FINAL

Bloomberg Transcript

Y 2019 Earnings Call

Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Frederic de Courtois, General Manager
- Giulia Raffo, Head of Investor & Rating Agency Relations
- Jean-Laurent Granier, Country Manager For France And Chief Executive Officer Generali France
- Marco Sesana, Country Manager Italy & Global Business Lines
- Philippe Donnet, Group Chief Executive Officer
- Timothy Ryan, Group Chief Investment Officer

Other Participants

- Ashik Musaddi, Analyst
- Elena Perini, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Johnny Vo, Analyst
- Michael Huttner, Analyst
- Niccolo Dalla Palma, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Generali Group Full Year 2019 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be opportunity to ask a question. (Operator Instructions)

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

Giulia Raffo {BIO 21037091 <GO>}

Thank you very much, and welcome all to Generali Full Year 2019 Results Conference Call. Here with me, I have our Group CEO, Philippe Donnet; our General Manager, Frederic de

Courtois; and our Group CFO, Cristiano Borean.

Before we open the Q&A session, I would like to hand over the floor to our Group CEO for some introductory remarks. Thank you all. Philippe?

Philippe Donnet {BIO 4657671 <GO>}

Thank you, Giulia. Thank you. Good morning, everyone and welcome to the presentation of Generali's 2019 financial results. 2019 was a very important year for our Group as it marked the beginning of the execution of Generali 2021, our three-year growth and transformation plan.

But before we go into closer details on these very strong set of results for the year 2019, and before we open the Q&A, I first would like to address an issue that is obviously on everyone's mind, I'm talking about the COVID-19. The outbreak of COVID-19 and the uncertainty affecting the communities we operate in around the world, as well as the market environment make this particularly challenging situation for all of us. Our number one priority was to take action as soon as the crisis started emerging, with main focus on the health of our people, whether they are employees, agents or business partners, and on our service continuity. We have put in place technology and processes that allow the majority of our employees to work from home, making sure we can guarantee the continuity of all our operations maintaining our full product offering and client service levels.

And within this context, the work already done to transform Generali into a more resilient and digitally steady company puts us in a good standing in the current environment, both on a financial level, as well as on an operational level. Generali is definitely a very sound and solid group, and our 2019 results are further proof of it. Our clients can continue to rely on us, and we will continue to offer them the best possible protection, not only today in this time of emergency, but also in the future.

Finally, let me give you four key messages with regards to the 2019 results. First, we achieved a record operating result of EUR5.2 billion, a strong growth in terms of our normalized net result at EUR2.4 billion, 6.6% higher than in 2018. Second, despite the persistent low interest rate environment, we further strengthened our capital position with a solvency ratio of 224%. Third, as a result of these achievements, we will propose to our shareholders a dividend per share of EUR0.96, up by 6.7% from last year. Fourth, these results allow us to move closer to the delivery of Generali 2021 targets, and to be fully on track to achieve Generali 2021 ambition.

Thank you for your attention. And now together with my colleagues, we are ready to take your questions.

Questions And Answers

Operator

Excuse me. This is the Chorus Call Conference operator. We will now begin the question-and-answer session. (Operator Instructions) The first question is from Nick Holmes with Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, guys. Thank you very much. Just wanted to ask a couple of questions. First is, kind of, overview one. What would you say the main difference is between now and the financial crisis? Are you much more confident about solvency and ability to weather a downturn?

And then the second question, I was looking at credit deterioration. How concerned are you about that? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you so much. I will pass it on to Philippe for an introduction, and I think, Cristiano will follow up.

A - Philippe Donnet {BIO 4657671 <GO>}

No, go ahead, Cristiano, we'll take the question immediately.

A - Cristiano Borean {BIO 15246531 <GO>}

So Nick, good morning. Regarding the differences of the previous crisis compared to this one, I think if I understood your question, the solvency is the new framework compared to 2008, if my understanding is correct, and how this is helping. I do think that the improvement in all the enterprise risk management practice and the understanding of the weak point or the risky point in each single company allows to have a much more disciplined approach towards the structure of our business, the risk-taking decision, being insurance, clearly a risk-taking decision per nature. And I think this is giving more discipline in the way we are managing the Company compared to what I could see in a previous crisis, which I've seen in my beginning of career here in Generali.

And second question regarding the credit deterioration. Okay. I would like to stress that we did a huge diversification of our investment, also in not only the classical corporate bond part, we are diversifying also in alternative fixed income part, and diversification and dispersion is very important exactly in the context of the risk management of our book.

I do recall that we are also expected credit loss limit in the way we are managing our credit portfolio, which are given to our investment asset manager, and they have to manage this risk budget in a coherent and consistent way. And I would also like to stress that our credit exposure, if we compare it to the actual EIOPA, the last EIOPA portfolio, was a little bit lower, and maybe I anticipate a question. This is explaining but a little bit cumbersome movement on credit spreads sensitivity that you can have because we have a movement on the discount factor of liabilities, which is giving better benefit than the one we can see on the asset side, and this also explains the sensitivity. Hope I gave you the answers.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you. Yes. No, that's very useful. Just a very quick follow-up. The market collapse, which is obviously very severe at the moment, how worried are you that it will kill the unit linked recovery that we've been seeing?

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

This is Frederic speaking. Now first, we've seen good performance last year on unit linked, especially in France and Germany, and we've seen a good recovery in Italy in the last quarter. The beginning of the year, so January and February, has been strong on this in all our geographies. So I cannot tell you yet what will happen exactly on this. You are right that client probably will be more risk adverse, so we will probably see an impact on unit linked.

We have some solutions on this. I mean, I think we have now a very good unit linked range. We have also solutions, especially on -- in Italy on the fact that clients invest in general account, and then we automatically progressively invest in unit linked, which for clients who have invested, for instance, last year, is a very good solution, if we look at the market. So we have some solutions, but still, I cannot deny that we may see an impact on the unit linked due to the market volatility.

Q - Nick Holmes {BIO 3387435 <GO>}

Great. Thank you very much.

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

Sure.

Operator

The next question is from Peter Eliot with Kepler Cheuvreux. Please go ahead. Mr Eliot, your line is open.

Q - Peter Eliot {BIO 7556214 <GO>}

Sorry, can you hear me now? Hello.

A - Giulia Raffo {BIO 21037091 <GO>}

Yes, we can hear you.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. We can hear you.

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah, sorry about that. I guess on a similar topic, but on the liability side, I mean, obviously, our thoughts are all with -- on the human cost, but in terms of the -- wondering if you could sort of -- on the prospects you see for claims as a result of this, where you see the risks arising? And maybe even whether or not you have exposure in those areas?

And the second question, I would appreciate these are volatile times, so it's probably not top of mind at the moment, but I was just wondering if you could confirm how much of your M&A budget remains? What prospects do you have or maybe had on spending that? And at what point you'd reconsider its use if opportunities weren't available? And I guess, in particular, you're signaling ongoing capital management actions as being possible, leading to higher remittances, so it seems you've got a lot of optionality. And I'm just wondering how you think about that at the moment?

And if I can, I have a third question on asset management. You mentioned some one-offs on revenues, and you mentioned some investments in startups, increasing expenses. I'm just wondering what do you think of the sort of underlying result there as you strip out those effects? Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. Thank you, Peter. I'll pass on to Frederic for the claims question. And then I'll ask Philippe to address the M&A question, and then Cristiano on the asset management.

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

Hi, Peter. So on the impact of these crisis and claims, the first answer, and I will make it more detailed, is that this is broadly neutral. Let me tell you more on this. If I look at specific issues that you heard of recently, so first, we have zero exposure on event cancellation. So this is not part of our underwriting policy, so we don't underwrite this type of business.

Second, on business interruption, we have a close to zero exposure on business interruption, which covers this type of event. So they're totally unsignificant. Then a third topic on which we have more exposure is, of course, travel, which is a business of Europ Assistance. And here, the travel business will be impacted, of course, as you can imagine, this is a relatively significant for Europ Assistance. But this is, I would say, unsignificant at the Group level.

The fourth point and the last comment is more a question mark, on the motor business, we believe, and we have some first signals over the past days, that it may have a positive impact on the motor frequencies because people, of course, drive much less. This is a bit early to say, but I would say we believe that we'll have this positive impact. So that's why the conclusion on all of this is that we don't expect any significant impact on our claims experience.

I'll leave the floor to Philippe on M&A.

Q - Peter Eliot {BIO 7556214 <GO>}

Actually, sorry, could -- if I could just very, very quickly, follow-up on that. I mean you mentioned business interruption, zero exposure for this type of event. I'm just wondering when the governments get involved and locked down, and then maybe the cause could be attributed to the government shutting down events rather than the original cause and just there's no scope in the things for that?

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

We don't believe it will be the case. But again, we are going to monitor this.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you.

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

Philippe on M&A?

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. Yes. I would like to add something on the claims because as people are staying home, the risk of burglaries is down to zero, so this is another good news on the claims.

Yes, on the motor insurance, he said it, they are not driving and they stay home. So definitely, many risks are close to zero. Having said that, on M&A, we already invested around EUR1 billion, a bit more than EUR1 billion on a few targeted acquisitions, fully in line with our strategy. May I remind then, the main one was -- which was closed at the beginning of this year was Portugal, which makes us the second player in Portugal on the property, casualty business. The amount was EUR600 million.

And then we made a few smaller acquisitions; TripMate in the US; Union Investment in Poland; Concordia, in Poland; and Adriatic, Slovenia. We also acquired physical controlling stakes in Sycomore in France. So this is what we achieved in terms of M&A.

When you look at our strategy overall, as of today, I do not see any reason to change dramatically, our strategy. Our strategy is still very valid. It's a very solid strategy, and we have no reason to make significant changes. Definitely, we will update this strategy when needed because, obviously, we are facing a very specific situation with, I would say, the health crisis on one side and its impact on the financial market.

I would not say it's a financial crisis. We can see the impact on the financial market of the health crisis. So it's something really different than before. So definitely, as always, we will remain very conservative, very cautious, very disciplined, very prudent, but it doesn't mean that we are going to do nothing because doing nothing is not being cautious, is not being prudent. We need to move, we need to be disciplined and opportunistic. So as always, we will be disciplined and opportunistic.

I think that in the next few weeks, we will maybe redefine the priorities on M&A, probably, we will be probably very, very selective, as we have been in the past, we continue being very, very selective, and we will move on, we will move on. And we always said that we have no pressure on this. On M&A. We will do M&A if it helps accelerating the plan, the implementation of the plan. If we don't find good parties, we always say that we would find other solutions.

I will let the team comment on asset management.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, good morning, Peter, and thank you for your question on the asset management side. So on the startups, we have today moved within four startups. The last one that has been approved by the regulator has been the 360 in Italy. The plans we have on all the startups are within what we expected them to do, and actually even faster. So our first startup has been the Generali Global Infrastructure.

We start to have a very good pipeline of clients. And at the end, those startups altogether represent less than 10% of the operating results today. But we know it's a long tail because it's very important to be disciplined as well on the clients' intake as well as the cost management. So we keep our guidance to say we want, overall, not just on startups, overall, our cost-to-income ratio on the asset management to be below 55%. This is a discipline and the startups are also within that discipline. Obviously, we have to invest a bit more. But as you know, by doing this, we also create shareholder value over time.

So that's my answer to your question.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thanks very much.

Operator

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

Q - James Shuck {BIO 3680082 <GO>}

Good morning, everybody. So my question is, to begin with, firstly, around liquidity situation. So I think you referred to a strong level of Group liquidity. Could you be a bit more specific on what that number is and how do you manage it within certain target ranges? And then linked to that, when you think about the outlook for 2020, remittances from the local operating units, do you see any possibility you needed to inject cash back down into the -- in those operating units? That's the first question.

And then secondly, the normalized operating capital generation of 18 points. As we look ahead over the next year, you'll probably sell fewer life and business value contributing towards that -- the other headwinds impacting the expected profit in particular. Can you give a revised guidance for 18 points of operating capital generation, please? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

James, thanks for your question. I'll ask Cristiano to answer those, please.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, James, so regarding your first point, liquidity situation, if we look at the year-end '19, you can see in our accounts that we have more than EUR3.5 billion of cash invested either in bank accounts or investment on market funds in the head office, and this gives us a very solid and strong position. Going into the 2020 evolution of it, we are progressively cashing in the remittances of our operating entities in these days and in the next weeks, and this allows us to stay in a very strong liquidity position.

Regarding the guidance for 2020 and the capacity of having the Company deploying their cash and capital plan, we do confirm that our main operating entities are well capitalized and in line to pursue the strategic actions. We are, as I recalled you during many times starting from the Investor Day, we are accelerating our capital management capabilities and actions, which allows us another lever to increase the capital fungibility around the Group, which is clearly very important for the objectives we set.

Regarding your question on capital generation and the guidance, well, first of all, I recall you about 18 percentage points of capital generation are well solid and are done in the context of very low interest rates, which is still continuing down.

I would like to recall you that the -- we had a lot of actions in our portfolio. We continuously repeat that we are acting on liabilities. We were very proactive, for example, in France, on what we did to, let's say, steer the collection and bring it more on the unit-linked side, and last quarter confirmed that. We are still changing features of our products and the collection of our products in Italy. For example, savings, you can expect more than 20% weight of total present value new business premium with only that benefit, which is a little bit much less sensitive -- much more less sensitive on interest rate in the market.

It is clear that a lower interest rate environment is bringing a little bit of more pressure on the new business value generation. But this is quite counted in the next year part because don't forget that within the capital generation, there are other elements, among which in the holding part, there will be the whole benefit coming from the deleveraging we did, which you account for EUR100 million less cost of interest of our debt, which will be in the book of 2020.

Having said all that, this brings us in a situation that we can stick to try to keep at the best level our capital generation, and the volatility around this has not been expected too high. Hope I gave you the answer, James.

Q - James Shuck {BIO 3680082 <GO>}

Yeah. Well, yeah, I'll just -- if I could just quickly return to the liquidity point, because I think you have EUR3.5 billion of sequential [ph] liquidity, I don't really have a feel for a target range on that. And listening to what you're saying on the operating units and remittance outlook, you don't seem to be indicating that there's any more pressure on getting those remittances up in 2020, given what's happened year-to-date and the impact of local solvencies.

A - Cristiano Borean {BIO 15246531 <GO>}

Well, James, it is important to know that what we are doing is exactly managing the decision on all sides of the balance sheet, asset, liabilities, in order to manage the good equilibrium of the business. And this is allowing us to manage the situation coherently. All the changes we did in the past with the liabilities is bringing us in a situation of transformation and further reduction of our average guaranteed rate in the books.

Having said that, the increased fungibility among the Group is allowing us to move the cash and the capital from the extremely capitalized companies back to the head office in a much more efficient way than in the past. And this is an advantage factor that we can play in this moment. And don't forget that each single business unit, the major one, as they are also the buffer of capital exactly to manage uncertainties.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

Operator

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

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. Thank you very much and congratulations for standing for the caravan in these difficult times and giving us extraordinary numbers. And I have three questions. The first one is, I saw a headline, but I may be completely mistaken. I'm sitting at home and my view of the market is very, very limited, about a change in the treatment of the Italian BTPs as regards solvency. And I just wondered if you could maybe discuss this and maybe give a feel for what possible buffers the regulator might introduce, not so much to help you, but to help you with some of your local peers.

And the second one is on the cash, exactly as James asked, I wondered if -- I saw in the slide, it says 15% of the cash is capital management and that's sustainable, and I thought, that is very nice. Well, I just wondered, maybe there's a mix, which we are not aware of, which would come from the various deals you've done. Maybe you can discuss that. And then third point, given all this, and here the gains are so completely crazy, but the dividend growth is lovely, but maybe little bit more? Could that be on the card for next year? I know this year, the first year, you're still, you're kind of moving into the new plan and everything. But maybe the growth in dividend, maybe a touch more next year just to reflect what's underlying on extremely solid numbers? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you, Michael. Sorry, can I ask you a favor? The line was a bit --

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah, I know. I'm calling from my mobile, (inaudible) I'm sitting upstairs, so all I could do is maybe e-mail, but I can't do anything else.

A - Giulia Raffo {BIO 21037091 <GO>}

No. No, it's okay. So just to make sure, on the first question, you want to know about the VA, like the country-specific VA adjuster?

Q - Michael Huttner {BIO 21454754 <GO>}

Yes. The Italian BTPs.

A - Giulia Raffo {BIO 21037091 <GO>}

Yes. On the second question, you just want some clarity on the capital management component within the remittance from subsidiary?

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah.

A - Giulia Raffo {BIO 21037091 <GO>}

Then the third question, I lost it also, if you don't mind to repeat the --

Q - Michael Huttner {BIO 21454754 <GO>}

The third question was just saying, is there any chance that you could increase the growth of dividend going forward? I understand this in the first year of a three-year plan, maybe going forward given the strength of the results, there maybe some more flexibility.

A - Giulia Raffo {BIO 21037091 <GO>}

Sorry, on the last question, in terms of giving five-year target and -- or the dividend --

Q - Michael Huttner {BIO 21454754 <GO>}

No, no, no, the dividend.

A - Giulia Raffo {BIO 21037091 <GO>}

Oh, the dividend. Okay.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah, the dividend.

A - Giulia Raffo {BIO 21037091 <GO>}

Okay. Cristiano, if you want to start?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. Hi, Michael, welcome back. So first of all, thanks for asking me the question on the BTP because if we just look what happened in these days, there is a lot of interesting things we can say about the new treatment of the so-called country-specific volatility-adjustment level, which in the past was set at 100 basis points and it has been changed to 85 basis points by a regulation and will be applied from 2020 going forward. This means that as of today, actual condition, that level of country-specific VA would have triggered. And what does this mean for Generali and -- for also Italian operation, but especially also for Generali Group sensitivity towards BTP?

As you remember, we discussed throughout 2019 that when this country-specific VA pops in, you basically halve the sensitivities on the opening of the spread. So which means that starting from now, the sensitivity to further spread opening of the Italian BTP of the Generali Group is halved compared to the year-end sensitivities. And this is also bringing a good level of satisfying as well as capital buffer on the operations on the specific Italian country business unit as well because it's supportive. So this is the first question.

On the second question, fair point, 15% of capital management component in the ratio of IFRS result -- total remittance on IFRS results. The point is related to the fact that we are still working to minimize the excess tangible capital which is available to be remitted in the head office. What we are doing in a certain sense, going forward, is that this figure should not decrease in the mid-2020. And this is very simple because, first of all, this is a three-year plan. And second point, this is, in a certain way, a tool to improve the capacity of the Group to create shareholder value because we can extract higher capital from lower return on equity entities and the redeploy at head office for growth or derisking on the liabilities as we did on the debt. And keep in the growing entities or growing geographies strategically aligned with our Generali 21 Strategy, the growth, retaining the earnings to support the growth. So allow me to say that this is an efficient use of excess capital of operating entities to increase the future capital redeployable in the growing entities. Hope I gave you the answer on this point.

Q - Michael Huttner {BIO 21454754 <GO>}

Maybe you can give it -- the name of a country, I'm pushing my luck here, but maybe.

A - Cristiano Borean {BIO 15246531 <GO>}

The excess capital is always concentrated in our main European entities, so you have to focus on the European entities. And even the contribution of this year has been concentrated among Italy, Germany and France. But you could expect going further that we are expanding capital management figures also to our operation which are in Austria?

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Philippe, over to you for the dividend.

A - Philippe Donnet {BIO 4657671 <GO>}

Okay. So we defined, when we announced our Generali 2021 plan, we defined the trajectory for dividends, which was to grow steadily the dividend and to make it more and more sustainable, which means to steadily decrease the payout ratio or keep it in a range. This is exactly what we've been doing in 2019 because our dividend at EUR0.96 has been growing by 6.7% compared to the previous year, fully in line with the growth of the normalized earnings per share. And in the same time, we've been able to decrease the payout ratio compared to 2018, and the payout ratio is fully in line with the range we decided.

So now 2019 is perfectly in line with the trajectory we announced for the dividend. I see no reason it should be different next year. I mean, obviously, we need to grow the earnings. Obviously, we need to still have a capital, a stronger capital position. But as we said, we -- our capital generation is strong. Our business is solid. Our portfolio is very resilient. So I see no disruption in the dividend trajectory. And I think that also on the dividend, we will -- we confirm the targets of the plan.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you so much. Thank you.

Operator

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

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Good morning. Just a couple of questions again on the remittance. So clearly, we can see that 15% increase. But as you said, Cristiano, it's coming from your major entities. So Italy, yeah, it's been benefiting from the country-specific VA. But certainly, France is going to be impacted by the lower rate environment. So should we really expect the level of capital management action to produce the level of remittances that we're seeing this year? Or should it come down a little bit?

Just also on a local basis, in terms of Italy, are you applying the standard formula to BTPs in terms of capital charge? And the final question is just in regards to zero maturity guaranteed business. Given that rates continue to drop, can you adjust those zero maturity guarantees to negative guarantees? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano, all for you.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. So, hi, Johnny. First point, should we expect remittance at the level of year-end 2019, also in 2020. Yes, simply because as we said, there are pocket of capital, not only in life entities, there are also non-life entities, and there are actions to increase capital feasibility and cash flexibility, which are allowing us to pursue the journey. Clearly, if you said that, this is benefiting also from the country specific VA, it is a potential point, but we do not manage for, let's say, this kind of sticky point or not, digital yes or no activation. We are managing in our capital plan without this activation, just for your information, which is I think relevant for you. We are keeping a very prudent approach transforming the liabilities.

And maybe I can join to the point of what is still happening in Italy and the new production now goes basically all in -- at maturity guarantees and with a huge component with -- even without it, as I said, with only that benefit, which is definitely supporting profitability in such a complex world, because this is what you said it is true, complexity is much higher, you've seen from sensitivity. But this is notwithstanding the tangible excess capital that some units have. So going forward, the guidance for 2020 is still capital management, at this level if not higher because of the already planned and underway actions. And going forward, I will confirm that you will see a rebalancing in the future even outside the 2021.

Related to the capital charge for the BTP standard formula, one thing is what you apply at the group level, another thing is what is applied locally from the entities, which do not apply a specific charge for the BTP as required by the local regulator.

The third point if I understood well is the zero maturity guaranteed business for Italy. Did I understand well?

Q - Johnny Vo {BIO 5509843 <GO>}

Yes.

A - Cristiano Borean {BIO 15246531 <GO>}

Yes.

Q - Johnny Vo {BIO 5509843 <GO>}

And other markets.

A - Cristiano Borean {BIO 15246531 <GO>}

Okay. I hope I anticipated, Johny, in the first answer. The zero maturity guarantee are the full amount of production basically of 2020. Already, it is more of 95%, we are basically close to 100%. And among this, there is without guarantee, a comprehensive product plan change foreseen in Italy, which is bringing more weight to the debt only guarantees, which for your information is bringing a very good relief. Also when you measure the new business value of this product, because absorbs much, much less capital. And this is part of the commercial strategies, which is underway in Italy. Clearly, the low rates we are observing are bringing overall down the new business value for market sensitivity, but sensitivities you have them in their own funds and in new business value gives the supplemental information and then it's pure mathematics you can make it, okay.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Brilliant. Thank you.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi everybody. Thank you very much, and I hope you're all keeping well as well. Just three questions. Two which are very quick. So firstly, the quick question. So why have you had such a big jump in acquisition cost in the Life business. Can you talk about the products and the countries?

Secondly, what proportion of your unit linked book is in equities. So is there actually quite a lot of fixed income in there. Just to get a sense of the mark-to-market you have today on that book?

And lastly, what provisions do you have for being able to sell remotely? So, obviously, a larger portion of your business in Life anyway is agent driven, it requires advice. I don't know you've been investing in technology. So I was wondering if you do have a period of extended or lack of ability to have those face-to-face meeting, what are you able to do to offset that? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Farooq, it's Giulia here. Sorry, just a follow-up for me. I understood the first question, which is about the acquisition cost increase. Can you please repeat the second question on the unit linked?

Q - Farooq Hanif {BIO 4780978 <GO>}

Second question was what proportion of your unit-linked investments are in equities?

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. And then the --

Q - Farooq Hanif {BIO 4780978 <GO>}

And the third question was --

A - Giulia Raffo {BIO 21037091 <GO>}

Yes.

Q - Farooq Hanif {BIO 4780978 <GO>}

And how you can -- if you don't have face-to-face meetings, how you can sell remotely?

A - Giulia Raffo {BIO 21037091 <GO>}

Okay. Thank you very much. Cristiano, do you want to start with the acquisition costs?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes. Hi, Farooq. So acquisition cost growth is explained by the -- first of all, by the strategy skewing the Life -- you refer to Life acquisition cost. So referring to the skew to production on unit linked and protection. As you know, protection is being very profitable. It has higher acquisition costs and as well unit-linked. And part of this is also supported to add the commercial push for this. And then there are other minor effect, which are increasing the expenses. One of this is relation on the fact that due to the reorganization in Germany, we have a huge power of distribution, which is growing at a very fast pace the premium, but had -- within this agreement a renegotiation of the acquisition cost, the scheme with our partner called Deutsche Vermogensberatung, DVAG. And then we have as well a small effect related to the new IFRS 16 accounting on the so called leasing contracts part -- for the part of the amortization.

A - Philippe Donnet {BIO 4657671 <GO>}

As it concerns the unit-linked side, Farooq, thank you by the way for your comments on the -- we are all safe and working very well and very functional. So I appreciate that. So just to tell you on the unit-linked side system, today when you look at the composition of the biggest exposure we have directly, indirectly to 6,000 funds that we have internally or externally. The ratio we have of equity is between 35% to 40%. Why we have this range is, because we also have multi-asset products and I'm including the exposure of those managers that are actually investing both in equity and bonds and others, but this is the reason why we have a range. So we monitor that in a very important way.

What we -- in that number, what I don't include is the structured product side, because structured product have a guarantee on some kind of protection. And there are, obviously, some equities exposure, but that again is different from -- I think your question is to understand the mark-to-market. So 35% to 40% is the exposure of all of the group.

Q - Farooq Hanif {BIO 4780978 <GO>}

And quickly on that, what is the credit exposure? So if we're trying to mark-to-market, obviously, you've had massive widening. I just want to understand how much of the remainder is credit based and will be impacted by spreads.

A - Philippe Donnet {BIO 4657671 <GO>}

Most of the exposure after that is fixed income, mainly on government bonds and credit is based more especially on the higher side. So it's fairly small. And what we see in credit, if you look at investment grade, year-to-date the income, as I said, the spread widening on the higher end of the credit quality. So I think this is not where we're going to see movement, it's going to be more on the higher side but which is quite small.

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

I'll start on the third one and then I'll give the word to Marco Sesana, Generali Hong Kong, GM [ph]. So Farooq, first, this is true that we are mostly an agent company and we believe in agents. And I think our sales figures over the past years give us rising fees. And we've seen that here again that we had a very strong sales momentum in other countries. However, we are not only an agent company. What we like is to manage the client relationship. So our strategy in Generali is to manage the client relationship. You can do it with the agents, of course, but you can do also with direct operations and you know that we have strong direct operations. We have strong direct operations, especially in Germany, in Italy, in Central and Eastern Europe, in Portugal, in Turkey and in Argentina. So this is also something we develop and this is also part of our strategy. I'll give the word to Marco first.

A - Marco Sesana {BIO 20490752 <GO>}

Yes. Thank you, Frederic, and thank you for the question. And thank you for the -- so we are all safe. And in Italy, we are still operating. We have a functioning company. So I just want to say that we are really active across Italy. So we have been investing a lot in this -- over this year to make sure we can support the relationship with digital tools, with every process that can be remote or not face-to-face as much as can be leveraged face-to-face and together with the client.

We are making sure our agent network is leveraging the tool. Of course, given the situation it's going to take some time for the agent to -- I would say to mentalize themselves on a new type of relationship, on a new type of action that they need to do, but they have the tools. Some of them -- what is still missing, which is I believe very marginal, it's going to be released between this week and the next week. I'm really confident that our sales force, whether it is direct, indirect employees, agents will leverage the situation to make sure we stay close to the client and we make them understand that we can have a relationship even during this time. So yes, so I would -- I'm confident that we will use these tools that we provided to the network. And of course, I would love to have more time to share war stories and field story with you that are happening. There are amazing story that are going on right now. I am -- for the sake of time, I will not go into that, but just -- I want to let you know that we are active with the client.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's really kind. Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Jean-Laurent?

A - Jean-Laurent Granier {BIO 16455071 <GO>}

Yes, good morning. Thank you, Farooq, for your question. This is Jean-Laurent Granier, CEO of France speaking. I mean -- in France, we have a very, very diversified distribution setup working with not only with agents and proprietary networks, but also with a lot of brokers, which means that we are able to reach customers by very different means. We have had a very strong stage momentum since the beginning of the year in January and February. And as far as our proprietary sales force are concerned, we have equipped them with electronic, financial and the type of things that will help them to work remotely.

Also, I want to mention that, we have a strong portfolio dynamic in P&H and P&C, which means that we can afford to have some instability in terms of the appointment with the customer for some weeks. So, overall, I mean playing diversification will protect, I think, our business activity in our top line. Thank you.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question please.

Operator

The next question is from Elena Perini with Banca IMI. Please go ahead.

Q - Elena Perini {BIO 4202240 <GO>}

Yes, good afternoon. I've got three questions. The first one is about your levers to face the current difficult environment. We have just talked about Italy and your strategy to continue your business despite -- because the coronavirus. Then, I would also like you to elaborate something more on costs. Are you able to confirm your targets for 2021 as you stated in your press release, also due to the fact that you have a greater flexibility on costs.

And then the second question is about the possibility which was mentioned by the press this morning that the government here in Italy decided to suspend the payment of the motor insurance policies. What can you expect -- could be the impact for you if this is the case. And then coming back on the figuring of the VA with the new rules. Have I understood correctly that your sensitivity has -- so you mentioned approximately 15 percentage points in your Slide number 38, so we can expect about seven or eight percentage points? Thank you very much.

A - Giulia Raffo {BIO 21037091 <GO>}

Elena, sorry just to clarify, so you have three questions. One on costs and whether we confirm our target on cost reduction. Then you have the second question on the motor TPL for the suspension of premium. And then, you have a final question on the VA sensitivity in terms of country VA for BTP. Is that correct?

Q - Elena Perini {BIO 4202240 <GO>}

Well, for the first one, actually I would like you to elaborate on the confirmation of your target. So even with a different mix, so lower revenue but also lower costs, so a higher cost reduction versus our current targets. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

I'll ask Frederic to answer your first question, and then Cristiano will take the one about the VA and our CEO of Italy can answer on the motor TPL. Thank you.

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

So, Elena, on your first question, so in fact on the resilience of the business. So as you've seen, we've confirmed the target of our plans first. If I try to explain it a bit more especially on the operating results. So before I have explained on the claim side that we expect resilience on the claim side.

Then the second topic is about the impact of potentially lower sales. So we had -- as we said we had very strong January and February. It is fair to expect lower sales in the coming weeks in Italy and in some other European countries. Here I think we should clearly understand that for us the result is made on the in-force. And to have lower sales will not impact our operating result, especially as we have a very conservative approach on deferred acquisition cost. So I would say on the contrary, in some cases, if we had lower sales, it will improve the accounting results. So we are not -- absolutely not worried on fees, and we will manage the situation.

We only -- and this is the third point on the operating result. Of course, the impact of financial markets on the stock of unit-linked and asset management will have an impact, but I would say, it's normal volatility on this kind of business. So in a nutshell, we are confident to confirm our targets and we believe that our operating result is extremely resilient. Of course, on the asset side of the balance sheet, it will depend on how markets evolve over the coming months. First, of course, we will have impairments, but again, it is important for me to confirm first our targets and second the resilience of our operating results.

On the second point on costs, you may have seen that we reduced cost in our mature entities by EUR100 million during the first year of our plan. You remember that the target is EUR200 million over the three years plan. So we could say that we are slightly ahead of the plan and it makes us confident that we will achieve the EUR200 million target for mature markets.

I give the word to Marco on MTPL.

A - Marco Sesana {BIO 20490752 <GO>}

Yes. So thank you. And I would say -- so we need to see the type of measure that the government will implement. It's not only MTPL there might be other measures. At the moment, we don't have full visibility of what is going to happen in the next weeks. Nevertheless, if it's a suspension of the MTPL payments, I believe it's going to -- it's not going to have a big impact on the -- on our results. It's going to -- can be marginal, because over time, we will recover these and we'll make sure that renewal after renewal it's going to come anyway over time. So I don't see any big issue on this topic.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. And now, Cristiano for the country VA.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Elena. So there is for sure a mitigation of the BTP plus 100 bps sensitivity with the activation of the country-specific VA. The extent of this litigation is very volatile clearly, because it depends also on the movements of the other factors, for example, the corporate strength. That's why I would say broadly what I was saying before, it is in that range, but there is some, let's say, volatility around this figure, because there are other factors that are depending. So it's clearly a day-by-day change as you can understand. But what is the main message is, it is broadly what you observed by the end of '18 and having a much less sensitivity towards this movement. That was a key sense of the message. Hope I clarified.

Q - Elena Perini {BIO 4202240 <GO>}

Okay. Thank you very much.

Operator

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

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Good afternoon everyone. A couple of questions for me, mainly on the funds report. Firstly, on the P&C side, you showed that the PVFP [ph] -- the basic PVFP has fallen from EUR4.2 billion last year to EUR3.6 billion. I just wondered if there was any specific driver of this. Looking at the regional breakdown, it seems to be the same as last year, so probably nothing specific, but just checking here.

And secondly, looking at the French Life new business, the IR was at 10% for last year overall. You have been mentioning today and over the past few months about the strong actions taken there. I just wondered whether you can give us some indication of the action taken so far, whether it will already have an impact directionally to the positive side of this number. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you very much. I'll ask Cristiano to answer the first question please.

A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Niccolo. The reason is quite simple. It's only related to the discount rate mainly. So it's broadly that as a driver.

A - Giulia Raffo {BIO 21037091 <GO>}

And Jean-Laurent, can you please take the second question?

A - Jean-Laurent Granier {BIO 16455071 <GO>}

Yes. Of course, we have taken 2019 a very strong stance in the French market in order to explain that we couldn't shape the Life savings offering as it was done in the past, mainly built around the general accounts. So we are very much diversified our offer, limiting the share of general accounts in the mix and encouraging guided management options and this type of thing (inaudible) in order to allow the customer to benefit from diversification. I have to say that, as Tim Ryan was explaining before, not all our unit-linked are exposed to the equity market, but also we have real estate, we have a very, very diverse set of unit-linked business. And we are putting all the emphasis on the advice given to customers in order to stress the importance of diversification. Of course, we will have to accompany them in the current moment of crisis, but all the actions that we have taken and the announcement of our offer will help to reach this target. Also, we are developing strongly the new pension business which is allowed by the new factor in France, which is by nature extremely diversified and bringing better IRR. So thank you for your question.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question please?

Operator

The next question is from Ashik Musaddi with JP Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, hi. Thank you, and good morning everyone. Just a few questions if you can help me. First of all, if I look at the sensitivities that you have given on Solvency II, it has more or less doubled on every single line like sovereign sensitivity, credit sensitivity, equity sensitivity versus 2018. So what is the driver of that? Can we get some sense of that? And which geography is driving that or which business line?

The second one is, can we get some color on your EM debt exposure in case you have any EM debt exposure and energy-related exposure? I mean, the reason I'm trying to ask is, you still have a lot of BBB corporate bond and BBB sovereign bond. Now a large part of that, I guess, is in Italy, but do you have any EM-related stuff as well? And -- that would be the second one.

And third one is, Portuguese spreads have moved up quite a lot, which is typically not good for the capital in Tranquilidade. So are you considering -- still continuing to use transitionals in that business or are you thinking about something else about that business? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you. I'll ask Cristiano to start?

A - Cristiano Borean {BIO 15246531 <GO>}

Hello, Ashik. So explanation of the increased level of sensitivities is mainly coming from the fact that the life value in-force is much more sensitive to the movement in the financial market. Due to the fact that there is the decrease of the interest rate which is a very large throughout 2019, we have lower so-called loss absorption capacity of our liabilities, because this is basically the combination of the marketing consistent based framework, which is basically showing how the fee guarantee interacts with the variable reference rate, which all the industry experienced.

Clearly, this means that complexity is higher on both sides, and this is also important to take into account that these are anyhow to be put in the context of our organic capital generation of 18 points in '19, which also more than overcame the market impact in the movement of the solvency in 2019. So this is another driver of reason. And this is also explaining why we said this effect of also having an operating range for our target solvency which is broadly wide because of the evolution and the sensitivity of our value in-force. In this level of low rate, it is also clear that the solvency capital requirements increases in this kind of business. And the name of the game is the diversification.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Sorry, if I just -- if I may just ask a follow-up on that. I mean, where is the convexity coming from? Because if my understanding is correct, your Italian business which is your largest business, the duration of that should not be that high to bring in convexity. I mean, 60 basis point decrease in interest rate last year has doubled your sensitivity basically everywhere which is what I'm a bit surprised about so.

A - Cristiano Borean {BIO 15246531 <GO>}

Yeah. Ashik, you have to keep in mind that, we transformed a lot of our liabilities, for example, as well in Italy, where we're referring to these country, as you remember, we explained that we moved from the so-called spread-based business to a kind of fee-based business of our life saving, which means that basically the first part of the movement can be borne by the policyholder. But as long as you go down, you have a higher sensitivity in the effect of the average guarantee of the back book of the portfolio and the amount of fees that you can extract. And this combination brings a little higher sensitivity, which is not seen in the real P&L effect of the balance sheet. This is the mark-to-market effect of the derivative gamma that you have due to the structure of the liabilities. Hope I gave you the insight?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you.

A - Timothy Ryan {BIO 17528640 <GO>}

This is Tim. On the question on the exposure to EM and energy. And thank you for the question, Ashik. The -- so 90% of our exposure of all in Generali is euro based and euro assets. This is because obviously our reserve are in euro and we are using mainly the assets from the region, where we have our biggest pockets of -- both liabilities and assets. Now as you concern the energy sector that you asked on the credit side is about 1% of the total assets that we have.

And in terms of -- we also use EM to diversify our exposure to different rate and cycles. This is less than 3% of the total exposure we have. This is done every time without having a benchmark in mind. We are very selective on either the issuers and the countries we involve with, and we are very disciplined on the risk we take and we also use external managers to help us to manage actively those position. And I must also explain that we are not taking currency risk on those positions, because again, most of our business is euro based. So those are the type of information I can share with you, and this is a market that we have quite a lengthy experiencing and diversified experience. So this is my answer to you.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you, Tim.

A - Giulia Raffo {BIO 21037091 <GO>}

Frederic?

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

Ashik, on the last one in Portugal. So first, you're right that Tranquilidade has applied some transitional measures. What we do when we acquire a company with transitional measures is that we keep them. So -- and of course, they will progressively disappear. So the fact that we had widening of the spread on the Portuguese that doesn't change anything on fees, we are -- we keep the guidelines that we have in fees. This is the opportunity also for me to tell you that, as we have closed the Portuguese deal, we have a much better view now on the business and the synergies and so on, and we didn't have any negative surprise on fees. And I can confirm the synergies that we had expected. So everything is on track for the Portuguese business.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's great, Frederic. Thank you.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Just one question really. I'm really confused about how I should be thinking about your non-government credit risk, and I'd like to hear a bit more about how you think about it internally. Because when I look at this presentation and this is not specific to Generali, but I'm not saying -- if you look at your Solvency II, I understand mechanically why you show a positive impact from corporate spreads widening. But I think it would be fair to say economically that's nonsense. It's just to do with how you match ourselves against the reference portfolio. So it seems to me -- I mean, maybe you do believe a widening of spreads means that you will have a stronger balance sheet, but to me that doesn't really make any sense.

And then in the backup, obviously, you hopefully show us your gross investment allocation, but again without knowing how that breaks down between policyholder risk-sharing and shareholders, it's also hard to kind of make any use of that as well. I appreciate this is an industry question. I'm not pointing the finger at Generali. But I'm really confused about how I should be thinking about your non-government credit risk? Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Okay. Thank you for the question. So the way we manage the balance sheet and the assets is within the asset liability management that means that we are using government bonds and the equivalent to help to hedge the duration of the liabilities. That's number one. And we're using credit in a much shorter duration than the government bonds that we have to do the hedging of interest rate. So that's -- the first comment is that it's within the ALM asset liability management constraint in which we operate, as well as of course looking at the credit risk attached to the solvency, attached to liquidity, and obviously a view on the market.

The -- and I understand your question is a broad one. The way that we are -- to give you a bit of a rule of thumb, the lower the rating is the shorter the duration is on a credit side. This is the policy we have and we have implemented this in a very disciplined fashion, so that we have the ability and the flexibility to change position like we did as you've seen in previous year, for example, between financial and non-financial or between different ratings, but we are very much disciplined from the get-go on all the allocations that we do, whether it is managed internally or managed through external managers. So I gave you a broad answer to a broad question.

Q - William Hawkins {BIO 1822411 <GO>}

Maybe I can follow-up with a specific one please. If the volatility adjustment didn't exist, what would be the sensitivity to a 50 basis point widening of corporate spreads?

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano?

A - Cristiano Borean {BIO 15246531 <GO>}

Yes, William. Sorry, I do not have the figure in the moment to share with you. What I would like to stress on the point of the first statement, I do agree with you on this point of potentially economic nonsense comment, which is related to the inner structure of the VA within the area of the rule, which is by the way under discussion for the 2020 review. So I just wanted to point it out the mathematical -- mechanical effect on this. So I hope I gave you clarification?

Q - William Hawkins {BIO 1822411 <GO>}

Okay. Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Next question please.

Operator

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

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. I'm really lucky. I hope you can hear me. And maybe just one follow-up and it was on the Solvency? And, a, you gave us the figure on the (inaudible), so I'm a little curious as what is it now? And then the other question is, you know the group (inaudible) is transitional, now just wondering what is the benefit should you use transitionals everywhere, maybe you can give us a figure? Thank you.

A - Giulia Raffo {BIO 21037091 <GO>}

Cristiano?

A - Cristiano Borean {BIO 15246531 <GO>}

Michael, so if we look at the movement between year-end and last Friday as I was reporting in the website transcription as well, there are -- out of the almost 24 points of change, eight are explained by the acquisition of Portugal. And four -- sorry, basically helping out divided by the acquisition of Portuguese and the other one related to the regulatory changes of the ultimate (inaudible) rate and the agreement with the ACPR for the reduction of the so-called IORP capital gains treatment, which is basically driving us down by eight points. So the market effect was related only to the 16 points -- around 16 points from what happened.

Then clearly from last Friday to today, there have been other movements. We do not calculate solvency clearly daily as you can manage that process. But if I can look at the movement, we have even today there is a huge increase in the interest rate, a very positive rebound in the market. So clearly the volatility goes up and down. I think what is important for you to understand is the resiliency even in an extreme and very unprecedented movement in a complex world, because this happened not when rates were high. This happened when rates were at a record low and went even lower like the full swap growth negative. And I think this is bringing some insight on how we are looking at this.

And then in Generali's transitional, it's something which is used in many different geographies, Generali Group -- for the Group reporting, didn't choose it apart from acquired entities as he was referring before, Frederic.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. Thank you.

Operator

So there are no more questions registered at this time.

A - Giulia Raffo {BIO 21037091 <GO>}

Thank you all for all your questions. I would like to hand over to Philippe for some closing remarks, and I will remind all the analyst that for any follow-up questions, the IR team as always will be there.

A - Philippe Donnet {BIO 4657671 <GO>}

Thank you, Giulia. I will be very short. First of all, thank you very much to all of you for your questions. I am a bit frustrated, because we will not have the opportunity to meet you next week in our road show for obvious reasons. This is frustrating, but we have to manage it this way. I'm looking forward to meeting you physically again in occasion of our next Investor Day. And as I'm probably the oldest here, I'm excited to give you some advice, so please stay home, work at home. You can buy our stock from your house. And please take care of yourself, take care of your parents, take care of your children, take care of your family. This is important to all of us. Thank you.

Operator

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