S1 2021 Earnings Call

Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Giulia Raffo, Head, Investor and Rating Agency Relations
- Philippe Donnet, Group Chief Executive Officer

Other Participants

- Andrea Lisi, Analyst
- Andrew Sinclair, Analyst
- Colm Kelly, Analyst
- Farooq Hanif, Analyst
- Michael Huttner, Analyst
- Peter Eliot, Analyst
- Rotger Franz, Analyst
- Steven Haywood, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good afternoon, this is the Chorus Call Conference Operator. Welcome and thank you for joining the Generali Group First Half 2021 Results Conference Call. As a reminder, all participants are in a listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions) At this time, I would like to turn the conference over to Ms. Giulia Raffo, Head of Investor and Rating Agency Relations. Please go ahead, madam.

Giulia Raffo {BIO 21037091 <GO>}

Thank you and welcome to Generali first half 2021 results conference call. I'm here with our Group CEO and our Group CFO. Before opening the Q&A session, I would like to kindly hand over to our Group CEO for some opening statement. Thank you very much.

Philippe Donnet {BIO 4657671 <GO>}

Thank you, Giulia. Hello, everyone. Thank you to all of you for joining the call today. As you saw this morning, we published our first half 2021 results, and these are very good results in a very challenging environment. They are the proof that our current strategic plan Generali 2021 was indeed and is still the right plan.

I'm here today with our Group CFO, Christian Borean, and we look forward to taking your questions over the next hour. But before then, let me quickly review some highlights from the first six months of the year. First of all, we confirmed our strong business profitability. Our operating result increased by over 10% from the first six months of 2020, arriving at nearly EUR3 billion, while our net profit practically doubled reaching well over EUR1.5 billion.

Our life new business margin grew by 0.73 percentage points to 4.67% in the first half of the year, and our new business value has been growing by almost 30%. On the P&C business, our combined ratio stood at 89.7%, and aligning our technical excellence.

Our capital position was very solid, even considering the uncertain context with our solvency ratio standing at 231%. We are continuing to work hard and with strong discipline to complete Generali 2021, and to deliver on our targets that were announced nearly three years ago, and that were confirmed in November last year. At the same time, together with my team, we are defining our next strategic plan that we'll be presenting -- that we will be presenting to the financial community on December 15, making a new chapter of our Group's history.

So we look forward to illustrating this plan to you and in the meantime, now Cristiano and myself are available to answer to your question. Thank you again.

Operator

Excuse me. Please go ahead.

Giulia Raffo {BIO 21037091 <GO>}

Thank you very much. We can now open the Q&A session. Thank you.

Questions And Answers

Operator

(Operator Instructions) The first question is from Andrew Sinclair with Bank of America. Please go ahead.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thank you, and good afternoon everyone. Three from me as usual, if that's okay. Firstly, I just wonder if you could give us any color on the cost of July, European floods and also just some details around your reinsurance protections? That's question one.

Question two is just on asset management. I thought it was really impressive to keep expenses flat for that level of revenue growth. But do you see any risk of an expense catch-up? You're running really far in advance of your operating margin target. So just really helpful to get some context on that. And thirdly was on unit-linked and great flows, but how much of that do you think it was just a catch-up from people who had been sitting on their hands during COVID than putting some money to work or do you think you can achieve similar flows in H2 and into 2022? Thanks.

A - Cristiano Borean {BIO 15246531 <GO>}

Hello, Andrew. So first of all, on the cost for the July European flood, the one more concentrated in Germany. Please, I would like to remind you that the structure of our reinsurance treaty for these kind of events do not allow retention for single event above EUR100 million. So the net retention for the Group of such kind of events is EUR100 million. Clearly, then you have their installment premium as a normal reinsurance contract one-day effect up. And so we are already above EUR100 million retention so it will be EUR100 million.

How our reinsurance protection works as a Group against all these kind of events related to wind, wind chill, hail and all the like of NatCat this kind, we are protected up to EUR500 million impact as a maximum amount, but we can retain in the balance sheet some of uncorrelated events because as you know, per single event, we do not retain more than EUR100 million. So that would be the impact, the maximum impact modular, their installment premium we can get. And this translated only without installment premiums would be 2.4% of combined ratio maximum from those kind of events. We are already at including this event of July summing the one-off end of June plus other happened, we are at around EUR300 million NatCat impacting the balance sheet which is 1.5% as of the year-end premium and the average over the last five years was 1.8%. This is for the first question.

On the asset management performance, on the cost. You should not look at this figure of 45% as a basis to start the one, which is the ambition as we manage as a target is more consistent to the expenses we will start doing in the second half of 2021 for the distribution platform and 80 projects that are going to be implemented will be progressively rolled out in order to increase our capacity to distribute. So you should not look at this number, which is by the way also influenced by the performance fees effect and more on what is the long-term including the expenses that we will do for the distribution going forward, which is the one as a target.

And the third one on the unit performance. The growth, even if I compare it towards 2019, which is the pre-COVID effect, it is endogenous and sustainable. It is not brought up by external factor. It is really the strategy and I would mean that this is consistent to the capacity of the Group to grow. I hand over to Philippe to further comment.

A - Philippe Donnet {BIO 4657671 <GO>}

This is a strategy that we started many, many years ago and we are very much in the situation to manage the new business mix because of far strong proprietary distribution. This makes the whole difference. Actually, our net inflow, which is a EUR6.3 billion after six months, it's already very solid in volume, but it's even more solid in terms of quality, because it's basically only protection in end unit-linked.

Definitely, if we were less disciplined if we hadn't such a strong proprietary distribution, we could have a higher net inflow but lower quality, and this is definitely not our choice. Once again, the quality of our distribution makes the whole difference. So these numbers regarding unit-linked are absolutely sustainable.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Yes. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

Next question is from Peter Eliot with Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Three questions from me as well, please. The first one was on investment income. I was just wondering, could you update us on your current expectations on how investment income might develop from here both Life, Non-life would be very helpful, please. And secondly, echo Andrew's comments on the asset management, great numbers. I guess the only area where you're sort of slightly behind target is the external clients and maybe that ties into your comment just now but I was just wondering if -- how you think of that target at the current time and what's achievable? And then finally, third one, wondering if you could just update us on what you're seeing in Italian motors in particular in terms of sort of average premium trends -- pricing trends? Thank you very much.

A - Cristiano Borean {BIO 15246531 <GO>}

Hello, Peter. So investment income. Please let me profit to make an initial clarification around this point because when you look at the investment income today, in the half year, you are not seeing the full allocation of the investment potential of our books because of the effect of the private equity, which we do report in the line holding another business, but it is an asset class per se. It is a company that's why we report it as a company. But then this pay dividend to the class share holder, which are the different insurance companies among the Group.

So what you should consider as an investment income should also embed even if there is a time shift between the allocation of result in the payment of the dividend of this extra result, also this component. And please don't forget what I told you already many times. But you should not consider the private equity as a one-off result. We are already, after almost EUR7 billion allocation, harvesting at almost double-digit result on the investment. Those money put at the service of both our shareholder and our policyholder. And this, we will grow further for the normal increase of the real asset strategy we are deploying. And this will support the investment income.

Having said that, the investment income will be affected by the natural dilution of the low rate environment, and we are working and you see from our negative net collection in the saving business, but we are trying also to re-steer the business towards protection unit link, hence having less money to be reinvested. And in general, we are working on life, in this direction as well in P&C, we are growing more. P&C, we are growing faster. So there are more money to be invested.

If you look at this stake of money, less on life to be reinvested, more on P&C, we could expect for the next year, a 10 to 15 bps yield dilution in the current income on average book cost of our asset both life and P&C. Maybe skewed towards more the 10 in P&C than in Life.

Asset Management. The target on the third-party client, as you know, I think that it is difficult to achieve by year-end '21 as a percentage term. But I would like to emphasize that in absolute numbers. So the numerator which was building out about 35, the current level of the external [ph]use in that calculation was exactly coherent with the number of the strategy, the numerator.

Clearly the denominator increase more also because of the growth of the internal asset in the evolution of the market, but for 2021 we don't think we can achieve it as a 35% percent target. For the Italian motor average premium, what are the pricing trends? What we observe is that so far we are observing in the motor TPL a 3.9% decrease in the average premium collected which is sufficiently consistent with our strategy to at the same time retain the client and grow as well with the fleet business.

As you know, we have a big agreement with the Fiat Chrysler Automobile in Italy, which is doing extremely well also because of the MOD development which is growing extremely fast. And by the way, I anticipate the question explained potentially also the increased expense ratio you are observing because exactly the higher remuneration for the line MOD we've seen within the motor.

Q - Peter Eliot {BIO 7556214 <GO>}

That's very clear. Thank you very much, Cristiano. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks very much. Just going back to Non-Life first. So I notice that you've had an increase in reserve release, but it's still lower than what we've seen since 2016. So is there still some element of conservatism in this given the still low frequency that you're experiencing?

Secondly, can you talk a little bit about the capital implications of the Cattolica acquisition? So, for example, what diversification benefits could actually help your capital position if this deal went ahead to all the tender offer?

And then finally, could you also comment on given your capital position is very, very strong, your leverage ratios have come down to good levels, going forward in your strategic plan, what's the likelihood that you could move to a strategy of inorganic growth versus buybacks to help -- yes. So a bit more formal kind of policy on buybacks versus inorganic growth to help sort of use that sort of as capital? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Thank you, Farooq. So the first question in P&C. On the prior year, you have seen an increase of 0.8% compared to the first half last year, but I would like to recall you that if I look the reserve adequacy, so the excess of reserving above the best estimate we do on the Solvency II view, it is broadly unchanged, which is explained by the fact that steel in the first six months we observed a frequency, which is lower than the pre-COVID period in almost all the geographies, and only in the month of June, we started to observe frequency trending to the level of the 2019, so the pre-COVID one. For example, a country which is still below is Germany where you see a positive benefit.

So my message is basically unchanged reserve adequacy. There is an increase in the prior year because maybe you remember last year, I gave extreme prudence in the prior year allocation due to the uncertainty of the evolution and the prudency in the reserving.

Second point related to the Cattolica acquisition. We stated something in the order of 8 percentage points, almost 8 percentage points of solvency percentage point reduction from the diversification benefit, you would have an increase of the P&C contribution which diversifies well away because as you know, the sources of profit in Italy are skewed towards Life versus P&C, which is helping. Anyhow, you will have a counter element which will come from the presence of the BTP which is present in the portfolio which so far is our largest sensitivity risk which is counterbalancing the benefit. But from the cash flow standpoint, and from the initial diversification within the line, we have a very positive diversification from the P&C.

I hand over to Philippe regarding the inorganic versus buyback.

A - Philippe Donnet {BIO 4657671 <GO>}

So yes. Even after Cattolica, our capital position will remain very strong. We, as you know, we don't have the opposition of M&A at any cost. We have been very disciplined in the past years with M&A I remember that I told many of you a few years ago that the kind of M&A we would prefer were small and medium M&A because I like the buildup strategy, which is a safe one. It creates lower execution risks. We are very good at integrating the company we buy. This is what we did successfully in Portugal. This is what we are doing successfully in Greece. This is what we will do successfully in Malaysia and with the others acquisition we made in Central and Eastern Europe.

We have another five months to go before the end of the plan, because the plan is ending on December 31st at midnight. So we will stick to our strategy. We will stick to our financial discipline. Our pipeline is not empty. So we are looking at interesting opportunities, but we will remain very disciplined, very selective. What matters to us is to create value for shareholders. If we believe that the many opportunities we are looking at are the best one to create value for shareholders, we will go for it. If not, we will find a better use for the excess capital.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hello, gentlemen. Thank you very much. First question, please. Cristiano, I fully understand the concept of what you said about the private equity. Could you just help me clarify the numbers, please, about what was the impact of private equity on the first half other operating results, and what was the first half and second half figures last year? I get the point but I'm just not quite clear on the numbers.

And then secondly, please. For the investment results, obviously the difficulty we've got is that there are, in the first half of this year, offsetting factors. You've got lower yields but then the markets have been better, so your investment result has actually gone up even though we're talking about the yield compression.

And so I just wondered, again given that you're also re-risking the portfolio. And I'm not sure how much of the Life business versus Non-life benefits from that. The short question is you've got Slide 13 showing your investment result was EUR800 million in the first half of this year. Can I just double that to get to the full year and then what am I assuming about next year? Is it fading? Could it be going up because you're re-risking or do I keep it flat?

And then the last question, please. And again, I'm sorry if this is disclosed somewhere but in Slide 30 when you show the roll forward of your Solvency II ratio, given that you've been raising debt on the rest of it, can you just remind me how the 47.7 breaks down by tier? Please.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, William. So, first point, numbers. Half year 2020 operating result contribution from private equity EUR90 million. I recall you again these numbers then are paid as dividend on the investment portfolio. Half Year 2021, EUR300 million. Year-end 2020, EUR260 million operating results contribution from private equity. So this is the comparison.

Going forward, as I told you, you should expect this kind of contribution trending as I told you at almost double double-digit percentage contribution on the investment we have. So, I hope I gave you the clarity on these first two free figures.

On the investment result, point taken on the lower yield versus the re-risking of the portfolio. How much is Life? We increased our equity position both in Life and in Non-life. Also thanks to a progressive increase of our private equity, and we are increased also the private debt. This is more related to the capacity of finding the investments. So the speed is more related on that and the willingness to get. So we are working towards the target.

I can think about the half year 2021 Life result should it be doubled. I think we are broadly in line with this trend. For 2022, this will be also related to the capacity of the portfolio. On one side, to start growing on the sizes because you have basically 3% increase of the technical reserve year-on-year and the structure goes in that direction. So we are working exactly, thanks to the re-risking, to use some points of solvency to pull up the investment result and reduce the speed of the dilution.

So let's make it pictorial, the battle is exactly pulling up, thanks to the real asset strategy and is more re-risking the downward trend because the natural coupon of the maturing bonds is closer on the 3% side than the reinvesting amount which is closer to the 1.3, 1.5.

Going to your last question on Solvency II, the breakdown of the 47.7 tiering is we have -- for your information, since you were mentioning that we issued a subordinated debt, I would like to recall you but since we treat these EUR500 million issued in the last week of June as a refinancing or prefinancing of the 22 maturing, these are not included in the own funds. We do not double count, let's say, at least in Generali, we do not double count the pre-financing. So it is excluded from the tiering you see. So Tier 1 the 47.7 are in EUR41.6 billion of Tier 1, of which 2.1 restricted EUR6 billion of Tier 2 and EUR0.2 billion of different. This is the tiering of the EUR47.7 billion.

Q - William Hawkins {BIO 1822411 <GO>}

Perfect, Christian. It was a good test. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

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

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. Thank you so much. Just really easy questions and the first one is, I think you mentioned in an interview on Bloomberg EUR800 million to EUR900 million kind of budget left to do deals. And I just wondered is this after Cattolica or before Cattolica? I mean how should I...

The second is on cash. Can you remind us with the figure of cash at the holding was at the year-end and maybe tell us what it is now and what you expect it to -- where you expect it to go?

And then on the the final question, and this, you're probably going to say this is completely out of line, but is it right, you said at the Investor Day, so as you said almost three years ago that there might be possibility or you against buy backs, et cetera, but is it fair to assume that if you do a buyback you effectively change the structure of your shareholders because some will accept buyback, some will not. And so those who do not take the buyback effectively become more concentrated and gain a bigger voice and that's where you would lose your independence? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Michael, excuse me, can I ask you please to repeat your last question, as your line was particularly troubled. So we --

Q - Michael Huttner {BIO 21454754 <GO>}

Oh sorry. Yeah, yeah, sorry,

A - Giulia Raffo {BIO 21037091 <GO>}

-- couldn't hear well on your line. Sorry about that.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah. Sorry. Sorry. Is this better?

A - Giulia Raffo {BIO 21037091 <GO>}

Yes. Yes, much better. Thank you.

Q - Michael Huttner {BIO 21454754 <GO>}

So, sorry about that. Yes. So it was a cheeky question, asking if the decision or the kind of trend we've seen to do more deals than buybacks. Is the thinking behind it that if you do a buyback, you would change the structure of your shareholders to the extent that some would accept a buyback, some would not. And therefore, those who do not accept the buyback would gain a bigger, bigger say in the company, and in that way you would kind of, in a creeping way, lose your independence? Creeping not in negative way, what I mean is kind of diluted way. There we go.

A - Philippe Donnet {BIO 4657671 <GO>}

So, hello, Michael. On the first one, the EUR800 million, EUR900 million left for M&A is after Cattolica and even after Malaysia. Cristiano will answer the second one. On the third one, frankly speaking, we look at the value creation for all shareholders, and this is only what matters, we do not entertain any other kind of consideration.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you, Thanks.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Michael, to update you. So I would like to recall you that we issued, as I was mentioning before with William, the pre-financing refinancing EUR500 million which is piling up EUR500 million more, but I do not consider them as available because they are in a certain sense already booked for the payment of next year of the subordinated maturing. There are also the EUR720 million for the second tranche of the dividend. And there are the money which are already there to cover the Cattolica deal, the Malaysia deal and being left with EUR800 million to EUR900 million.

I'm not playing, I'm letting you adding pieces, and then you add the buffer of EUR1 billion, the liquidity buffer, which we always keep. And this is the, let's say, cash you should consider at the (inaudible). On top of that we have normal treasury cash, which is non-stable and you should not consider as an element for our strategy. It's just an optimization of the internal uses of the resources. So you should start from those elements, which are the one which count.

One thing I would like to add, I think it is worth to be aware of. But we completed 96% of our 2021 remittance, and so basically we are almost there. We will do in the last quarter, the last piece which is missing, and again as I gave you the guidance was 3 to 3.1 remittance received, and we are well on track to achieve the target. And don't recall but going forward after dividend I also always say that there is an excess cash generation of the order of EUR800 million per year.

Q - Michael Huttner {BIO 21454754 <GO>}

That's fantastic. Wow! What clarity. Thank you so much. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is from Steven Haywood with HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you very much. Obviously, I've seen that you've taken the expected October dividend payment out of shareholders' equity as obviously has been approved by the shareholders. Does this show or does this imply that you are extremely confident in paying this in the fourth quarter of this year?

And the second question from me is on the solvency ratio. Just looking at the roll forward in the first half, there is a negative 3 percentage points non-economic variance. Could you provide some color around this? Sorry if I missed it in the disclosure.

And then thirdly from me on the P&C top-line premium growth. You say it's up about 9% in the second quarter. Can you go into more detail about what lines, what countries, whether Cattolica had an impact, the rebound from COVID and any impacts on pricing as well? That would be very helpful. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Hello, Steven. On the first one I confirm that so far, we are very confident that we will pay as expected the second tranche of the 2019 dividends of the $0.46 per share because the ECB has removed the ban on capital repatriation and dividend payment for banks because the ESRB restriction is supposed to end by the end of September and the regulators, particularly Italian regulators, have indicated they are quite confident that there will be no reason to renew these ESRB restrictions. So, definitely we have tangible reasons to be confident that we will finally pay this second tranche by October as decided by the shareholders.

A - Cristiano Borean {BIO 15246531 <GO>}

Stephen, if I can add from the accounting point of view, it is put at the debt because the condition for the IAS 32 are met according to the accounting rule.

Second question on solvency around for other non-economic variances are mainly explained by ACR impact of the re-risking for the vast majority and a small minor part of non-recurring holding expenses. So clearly it is the re-risking of the portfolio which has been put the different in the roll forward compared to what I've seen was the average estimation made on the market.

On the P&C top-line premium growth. What are the second-quarter effect? You should think about the second quarter 2020 was also a specific quarter because it was the most impacted quarter for the COVID premium. I would like to stress that there is a very healthy growth in the second quarter from our global corporate and commercial business which, as you know, accounts for slightly more than 10% of the total premium, so which grew 11%. The rest of the portfolio grew 8.9%.

Don't forget that there is also a growth stemming from the accepted premium where we increased some accepted business. Thanks to our also strategy of underwriting. And in general, there is a very healthy growth in Italy where premium are growing on the single quarter-over-quarter 9.3%. In France, 11.4%. In Germany, 4.4% quarter-over-quarter. And also, (inaudible) 7.7%. These are the four largest and the international area is growing also 10%. So it's quite a healthy growth we are observing in the quarter. But please take into account the fact that the second quarter 2020 was heavily impacted also due to the COVID.

So 4.9% is more an expression of the potential. Regarding the impact from Cattolica, there is some accepted reinsurance from Cattolica some tens of millions of euros which are accounted in the Italian P&C premiums accepted which I was mentioning before our reinsurance acceptation -- acceptance. And there is nothing else because as you know, Cattolica is not consolidated because of the actual shareholding of 24.46 is an equity method accounting where their premium do not affect our premium. The only premium impact is in the reinsurance we accept from them.

Hope I gave you the picture.

Q - Michael Huttner {BIO 21454754 <GO>}

Yes, that's very helpful. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

Our next question is from Colm Kelly with UBS. Please go ahead.

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks a lot. Two from me. The first on just on in-force action. So the business mix shift has been very clear and consistent across the group. If we look at the capital life reserve mix, it's at just shy of 65%, clearly a key reason for that mix shift to free up capital and reallocate to higher returning businesses, but do you expect to take any actions to accelerate the release of capital from those capital intensive businesses to accelerate that mix shift further or given your strong excess capital position right now, are in-force actions not seen as necessary or desirable from a timing perspective? That's the first question.

The second question is just around capital allocation. You've done a great job in the last few years. That's kind of keeping risk capital flat that you allocate in the business but increasing the return you'll generate on that capital. Now with a solvency ratio at 231, you clearly have a lot of scope to increase the amount of risk capital you deploy to accelerate growth even further. Now the challenge we and I have is it's very hard to assess the added growth potential that that excess capital brings in the future because a lot of the talk has been around M&A and it's hard for us to analyze businesses you don't own yet.

And equally that emphasis on M&A, but less market focus on the opportunities you have to allocate capital within your own existing business to accelerate growth beyond what has been delivered today. So if we can shift the focus of capital allocation away from buybacks and M&A and put it onto the existing group, can you articulate somewhat --

specifically those businesses and geographies that can easily absorb the reinvestment of more capital today, such that doing so would tangibly increase the growth rate those businesses can generate? I know you're growing in P&C, health protection unit-linked, but it's not clear and obvious of allocating more capital can enable you to grow share in those markets or if they're already operating at capacity in terms of the capital that is deployed. So that's question two. I would appreciate it if you can give some color there.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you. I'll take the first one. First of all, we are acting as the leading group in the life insurance business in Europe. So I think that we deeply understand this business probably more than anyone. We were the early -- the first movers when shifting the business from traditional savings to hybrid products unit-linked and capital-light products. This is for the new business. I think that we were also the first mover in the in-force management when we decided three or four years ago to sell EUR43 billion back book in Germany Generali Leben. So definitely we know how to manage both the new business and both the back book. And definitely, we are going to continue doing this.

I mean, you've seen the numbers for the new business in the first half of the year, they are very good. And we are obviously still working on the in-force management, we've been making very granular analysis of all our life insurance portfolio. This has been done, and definitely we will take decision, capital management decision, business decision, financial decision when it will be the right timing. So this will definitely be part of our next R&D expense. So we've been doing the biggest, and maybe it's a paradox, the easiest part with Generali Leben because it was a big transaction of in-force management.

Now we have a smaller portfolio to deal with, and there are plenty of solution to free up capital. We can use reinsurance. We can use run-off. We can sell portfolio or parts of portfolio. We have plenty of solution. The analysis is done. We are ready to take the appropriate decision.

A - Cristiano Borean {BIO 15246531 <GO>}

So Colm, I started the question on the capital allocation. You absolutely highlighted correctly, but there is room for managing our solvency ratio in order to increase the return, which is partially what we started to do when we were explaining before the re-risking. When we do this, we need to take into account two factors. Part of our allocation is a tangible one where we can cover it with direct investment. Other is related to our future value of what we have enforced.

And in general, increasing the expected future value is the classical re-risking example you can extract as we did. Managing these two layer is exactly the, let's say, the optimal between deciding where to grow and how to use the non-tangible component or the valuing force at best to produce higher result. This is exactly what we were thinking of doing in Life. For example, after having reduced the balance sheet risk from the point of view, also the P&L last year reducing 40% of the equity impairment risk at Group level in which you've seen this year, we have the room and the firepower both from the capital side and the P&L side to manage this kind of capital allocation.

Where we are allocating, we are growing. We are going (inaudible) exactly to diversify. We are growing in protection and this growth is supported by our capacity to diversify out, we've seen our capital contribution. Not only the growth stemming from internal investment was also exogenous capital reallocation were done exactly in line, which are differentiating the capital absorption because our preferred strategic line.

I make you a couple of example regarding the fact that it is not necessary to allocate capital only for external growth but also for internal growth in the business. Three kind of examples. The first one we started many years ago and we are progressively enlarging in our units of the Group. But in France, we started for example to hedge the unit-linked annual management fees in order to free up capital absorption, stabilize on fund volatility and allow freeing up room to grow in this line without absorbing capital even though unit-linked itself self financing, but it is allocating some solvency capital requirement and hence is supporting the capacity in a low rate environment for the saving business to support growth in unit-linked without having an increase in the capital intensity of the business.

Second example, we created an internal reinsurance structure exactly to re-insure the reserving risk in our P&C business which is quite heavy and intensive and is blocking in some companies if you want to manage their remittance in the trade-off between growth and the end result is has to be managed and we did internal re-insurance hub exactly to optimize the capacity to grow and you've seen the countries which are growing also in PC without being blocked and allowing us to manage our remittance.

So for us, there are a couple of big principle like the fact that optionality has a value as well as flexibility. And so this is how we are managing going forward. The capital allocation also in the -- our far East Asian business, think about China, we are not paying out one hundred percent of our result because we are growing -- fast growing business where the return on equity is higher than the return on equity of the Group. So this is the logic where we are trying to push at the same time return on equity and reduce the capital intensity of the business to free up growth capacity.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

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

Q - Andrea Lisi {BIO 20482284 <GO>}

Hi. Good morning. First question is back on the private equity results. I understood that there are no one-off component, but if you can just provide us more indication about that? This is an idea of this business, and so what we should expect for the rest of the year?

And the second question is on the frequency in the P&C, in particular in the motor business. You said that starting from June, you are observing trending -- frequency trending into 2019 level sort of pre-COVID levels. So what are your expectation from here to the end of the year?

And my last question is if you can come back on the impact of flows in July that was not really clear to me and the impact of reinsurance. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, Andrea. So I start with the first question. The private equity. It's not a business, it's an asset class. I stress it again because we reported as other but then flows back into the investment portfolio. So it's really an asset class strategy. So when I said that there is no one-off, it is clear that private equity is per se a business when you realize the investment value and you exit -- you realize the exit. But it is not one-off in the sense that we will have -- we've seen our amount invested a certain regularity of within the classical J curve approach of this kind of result achieved currently with the investment profile of our liabilities.

So expecting going forward, as I told you, I confirm that we are expecting a growing contribution of this line, but again this is an asset class, which is a growing contribution to the investment result, the relative weight of the private equity, we see in our investment result in both Life, and P&C will increase coherently with the strategy. And this will increase a little bit faster than what we were expecting in the previous plan. So clearly this is a good proof of the quality of the business.

Regarding motor business. Frequency trend. Fair point to say that we have observed positive effect compared to 2019 in the first half of the year, still few hundreds of million euro less claims than what we had in first half 2019, and few hundred million euro more than what we had in 2020 because it was a lower frequency environment compared to now.

Going forward, we see a convergence country-by-country towards the pre-COVID level with slightly below convergence to the pre-COVID level, still not at that level. We see this trending faster in countries like France or Italy. And but still below the pre-COVID level and still below, a little bit more below in Germany. And so we are observing the progressive evolution. Going forward, we do think that this will let's say asymptotically go as slightly below and that will be compensated by the slightly higher claim cost we are observing as a net effect.

The impact on flood in the reinsurance. I stress it back, I think the question was related to the July events, not the first half. The July event mainly affecting Germany but not only Germany, is affecting as well other countries like Switzerland, France, Austria and Central Eastern Europe, is per se already accounting for a total damage above EUR100 million. For the non-Italian business, we have EUR100 million maximum retention of such kind of natural catastrophe which does mean that if the damage is larger than EUR100 million for us, we transfer the amount in excess of EUR100 million of the damage to our reinsurer, the one which are part of the reinsurance treaty.

And this acts in a way that once this is closely accounted, you transfer it, and when you do it you pay a reinstalment premium, which is normally in the usual reinsurance contract. So you will see lower impact in the claims, and an amount of premium paid to the insurance to reinstall the coverage after the event happened. This is how it works. And for the Group, I recall you we have a maximum retention on some different uncorrelated events up to EUR500 million on a yearly basis. So the impact from Nat Cat the one I described like flood, wind, hail and the like cannot exceed the EUR500 million retention for the Group and would mean five different uncorrelated events.

Q - Andrea Lisi {BIO 20482284 <GO>}

Really clear. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

You're welcome.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

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

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very, very much. And on private equity and I'm sorry to go [ph]uninvited. The -- you said $7 billion. Can you say where it is, is it I looked at the equity pie charts and I just wondered which of the buckets it's included in. And then maybe you can give an indication of how much more this bucket will grow?

And then the other points related to that. So compared to consensus, I know this is not your numbers, but still the consolidation line was bigger than reported and I'm just wondering if that's effectively what we're seeing is the offset to the private equity dividends.

And then my final question is, can you say something about the Cattolica contribution year-to-date or I suppose quarter, I don't know. Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. So, Michael. Where is the private equity is in the line so called alternative, okay? So that you can find it in the -- I don't remember the page of the presentation expose. Okay. They consolidate -- the consensus, the consolidation adjustment you correctly pointed out is linked mainly for a very large part explained by the private equity dividends we are paying for the mechanism I was mentioning before.

We account the result in the private equity company called lion River. We pay to the shareholder of the different equity shares of Lion River which are the investment portfolio of our Life and P&C company and once this is paid, it is consolidated out because clearly it has already been accounted as a result. So yes, the more the private equity business increases, the higher will be the consolidation adjustment after having paid the dividend to the other since you cannot account to twice the same result. What matters to me is when I gave you the number of the private equity contribution, this is the number affecting the operating result.

That's why if I have to comment as a CFO, when I look at the combination of the investment portfolio in general at this half year, I do not see any special one-off effect because this is nothing that the growing contribution of the private equity and in general of the business flowing through the balance sheet. Hope I gave you, Michael, clarity on this point.

Q - Michael Huttner {BIO 21454754 <GO>}

And you said the EUR7 billion. How much can this grow to?

A - Cristiano Borean {BIO 15246531 <GO>}

We are progressively increasing the amount with an asset allocation we should grow, and I think we can get to few billions more, but clearly the capacity to deploy also depend on the market. It is a really positive momentum for the private equity market, the 2021, but clearly the capacity to deploy is also there. But you should expect a growing contribution thanks to the growing amount of reserve and increased interest in the private equity asset class.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. And on Cattolica?

A - Cristiano Borean {BIO 15246531 <GO>}

Sorry, I forgot to tell you that the contribution of Cattolica in the quarter is accounted in the operating result, and it is EUR32 million.

Q - Michael Huttner {BIO 21454754 <GO>}

EUR32 million. Thank you so much.

A - Cristiano Borean {BIO 15246531 <GO>}

For the first six months.

Q - Michael Huttner {BIO 21454754 <GO>}

Can you clarify that?

A - Cristiano Borean {BIO 15246531 <GO>}

So I think the first quarter was 17. So if you add up the math should say 15.

Q - Michael Huttner {BIO 21454754 <GO>}

Great. Okay.

A - Cristiano Borean {BIO 15246531 <GO>}

I should cross-check, but, okay. And the other contribute -- I think you asked me also how much of the asset under management of Cattolica where -- have been given to Generali investment, EUR7.8 billion.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you so much for more clarity. Thank you so much.

A - Cristiano Borean {BIO 15246531 <GO>}

You're welcome.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question, please.

Operator

The next question is a follow-up from Steven Haywood with HSBC. Please go ahead.

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you again. On your Life new business margins particularly in the protection and the unit-linked businesses, they are developing very well. And do you see any further room for the new business margins to increase in the protection and unit-linked businesses? And I suppose the overall Group's Life new business margin should continue to increase going forward as your savings products reduce as a proportion of the total new business sales. So in general, the direction of new business margin is positive over the next few years?

And the second question, I saw a comment about the slate of candidates for the Board renew in 2022. Can you give any -- I just wanted to make sure this is part of the normal process and if -- any other comment?

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Steven. So Life new business margin. Yes, it is going well. What you should look for, we will try to look for dimension growth. You have seen that we are growing fast in the unit-linked, and we are growing fast in protection and at that level of profitability what is -- what matters is the volume, because that level of profitability is extremely good so we do not want to jeopardize the net effect of the combination between volume and profitability, which is the new business value contribution coming from unit-linked and protection.

Yes, for sure. There will be further reduction of, let's say, capital absorption from the saving business, because more and more we are selling, even when we sell the saving business or the hybrid, but within the (inaudible) product, we sell with lower guarantees or with no guarantees. For example, in Italy, already almost two-third of the production is sold without any formal guarantee with no death benefit, which is really good from the capital consumption point of view. So that would help in counterbalancing a low rate environment, but I think you should more focus on the growth of new business value than in the growth of new business margin because what matters now is the growth at this level of profitability.

A - Philippe Donnet {BIO 4657671 <GO>}

On the second question, there is not that much to say at this stage except that yesterday the Board of Directors decided to prepare the process for the renewal of the Board of Directors in 2022 and the process will be submitted to the next Board of Directors on September 27th. Nothing more to add on this at this stage.

Q - Steven Haywood {BIO 15743259 <GO>}

Okay. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

We can take the last question, if there is any more in the queue.

Operator

The next question is from Franz Rotger with Plenum Investments AG. Please go ahead.

Q - Rotger Franz {BIO 15872041 <GO>}

Hi. Thank you very much for taking my question. Just coming back to the flood losses in Europe of the last month. You've given us a good indication about your net retention and your reinsurance coverage. Can you give us a better indication of your estimated -- preliminary estimate of a gross loss from Brent in Germany, Belgium, France and the Netherlands? Or is there some market loss estimates around what is the -- could you give us some more precise indication of your market share in the affected areas?

And also do you expect any significant additional demand surge due to COVID for example because the shortages of building materials and so on? Thank you.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. So what is important, I recall you regarding the flood, in Europe that the German one you were referring since we have a net retention of EUR100 million, this is what will be the impact for the Group. There are some areas still not accessible or where the claims adjusted or the people which has to estimate the value of the damage still did not at the final view, so still numbers can flow up from the gross impact, but what I can tell you is already the amount is above EUR100 million, hence this will be the stopping line for us and the rest will be transfer. As a market share, Generali is almost 5% of market share in P&C in Germany and I think this is sufficiently consistent to what you said. I recall you that we do not have operation in Belgium since we sold the Belgium operation a few years ago, and neither in Belgium nor in the Netherlands.

Further losses due to COVID, I recall maybe it was already mentioned in the press release. There are EUR62 million impact from mortality morbidity effect related to Life technical result in half year 2021 due to COVID. Could we have some further losses? There could be some expectation of further negative development especially in the countries which has been mostly affected and we're, fortunately for the business, unfortunately for the people, we have a lower market share like Brazil or India and we can expect a slightly further impact, but from the point of view or the number what has been called so far was the large amount.

Q - Rotger Franz {BIO 15872041 <GO>}

So just to clarify. My question regarding COVID losses was referring to additional demand surge in the areas affected by floods?

A - Cristiano Borean {BIO 15246531 <GO>}

Sorry, Rotger, I didn't understand the question.

Q - Rotger Franz {BIO 15872041 <GO>}

Well do you expect any additional demand surge or claims inflation due to COVID induced shortages, for example building materials and so on in the flood affected areas?

A - Cristiano Borean {BIO 15246531 <GO>}

Sorry. Now, I got it. No. So far, we are not expecting this. I think we are also in a situation where in Germany, there is a huge also political focus on what happened and we are in a period of elections. So I think there will be a strong monitoring from the authorities and in general, the business development is not giving us those indications.

Q - Rotger Franz {BIO 15872041 <GO>}

Thank you.

Operator

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

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. Thanks a lot to all the participants. As always, the IR team is available for any follow-up questions that you might have. And we will be in touch again with the Q3 numbers in November. Thank you very much.

Operator

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