FINAL

Bloomberg Transcript

S1 2019 Earnings Call

Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Frederic de Courtois, General Manager
- Giulia Raffo, Head of Investor & Rating Agency Relations

Other Participants

- Andrea Lisi, Analyst
- Andrew Ritchie, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Johnny Vo, Analyst
- Niccolo Dalla-Palma, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- Rahul Parekh, Analyst
- William Hawkins, Anlayst

Presentation

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Generali 2019 Half Year Results Conference Call. As a reminder, all participants are in 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 Relations. Please go ahead, madam.

Giulia Raffo {BIO 21037091 <GO>}

Good morning, everyone, and welcome to Generali first half 2019 conference call. Here with me I have our General Manager, Frederic de Courtois and our Group CFO, Cristiano Borean. We are looking forward to get your questions.

Thank you very much.

Questions And Answers

Operator

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. My questions really were all about the combined ratio. The main one, I guess, I was surprised by the speed of the sort of increase of the expense ratio due to the business mix and also the speed of the offsetting reduction in the loss ratio. So I'm just wondering, if you could help me understand that a little bit in terms of maybe how much of the business is being sort of risked [ph] on the higher acquisition costs and the extent to that pickup, whether we should continue, and as I say, I would expect to see the loss ratio improvement to lag a little bit. So perhaps why that's no happening.

The second question was on the Austria CEE and Russia region. Just wondering if you could say how sustainable that very good combined ratio there you think is. And the third, very small thing. I was wondering, if you could give a quick comment on motor pricing in Italy. I appreciate you sort of look backwards and give a clear picture, but just specifically, going forward the current competitive environment would be very helpful. Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

Thank you, Peter. This is Frederic speaking. First, on expense ratio and claims ratio, so as you know, we manage the combined ratio. And as we move to a different mix of business, so more non-motor, more travel, we also move to lines with lower claims ratio and slightly higher expense ratio. Then we have the specific issue in Germany that this is actually going on to you and the integration of our channel into DVAG is going extremely well as demonstrated by the results, but leads to somewhat higher acquisition costs in P&C and Life.

On Austria and Central Europe combined ratio sustainable, you know that this is an area which is absolutely core business to Generali. This is an area where we have a very strong franchise as we discussed at the Investor Day in London. So globally, we believe that this best-in-class combined ratio in Austria and in Central, Eastern Europe is sustainable.

Motor pricing in Italy, so average premium in Italy has stabilized, which is good news. Market remains, obviously, competitive, but no -- so news compared to what I've told you three to six months ago, so stabilization of motor premiums and competitive markets.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you very much. I'll follow up offline with the first point (inaudible). Thank you.

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there. The first question, I'm afraid, is on interest rates. You say in your prepared remarks, Frederic, that it's challenging your financial assumptions. What -- just to be clear, what do you mean by that comment? I guess what were your financial assumptions on the interest rate backdrop when you set the pan out? And I guess how do you plan to combat it? Specifically, I think you said your reinvestment rates are more or less stable year-to-date. So what are you investing new money in to achieve that? Second question, just a quick one on asset management. Are there any more acquisitions that have been announced that are yet to book through into the assets? Obviously, there was a tailwind in the booking and a catch-up in Q2. Are there anymore? Thanks.

A - Cristiano Borean {BIO 15246531 <GO>}

So -- hi, Andrew. It's Cristiano. Related to interest rate, I'm answering on the point on what are the financial assumptions. The financial assumption were basically level we had in the year-end 2018 when we presented the plan, which means with the actual rates, we can have a small dilution on their investment part, which you don't see occur in the first half, thanks also to our strategy of diversification dispersion within the investment base in different asset classes, the real asset plus the fact that we are diversifying in the government bonds on the potential space of all the assets, knowing that we did not increase our share of BTP.

Regarding their investment rate and how we manage this in order to achieve our targets, I stress again that, thanks to the strong management through the liabilities and transforming the liability part, which means the product allow us to transfer a higher piece of this decrease than in the past also to the policyholder, giving us the capacity to maintain substantially positive financial margin. On the other side, the mix also having different products in Life on protection and clearly health are -- and unit-linked as well as helping us to support on the other forms of technical result.

A - Frederic de Courtois {BIO 16976110 <GO>}

Andrew, on asset management, the boutique that are not included yet in our P&L is union in Poland and all the stuff -- and the startups that we have recently launched.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So would you expect them to come through in Q3 or later?

A - Frederic de Courtois {BIO 16976110 <GO>}

Yes, Q3.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And just to be clear, just on non-life reinvestment rate there, was that -- that was an average reinvestment rate you cited in your prepared remarks, presumably not at period end. Is that correct?

A - Frederic de Courtois {BIO 16976110 <GO>}

Yes, it is exactly the one of the first half. It is not the annualized part of them.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And can you continue to allocate more of your P&C assets to alternative non-fixed income assets? Obviously, you've increased the allocation to equity and real estate a bit. Is there a (inaudible) to do that further?

A - Cristiano Borean {BIO 15246531 <GO>}

I think, first of all, let me comment that in our first half, we had a higher share of the part of their investment, which helped us also not to get the full lower effect, as you can see now. Going on forward, yes, we do continue consistently with our strategic plan to allocate to alternative asset and real asset, being it either real estate or real private debt and also private equity consistently with the strategy of allocating the EUR20 billion in the three years of real assets. So we are strictly deploying our strategy.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks very much.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, guys. Good morning, or good afternoon. Just two questions. So especially the 4% top line growth that you've got in P&C, could you give us -- I mean, that's a really good rate, I mean, and just can you give us an idea of generally broadly pricing versus volume in that? And secondly, going back to similar question on yields, I forgot whether your new business margins are recalculated for lower yields during the year, but how are you going to maintain that savings margin? I mean, you mentioned in your transcript that you are increasingly selling contracts with sub-zero percent guarantee. So can you give us an idea of the mechanisms that you're using to maintain that margin? Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

Hi, Farooq, this is Frederic. So you are right that 4% is a good rate. We had discussed this at the -- at our Investor Day in London. So the one impact is our strategy to move to more modular products, so increasing the average premium, thanks to these products with more guarantees, more protection, more services. Then we have a small pricing impact, depends on the market, of course, but I would say that if you take the 4%, the pricing impact is less than half of this 4%.

On the question related to the new business margin in the savings part, first of all, yes, I confirm we continue to sell the guarantees which are below zero and this is importantly done down already in France and this is going on because this is another protection to our low yield environment. I can tell you that if you just take the second quarter figure, the results we are presenting now and we apply the same hypothesis on the production with the new financial scenario, which are stressed, we should have a kind of 0.5 percentage point decrease in the new business margin, which shows you our capacity to sustain even a very low interest rate environment, thanks also to the loadings present and the diversification offer [ph] and investing in a longer-term on these assets, which are saving the mainly in the hybrid part which has a longer duration on the liability construction. So this is basically what you could expect with the new financial scenarios.

Q - Farooq Hanif {BIO 4780978 <GO>}

And may I just very quickly ask, can you give us an idea of what proportion of your new business and savings in capital-light is sub zero percent and what portion is zero? Is the majority kind 0% guarantee for new business?

A - Frederic de Courtois {BIO 16976110 <GO>}

It is a part, it is not the full amount below zero because there are countries where the below zero still, regulatory speaking, is not something allowed. So we are more in the 30% to 40% of this production because of France.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

A - Frederic de Courtois {BIO 16976110 <GO>}

Yeah. We can say, France, if you look at the figures, France is below zero and Italy is zero, but only maturity guarantee, so which are two biggest large producers.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you.

Operator

The next question is from Nick Holmes with Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hello. Hi there. Just a couple of questions, please. Just coming back on the low bond yields issue, wondered what your thoughts are about P&C. Could it actually be positive? Could it help sustain a hard market? And then looking at PYD, this has come down to about 4% in the first half. Is that the sort of sustainable level? Thank you very much.

A - Frederic de Courtois {BIO 16976110 <GO>}

Okay, Nick. So regarding the bond yield and the P&C, could sustain the hard market. I mean, what happens is that technically speaking, having improved on all the value chain on the P&C, so on the technical part, as you can see and focusing even more on that, up to now, we are always able and we have been always able to recover the drop of the adverse situation in financial market. I also want to recall you that not only the bond yield has a supportive factor, but the strategy to invest in private asset and so real asset is an important diversifying factor and dispersion, which allow us to have a kind of competitive edge in this kind of situation, if you can compare, for example, to our peers.

Q - Nick Holmes {BIO 3387435 <GO>}

Right.

A - Cristiano Borean {BIO 15246531 <GO>}

Nick, on your second question, so the previous year has decreased compared to last year. We believe this is sustainable, we believe this is sustainable and we've already discussed this, thanks to our prudent reserving on the current year claims ratio and this is especially sustainable in an extremely low inflation environment, which heads of course.

Q - Nick Holmes {BIO 3387435 <GO>}

Right. And could you remind us your inflation assumptions again?

A - Cristiano Borean {BIO 15246531 <GO>}

We've never disclosed our inflation assumption.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Fair enough. Thank you very much.

Operator

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

Q - James Shuck {BIO 3680082 <GO>}

Hello. Hi, good morning and good afternoon, everybody. So, a couple of things from me. Just returning to the new money yields, so appreciate you've kept new money yields flat in H1. Obviously those are the averages over the period. I mean, where are you now in terms of that new money yields because obviously rates have fallen quite significantly when you think about averages based on risk frees and in terms of credit spreads and you did outline -- I mean, just remind me that the EUR20 billion you're allocating more towards kind of real assets, but in relation to the overall portfolio, that's a very small number. So when we look at the risk adjusted -- sorry, the risk on -- the return on risk capital in corporate bonds and in government bonds, those are going to be pretty close to zero currently. So are you still intending on allocating capital to those assets or is that more you can do in other asset classes, when we think about the reinvestment rates as of now going forward and how they will earn through into both the life and the non-life side of things.

Secondly, just looking for an update on Vitality, please, because this is something that was announced quite some time ago. I think it's been rolled out in Germany, it doesn't appear to be in the case yet in other countries. Is this being delayed, where we actually see the benefits of Vitality coming through in the numbers? Is that in the new business profit or something else?

And then finally, just a quick one on France, we see there is a big increase in the net flows, in France, up 45% in H1, is that particularly new product launches of any description or is it just greater demand for the euro denominated contracts? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, James. This is Cristiano. So new money yield point. So where are we now? Regarding the actual situation, first of all in the first semester as you've seen, we had diversified and dispersed our investment base in different as well in when investing in government bonds, different government bonds and in the asset class of fixed income, also thanks to our strategy of going into the private investment. And up to now in environment of life, you are on the fixed income part, you could be more on a 1.2% reinvestment rate on the fixed income, taking into account the investment strategy and a little bit less in the non-life component, let's say 20 bps less on average. So around one. What is important? The return on capital on this kind of investment should be looked also in the context of our strategy of diversifying the base of investment. Thanks to the real money, which has also some premiums around -- on top of our history. And this helps us to diversify and reduce the risk capital on overall basis, because it is reducing the concentration on specific asset classes. So this is from the risk adjusted perspective, the best approach we are following.

A - Frederic de Courtois {BIO 16976110 <GO>}

On Vitality and France, so Vitality -- you know that we have rolled on Vitality in Germany first and then France and Austria. The start in Germany was extremely good and then slowed down due to the project we had of the integration of our distribution channel with DVAG. So now we are with -- we are not at the pace we were one year ago, but the plan is the same, Vitality is extremely consistent with our positioning to be the lifetime partner of our clients. This is extremely consistent with the fact that we -- client -- which client, who have the Vitality have allow -- have a higher retention rate. So we are going to continue to roll on Vitality in Europe. So the strategy is unchanged and we worked a lot of fees -- on fees of the past months first and we are going to accelerate on the Vitality strategy.

On France, yes, there has been more demand on euro funds [ph], so our unit-linked mix has decreased. We have still higher than the market. I mean our unit-linked mix is 29% in France compared to 24% for the market, so we are happy to be higher than the market. But we are not satisfied with this mix. So we are going to be extremely disciplined on the mix for the new business. The (inaudible) coming up in October will give us new opportunities especially on the pension products, so we are going to work hard on the Life business mix in France.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

Operator

The next question is from Johnny Vo with Goldman Sachs. Please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah, hi. Thank you very much. Just a few questions. Just in terms of low rates, can you just discuss the impact of the low rate environment on your capital generation and which markets are going to be significantly impacted by this? Number two, I just noticed your corporate bond portfolio in your Life business is part of the diversification has gone down reasonably significantly and also in your P&C business. Can you talk about the ratings grade of your corporate bond portfolio and how's that changed as well? And the third question is just in regards to the acquisition in Portugal, was that effectively funded by the debt repayment from the German disposal, if you can give any color around how you funded that acquisition? Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

Hi, Johnny. So the low rate environment on capital generation. First of all, let me remind you and inform you that our healthier capital generation is absolutely in line with what we gave in our target of the plan. And the capital generation is impacted more on the low rates only for the part of savings and now as we have shown there is a kind of resiliency having given the 0.5 impact as before related to the fact of what this could mean also in the environment of the P&C, I would like to recall you that, yes, the rates are down, but the way we are managing also the asset and liabilities in our non-life portfolio allows us to have in the next two years, a single-digit percentage part of the portfolio only maturing. So it's less than 10% of the fixed income portfolio maturing in the next two years part, which allows us to have a management of the dilution.

And then related to the part of corporate bonds on the investment side, we have an increase in the less risky component of single-A, double-A towards the previous allocation of higher skew on the double-B or below which -- below investment grade, which allows us to benefit also from lower capital absorption and this has been done. As I was saying before, consistently to maintain diversification but as well dispersion within the same asset class on the risk we are taking

A - Cristiano Borean {BIO 15246531 <GO>}

On Portugal, Johnny, in fact, we've said and you know that we have EUR3 billion to EUR4 billion available for capital redeployment. So, the EUR600 million in Portugal is part of fees. So it was funded on our available cash, which of course include GEL proceeds, but I would say it's broader than that.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Thank you.

Operator

The next question is from Niccolo Dalla-Palma with Exane BNP Paribas. Please go ahead.

Q - Niccolo Dalla-Palma

(inaudible) My first question is on France, you mentioned on the new business value the operating assumptions have slightly impacted there on the new business margin, I thought the persistency assumptions were very cautious in France, is there something else that move there specifically? And the second question is on other net non-operating, so the EUR81 million on slide 27, you described what's in your prepared remarks, just wondered whether --

Operator

Hello? We cannot hear you very well. Would you mind to repeat both question. Now, yes. That's better. Thank you.

Q - Niccolo Dalla-Palma

No problem. So the first question was on France, and the new business value margin declined. And you referred to the operating assumptions being one of the reasons of the deterioration. And we discussed, I think, in the previous call, the fact that the persistency assumptions are quite conservative in France. I wondered what was moving there specifically? The second question is that on the net -- other net non-operating items, the EUR81 million on slide 27. We just tried, what's the net in the prepared remarks, I wondered because there are one-off elements that I think it's fair to assume that the run rate is still a negative number around that level? Or is that too concerned with it? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Niccolo, it's Cristiano. So first of all, related to the movement in France a new business margin and it's declined. The operating assumption component related to that was mainly driven to a change are requested by the regulator ACPR linked to the so called dynamic lapses assumption. We're basically, even though as I was explaining to the market many times, thanks to the change in the taxation on the savings. There was a change in the behavior of the lapses on the down side. So a reduction of lapses of our client. The authority of control in France, the regulator asked to increase our operating assumption in the lapses and so the sensitivity towards movement in interest rates and/or persistency in case of low rates change that -- reducing a little bit the calculation of the value. This is the main factor. The second point --

Q - Niccolo Dalla-Palma

It should then lead to a positive operating experience over time?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. Because if the level of low rates, yes, on the old business, we are already observing it but on the new business this should be related to the actual differences between the experience which we see, which is lower lapses versus what it is in the model. So I confirm.

Second question, the other net non-operating items of EUR81 million, what is in there? There are many things among which important to know compared to the first half 2018, there is the so-called application of the IAS 29 hyperinflationary accounting on our business in Argentina. As you know, since Argentina has accumulated the inflation rate in the last three years more than 100%, we have to change according to this rule, which means that you have to add a revaluation of the non-monetary items of the balance sheet and this non-monetary items on the balance sheet revaluation has passed through a cost, which are accounting for almost EUR30 million on our balance sheet on this half [ph], which were not there last year and this is explaining basically the delta is the major driver of this delta. I hope this clarify this point.

Q - Niccolo Dalla-Palma

Okay. Thank you.

Operator

The next question is from Rahul Parekh with JP Morgan. Please go ahead.

Q - Rahul Parekh {BIO 18787842 <GO>}

Hi, thanks for taking my questions. I have three questions, please. The first one is on the loss ratio, basically, the attritional loss ratio improved by around 150 bps, so I just wanted to understand how sustainable that is? And where did this improvement come from? The second question is on your acquisition in Spain, the Tranquilidade acquisition. So I just wanted to understand what are the metrics in terms of ROI and total investment that you were looking at there? And last -- my last question is on leverage, where you -- I think the leverage is now 29.6% roughly versus 32 -- 33% in FY'18. So just wanted to understand is now Generali is looking to go to the top end of the target range of debt reduction that is around EUR2 billion rather than EUR1.5 billion? Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

So on attritional loss ratio. First, it's interesting to note that this is broad-based, so this not linked to one specific country. This is a trend we in most of our countries. This is very much linked to all the programs we have implemented on technical excellence and this is something we started and now that -- more than three years ago. How sustainable is it hard for me to tell you, I mean, we are working hard to make it sustainable. And again, the fact that we see it broad-based and consistent with our technical excellence program make us confident.

Acquisition in Portugal, you remember that when we had discussed our plan at the Investor Day, we said we had various criteria strategic fit and we believe this is totally consistent with our strategy (inaudible) and we also believe that this is a deal, which is consistent with our total [ph] G&A, and then of course financial criteria. So we've disclosed because I think this is helpful to you. The result that we think to reach into in 2021, which is quite short term seeing that then we expect more because the synergies will flow in. What I can tell you is that, of course, as we said at the Investor Day, the return we expect from this acquisition is higher than our internal hurdle rate. I would add that according to us, this is a low risk acquisition. I mean, this is a market we know. This is P&C and Health.

This is hedging channel. This is exactly what we know well and we believe that the risk of integration and the risk of volatility around of our business plan is low.

A - Cristiano Borean {BIO 15246531 <GO>}

Rahul, it's Cristiano. On the leverage, so absolutely spotted, we are now below the 30% leverage ratio. According to our strategic plan, we stick to the commitment of managing and at the same time both our reduction between EUR1.5 billion and EUR2 billion [ph] of the outstanding debt of the Generali financial debt and between EUR7140 million [ph] of interest cost, which as you know we already basically achieved EUR96 million with the announced retirement in January 2020 of the senior bond, which we told to the market in May. Going forward, we will continue to be absolutely opportunistic in the way we want to manage our debt. For us, the target on the leverage and the debt, the target is strategic and very relevant target for the whole capital management and structure capital change of Generali, and so we will continue to be very focused in managing this target.

Q - Rahul Parekh {BIO 18787842 <GO>}

Okay. Thank you so much.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there, really sorry, just a quick follow-up. So it's quite clear that over time you'll increase in non-motor as well as technical excellence is sort of led to if change in mix in your combined ratio, the people have asked about. And I'm just kind of wondering how far do you think you got to go in terms of generating further mix change in P&C to help kind of keep that ratio at the current level? Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

On this, I believe that in our product mix non-motor will continue to increase of subsequent [ph] period, but also over the next plan. I mean we are focusing on the non-motor. We are focusing on SME business. So we believe that this is a trend, which is here to say -- to stay, especially with the strategy we have on modular products, so bundling more guarantees together.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

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

Q - Andrea Lisi {BIO 20482284 <GO>}

Hi, just one question from my side. I want to just ask you one question on the combined ratio. And I see that the contribution from prior year's development degree is from 4.8% to 4.1%. And I just want to ask you, how do you see the trend from the release [ph] average sales going on? Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

My comment on this is that we have and don't change reserve policy. So what you've seen last year was to seen -- what you're seeing this year is a small volatility and we expect to continue with this trend.

Q - Andrea Lisi {BIO 20482284 <GO>}

Okay. Thank you.

Operator

The next question is a follow-up from James Shuck with Citigroup. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi, thanks for taking my follow-up. Just a question on the liability duration in the Life business and the asset duration. So I think one of the slides you show, should the fixed income situation H1 '18 versus H1 '19, which lengthened a bit on the asset side, but you've moved from a net long position to net short position over that period, which suggested the liabilities are actually lengthening a slightly at faster rate. Could you just shed some insight into what's happening with that complexity, please?

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, James, it's Cristiano speaking. There's for sure a minor effect coming from the complexity, but be aware that our reinvestment also in the first half were made exactly to match --the cash flow matching because I strongly ask you to concentrate even more on cash flow matching than on the pure duration part, because this is the fundamental part to do the correct ALM and the change is absolutely minor and there is nothing structural and is 0.1, if I understanding in the duration gap, which is within the acceptable range of movement of assets and liabilities. Hope I answer your question.

Q - James Shuck {BIO 3680082 <GO>}

Yeah, I'm just wondering about is in an ultra-low bond yield environment, do people tend to hold on to their life contracts for longer than you expect. And even if that hasn't necessarily come through in H1, a risk you see as we look forward that the duration of the liabilities starts, it starts to expand.

A - Cristiano Borean {BIO 15246531 <GO>}

No. Apart from the already mentioned behavior of low level lapses on the French portfolio coming from the tax regime change. We did do not see any change in the behavior.

Q - James Shuck {BIO 3680082 <GO>}

And you wouldn't expect to either going forward?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, indeed, because this is linked to the full blend of the product per se and the duration of the product, which is a long product 15 year usually more. So we don't see.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

Operator

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

Q - William Hawkins {BIO 17918548 <GO>}

Hi, thank you very much for taking my question. In the Solvency II ratio 209%, you already told us in the first quarter about the regulatory model changes, so no surprise there. But given that AFS is continuing to review a number of elements of the Solvency II ratio. Do you have any updated views about whether we should be preparing for further changes at the end of this year or into next year? Any major talking points regards to AFS review will be kind. Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

Hi, William. So, basically what you get in this second quarter extra change was a minor change in the so-called internal model, which is part of our continuous refinement of our risk profile, which is a nearly process we do with the regulator which anyhow is a minor change of only 1 percentage point. Going forward, what I want to recall you is that by the year of this end -- end of this year, I could expect that we will embed in our internal model group calculation the Spain contribution, and as well, next year you have to keep in mind that we have the last, let's say, step down of the so-called IORP business in France. Our realized capital gain recognition in the own funds, which will be put now we are at 25% of the unrealized capital gain recognized own funds minus the reduction of cost for longevity next year it will be 15% recognition of this own funds, in the own funds will be generated capital gain, which could cost in the ballpark of 1.5 around percentage points depending on the level of interest rates.

Q - William Hawkins {BIO 17918548 <GO>}

Great. But with regards to the methodology reviews that I had just conducting [ph] has nothing material to update on that.

A - Frederic de Courtois {BIO 16976110 <GO>}

No, clearly the methodology review is nothing material and it is anyhow, I would like to stress that it's some of this is independent of the Group Generali, it is a full market, which is, for example, the new definition that the EIOPA applies year-after-year on the so-called

EIOPA reference portfolio. So this is out of our hand and we don't know how we do it. But up to now we don't expect a major changes stemming from the regulator.

Q - William Hawkins {BIO 17918548 <GO>}

Very helpful. Thank you.

Operator

The next question is a follow up from Peter Eliot with Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you. Just a quick further one on Portugal, actually you very helpfully you give us the anticipated P&L contribution in 2021 of EUR60 million. And I'm just wondering what your assumptions are in that? Whether this already sort of any sort of synergy -- synergies (inaudible) into that or whether that we're seeing numbers from what your acquiring [ph]? Any comments on that will be very helpful. Thank you.

A - Frederic de Courtois {BIO 16976110 <GO>}

Sorry. I'm trying to understand your question on assumptions.

Q - Peter Eliot {BIO 7556214 <GO>}

Sorry. So you given EUR60 million in 2021, I'm just wondering whether that includes a new synergy [ph], so that's something that is already off, I think you benefit from new synergy?

A - Frederic de Courtois {BIO 16976110 <GO>}

Okay. Okay, sorry. It includes the start of the synergy program. So that's why we are seeing that the contribution should be higher after 2021, because we will not have the full synergies yet in 2021, so it includes on your part of the synergies.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you.

Operator

The next question is a follow-up from Rahul Parekh with JP Morgan. Please go ahead.

Q - Rahul Parekh {BIO 18787842 <GO>}

Hi, I just wanted to understand on -- it's a very small question on your Holding and other business segment, we saw greater impact from private equity this time and even Banca Generali performance is high. So can you just comment on your outlook there? Do you expect more contributions from private equity or any other one-offs?

A - Frederic de Courtois {BIO 16976110 <GO>}

Thank you, Rahul, for your questions. So yes, let me clarify that this segment had a very good development and I would like to try to explain better also going forward how you -- what you could expect from out of this segment, because there are two contribution, the one of -- on Banca Generali, as you know, is depending on the market, thanks to the so-called performance fees, but as well as the private equity business in Generali is now maturing a seasoning of investments started years ago and the dimension of the investment is growing. So what you are seeing as this effect coupled also with another improvement in the other element that coming from some pension fund business we have in Chile is a kind of sustainable increase. I would give you some guidance on the second half of 2019, you should expect at least two-third of this delta to be priced in the second half. So that -- let you understand how this will behave. And going forward, the weight of the private equity being larger should give on absolute basis a larger contribution.

Q - Rahul Parekh {BIO 18787842 <GO>}

Okay. Thank you.

Operator

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

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you very much everyone for your attention. As always the IR team is at your disposal for any follow-up questions that you might have and a great holiday period. Thank you very much.

Operator

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