Q1 2019 Earnings Call

Company Participants

- Andrea Novelli, Head of BancoPosta
- Guido Maria Nola, Administration, Finance and Control
- Matteo del Fante, Chief Executive Officer

Other Participants

- Anna Adamo, Analyst
- Ashik Musaddi, Analyst
- Gian Luca Ferrari, Analyst
- Giovanni Razzoli, Analyst
- Manuela Meroni, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Poste Italiane First Quarter 2019 Financial Results. At this time all participant lines are in a listen-only mode. There will be a presentation followed by a question-and-answer session. (Operator Instructions) I must advise the conference is being recorded today, Wednesday the 8th of May 2019.

I would now like to pass the conference over to your first speaker today, CEO, Matteo Del Fante. Please go ahead.

Matteo del Fante {BIO 6237992 <GO>}

Good morning, ladies and gentlemen. Thank you for joining us this morning, as we present Poste Italiane results for the first quarter. I will take you through some highlights, before handing over to our CFO, Guido Nola, who will guide you through a more detailed business review. I will then provide some closing remarks, before we open the call for questions.

Here with us in the room, we have the heads of all of our business segments, who are also available to answer any specific questions in the Q&A session.

Start with slide number three. Let's have a quick overview. The first quarter closed with a net profit of EUR439 million, confirming our continued progress in executing, Deliver 2022. We have seen sustainable revenue generation, supported by our ongoing focus on maximizing the power of our distribution network. This, delivering increase in operating profitability of EUR20 million in a single quarter up 6%, excluding non-recurring items, such as capital gain and early retirement incentives versus last year.

Mail revenues are down 5%, in-line with the secular decline, in bad debt in Deliver 2022, with a strong performance from Parcel mitigating Mail decline in revenues. Later on, I will also highlight a number of operational developments in our Logistics division, as we look to accelerate our industrial transformation in 2019. Our Financial Services segment, performed very well, across all product lines and we saw solid contribution from insurance, as well as our payments and mobile activities.

Our focus on cost discipline continues, with HR and non-HR expenses, in-line with our Deliver 2022 targets and higher value-added for FTEs. Our workforce transformation also continues, with new hires in key areas like last mile delivery, financial relationship management and digital.

Moving to slide four, an overview of our financial results for the first quarter. Group revenues decreased marginally in the quarter but demonstrated our reduced reliance on capital gains, which we're offset by a clear increase in recurring revenues.

Revenues, net of capital gains and other items increased by 3.5%. Total operating cost, including G&A, were up 2%, in-line with our expectations. As Guido will explain, the year-over-year comparison is also impacted by the full effect of the new labor contract. Nevertheless, let me stress that lower total TSA, more than offset the agreed salary increase, while higher non-HR costs are related to business-driven variable expenses.

As a result, EBIT came to EUR617 million in the first quarter, down on Q1 2018, but again, with a strong progression of -- underlying operating profitability. In fact, as I mentioned, EBIT increased by EUR20 million or 6% on an adjusted basis, fully on-track with our 2019 guidance, that today we are confirming. Reported net profit amounted to EUR439 million in the first quarter and earnings per share was EUR0.34.

Finally, let me stress that we continue to deliver significant and targeted investments to support the ongoing strategic transformation. The total amount of group CapEx is equal to EUR65 million in the first quarter, in-line with our budget for the period and up 15% versus last year, focused mainly on mail, parcel, automation and IT.

Let's move to slide number five please, where we look at the revenue contribution from each of our segments. Underlying group revenues increased year-on-year, thanks to higher and more sustainable recurring revenues. Mail, Parcel & Distribution revenues were down year-on-year. Mail revenues were down 5%, compared to a very strong first quarter of 2018. Parcel revenues were up 15% year-on-year, above [ph] the trend expected between 2017 and 2022. All our segments have showed positive growth, with a strong contribution from Financial Services, all of them driven by Deliver 2022 operational and commercial initiatives.

Moving to EBIT on to slide number six, please. We've seen a positive improvement, as we mentioned, of EUR20 million, on an adjusted basis in the first quarter. Let me flag that in the first quarter, we booked EUR261 million capital gains, compared to EUR378 million of 2018. As part of 2022, we promised to reduce our reliance on capital gains and you can see our progress in this quarter. Guido will provide a segment by segment breakdown, but it's worth highlighting the contribution of Financial Services, with EBIT up by 9%, and with capital gains down by 31% versus last year. On an adjusted basis, this makes an improvement of EUR28 million in one quarter or 16% versus last year.

On slide seven, we have focused on the most recent developments in our Mail & Parcels business, as we look to accelerate the industrial turnaround in 2019. Continued improvement is the key and we have concentrated over 80% of our first quarter 2019 group CapEx on effectively supporting the ongoing transformation. The roll-out of our Joint Delivery Model for Mail and Parcel is progressing according to plan with 64% of targeted delivery centers now operating under the new model, well on track to reach 100% by year-end 2019. These efforts are enhanced by our brand new, mixed mail and parcels sorting center in Bologna, which is already active and is expected to be fully operational in the second quarter this year.

The state-of-the-art automated sorting facility, will add 250,000 parcel per day capacity to our capacity at year-end 2018 of 500,000 per day. So other than the 50% increase in daily sorting capacity, as a greenfield development, this center will deliver improved environmental performance, thanks to energy efficiency measure and self-generated solar energy.

During the quarter, we also signed an MOU to establish a joint venture with sennder, a European digital platform, that applies the latest technology to full truckload transportation to ensure full capacity in our long-haul network. The JV will focus on driving efficiency, reducing both costs and CO2 emissions. This initiative is part of our broader commitment to further optimize our logistic network. We will continue to look at partners, be they startups, scaleups or established players, that we can help -- that can help us accelerate post the logistics transformation.

We also continue to expand our alternative day network in this quarter and now have 1,400 active alternative delivery points, which is up 1,000 since the end of 2018. Our agreement with the Federation of Italian Tobacconists, or FIT, which we signed as you know, in mid-2018, is accelerating the development of alternative delivery points. And FIT network delivery points are already today available to the main e-commerce operators in Italy.

That's all for me for now. I would like now to hand over to Guido, who will take you through a more detailed business review. I will then provide some final comments before we open the call to your questions. Thank you, and over to Guido.

Thank you, Matteo and good morning everyone. Let me guide you through each business segment starting from Mail, Parcel and Distribution on slide nine, with strong B2C -- and

B2C parcel performance, continued to mitigate the secular decline of mail. Overall segment were down -- segment revenues were down 2.1%.

Parcels grew at a higher pace than our expectations for the planned horizon, mitigating the secular decline of mail, projected at minus 5% year-on-year, due to the continuing e-substitution and some positive one-off effects in Q1 2018. These included high volumes of additional regulatory correspondence, sent by financial institutions early in 2018, which were not distributed at the same point in 2019.

Parcel revenues increased in the first quarter, up 15%, with B2C increasing by 35% year-on-year, as we capitalize on e-commerce growth, thanks to the successful roll-out of our Joint Delivery Model for mail and parcels in 2018. B2B revenues increased significantly, up 17%, as the business returns to normal levels, compared to the first quarter 2018, which was negatively impacted by the strike at the end of 2017.

Other revenues included the contribution from airline carrier, Mistral, which is now exclusively focused on cargo. The restructuring is completed and Mistral is contributing positively to our growing B2C business.Moving to operating profit, excluding the contribution of capital gains paid to distribution network and early retirement incentives. The segment registered a negative EBIT of EUR53 million in Q1, on track with our 2019 target.

On slide 10, we look at the volume and price trends. Starting from the left-hand side, mail volumes decreased by about 11% in the first quarter. We continue to manage the inevitable decline. Volumes for lower-margin and less controllable items, such as unrecorded mail and direct marketing are decreasing at a faster rate, while higher-margin volumes, such as corporate-related products are on track with our budget. These products are more directly linked to our commercial efforts and offer more visibility on forward volumes.

Average prices in mail, were up 6% in the quarter, thanks to the positive volume mix effect, just described as well as, the repricing of several products in July 2018. Parcel volumes increased in the first quarter by 19.4%, boosted by a significant increase in B2C volumes, up by 31%. B2B volumes were also stronger than usual, up by 18% compared to a weaker Q1 2018, which was impacted by strike actions previously mentioned. The average price index for parcel was down 4% in the quarter, reflecting the overall change volume mix to fast growing B2C. Looking at each product. Prices increased for both B2C and C2C and were broadly stable for B2B, demonstrating that market share was not recovered through discounting pricing.

Moving to Payments, Mobile & Digital on slide 11. Where revenue growth was supported by a continued rise in card payments. Revenues grew by over 7% in the quarter. Card payments were up 14%, driven by higher number of Postepay cards and a strong increase of payment volumes in both physical and digital channels.

As highlighted at our Capital Markets Day, last November, we launched Postepay Connect, an innovative integrated offer, which bundles payments and mobile services.

Since the launch of Postepay Connect, we have already seen a positive impact on daily sales of Postepay Evolution cards. At the end of March, there were 6.6 million cards in circulation, thanks to daily average sales of 6,600, which were up by 16% year-on-year. At the same time, Postepay Connect helped to stabilize average daily sales of SIM cards at 3,300, leading to a stock of 4.27 million SIM, up by 7% year-on-year.

Other payment revenues, which include mainly tax payments and money transfers, were up 1%. Telecom's revenues were flat in the first quarter, as we continue to manage a competitive environment in the mobile sector with new offers aimed at increasing the loyalty of our customers. Operating profitability for the quarter was stable but does include the impact of a EUR6 million VAT provision, related to the start-up of the new Postepay company. We will continue to provision at this level in the coming quarters as we wait for a final ruling from the tax authorities on the VAT treatment of intra-group dealings. Excluding that negative impact, operating profitability increased by 11% versus the first quarter of last year.

Moving to Financial Services on slide 12. First quarter results, demonstrate our ability to improve sustainable revenue generation, leveraging on our unrivaled distribution network and new commercial initiatives as part of Deliver 2022. Segment revenues for the quarter was slightly down year-on-year, but with a better quality. Capital gains were down 31%, while EBIT increased by 9.3% over the same period or 16% on an adjusted basis.

Let me highlight a few key elements. Postal savings is back at the heart of Poste Italiane and fees from distributions are fully on track with 2019 targets. Third-party loans and mortgage distribution fees, continued to increase, supported by higher volumes and are poised to increase going forward with the implementation of the agreements signed with Intesa and UniCredit. Asset management fees were up, growing faster than assets under management, thanks to a changing product mix in client portfolios. Interest income was up 14%, driven by higher rates and volumes, thanks to the active portfolio management approach on our B2B portfolio.

Moving to Group total financial assets on slide 13. Total financial assets increased by EUR11 billion in the first quarter, driven by contribution from all product lines and positive market effect. Deposits were up EUR6.6 billion, mainly due to a seasonal effect related to public administration. Insurance products contributed with EUR1.5 billion of net inflows, thanks to the significant contribution of multi-class products, we generated EUR1.9 billion of net inflows. Also mutual funds posted positive net inflows, amounting to EUR155 million. In insurance and asset management, we are proving our ability to propose the right product to our customers, thanks to our diversified offering. Postal saving outflows reduced significantly, supported by commercial initiatives and a new digital offer.

Moving to Slide 14 on Insurance Services, where positive Q1 performance was supported by both Life and P&C products, confirming the ongoing diversification of our businesses. Segment revenues increased by 4.3%. Life insurance revenues increased, thanks to higher volumes, and we are supported by the new multi-class product offering. P&C contribution benefited from welfare products, which are now fully launched and CPI products, which are linked to our increased third-party loan and mortgage distribution. As a result, EBIT grew by almost 5%.

In the Appendix, you can find more details on gross written premiums and net technical provisions with a specific focus on the success of multi-class distribution, up from EUR141 million last year to over EUR1.9 billion in Q1 2019, which now accounts for 32% of gross written premium, in-line with our target for year-end.

Let's move to PosteVita Group Solvency II ratio on Slide 15. At the end of March 2019, the ratio stood at 214%. In February, the regulator approved the EUR1.75 billion hard commitment for Poste Italiane to PosteVita, of which about EUR1 billion was immediately accounted for as Tier II capital. This provided a benefit of 24 percentage points. Own funds were down, impacted by recent market movements, in particular decreasing rates, with the swap down above 30 basis points across all maturities and volatility adjustment down 10 basis points, resulted in the present value of liabilities increasing more than the present value of assets. Solvency capital requirement increase, a result of higher market risk, also related to higher volumes. This increase was only, partly offset by lower underwriting risk.

Higher unrealized capital gains in our investment portfolio, amounting to EUR4 billion at the end of March from EUR2 billion at the end of December 2018, provided a significant mitigation effect. Let me remind you that we are a very special insurance company. Given the nature of our assets and liabilities, we have and we will have a higher volatility versus the insurance companies through the plan period. We fully understand the importance of solvency for the market and as demonstrated, we continue to use all available levers to maintain our management target of 200% through the cycle. We believe there are a number of actions that we have and we will put in place both on the asset and liability side to reduce the overall Solvency II volatility.

Let me point again to the reason why we feel optimistic about the future. One, the ongoing implementation of a more diversified asset allocation. Two, the successful distribution of multi-class products, with premium increasing to over EUR1.9 billion. Three, the significant maturities of Class I products over the next three quarters and over the plan period, will create additional opportunities for reinvestment in multi-class products. Four, the new dividend policy from PosteVita to Poste Italiane, to support volume growth while confirming our group dividend policy.

And five, the current level of capital embedded at BTP-Bund spread twice the level of early 2018 and extremely low rates. Let me highlight that over this quarter, our sensitivity with BTP-Bund spread decreased. If you add 100 basis points to the current spread of our Solvency II ratio, we would be broadly -- the solvency ratio would be broadly unchanged, thanks also to the country volatility adjustment effect. Moreover, if you add 200 basis points to the current spread, Solvency II ratio would be around 170%.

Moving to group costs on Slide 16. HR costs for the quarter were up 1% versus Q1 2018 and on the slide, we show the key drivers of the period. The salary increase and benefits related to the new collective labor contract agreement signed in 2017, increased overall cost by EUR38 million. But it's worth highlighting, the increased flexibility that this new agreements bring to Poste Italiane to deliver the significant change within our strategic plan. Our proven ability to reduce the cost base is confirmed with a benefit of EUR51 million compared to last year, more than offsetting the impact of higher remuneration. These two components are the key underlying drivers of the cost base.

In this quarter, other elements impacted the yearly comparison. In particular, one additional date of paid holiday during the period for EUR12 million and other items, such as the accrual related to days-off, which is expected to reverse later in the year. Early retirement charges were down to EUR3 million, but as highlighted in 2018, the majority of changes are booked in the fourth quarter.

Non-HR costs increased by 5%. Once we consider the effect of first-time adoption of the new accounting principle IFRS 16, the majority of the EUR37 million increase, relates to higher variable cost to support increased business activity.

On slide 17, we focus on our workforce evolution, where headcount reduction, as well as, new hires continue to support our ongoing Deliver 2022 transformation. Our average headcount reached 131,000 FTEs in Q1 2019, in-line with our overall Deliver 2022 trajectory. This is the result of an average reduction of 5,500, which includes turnover, subsidized exit and lower mixed-term contracts, well on track to meet our 2019 target.

Since full year 2018, we have made on average, 2,000 new hires in key areas such as last-mile delivery, financial advisers and digital specialists. The average cost for FTE was up but at the same time, we manage to increase the value-added per FTE, confirming the success of our workforce strategy to support business growth.

Let me now hand back to Matteo for some closing remarks before we open the call for questions. Thank you very much.

Thank you, Guido. Thank you, everyone. Before taking your question, let me reiterate some key points. Deliver 2022 is on track and our progress in driving continued, sustainable revenue generation is visible in the first quarter.

We continue to take managerial action to protect the Poste Italiane against volatility, particularly in terms of the reduced reliance on non-recurring items such as capital gains and our focus on maintaining PosteVita Solvency II ratio around 20% through the silo [ph]. The Joint Delivery Model for Mail & Parcels is well on track, for a total roll-out by year-end 2019 and we continue to accelerate our industrial transformation to consolidate those actions already taken last year.

And the first quarter clearly demonstrated how we are leveraging on our powerful distribution network, a new commercial initiative as part of Deliver 2022, to drive strong underlying performance in financial and insurance services, as well as through our payment and mobile activities. Thank you very much for your attention.

Let's now open to questions, please.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question today is from Gian Luca Ferrari from Mediobanca. Your line is now open.

Q - Gian Luca Ferrari

Yeah good morning everyone. Thanks for taking my questions. The first one is on the B2B business, the 29% increase in volumes, 17% increase in revenues. I understood the one-off component on this year-on-year comparison. But I was wondering if projecting in high single-digit growth for full year '19 would be a proper assumption.

The second question is on the article this morning related to SIA, I was wondering if you might have any interest in the 17% stake potentially to be put up for sale from F2i. The third is on the stock of retail deposits, the average was up EUR2 billion in Q1, which means basically a 6% increase versus full year 2018.

If you can elaborate a bit, on this pretty sizable increase? The last question is on the tax rate of the Insurance segment, it was at 30.5%. Historically in Q1, you reported 38% tax rate. Again, if you can elaborate a bit? And if you can give us a guidance for full-year? Thank you.

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

Okay. Thank you. Yes, I think, we keep our year-end targets. In terms of growth of revenues in parcel, we confirm -- notwithstanding the fact that we had an above Deliver 2022 target. But we think, the 10% target for full year is -- on B2B is achievable. The second question on Sia is simple. We are not looking at increasing our stake in Sia that as you know is, together with the Cassa Depositi e Prestiti, a 15% stake in transparency. There is some marginal rounding adjustment that will take place but we are talking a single percentage point adjustment in our stake. Retail deposit, I will ask Andrea Novelli to comment and tax I will let the CFO answer tax on PosteVita.

A - Andrea Novelli {BIO 15185958 <GO>}

Thank you. Good morning, everyone. So retail deposits, first of all, I would like to confirm, as we discussed in the previous quarters and in our Capital Markets Day, that we are seeing positive net inflows coming from all our customer base. Then to give you an additional color, in the first quarter, we have a seasonal effect that is stronger compared to the other quarters of the year, because we benefit from the stronger net inflow that we normally have each year in December -- that then goes into increasing the average current accounts, amount for the first quarter of the following year.

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

Thank you, Andrea. And lastly on the tax rate on PosteVita. I just will point, as you have some numbers on page 39 of the presentation, which shows a reduction in income tax expenses. I would say that, that is related to what we have already mentioned in -- during the Capital Markets Day, which is the DTAs. As we said, we now have -- we have recognized a one-off EUR380 million last year and from this year, we are going to start recognizing it every quarter, that's the difference. But we don't give guidance instead on what we see going forward.

Q - Gian Luca Ferrari

Okay. Thank you very much.

Operator

Thank you. And our next question is from Ashik Musaddi. (Operator Instructions) Ashik, please ask your question.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, hi. Good morning, Ashik and good morning Ashik. Just a few questions I have, if you can help me. First of all, can you just give us some clarity on what's happened to the unrealized gains in the financial services bond portfolio? I mean, given interest rates have gone down in the quarter, Italian B2B, as well as the swap rates, your unrealized losses should have reduced, whereas it has gone up.

So what is the dynamic there and any sensitivity on that would be great. And then the second thing is, can you give us some clarity around IFRS 16? I mean, it looks like your net cash position has come down by around EUR1 billion, driven by IFRS 16 first implementation. So any thoughts on that? What's the reason for that? And just related to the bond portfolio again, I mean, can you just give us some sensitivities, whether higher interest rate would continue to move your net interest income up or not? Or do you think, that EUR410 million is a good run rate that we should take -- follow for the coming quarters? Thank you.

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

Yes, please, Guido on capital gain and IFRS and then I'll go back to Andrea on net interest margin.

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

So, good morning, Ashik. Thank you for listening. No, let me point you --.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Your line is not clear.

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

Sorry. So, I would say, good morning, Ashik. And no, I was trying to point you to the fact that, as we said in the past, you need to remember that half of our portfolio is actually hedged with -- and that hedge is normally done on the longer-dated bonds, which obviously brings the mark-to-market of those hedges to a negative number, which in this quarter was more than offsetting the rates movement on the part that was not unhedged [ph].

So the rates were a record low and that brought a significant movement in the variable component, let's say. And also in that movement, you have also not a big but also a marginal movement in the spread, both to BTP-Bund and to BTP swap. But again, it was more on the BTP swap than the BTP-Bund. I hope that answers your question. Moving to IFRS, as I stated on page 16, we have anticipated during the Capital Markets Day, that this has no practical effect. This is really just accounting. You see the two effects that happened all within the EBIT. But moving certain items, between EBIT and EBITDA, so you can see how IFRS 17 [ph], has a negative effect of EUR61 million on our position and increased by EUR54 million. The combination of the two is therefore marginal, I would say.

Q - Ashik Musaddi {BIO 15847584 <GO>}

No, I was more referring to slide number 34, where your net cash position has come down by EUR1.343 billion.

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

Yes. Okay. So you can see that there, you have the onetime adoption of EUR1.3 billion, and that again is related -- we anticipated that same effect during the Capital Markets Day. As we said, we have an increase of both assets and liability of EUR1.37 billion and as we said and as you know, IFRS 16 then from now on, we'll start amortizing that. But the one-off adoption has created this addition to both asset and liabilities from EUR1.37 billion.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay, okay.

A - Andrea Novelli {BIO 15185958 <GO>}

So Ashik, on net interest income, we confirmed the guidance - we gave at the Capital Market Day for the target for this year. The result we achieved is I believe again a confirmation of our active management of the portfolio because we realized the capital gains we are booking in this quarter last year when we -- the spread situation was more favorable. And we both -- that we replaced the bonds we sold when rates were higher.

So we also had the opportunity to increase, as you have seen the overall yield of the portfolio. Going back for a second on the sensitivity of the capital gain, let me remind first that there is no impact of this volatility in the capital position of BancoPosta, because that is filtered out according to our capital rules. And there is also a limited impact on the shareholders' equity of BancoPosta because most of the volatility we had there is in the -- let's say, total [ph] maturity part of our portfolio. And the movement we had, so the EUR1.3 billion increase in realized losses is in-line, as Guido was mentioning, with the sensitivity we disclosed in the past of EUR500 million of increase of unrealized losses for each 10 basis points of increase of the spread between BTPs and free [ph] in this case.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thank you.

Operator

Thank you. We will now take over next question from Giovanni Razzoli from Equita. Your line is now open.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Good afternoon to everybody. Sorry to -- a clarification on the question before on the capital gains on the current hedged portfolio and the contribution NII. But just to see, whether I got your answer correctly. So as far as the capital gains is concerned, what you are telling us is that the worsening that we see on a quarter-on-quarter basis of the unrealized gains is due to the fact that the path that this hedge led -- the contribution of the hedging was more than offset by the worsening mark-to-market related to the unhedged component which has suffered from the low-rate environment in the Q1, especially in terms of B2B swap spread, so this is my understanding for your answer.

And the second question in terms of NII. So basically what you are saying is that you reiterated the guidance in terms of NII for the full year of EUR1.6 billion, which would imply, clearly -- a run rate in the region of EUR400 million per quarter, while you are running today at slightly above that level. So shall we assume that a slowdown in the NII going forward because you have sold long-term B2Bs, but I don't reconcile this with increasing the duration that you reported in Slide number 24, so if you can please clarify this message. Thank you.

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

No, Giovanni, thank you for the question and the need for clarification. Probably the short answer is that you're guessing is exactly the opposite of what is the reality, in the sense that, starting with the last question, yes, we had an above-target the first quarter, that is only the first quarter, so we don't change the guidance for the full-year. And as anticipated by Andrea, we have invested in higher coupon and yield B2Bs through the spread widening phase.

And clearly, we are not -- to answer your question, we are not selling, we are not implicitly saying that we are selling. On the first question, is the same in the sense that as we stated, we -- given the low level of rates in the last few months, I mean, swap rates, we took the decision of hedging the portfolio, a meaningful portion of the portfolio of BTPs from fixed-to-floating. So part of the worsening of the mark-to-market is related to the unexpected versus the forward decrease, let's call it 30 basis point, across maturities of the swap rates. And the underlying impact on the mark-to-market that obviously had a forward pointing to higher rate, as opposed to 30 basis points decrease.

Q - Giovanni Razzoli {BIO 7269718 <GO>}

Thank you very much for the clarification.

Operator

Thank you. And your next question comes from the line of Manuela Meroni from Banca IMI. Your line is open.

Q - Manuela Meroni {BIO 1782610 <GO>}

Yes, hi. Good morning. Again on the capital gains, I'm wondering if you still have capital gains in the Financial Services division out of the net capital loss on that (inaudible) of EUR3.1 billion. And I'm wondering if you expect the total adds to further capital gains, within the end of the year? The second question is on the cost. Cost increased by 2%, mainly due to the non-HR costs. I understood that this evolution is mainly related to the business group. So I'm wondering, how much of the non-HR cost can be considered as a variable related to the evolution of revenues and business?

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

I can take the first question again on capital gain. Yes, the answer that we have a portion of the portfolio that has underlying bonds that has a capital gains of above EUR1 billion as of the end of March 2019. And in terms of how much capital gains, we are planning to bring to the income statement for the rest of the year is very limited. Yes, so we are basically confirming the guidance also the capital gain targets we gave in February. On non-HR costs, I hand it over to Guido.

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

Yes. So -- and I can confirm that a large majority of the EUR37 million, which we showed as a variable cost increase, is part of the increase in revenues and I can tell you that the majority of these increase is related to Mail & Parcels, actually Parcel and to the payment of the cards in particular.

Q - Manuela Meroni {BIO 1782610 <GO>}

Thank you.

Operator

Thank you. And your next question comes from the line of Anna Adamo from Autonomous Research.

Q - Anna Adamo {BIO 16893946 <GO>}

Hi, good morning. I have two questions, please. Firstly, just a clarification on the solvency ratio on Slide 15, where you showed the evolution of the SCR. Can you explain why the underwriting risk has come down, as a result of higher unrealized gains. I don't quite understand the link between the two? And then the second question is just a clarification on the early retirement incentives, how much do you expect to book in Q4? Thank you very much.

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

Yes. I'll let Guido take this question.

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

Thank you. Yeah. So I hope I understood correctly your point. But as we said, we had a -- what relates to the just solvency capital requirement, we had -- the largest part of this component was higher market risk and that component you should consider and this is the one I would point you to as the most relevant is that with rates where they are, the value of the optionality embedded into the fact that most products are capital guaranteed, increase the risk related to this optionality and therefore, they increased.

I would also point you to the fact that the SCR requirement is actually not extremely high, because it's -- it is compensated by some of the performance that we on the asset. So there was another question as well on the early retirement. What we can say on early retirement is that -- again we confirm the guidance for the year, but the -- and then as I said, most of the effect will be done on Q4. So you will not see in the next couple of quarters much of the number. Everything will be done -- so everything we disclosed in the Capital Markets Day for year-end will be done at Q4, which is EUR0.6 billion.

Q - Anna Adamo {BIO 16893946 <GO>}

EUR 0.6 billion?

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

Yes.

Q - Anna Adamo {BIO 16893946 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions) We do have another question come through, sir, and it's from the line of Ashik Musaddi from JPMorgan. Your line is open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, this is Ashik here again. I mean, just a couple of more questions if you can help me. I mean, the net flows were pretty strong this quarter again and in the insurance you got around 1.5 billion flows. So if I like do a times four of EUR6 billion, which is around 5%, 6% annualized number. So is that a run rate that you think you will be comfortable with going forward as well?

Because 6% growth in insurance net inflows is pretty impressive and given that you are shifting towards the multi-asset, I think, the margin pick-up would be nice as well. So that's the first one. And secondly is just on the card and payment business, I mean, these businesses continue to perform well. If I look at all the numbers, it is tracking double-digit growth. So has anything changed versus the Investor Day? Or we are more or less -- you are experiencing more or less the same trend? So these are difficult questions. Thank you.

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

Yes. I will get some support from Andrea on that inflow but -- and then Guido for payments. But -- let me emphasize one point that I think, probably has not come across meaningful enough on this call. On the net inflow, you mentioned that we increased the multi-asset distribution. And as a matter of fact, if you look at the figures, we have sold EUR1.9 billion multi-asset in Q1 of 2019 versus EUR140 million in 2018.

I mean, we are talking about a EUR2 billion increase the quarter, almost that if you multiply for the rest of the year is having completely changed the basically distribution firepower of our insurance and risk product from Q1 2019. The 32% figure we mentioned of total Life products in multi-asset, which was basically the objective of -- and of Deliver 2022 plan that we announced in February 2018 has been reached this quarter. And this will have also an impact growing -- a growing impact over time also on solvency because we are selling liabilities, with less capital protection. And this we have implemented very strongly. On the figures, Andrea, I think, this was a very positive quarter, but I'll let you comment on the outlook for the rest of the year.

A - Andrea Novelli {BIO 15185958 <GO>}

Yes, thank you, Matteo. Actually, just to give you some color as we disclosed in the presentation on Page 13. In the first quarter, we normally have a very strong seasonal effect in deposits from public administration. So you cannot of course project this amount 4 times to get to the annual net inflow. So you will see this effect in public administration deposits then coming down in the remaining quarters. Whereas, as I mentioned earlier and also as the CEO has confirmed, we are still seeing a healthy and positive path for retail deposits and the other retail products, such as life insurance.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Okay. That's clear. Thank you.

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

Sorry, Ashik, before I take your question, I wanted to rectify what I said to Anna, which I was referring to EUR0.6 billion, as a year-end number for early retirement, I was actually thinking about 2018. The number for the year, we confirm is 0.5% -- sorry, EUR0.5 billion. So on business -- payments of business, if I understand your question correctly, the growth is in-line with what we expected also in terms of seasonality. As I said before in my speech, the progression of the -- especially of the Postepay Connect, is working out exactly, as we expected because you have to bear in mind that the commercial actions. And therefore, all the advertisement just started this year, so we had an acceleration there, which again was planned, because it was planned at the time of the commercial actions and the advertisement. So I wouldn't -- obviously, we don't change the guidance and we confirm that as something achievable.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thank you.

Operator

There appear to be no further questions at this time. Speakers, please continue.

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

So thank you, everybody. And as usual myself, the CFO and Massimiliano Riggi, Head of IR, are available anytime. Thank you, bye.

Operator

Thank you. That does conclude the conference for today. Thank you all for participating and you may now disconnect.