S1 2021 Earnings Call

Company Participants

- Alban de Mailly Nesle, Group Chief Financial Officer
- Andrew Wallace-Barnett, Head of Investor Relations
- Frederic de Courtois, Deputy Chief Executive Officer
- Gordon Watson, Chief Executive Officer Asia and Africa
- Marco Morelli, Executive Chairman of AXA Investment Managers
- Patrick Cohen, Chief Executive Officer of AXA France
- Scott Gunter, Chief Executive Officer of AXA XL
- Thomas Buberl, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Andrew Crean, Analyst
- Andrew Sinclair, Analyst
- Dominic O'Mahony, Analyst
- Farooq Hanif, Analyst
- Kamran Hossain, Analyst
- Louise Miles, Analyst
- Michael Huttner, Analyst
- Oliver Steel, Analyst
- Peter Eliot, Analyst
- Pierre Chedeville, Analyst
- William Hawkins, Analyst

Presentation

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Hello, everyone, and welcome to AXA's 2021 Half Year Results. It's great to have you with us. Live from our studio here in Paris, I'm joined by our Group CEO, Thomas Buberl.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Andrew.

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Our new Deputy CEO, Frederic de Courtois, and our CFO, Alban de Mailly Nesle.

Alban de Mailly Nesle {BIO 20387796 <GO>}

Hello, Andrew.

Andrew Wallace-Barnett {BIO 18671460 <GO>}

Welcome to you all. And we also have with us via Teams some members from the Management Committee. And we're happy to welcome our CEO from AXA France, Patrick Cohen; and our CEO from AXA XL, early, I think, in US time, Scott Gunter, welcome Scott; and CEO for Asia, where I think it's probably a bit later in the day, Gordon Watson, welcome, Gordon; and our CEO for AXA IM, Marco Morelli, who's on vacation, not wearing a tie. So I'm not quite sure what time of day it is for him, but welcome to you all.

There will be a Q&A session at the end of the presentation. We're happy to have also joining us by Teams today the equity analysts following AXA. Thanks to you all for joining us today also. And if you're following us via the webcast, then you can also have the opportunity to ask questions in writing via the webcast link. And it is now my pleasure to hand over to Thomas for his introductory remarks.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Andrew, and good morning to all of you. Very happy to be with you today on that sunny summer day. In particular, in light of the very strong results that AXA has posted today, it really shows that we are delivering on the strategy that we have started as of 2016.

And when I go through the key highlights, EUR54 billion of revenue, plus 7% relative to last year and plus 5% relative to 2019. The solvency II ratio at 212%, up 12% relative to the full year 2020. So a very strong balance sheet. The Group underlying earnings at EUR3.6 billion, doubling relative to last year at the same time. And if you take COVID away, it's still plus 12% ex-COVID.

The major contributor and major uplift of this result has clearly been XL. I'm very happy to see that XL has posted a underlying earnings of EUR619 million. And we have with this result all confidence to really look at EUR1.2 billion, the aim that we have for this year. So you see a very strong performance across all dimensions, all countries and all business segments. Very happy with these results. And again, it shows a very strong delivery of the strategy that we have chosen and implemented over the last years. If you go into the details, you will see that the shift to technical risk, the focus on our main countries and also the simplifications is very much at the core of these results.

As we mentioned at the Investor Day, if you look at AXA today in its simple form, you have France and Europe. You have XL. And then you have two growth options, Asia and AXA IM. On France and Europe, we see a very sustained delivery, growth across all segments, and certainly, also delivery of margin and expenses, revenue plus 6% and the underlying earnings ex COVID, plus 7%. AXA XL, I mentioned it earlier, the turnaround is really bringing the fruits of the hard work that Scott and his team have done, very much coming from disciplined underwriting. And I reiterate again, our target for 2021 is EUR1.2 billion. And with this stunning result of EUR619 million, which is more than half the budget, the yearly budget, we should be in a very good position to achieve the EUR1.2 billion this year. Revenues have been very strong, and I'll come back to that in a minute, plus 7%. And the underlying earnings ex-COVID, plus 40%.

The two growth options, Asia and AXA IM, show also very good results. Asia revenue is up plus 9%, and the underlying earnings ex-COVID are up plus 6%. And the star amongst the numbers in progression is clearly AXA Investment Managers, revenue up plus 17% and the underlying earnings up plus 32%. So all in all, an excellent performance, and I really want to use that opportunity as well to thank all the teams at AXA and all of our agents for this great work that has been done in the first half of 2021.

I would like to zoom again on AXA XL because we've been talking about it a lot and want to really share with you again where this improvement, the 40% of underlying earnings come from. And it very much comes from the underwriting result. You see that there is a very strong underwriting performance, EUR400 million of additional underwriting results, and no PYDs, so no prior year developments, which shows that we have entirely benefited from a very disciplined underwriting.

Scott and his team have gone portfolio through portfolio, line by line to really see which exposure do we want to sustain, which one do we cut, how do we shift our business mix, and at the same time, benefiting from a very strong pricing momentum that has continued through 2021, 15%, on the insurance side, 10% on the reinsurance side and when you look forward, you will see that this momentum is continuing and we will be continue to be disciplined and benefiting from this.

The portfolio reunderwriting is very well advanced to that, and we are now as well positioned to take benefit of further growth in this market. At the same time, we have also, as we normally do, reviewed all of our reserves in all lines of business. And I can tell you that we have seen that the view on the long-term reserves has remained exactly at the level of 2020. But the review of the COVID reserves and the shorter tail reserves has shown an exit -- an excess. And the excess we have used to be very prudent.

On the one hand, we have booked against the deductible of the ADC. And the remainder of the excess has gone into the unallocated reserve, which means that we are following exactly what we said. The budget of the EUR1.2 billion, and achieving the profitability is, first, whatever is in addition will be used to strengthen excess reserves.

If we go at the level of the underlying earnings per share, we'll see that the strong improvement on the profitability has really transformed as well and then being transferred into a significant increase of the underlying earnings per share, plus 97% relative to last year to EUR1.48 per share. If we again take away the impact of COVID, we see that it's still a progression of plus 7%, which is very strong.

On the net income side, for one of the first times in AXA's history, we see that the net income is actually stronger and higher than the underlying earnings. Net income increases by 191% to just under EUR4 billion. And this shows that we have really benefited from a strong growth in the underlying earnings, but also from very favorable conditions in the financial markets.

But AXA is not only about financial performance. We are also a very strong actor in society. And in particular, around climate, we have really advanced in our commitments, and our commitments are now even more in action. Three areas I would like to mention as a progress relative to last time when I spoke to you about climate. Number one, we've launched around our general assembly the AXA for Progress Index. It was important for us to not only say what we want to achieve, but also to say how we want to achieve it and making sure that we have some very concrete targets.

Seven shared group commitments have been defined. And for three of them, they have also been implemented into the compensation of our senior executives. Secondly, you have seen that a couple of weeks ago, we have published the 2021 climate report. This report shows that our warming potential of our investment portfolio is at 2.7 degrees Celsius, well below the market that is at 3.2.

And lastly, there is a new initiative that has been launched on top of the initiative around net zero investments, which is the net zero insurance alliance. AXA has taken the lead. We are currently amongst eight insurers. It has been started and rolled out at the G20 in Venice a couple of weeks ago. And the whole action plan and a broader launch is planned for the COP21 in November -- sorry, for the COP26 in November 2021.

Thank you very much. Again, very strong results. And I now hand over to Frederic de Courtois, who will go more into detail around the half year 2021 business performance.

Frederic de Courtois {BIO 16976110 <GO>}

Thank you, Thomas. Good morning. I am very happy to be with you again. And I am also very happy to be back at AXA. I believe AXA has a lot of potential. And I would like to share with you a few initial thoughts on why do we have this conviction.

AXA has a good governance, with a constructive dialogue between the Board and the management team. AXA has a strong management team. We also have a high-quality business mix. And the shift towards P&C, health and protection has been largely executed. If you look at these three business lines, they represent more than 80% of revenues and 80% of earnings. If you add up to these unit-linked and asset management, they represent more than 90% of revenues and earnings.

AXA also has a super franchise in Europe, France and AXA XL. And AXA has a huge growth potential in AXA Investment Managers, especially on the alternative side and in Asia. And last but not least, AXA has a strong discipline on capital and cash, and we are going to further accelerate this with more life in-force actions.

So after this initial thoughts, let me discuss about business. And you have seen, and Thomas has mentioned it, that we had a strong business performance in the first semester of 2021. And I would like now to comment on the -- on our four business lines.

If you look first at the P&C and especially at P&C revenues, you see that revenues are up by 4%. And this is made of two parts. The first one is commercial lines revenues, which are up by 6%, with a favorable price effect by plus 7%. If you look specifically at AXA XL, revenues are up by 7%, driven by a contribution of 11% from price effect, which is partially offset by exposure reduction. The second contribution to this is from personal lines. Revenues are up by 1%, with especially higher volumes in non-motor lines. If you look at the motor business, pricing has been broadly flat in Europe and France, which is a good achievement in the current context.

If I look now at the P&C earnings. You see here that underlying earnings are up strongly to EUR2.2 billion, up 13%, excluding COVID. This is mostly due to a strong increase in current year underwriting result, mainly at AXA XL, from higher pricing and portfolio re-underwriting, as Thomas mentioned. This is partly offset by lower investment income and some adverse ForEx. If you look on the right, at the combined ratio, you see that we have a very good 93.3% in H1 2021, once again, linked to the excellent technical performance.

If I turn now a bit into details. Excluding cat, the current year combined ratio strongly improved by 2.2 -- by 2.6 points from higher pricing and re-underwriting measures at AXA XL and also from frequency benefits in France and Europe and also from lower expenses. Prior year reserve development are relatively stable versus last year at minus 2.2%, including the cost of the French settlement offer, which is booked in prior year. We have during the first half higher nat cat compared to last year and slightly higher than our load in this first semester.

Looking now at the overall picture in P&C. You can see that we have, as I've said already, a strong current year technical profitability driven by the successful turnaround at AXA XL. We have a neutral impact from frequency benefit and settlement offer, in line with the indications we've given in our June press release. We have more favorable prior year developments, which are partly offset by higher cat and higher large losses. And at the end, all of this lead to a combined ratio at an excellent 93.3%.

Last comment on prior year developments. They are due to remain at or above the high end of our range, so the 1.5% to 2.5%, given the strong reserving position.

Looking now at our second business line, so the Life & Savings. The first important element to notice is the very strong quality business mix, with a high share of protection, unit-linked and capitalized general account. If you look overall at revenues, they grew by 12% compared to last year. And this is also a 4% growth compared to the first half of 2019, so pre-COVID.

I would like on this to highlight three things. First the strong performance in France, which grows by 20%, driven by Individual Savings business. This comes from higher unit-linked sales, notably in retirement, but also on the Eurocroissance capital light products. Our unit-linked and Eurocroissance rate is now at 55% of Individual Savings, which is 16 points higher than the market. This very strong growth is driven by the strong perform -- commercial performance from our proprietary networks.

The second element I would like to highlight is the strong momentum in Asia with the growth of plus 17%, coming mainly from Japan and Hong Kong across protection and again capital-light general account products. If you look at the translation of all of fees in the net flows, they also reflect the high quality of our life and savings mix, towards more fee business, more technical risk and less capital intensive spread business.

Let's look at the sales momentum, you see here talking about the new business that AXA has been very successful in shifting the mix towards very high quality business. APE is growing by 9%, compared to last year and this is even higher at plus 11%, compared to pre-COVID levels.

The very high-quality office mix translates into higher value creation with an NBV in strong growth at plus 15%, and increased NBV margin at plus 2.5%. Looking at the Life & Saving earnings, Life & Saving earnings have grown by 10%, with higher technical margin on one hand, and resilient investment margin on the other hand.

The technical margin benefited from, first, strong volumes and improved claims experience, especially in France and Switzerland. And second, due to the non-repeat of some exceptional H1 2020 elements, mostly the extended disability coverage and lower annuity discount rate in France.

You see that our investment margin is stable and extremely resilient at 69 basis point, as lower investment revenues have been broadly offset by lower crediting rates. In the other column on the right, the strong momentum on unit-linked fees is compensated by a series of effect from tax, FX, and also the effect of disposals in Central and Eastern Europe and Greece.

Looking now at our third business line, which is the -- which is health. We have growth in most geographies, with especially a good performance in group business in France. And the combination of positive price and volume's effect in Mexico.The combined ratio is broadly stable, we have on one hand, non-repeat of lower claims frequency in the first half of 2020 in the context of COVID, and on the other hand the offset by some favorable prior year reserve development in H1 2021. The underlying earnings are up by 5%, which is a good result considering the reduced frequency last year in the COVID context.

Looking now at Asset Management, which is our fourth business line. You can see a strong performance across the board, with higher asset under management and better business mix from alternatives and third-party. Average asset under management increased by 7% up to EUR868 billion, which is a record high level for AXA IM. Strong net inflows at EUR18 billion from all business lines, so alternative, core and JVs, with also a strong contribution from third-party business.

Obviously, all of this has a positive impact on AXA IM earnings. And this better business mix leads to margin expansion, and revenues were up by 17%. It also leads to an improved cost-to-income ratio to 67%, decreasing by 3.6 point in H1 2021 from cost discipline and higher revenues. Consequently, underlying earnings in AXA IM are up 32% to EUR170 million. This is very much driven by the growth and the quality and the performance of all our businesses and especially our alternative franchise.

Thank you very much. And now I hand over to Alban.

Alban de Mailly Nesle {BIO 20387796 <GO>}

Thank you, Frederic, and good morning to all. So on Slide 21, you'll see the summary of our underlying earnings as presented by Thomas and Frederic. And you see that we had an excellent first half, with good growth in health and double-digit growth in all our lines of business, even if you leave the COVID effect aside.

One word on the line holding and other. It's slightly down because of the non-repeat of an exceptional investment income that we had last year in our German subsidiary, but overall, our underlying earnings grew by 101% or 12% if you leave aside COVID.

Now if we move to net income. The net income is also strongly up about 191%. Obviously, that comes from the increase in underlying earnings. But it's also due to gains on financial assets, with realized gains mainly on equities and real estate for EUR257 million, but also the positive mark-to-market of some assets through P&L, mostly private equity and hedge funds, by EUR290 million. And there is a limited impact from our other lines, be they exceptional operations, integration of restructuring costs or intangibles.

So if I move on the following slide to shareholders' equity. So shareholders' equity is slightly down this semester. That comes mainly from the unrealized capital gains that are down because of the rise in interest rates. The net income of this first half more than offset the dividend that we paid in the first half. We have changes in pension benefits that are positive, thanks to the rise in discount rates themselves due to the rise in interest rates.

And finally, ForEx also has a positive impact, thanks mainly to the depreciation of the euro against the dollar. So overall shareholders' equity stands at EUR68.4 billion and our ROE is a strong 16.6% for this first half. Obviously, there is a bit of seasonality. As you know that we pay our dividend in the first half. But nevertheless, we are extremely confident that we will be within or above our range of 13% to 15% underlying ROE for the full year.

From capital to solvency. So our solvency is a strong 212%. That's up 12 percentage points from the end of last year, mainly driven by operating return at 12 points, which is above our target range, which is 18 points to 22 points for full year. So 12 points for this first half. The dividend accrual is 6 points, and you know the methodology. It's half of the last dividend we paid. Margin impact is a positive 3 points, mainly thanks to the rise in interest rates, and to a lesser extent, to equities. You will remember that we issued a EUR1 billion Tier 2 green debt earlier this year, and that brings us 4 points of solvency.

ForEx and other, that's zero. But in fact, it's a slight negative coming from an increase in equity exposure because we have unhedged part of our equity exposure, reduced our hedging, and a slight positive from model changes. So -- but the net of zero. And as to the sensitivities, they are very much the same as the one we presented to you in our last quarters.

A word on investments. So first, the reinvestment yield of our assets in this first half, overall, 1.3%. And that's a mix of 0.9% on our core liquid assets, so government bonds and corporate bonds, and 2.3% on alternatives, i.e. real estate debt, infrastructure debt or senior tranches of CLOs. And you will see that we have kept excellent rating for all those fixed income investments, still AA for our government bonds and still single A for our corporate bonds and our alternative assets. So that's for the reinvestment in this first half.

If we move to now the yield that we have on the P&C business and on the Life side. So on the P&C business, the yield is slightly down from 2.8% to 2.6%. That's due to two things mainly. One is the fact that we had higher than usual private equity distribution last year, notably at AXA XL. And the second is simply the fact that our reinvestment yield is lower.

And on the Life & Savings investment margin, as Frederic mentioned, it's a very resilient 69 bps, above our target range of 55 bps to 65 bps. That's the result of a very dynamic management of our in-force book and a very tight duration gap mainly.

And finally, a word on our debt and on ratings. So our debt gearing is up to 27.6%, within our target range of 25% to 28%. And again, there is a bit of seasonality given the dividends, and therefore, the impact on the net assets. And the increase is due to the EUR1 billion Tier 2 debt that we raised earlier this half year.

You see that all three rating agencies confirmed our ratings this semester, and Fitch even increased or improved its outlook on us from stable to positive.

So just a word of conclusion before I hand back to Thomas. As you see, that's an excellent set of results, with EUR3.6 billion of underlying earnings; a 7% growth of our underlying earnings per share; 212% solvency ratio. But we believe we can grow further from here. We believe that the economic recovery will lead to higher revenues, notably in our preferred lines. We will keep on focusing on our technical excellence in all lines of business, but of course, at XL in particular, which should, at XL's, thanks to better pricing, better underwriting, lead to growth in the new business in 2022. You know that we have our cost savings program over the plan between now and 2023. And all this, plus the fact that we will, as Frederic mentioned, focus on our in-force and make sure that we use as little capital for our Life business as possible should lead to better results.

And now I hand back to Thomas.

Thomas Buberl {BIO 16182457 <GO>}

Thank you, Alban. Thank you, Frederic. As you have seen, a very strong set of results, really showing that our strategy of moving towards technical risk, of simplifying AXA and of focusing AXA on the core countries really is showing its root. Again, plus 7% on the revenue, a very strong balance sheet with 212%, solvency II ratio, well above the aim of 100 -- or the objective of 190% that we've got, EUR3.6 billion of underlying earnings, which is plus 12% ex-COVID, leading to an underlying earnings per share growth of 7%, well at the upper end of our range of 3% to 7%. And certainly, a key driver of these results, the recovery of AXA XL's earnings, strong underwriting discipline, benefiting very much from the strong pricing cycle. And you've also seen that these results are all based on recurring elements.

So we are now moving towards your questions, and hopefully, all of our answers.

Questions And Answers

Operator

We have a first question from Andrew Sinclair from Bank of America. Please, Andrew, switch on your microphone and go ahead.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thank you very much and morning, everyone. And three for me if that's okay, as usual. (Technical Difficulty) What does it mean for earnings? And is there anything else in the hopper for back book management in other regions? Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Andy, for your 3 questions. So I suggest that Alban is answering the first and the third one. And Scott, that you will take the second one. So the first one was on the company -- holding company liquidity, knowing that we'll only publish that once a year at the full year. Second one was on the exposure development in reinsurance, for Scott. And third one, on the Hong Kong reinsurance transaction. And are there any further potential transactions, Alban. Alban, why don't you start with one and three, and Scott takes two afterwards?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

Thank you, Andrew. So the holding company liquidity. So you know our targets in terms of remittance over the plan. We believe that's better seen once a year. So we will present that with our annual results in February. That being said, what can I tell you? Remittance over the first half was good, even better than what we had planned. Our cash at the holding company level is above the upper end of our target range. And it should further improve by the end of the year, with further remittance coming from our subsidiaries and the disposals that we have announced.

On your second question, on the Hong Kong transaction. So it's a book of EUR3.7 billion, with relatively high guaranteed rates, between 3% and 4%. It's a traditional savings book. And so you should see that as a risk management transaction getting rid of that book through reinsurance. That will lead to an increase of 2 points in our solvency ratio that we will book in Q3 and an impact in net income for H2 of -- a negative impact of EUR0.1 billion.

Shall we see more of that kind of transaction? Yes, most probably, because we want to focus on those back books in Europe and elsewhere in order to reduce the capital consumption of those back books. So yes, you should see more of that.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Alban. Let's move to Scott. Sorry. Sorry.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Sorry. I was just following up there on Alban on the liquidity. I think you previously said that we could look for liquidity to end 2021 around the same place it started, which I think was EUR4.2 billion versus the EUR1 billion to EUR3 billion target. Certainly, we might be a little bit better than that now. Is that fair to say?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

I think -- I mean, it all depends on some further remittance, some further disposals. But keeping the same target is a fair assumption, I would say.

A - Thomas Buberl {BIO 16182457 <GO>}

Good. More to be seen, Andy, at the full year 2021. Scott?

A - Scott Gunter {BIO 20129741 <GO>}

Sure. Thank you, Thomas. Andrew, to answer your question, if you look at the slide, you'll notice that cat property grew less than the rate number. So we actually did a little bit less cat than planned for the first half of the year. And that was mainly driven by the fact that we weren't seeing the pricing that we were looking for on some of the deals. So we did a little bit less cat.

On the other lines, we did see very attractive opportunities in property, particularly US non-cat property business, as well as casualty and specialty. So we grew those portfolios a little bit more. And there's a little bit of noise in there from prior year. We've got some positive prior year adjustments going into the first half. So all up, we grew that portfolio where we wanted to and we shrank the -- didn't grow the cat as much as the rate increases that we got.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Understood. Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Scott. Let's move to the next question.

Operator

Our second question is from Dominic O'Mahony from Exane. Please switch on your microphone and go ahead, Dominic.

Q - Dominic O'Mahony

Thank you. Thank you for taking my questions. Three from me as well, if that's okay. One, just on the pricing environment. On commercial, it seems pricing continues to be quite strong. Results, very pleasing. For yourselves, and actually, it seems to the wider market, how much sort of more impetus really is there in the market on commercial pricing? And I guess, relatedly, you reported strong commercial pricing, but the personal line seems to be a bit weaker. How do you see the pricing versus claims inflation dynamic impacting the combined ratio going forwards?

Secondly, just in Asset Management, very pleasing cost-to-income ratio. Is that a run rate number? Or are there other sort of factors to think about when we're thinking about the outlook for the cost?

And then just one sort of detailed point. You mentioned the relaxation of the equity hedging, I think, and the impacts on the solvency ratio. Is that something you're looking to take further? And how many points could that cost? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Dominic, for your three questions. I suggest, Alban, you are answering the first part of the question, when it comes to the broader commercial. And then, Scott, you could add to it from a pure XL perspective. Marco, if you could ask the second one, around the question of, is the cost-to-income ratio a sustainable one? And then third one, around the relaxation of the equity hedges, Alban. Why don't you start with the first one and then hand over to Scott?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

Yeah. So I will not comment XL as Scott will do it. On the other geographies, we see generally in commercial lines, good momentum in terms of pricing between 1% and 3%. So obviously, not as high as XL, but nevertheless, a nice dynamic here. On personal lines, it would be different between motor and non-motor. Motor was affected in the sense that you still had in the first half of the year, some frequency benefits for most of our competitors. And therefore, price was probably softer in that first half. But in non-motor, personal lines, price was -- I mean you could see some price increase around 1% to 2%. So that's for the pricing environment. So maybe I'll answer the last question once --

A - Thomas Buberl {BIO 16182457 <GO>}

Yeah. Why don't you -- Scott, why don't you complement that question on the XL pricing looking forward?

A - Scott Gunter {BIO 20129741 <GO>}

Sure, Thomas. As you've seen in the presentation, we're running about 15% rate increase on the insurance side and about 10% on the reinsurance side, and cat's about 10%. And those increases are obviously running ahead of -- generally speaking, running ahead of loss trend. And there's no indication right now that, that sort of trend won't continue. With the headwinds of -- whether it's weather volatility, social inflation, low interest rates. We expect the market that we're in today to continue for the foreseeable future. It will move up and down by product, but we expect that kind of market that we're in will continue.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Scott. Let's move to the second question, Marco, on the cost/income ratio asset management.

A - Marco Morelli {BIO 4801230 <GO>}

Good morning, guys. The way we are managing our Asset Management business is to make sure that the growth of the top line of our P&L is higher than the growth and the trajectory of our overall cost base. However, I do believe that you can really throw the line in terms of the rebalancing of your cost-income with full year results rather than interim ones. However, as I said, the aim is to make sure that within the three-year plan, the growth and the steepness of the curve of the revenues is higher and more visible than cost management trajectory.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Marco. Let's move to the last one, on the relaxation of the equity hedges. Alban?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So the equity hedges that relaxation cost us 3.5 points of solvency in the first half, but as I said, compensated by the positive model changes. We are fine at that level. So we don't plan to further dehedge in the second half. But obviously, that can change with the equity markets, but that's not the plan.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you.

Q - Dominic O'Mahony

Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Thanks, Dominique for your questions. Let's move to the next question.

Operator

Next question is from Louise Miles from Morgan Stanley. Switch on your microphone, Louise and please go ahead.

Q - Louise Miles {BIO 20765435 <GO>}

Hi, good morning everyone and thanks for taking my questions. Just three from me, too. Just going back to the fact that you mentioned you do some more in-force action on the Life back. I'm just wondering, do you have a preference for reinsurance solutions versus complete disposals? Obviously, if you do a complete disposal, you're probably going to get a bigger release of SCR, but those can also take a lot longer than obviously doing just a reinsurance transaction. So just interested in your view on that.

My next question is on your partnership with Microsoft and why you're building out further digital health platform? I'm curious as to how this differs from Emma. I know that you said that the what you're building with Microsoft, you want to make global. So presumably, in Asia, your customers are going to have access to both Emma and this Microsoft proposition. So I'm just curious, will Emma end up being decommissioned? Or are the two very different, and that's why it makes sense to have both?

And then finally, can you give us an update on the AXA Bank Belgium disposal? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Louise. So three questions. One on the in-force, I'll answer that one. The second one, on Emma versus Microsoft. Nobody else but Gordon could be a better place to answer this question. And then the third one, on what is the update on AXA Bank Belgium, Alban will answer that.

So on the first one, more in-force. Yes, we clearly said there is more in-force to be done. We are looking at the larger books, obviously. And all possible options from reinsurance to disposal of a book to a complete disposal of legal entities is possible. When you look at the reinsurance topic, obviously, you always have to be very cautious around managing counterparty risk since there are not plenty of reinsurers. So there is a natural limit to it. But we are looking at all options in the larger portfolios. And this is one of the priorities of Frederic and Alban to go further after we've now seen the Hong Kong transaction.

Gordon, on Emma and Microsoft?

A - Gordon Watson {BIO 21377545 <GO>}

Cheers. Thanks, Thomas, and thanks, Louise, for the question. I think, clearly, no one's going to kill Emma. Emma is very much a front-end platform that we use, and DHP is our health data backbone. Emma is a holistic digital platform for lots of -- all our business. We now have 2 million users. We had 500,000 in the first half. And we each see [ph] e-services in the Philippines, 72% of all the health business now.

But this digital backbone that we have global -- the deal with Microsoft will give us a lot more data than we've had before. And this will allow us to be much more proactive in the future. And when we get data from many sources, how we can enter substandard lives, I don't like to use that word, but lives, people like myself who maybe have a perfect health record. But because I have a certain lifestyle, et cetera, et cetera, we have all that data. Perhaps I could be rated a lot more properly that -- the way I should be based on the way my lifestyle is, et cetera, et cetera. That will also give us global data to deal with the pharmaceutical companies, et cetera, worldwide. So I think it's a real game changer.

But Emma really humanizes our brand, shares our interaction point for our customers. And our employee benefits, say, in a country like Hong Kong, more than 50% had digital transactions with her, but that's for all lines of business. And the deal with Microsoft is really our digital global health backbone for health. So we're very much looking forward to that happening in Asia. It will evolve and start in Europe.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

And on your last question on AXA Bank, it's still in the regulatory approval process, but we are still very confident that it will close probably in Q4 this year, but by the end of the year.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Alban, and thanks, Louise.

Q - Louise Miles {BIO 20765435 <GO>}

That's very helpful.

A - Thomas Buberl {BIO 16182457 <GO>}

Let's move to the next person who will probably will ask three more questions.

Operator

Next question is from Pierre Chedeville from CM-CIC. Pierre, could you please switch on your microphone and go ahead?

Q - Pierre Chedeville {BIO 15076220 <GO>}

Yes, good morning everybody. I have effectively three questions.

A - Thomas Buberl {BIO 16182457 <GO>}

I knew it.

Q - Pierre Chedeville {BIO 15076220 <GO>}

First question is regarding AXA IM. We have seen at Amundi and BNP Paribas IM, but performance fees were very strong in Q2, quite exceptional. And I wanted to know if it's a case for AXA IM or if it not?

Second question is regarding investment margin in Life & Savings. You -- we can see that we are above the guidance at 69 basis point. And we see that even if there is pressure on interest margin, your crediting rates are also declining. So I was wondering, if you were not a little bit too cautious with that guidance of 55 basis points, 65 basis points for the two coming years, considering the fact that maybe we could have some rise in long-term interest rates.

And my last question is about the reinsurance parts of AXA XL. We have seen some articles a few days ago, a few weeks ago mentioning that you could be interesting to cede it. Of course, I will not ask you to comment on that because you will not. But I will ask my question differently. Could you tell us in your view -- or remind us, in your view, what is a great interest to keep the reinsurance part of AXA XL in your business model? Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Pierre, for your three questions. I suggest that Marco is answering the first one, around the strength of the performance fees in Q2 at AXA IM. Alban is going to answer the second one, around is the guidance on the Life & Savings investment margin too cautious. And on the reinsurance one, I will answer that. I'll do it straight away.

The reinsurance business for AXA brings certain advantages. Number one is, we can diversify our risks more because, yes, AXA is global, yes, AXA is in many markets. But some markets, we are not in on the primary insurance. If you take, for example, the US primary market, on auto insurance, on homeowners insurance, we are not present. And through the reinsurance, we can take a position, which adds to the diversification globally.

Second topic, the reinsurance also gives us access to emerging markets in which the primary insurance is not yet well developed. And thirdly, alternative capital is very present in the reinsurance market, and we can also benefit from it. So there is quite a few substantial advantages that the reinsurance business does bring to AXA.

Let's now go to the first question -- or your first question, Pierre, on AXA IM. Marco?

A - Marco Morelli {BIO 4801230 <GO>}

Hi, Pierre, the impact of performance fees in our top line of the P&L is literally negligible. We've always been running the AXA IM growth on core, namely on management fees. Why? Because we do believe is a more sustainable mid and long-term kind of approach, so counts almost nothing in our P&L.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Marco. Let's go to Alban on the investment margin Life & Savings.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So, hello, Pierre, you're right to say that we have managed to keep a good investment margin, almost flat compared to last year at 69 basis points. I'd say though we have a tight duration gap, you've seen the -- and that we have margin between our investment yield and our guaranteed rate, you see that our reinvestment yield is nevertheless down. And naturally, over time, that will take our investment margin down. Probably, I agree with you, to the upper end of our range rather than to the bottom end.

Q - Pierre Chedeville {BIO 15076220 <GO>}

Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Alban. Thanks, Pierre. We move to the next question.

Operator

Next question is from Kamran Hossain from RBC. Please, could you please switch on your microphone and go ahead?

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, good morning. Three questions from me. First one is on the flood losses. Thanks for the, I guess, the preliminary estimate that you gave this morning. To what extent is your loss capped at EUR400 million or close to EUR400 million? And is it safe to assume, given your confidence in the AXA XL UE [ph] for 2021 that these losses really sit elsewhere in the business?

The second question is just a clarification on the positive COVID development that you've talked about in AXA XL, that you put into the, I guess, the bulk IBNR. Can you just quantify how much that was or how much that would have benefited or how much that cost the combined ratio in the first half? And the third question is, given your very strong capital position, with further benefits to come from AXA Bank Belgium, what do you have lined up for the surplus at the moment? Thanks.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Kamran, for your three questions. I suggest that, Alban, you take the first one, on the flood losses. And the question, is it capped to EUR400 million? You also take the second one on where has the positive COVID development occurred and how much was it. And I'll take the last one, around our capital position and what we have lined up, if I have to quote Hossain.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

Okay. So those flood losses obviously affect primarily our German and our Belgian operations, but also, XL to a certain extent. The -- our reinsurance protection, which -- we have a retention of EUR350 million, covers all our insurance business. So the maximum loss for our insurance business is EUR350 million. But it doesn't cover our reinsurance business, and therefore, AXA. Hence, the fact that we are above, and therefore, at EUR400 million today estimated loss for that nat cat.

On COVID, so I understand you are referring to the COVID IBNRs that we had at XL. So we identified $400 million of excess IBNRs on COVID reserves at XL, and that's what we used, as Thomas described, to reallocate to -- either the ADC deductible or to the unallocated reserves.

A - Thomas Buberl {BIO 16182457 <GO>}

Yes. And Kamran, on the last question, around our capital position. First of all, we are extremely happy about that position because a solvency II ratio at 212%, given that we have no equivalents anymore in use is a very strong figure. We've been, I hope, very clear around our capital management and our capital management discipline when we launched our plan, Driving Progress 2023, which was in two parts. One was, if we do have disposals, we are going to compensate the earnings dilution at the closing of this disposal. And this concerns obviously all disposals that have happened so far after the 1st of December. This concerns currently Greece, and Malaysia.

And the second piece of information we've given was around investments that, whenever we do undertake investment decisions, that we always benchmark these investment decisions against the own situation of the AXA share price. And obviously, we will not hang on forever on these investments and the money if we do not find the appropriate means to invest it, but our aim is always to find, obviously, investments to grow the business and develop the business.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thanks, Kamran. Let's go to the next question.

Operator

The next question is from Peter Eliot from Kepler Cheuvreux. Peter, please switch on your microphone and go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah, thank you very much. So the first question really was on the very strong PYDs we're seeing in France. I mean, I think it was 5.3%, despite the very strong adverse impact of the restaurant settlement. So we're looking at sort of double-digit, I think, in total. And that comes after you released EUR0.6 billion last year as well in 2020. So I guess two questions around that. Firstly, how do the French reserves now compare to solvency II best estimate?

And secondly, I'm just wondering how you've managed or -- yeah, perhaps you could sort of give some commentary around the releases that we've seen. Obviously, I'm very, very welcome that you're still expecting the upper or even above the upper end of a range going forward, but it would be very helpful to understand how so much has been released recently.

And then if I could also add, it's looking like the future of MPS, Monte dei Paschi di Siena might not be independent going forward. I'm just wondering if you can add any comments about your strategy in Italy, anything you can say on how we might think about that. Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Peter. This time, only two questions. So I suggest that Alban takes both questions. Number one was obviously on the strong PYD in France, 5.3%. And maybe you can clarify as well this number. And then to answer as well how the French reserves look at relative to the best estimate. And secondly, MPS in Italy, our future together with MPS in the same context or a larger context with somebody else onboard. Alban?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So I'll start with MPS. So fundamentally, Italy is a very strategic market for us. And we -- our partnership with BMPS works extremely well. So we learned, like you, about the start of an agreement between the Ministry of Finance in Italy and UniCredit. We will follow that extremely closely. It's too early to comment. But clearly, we want to reiterate that the Italian market and that bancassurance partnership are strategic.

On your question on the PYDs in France, yes, you're right. We have seen strong PYDs. Nevertheless, AXA France keeps a very, very cautious reserving and more than the average within the group. It represents probably 30% of our excess reserves within the group. And therefore, there is room for such PYDs. And I'm extremely confident also in the prudence of the current year losses.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Thank you, Peter. And I know it was not your question, but it's very much linked to it. I would like to ask Patrick Cohen quickly to give us an update on the restaurant owners and the transaction because I guess that is very much behind your question. Patrick?

A - Patrick Cohen {BIO 19497824 <GO>}

Thank you, Thomas, and good morning to everyone. So as you know, we've decided to offer settlement to our 15,000 restaurant policyholders that are holding a standard contract with a non-damage business interruption coverage. We mobilized for that EUR300 million to offer them a fixed and definitive lump sum payment. And we're glad to share with you that four weeks after the start of this process, the settlement is progressing well and in line with our expectation. We received positive marks of interest from more than half of the all eligible clients. And if we look at the numbers now, we have more than half of the 15,000 eligible customers that have started the settlement process with us.

And the momentum is accelerating, which is good to see. We understand this is coming from the fact this is a simple offer, it's an attractive offer. Our distribution networks are fully mobilized on it. And we're seeing the ties, the historical ties between our agents and the restaurants further strengthened since we've announced that settlement. To give you a perspective, we have 20 new restaurants insured by AXA France every day. So we're confident we'll stick to the numbers we gave you for a EUR300 million settlement cost.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Patrick, and thanks Peter, for your questions. Let's move to the next question or questions.

Operator

Next question is from Andrew Crean from Autonomous Research. Please, Andrew switch on your microphone and go ahead.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, all. It's Andrew Crean here. A couple of questions. Could you give a bit more candor around the excess capital? Because you -- it's now nearly EUR7 billion above the EUR190 billion target. Now I understand that you don't really want to be very clear on this. But can you give a timeline as to when you can give clarity and whether at the moment, your obfuscation on the issue is about concerns over the regulator, which should have thought be dissipating at this point?

And then the second question is, over two or three years ago, you talked about 26 smaller businesses, which you were thinking of disposing of or going to run for cash or disposal. You sold a few of those, I think, about seven or eight. Should we think that the rest are going to be run for cash and should not be seen any more as potential disposal candidates? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thanks, Andrew, for your two questions. I suggest that the first one is answered by Alban around what is the excess capital. And there, we have to differentiate between cash and non-cash above the 180%. And I'll go to the second one around the 26 smaller businesses.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So Andrew, you know what we've said last December in terms of capital management. We have that range of cash that we want to keep at the holding company level. But fundamentally, what we are saying is that we want to use excess cash or excess solvency with discipline. So what that means is that, as we said, we would offset the dilution of the disposals through share buybacks that you've already seen, Malaysia and Greece. Greece is closed, but Malaysia will probably close next year.

The timing of the corresponding share buyback will be determined by the Board. So we will see that. And you know that as far acquisitions are concerned, we want to compare them, compare the benefits to also share buybacks, which means that we will do acquisitions in countries where we are already present in our preferred lines of business in order to have synergies. So that's our plan, and it has not changed since last December.

A - Thomas Buberl {BIO 16182457 <GO>}

Andrew, on the 26 smaller businesses, we said at the time that we are managing as a private equity -- managing them as a private equity with a private equity approach, which we have done because all of these businesses are performing well. We have, as you mentioned yourself, sold quite a few. We are still not at the end of that journey because we said we need to continuously relook at these businesses. But some of them are still very interesting to us. If I take, for example, Luxembourg that was on that famous list of the 26 countries, we have brought together Luxembourg and Belgium to manage them in an even much better way. So the journey is not over yet. The journey is probably, for a large degree, done, but not all of these 26 will be ending up as disposals.

Q - Andrew Crean {BIO 16513202 <GO>}

Could I just follow up on the regulatory issue as to how you're seeing the regulator and the ACPR at this point?

A - Thomas Buberl {BIO 16182457 <GO>}

Well, I mean, look, as you know, we always have a very active, very fluent and also very regular dialogue with the regulator. We obviously have spoken about those issues with the regulator the last time at the point of the full year results. As you know, the general dividend ban for European financial institutions is still in act up to the 30th of September. It was mentioned that it will be lifted certainly for the banks. And so there is no reason for us to talk to the regulator before the 30th of September. Thank you, Andrew, and let's move to the next question.

Operator

Next question is from William Hawkins from KBW. Please William, switch on your microphone and go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, gentlemen. Thank you very much. If I just look at the attritional accident year loss ratio of all of your businesses, excluding XL, would you say that they have still had a benefit or some kind of headwind from COVID? So if we're looking outside of XL and before reserve development and nat cats, has your loss ratio still been benefiting from frequency related to COVID or not?

And then secondly, maybe to help my understanding, Thomas, on what you're saying about when you're doing buybacks, you're very clear that you do buybacks to offset dilution if you sell a business. But that doesn't seem to cover if you do a reinsurance deal. And I'm not sure why you would make that distinction. Because as you say yourself, when you're looking at Life in-force books, you're kind of neutral about whether it's reinsurance or selling. So why would you not do a buyback to offset a reinsurance deal, like you've just done on Hong Kong? And as a subset to that, can you just say what are the lost earnings from Hong Kong for 2022, please? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, William, for your two questions. I suggest that, Alban, you are answering the first one around are there any frequency benefits in the accident year loss ratio and also talk about the second one, what are the lost earnings on reinsurance. And I will come back to William's question around is reinsurance covering the offsetting of dilution.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So, hello William. As you may remember, when we announced the transaction that we proposed to the restaurants in France, we said that it would cost EUR300 million, but that would be offset by EUR300 million of frequency benefits in the first half. So we confirm that those EUR300 million of frequency benefits before tax in that first half. I would nevertheless probably highlight the fact that I think the current year claims, as I said, are reserved prudently in our accounts in that first half. And on the lost earnings of Hong Kong, it's roughly EUR20 million.

A - Thomas Buberl {BIO 16182457 <GO>}

And William, back to your question around the reinsurance in Hong Kong, what always has to be differentiated when you sell a company or a country on operation, you will get the cash. And mostly, the shareholder is the AXA SA holding. So the cash arrives immediately at the AXA SA holding, which is then also being able to be leveraged for potential share buybacks. When you look at the Hong Kong reinsurance, this is a capital release that would go into the Hong Kong entity. And so it would be very much subject to the regulatory approval, whether this money could be upstreamed and when it could be upstreamed to AXA SA holding.

And since we have not had the discussion with the Hong Kong regulator on this topic and since the Hong Kong regulator has also implemented a new regime last year when it comes to the question which interest rates and which mix of interest rates between short-term and long-term interest rates is used, this discussion is unfortunately still a little premature.

Let's move to the next question.

Operator

Next question is from Oliver Steel, please -- from Deutsche Bank, sorry. Please Oliver, switch on your microphone and go ahead.

Q - Oliver Steel {BIO 6068696 <GO>}

I turned off my -- I switched off my hand. But, a couple of questions, nonetheless. The first is a technical question on the margin on revenues on the life insurance side, which dropped from 11% to 9%. I'm wondering what caused that. And actually, I'll leave it at that in terms of questions as the others have been asked.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Oliver. It's quite rare to only have one question, so that is good. The margin revenue on Life from 11% to 9%, Alban, do you want to take that question?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on the fees and revenues on the Life side, what we have is higher fees coming from unit-linked business and simply because we have higher volumes. On the expense side, we've had higher commissions for new business that offsets a significant part of the higher fees that we received. And the net is assumption changes offset between DAC and URR. And as you will know, when interest rates go up and when markets go up generally, the -- you lengthen the duration of the amortization pattern of DAC and URR. That's the reason for those changes.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Oliver, for your question. Let's move to the next question.

Operator

Next question is from Farooq Hanif from Credit Suisse. Farooq, please switch on your microphone and go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, I hope you can hear me?

A - Thomas Buberl {BIO 16182457 <GO>}

Farooq.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can you hear me.

A - Thomas Buberl {BIO 16182457 <GO>}

Yeah. Yes, we can.

Q - Farooq Hanif {BIO 4780978 <GO>}

So just going back to reserve releases at first. So obviously, if you didn't have the restaurant settlement, your reserve release would be about roughly 3 points. And it's been mentioned before that you're looking at having excess levels of reserve release as you move into IFRS 17. So I'm just wondering whether that 3 percentage points is just compensation for the restaurant settlement or whether you think actually it could be above your guidance range in the next few periods on reserve releases.

Second question is on AXA XL. You have quite a big difference between top line growth and pricing. So you've clearly been putting into place all of this re-underwriting mix shift that you've told us about. Is this going to continue in the second half? Or could we see a bit of an uptick or a reducing of the gap between pricing and revenue growth? And then what about 2022?

And then the third question is on the operating return and the 12 percentage points of solvency II. You mentioned this was kind of above your guidance range. Can you talk a little bit about the drivers behind this and the -- what might happen in the full year if those drivers continued? Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Farooq, for your three questions. I suggest, Alban, that you take the first one around what is our policy of excess level of reserves before IFRS 17 is introduced. Second one, Scott, I would like you to talk about, is there, after having significantly worked on the re-underwriting of the portfolio, an opportunity to reduce the delta between pricing and revenue growth? And then

Alban, if you could give Farooq some more detail on what is behind the 12% of the operating return.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on the reserve release, as Frederic, I think, mentioned, I think we are fine at the upper end of our range, which is 1.5 to 2.5 at that upper end or even slightly above. There's -- I don't think there is particularly any particular issue in the semesters to come to be there.

A - Thomas Buberl {BIO 16182457 <GO>}

Scott, on the second one?

A - Scott Gunter {BIO 20129741 <GO>}

Sure. Hi, Farooq. As you know, once you take a decision from an underwriting standpoint, it takes 12, 18 months to work its way through the portfolio, so -- but we would expect the back half of '21 into '22 to feel less of the effects of the re-underwriting of the portfolio. As the pricing in the marketplace continues to improve, we're seeing more and more opportunities that fit our pricing terms and conditions and adequacy than we saw, say, 12 months ago or 18 months ago. So the team is excited for the opportunity to look at the business and go, you know what, this one we're getting adequately paid for. So I would expect that delta to decline as the months go by and into '22.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Scott. And Alban, on the 12% in detail?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So what drives our operating return? When you look at the -- on the P&C side, it's very much our underlying earnings and not so much the investment income. Because you know that we, in solvency II, use the current rates and not the accounting yields. But so the very strong performance on the P&C side, the technical one, is the driver on the P&C side. And on the Life side, it's the very strong NBV that we had this semester. And to that, you add the nice performance of Asset Management. That's not significant compared to the rest. But nevertheless, it is a nice performance without capital requirements and that goes also in the operating return.

Q - Farooq Hanif {BIO 4780978 <GO>}

So just on that point, it feels to me like you could be at least at the upper end of your guidance on that, too, operating return.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So there is obviously some uncertainty, nat cat being one of them. So we should see. But clearly, it has been a good operating return for the first half.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Farooq. Let's move to the next question.

Operator

Last question is for Michael Huttner from Berenberg. Michael, please switch on your microphone and go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah. Thank you. Can you hear me?

A - Thomas Buberl {BIO 16182457 <GO>}

We can hear you, Michael.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. So these are amazing results, so really, really well done. I had -- actually have four questions. I'm really sorry. You've raised the guidance as far as I can see on the number of things, reserve releases, kind of Life margin, top line. So I'm wondering why didn't you raise the guidance for the 7%.

The second is on the reserving itself. And my guess is, you're reducing the best estimate -- how to say it? The solvency II earnings, so the 12%, is just EUR2.9 billion and your reported underlying earnings is EUR3.6 billion. So I'm just thinking that maybe the reserve releases mean that you're actually reducing the total best estimate number. But I don't know, it's a question.

And the third one is on the loading. So you're above the target range at the half year for your cat loading both at AXA XL and in Europe. And in Europe, of course, we've got these extra flood losses of EUR400 million, which I guess, for the second half is about 2 points. And I'm just wondering whether you're maybe thinking of raising these.

And then yes, I'll stop there, sorry to take up too much time. Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Michael, for your three questions, and also thank you for complementing us on the amazing results. First question, Alban, the raised guidance, why not raising the 7%, if we have raised the rest. I'm not sure we have raised, but you will get some more clarity on it. Second one, on the reserve releases, does it mean we are reducing the total best estimates? Alban, that's also for you. And I guess, the third one, you are also best placed to do it. With the cat loading in XL and Europe that is above what we have seen, should we be raising the famous 6%, I guess, in XL?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on the increased guidance, I haven't noticed that many increases in guidance, as you mentioned. The only thing I think we said was that, for prior year developments, we would be at the upper end or perhaps slightly above our range. But I think that's all. On the rest and notably on growth, we've seen that in the first half, but it's an observation. It's not a raised guidance. And the 3% to 7% guidance still holds, even though in the first half, again we are at the upper end of that range.

On the reserves for solvency II, what you've seen, it's not a reduction in the best estimate. The prior year developments come more from the excess reserves above the best estimate and therefore the amount of excess reserves that are already in our solvency II solvency. And last, on the cat loading, so if I look at XL first and if you look at the decimal, we were slightly above, but only slightly above our cat budget or half our cat budget at half year. And it's the same for the group. At half year, we were very much in line with the budget we set ourselves, which is directly coming from our cat modeling. So then we have -- sorry, yes?

Q - Michael Huttner {BIO 21454754 <GO>}

So I'm interrupting. I'm really rude. but the -- I'd say the heavy cat part of the year, the second half, right? So that's when you get hurricanes and typhoons and stuff like that. And that's also when you get those hailstorms and whatever in Europe, right? And we've obviously handed out the flood loss figure. So to say slightly above at half year, I'm kind of thinking it's not as comfortable maybe.

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So when you look, in fact, we are not used to it any longer, but the first half of the year, you do have windstorms usually in Europe. And when you look at our own modeling and our geographic exposures, probably 52% of our losses should occur in the first half of the year. That being said, what we saw over the last three to five years, I agree with you, is high season -- I mean, significant season of hurricane in Q3 in the US. So we'll see. What I can tell you is that, as was mentioned, we have EUR0.4 billion of losses coming from the floods in Germany and Belgium. And after this, our aggregate protection will kick in for an additional EUR650 million loss if we ever reach it. So that's the amount of potential additional loss that we could have after the floods.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Michael. Since that was the last question, I would just want to ask if there are any other questions on the webcast.

Operator

Yes. This was our last question. We are now moving to the webcast questions.

A - Unidentified Speaker

So the first question comes from Colm Kelly from UBS. He has a question on holding company cash. Is the EUR1.3 billion holding company cash target a hard target or a soft target? For example, by the end of the current plan period, which ends in 2023, do you intend to strictly adhere to EUR1.3 billion target range and keep holdco cash in this range? Or are you open to keeping holdco cash above the top end of the target range if there are good reasons to do so?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So that target range of EUR1 billion to EUR3 billion at the holdco level is a target. And I think we want to aim for the upper end of that range in the holding company level, so rather EUR3 billion than EUR1 billion. And that's what we are aiming for fundamentally.

A - Thomas Buberl {BIO 16182457 <GO>}

Perfect. Exactly. Are there any more questions on the webcast?

A - Unidentified Speaker

Yes. So Ashik Musaddi from J.P. Morgan has three questions. Number one, given that price increases continue to remain strong in XL, what is the visibility that XL earnings could be higher than EUR1.2 billion in 2022 as there should be some more underwriting earnings feeding into earnings?

Number two, can you give some color on how casualty reserves have developed, i.e., did you take any benefits from the Enstar reinsurance program?

And number three, the final question, the XL investment margin was lower by EUR200 million year-on-year at 1H. So that's basically EUR0.4 billion annualized versus your previous guidance of EUR0.1 billion to EUR0.2 billion. Is that a new normal? And what is the trajectory around that?

A - Thomas Buberl {BIO 16182457 <GO>}

Alban, I guess, you will take those three. One, around the price increases and what does that mean for 2022 or could we be exceeding EUR1.2 billion. Second one around the casualty reserves and have we used some of the Enstar ADC. Third question around the XL investment margin being lower by annualized EUR0.4 billion, how does it compare to our guidance that we've given of EUR0.1 billion?

A - Alban de Mailly Nesle {BIO 20387796 <GO>}

So on the price increases and the EUR1.2 billion, so yes, I mean, XL needs to participate broadly in the 3% to 7% underlying increase that we have set ourselves for the plan. So that's what we are expecting from XL. There are price increases. But you should also remember that there is claims inflation, loss trend. Notably on the long tail lines, that's probably around 5.5%. So you shouldn't take the price increases as directly going into P&L for next year. But we do expect XL's earnings to grow.

On casualty reserves, so what we did was to use the excess reserves that we had observed, notably on COVID, to book the deductible. But the Enstar reinsurance transaction is not touched. It's not in the money, so to speak. And third, on XL investment margin, so last year, we had an elevated distribution of dividend from private equity funds. That was a one-off and not to be repeated. What is to be more extrapolated is the investment income that we had at AXA XL for this first half.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you. Alban. Are there any further questions on the webcast?

Operator

There are no more webcast questions. Thanks to everyone.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you. Thank you very much for your questions and for having attended this conference around our half year results. I wish you a great rest of the day, and hope to see you soon all in person again. Thanks to my colleagues for having participated and actively answered the questions. And thanks to the IR teams for having prepared this very successful day. Thank you, and see you soon.
