approach, which is the so-called annual management commission hedging of the unit linked especially the equity fund, where we increased the proportion of the hedged management commission profiting from this high level of market, which is again a stabilizer of certainty in the P&L, a stabilizer of the own funds, volatility of the unit linked value force, and as well big reductor of service capital requirement of those business which is yes, self-funding. But if you reduce the capital allocated to that, you can free up capital which is allocated in the other selling business which is part of our capital management active strategy.

Q - Gian Luca Ferrari

Very clear. Thank you, Cristiano.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Stephen Hayward with HSBC. Please go ahead.

Q - Stephen Hayward {BIO 6022767 <GO>}

Hi. Thanks very much. Two questions from me. The first one is on internal models, under solvency II, do you have any more plans to adopt any more pass internal models this year or in the future and what could be the potential benefits of these?

And then secondly, am I right in hearing previously that you were discussing on the P&C that there is around, especially the motor business 4% claims inflation and that the market, Italian motor market is seeing 4% pricing reductions, so getting an 8 percentage point delta on future going forwards, is this correct and is there any mitigating factors to think about here?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, Stephen. So question number one, do we see further benefits to adopt partial internal model? Basically with the yearend 2020 adoption of the operational risk module, we do see a completion of our journey for internal model application in the countries where we are applying it so far. And this is basically, I recall you gave us something in between 10 to 11 percentage points of solvency uplift in the yearend figure, we don't see father element of improvement from interim extension having completed the journey.

On the second question, a 4% claim inflation in motor and premium reduction in Italy, I was mentioning, Italy has a benefit of longer, low frequency, which overcame that affect. What I was mentioning you is the effect on the so-called motor TPL, as maybe you noticed, we are highly pushing to increase the motor non-TPL coverage like cashco and the Leica NTO, which are basically very profitable businesses. So you need to look at the motor in the full combined ratio, you not only on the motor TPL but all the other and this is the strategy. Notwithstanding this, we have a mitigation of frequency also because of the adoption of the mobility system that we are using. And we have a big effort which has been done on the claims process improvement, which is for your info, accounted in the loss ratio component, as well as in the risk selection and the definition of the tariff adoption with the client. These are the mitigating factors that we are going and we are continuously pursuing.

Q - Stephen Hayward {BIO 6022767 <GO>}

Thanks so much.

A - Giulia Raffo {BIO 21037091 <GO>}

And next question please?

Operator

The next question is a follow-up from Michael Huttner with Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah. It's just two. One is maybe the figure on private equity, the gains I think all the exit profit included in Q1 2020. And then on the answer you just gave which I thought is really interesting but maybe I'm a bit slow and I couldn't quite follow all the moving parts. Are you saying that although there is kind of pricing or margin pressure in MTPL, this is a more than offset by the actions in the all your diversification efforts and the other parts of motor so like Casco and other things. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hello, Michael.

A - Giulia Raffo {BIO 21037091 <GO>}

Excuse me, Michael. Sorry Cristiano. Your first question didn't come through properly. I didn't understand if you mention equity gains or private equity, sorry.

Q - Michael Huttner {BIO 21454754 <GO>}

Private equity, private equity.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, I got it. Michael, private equity, let me tell you in a very simple way that the delta on the holding another element is explained by the Banco Generali performance team. So, our private equity is in line with the budget. It is clearly performing well, and I think in the healthier figure, we will have even better view of how the opportunities are pursuing. But I confirm you that, as of first quarter, it is performing in line, which was expected to be growing. I recall you that there were 21 million more of consolidation adjustments stemming from more dividends paid by private equity.

On the second question related to the margin pressure in motor TPL, I was referring to Italy and clearly, it is not all possible to close the gap growing in the cashco or the like, but it is a mitigating factor and it is one of the lever we are using to exactly extract value out of the motor TPL environment, which in Italy is for sure deflationary on the premium stemming from the very low frequency experienced in the past and stemming from some competitive pressure made by peers, which got aggressively in the pricing part, which we did not follow as you see because we have only 4% average premium decrease compared to other published figures of peers.

So clearly, this helps us in managing the portfolio for higher renewal, higher selection and as well increasing also the volumes because of our B2B2C agreement, even though we pay a little bit more on commission, because when there are agreements, clearly there are more hands touching the same thing. We are bringing volumes which are covering the fixed cost. So having net-net benefit effects. These are the counter let's say, all the moving parts and the counter forces we are applying in this deflationary environment.

Q - Michael Huttner {BIO 21454754 <GO>}

That's helpful. Thank you, Cristiano.

Operator

Ms.Raffo, there are no more questions registered at this time.

A - Giulia Raffo {BIO 21037091 <GO>}

So thank you. I think we can conclude our Q1, 2021 conference call. As always, if you have any follow-up questions, please do not hesitate to contact the IR team and we will be again looking forward to your question for our Q2 conference call in early August. Thank you very much. Have a good day.

Operator

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