Y 2020 Earnings Call

Company Participants

- Antoine Lissowski, Chief Executive Officer
- Olivier Guigne, Chief Investment Officer
- Quentin Boudoux, Chief Technical Officer
- Stephane Le Mer
- Thomas Behar, Chief Financial Officer

Other Participants

- Benoit Valleaux, Analyst
- David Barma, Analyst
- Michael Huttner, Analyst
- Thomas Fossard, Analyst

Presentation

Operator

Dear ladies and gentlemen welcome to the conference call of CNP Assurances. At our customers request, this conference is being recorded. As a reminder all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. (Operator Instructions) May I now hand you over to Antoine Lissowski, CEO of CNP Assurances who will lead you through this conference. Please go ahead sir.

Antoine Lissowski {BIO 4384399 <GO>}

Okay. Thank you very much, and good morning to everybody. Before all I want to apologize because I have had (inaudible) rendezvous which was decided this morning and we had to leave the meeting at half past 11. And let my friend Thomas and his teams develop the informations we will provide to you. If you look at the presentation on Page 5, you see that the significant events of the years relay in four figures. First we were very resilient in the phase of COVID crisis. Second, we continue to adapt our economic model to the low interest rate environment. But it is also clear that the year was specific for CNP, because we made the link-up with La Banque Postale which took the control of the company in March 2020. And we signed new agreements with the Brazilian partner, Caixa Economica Federal and we entered in a new area of activities in that country, a multi-partner development which is now possible for us.

If I can -- we have more details on these different aspects on Page 6. I make several comments on the performance during the year. But first crisis. Of course this crisis had an effect on the operations, the premium income is down over the year. And it is clear that this performance is due to the first half of the year when the certain part of the networks were closed, but it was followed by a very strong recovery in business in second half of the year. Regarding the company, all the employees are working remotely and in fact it started in March very easily and we had to simplify several processes, notably the creditor insurance acceptance with no automatic medical check. This opens field to different evolutions in our way of coping with our guidance. The company was invited to make different gestures of solidarity with different customers. We devoted the EUR30 million to contractual, non-contractual obligations for vulnerable policy orders and we made the contribution to an insurance industry solidarity fund which was settled in France for EUR25 million regarding CNP.

The loss experience of the company, which was observed was relatively low. We have an impact, negative impact on underwriting margins limited to EUR13 million and a very small decline in savings and pension withdrawal rates. The major effect in fact was on the investment portfolio with lower revenue due to the cancellation or deferral of some dividends. And nevertheless we took benefits of a very careful hedging policy of the company, which protected us at the level of EUR62 million against negative impacts of capital market at certain moments. We by the way made also significant contribution to an investment program, which was settled by French federation of insurance in order to help to the industrial recovery.

If I come up on Page 7 to the link-up with La Banque Postale, you see now that the company is owned at roughly 63% by La Banque Postale who itself hold -- owned at 100% by La Poste which in its turn is owned at 66% by the Caisse des Depots and 34% by the French State. And direct control of Caisse des Depots and CNP is in fact maintained at roughly the same level as before. If you consider also the overall aspects, BPCE is still in the -- shared impact with La Banque Postale for 16% and the overall investors represents still 21.1%. That allows us to say that with La Banque Postale we constitute the New European leader in bank insurance and responsible finance and it is clear that the group which we constituted with La Banque Postale takes place immediately among the largest bank insurance groups in Europe.

On Page 8, the several things we wanted to draw your attention to. The fact that new business is now aligned with market conditions, the united -- unit-linked weighting was increased in France, where the company produced 26.6% of its premiums -- savings premiums in unit-linked. In the rest of Europe, we are at the top level of 76.7% and in Brazil is 99%. Beside it, you can also appreciate that, if you look at the new money, net new cash, in France, it was negative on traditional savings by EUR7.2 billion and positive in unit-linked. The positive figure also illustrates activity in Brazil and the rest of Europe, that means that the transformation of the production of the company in savings business has been very clearly started and is important. There is another figure below it, which underlines the same thing, the transfers which are allowed in France under the PACTE regulation, people being authorized to transform without losing the tax advantage, traditional contract to a new contract, the transfers were relatively important with EUR3.4 billion. And the unit-linked weightings of new contracts is double of what it was with the same contracts before. And of course, to spur this tendency, we have launched different unit-linked as Immo Prestige, My Selection in Italy and different SRI funds in different countries.

I mentioned and I come back to that on Page 9, the multi-partnership development in Brazil, then we have a 25 years agreements with Caixa Economica Federal covering personal risk insurance, consumer loan insurance and retirement products. And also we are in a process of closing a 20-year agreement in the Consorcios business, which is a specific insurance activity in Brazil. Then the renewal of these agreements is very important for us. You might consider the importance of Caixa Economica Federal as a partner. And together the activities which we had in 2020 were representing roughly 13% of market share, and make us the third insurance company in Brazil last year. Now we can have different of distributors in Brazil as the Caixa has different over insurance, and we can also make contracts though our distributions relation is not exclusive longer as it was during the first period of our partnership in Brazil. Then we settled an agreement with national postal service operator Correios, which is very promising in terms of multi customer distribution strategy.

On Page 10, I underline the level of dividend, which will be proposed at the General Assembly at a level of EUR1.57 per share. This is a combination of EUR0.77 for 2020, representing a 40% payout ratio for the year and 80% for 2019, representing as well 40% payout ratio. After the year of I would say difficulty to make sure the situation of insurance industry in general, and in CNP in particular, we take advantage of a very strong position of a company in terms of solvency ratio and in terms of capacity to generate revenue. And we proposed to shareholders to reestablish the payout ratio for 2019 and to confirm it for 2020. We are at a low level of bracket for this ratio because we have spotted a policy between 40% and 50%. But we consider that the time is to resume the payments even if context encourages us to be very careful on that respect.

The last thing I wanted to draw your attention to are our strategic initiatives, which are on Page 11. I don't -- I will not go through the different items, which are in this page, but you can observe that the strategy of transforming the model of CNP, transforming the savings model, integrating property and casualty and personal risk businesses, transforming with Brazilian and with BPCE partners, transforming in terms of digital excellence, the process is very well ongoing. Then the company is now contemplating with a very good confidence of the future as we consider that we are completely engaged in the transformation of the model.

I now give the floor to Thomas Behar for following of the presentation and I say goodbye to you.

Thomas Behar {BIO 18964489 <GO>}

Thank you very much, Antoine for your last presentation of results. And I will present now all the key figures for CNP Assurances for 2020. If we go to the key figures on Page 13, the attributable net profit is EUR1,350 million, which is only reduction of 4.4% in 2020. The EBIT is EUR2,614 million and reduction of 5.7% at constant exchange rates, and we don't focus on exchange rate due to the reduction of the real of 33%, the premium income is around EUR27 billion, a reduction of 11.5% and the APE margin is 12.2%, a reduction of 4.9 points due to the very low interest rate level environment. The consolidated SCR coverage is 208%, a reduction of 19 points.

So we will go now to the different areas of the Group and present the different key figures for each of them. Let's go now to France and main criteria to describe 2020 is a transformation of savings and pensions premium income and technical results in the -- with the aim of getting more unit-linked and less euro contracts. You could see that in the numbers, but first if we go to the evolution of the premium income, you can see a decrease of 21.4%. It is in line with the evolution of the main competitors that we can know today and the market. And if you go more directly to the numbers, you can see a decrease of around 33% of the traditional euro guarantees. And only a slight decrease of 1.1% of the unit-linked. It is a characteristic of the transformation that we are trying to do and that has been done in 2020. This reduction of 1.1% is a mix with some networks being slightly positive. It is a case of La Banque Postale and the high wealth management. If -- and this evolution explains the evolution of business mix. We have an increase from 20% to around 27% of the share of the unit-linked inside the premium income. For personal risk and protection, you have a slight decrease of 2% during the year. Net new money reflects exactly the same, with positive inflows for unit-linked product and negative inflows for traditional savings and pension products with -- it's in line with 2019 with an increase of the evolution of the euro contract.

In addition to the premium income, you have the transformation of technical reserves. We have a number of EUR3.4 billion of transfer from old contract to new contracts due to the low PACTE that Antoine Lissowski has just explained before. This evolution of EUR3.4 billion is not recognized in premium income. And when we do -- when the networks are doing the transformation, we have an increase of more than 10 points of the business mix to unit-linked in each of the -- in the contracts that are confirmed.

If we go now to the revenues. The revenues is a slight decrease of 10% which is fully explained by the evolution of the revenue that comes from the own-fund portfolio. The important decrease of 33% comes from the fall in the dividend income that we received from the equities that we are following the COVID-19 crisis, so downtrend in bond revenues and basis effect that due to the profits that we have taken in 2019 last year at the end of 2019. The NIR, the interest revenue is quite the same around EUR1.8 billion.

(inaudible) administrative cost you have a decrease of 5%. So we -- it's -- we had the full last quarter where we have the decrease that was decided following the beginning of the crisis at the end of the first quarter of last year. And so it just produced full effect and we have this decrease of 5%, which comes from costs that would not happen due to the COVID-19 but also a reduction of the costs that we voluntarily decided this year. It's explained that the cost to income ratio is at the lowest point 32.1% in France. And as a result, we have the evolution of the EBIT. For Europe, excluding France, we have a very high unit-linked sales and an evolution for example for CNP Unicredit Vita which was able to go up to 78% of unit-linked inside the premiums. As a total, the premium income has not changed. We had very good numbers for CNP Unicredit Vita. At the end of the year with some months being three times the worst month of the year during the first part, where the branches of UniCredit were closed.

This evolution is aligned with what we are doing in France with a priority to unit-linked and you can see in the numbers a reduction of 31.8% of the euro contract and an evolution of 17.7% for the unit-linked part. For the evolution of personal risk and protection, you have a decrease of 5.3%, which reflects a decrease in loan originations especially in Italy. The net new money is very characteristic of what we wish we've an increase and obviously unit-linked and in pension products with EUR1.8 billion of net new money in unit-linked. For the EBIT, so we have a very good evolution of 6.7% of the EBIT in a year where we have the COVID-19 crisis, and we have EUR298 million of total revenue for Europe excluding France. And we have an evolution of the net insurance revenue of 3.4%. We have a slight decrease of the administrative cost, 0.3% and the EBIT is up 13%.

Let's go now to Latin America. We had also as in Italy a strong recovery during the second part of the year with one of the month being 5 times the worst month of the year, it was December. We have a very good increase of 10.7%. And if we go to each lines of activity, for unit-linked saving and pension products, it's an increase of 12.5% and personal risk and protection an increase of 6%. Caixa Seguradora has become the leader in consumer finance term creditor insurance where we are number one in the Brazilian market. And in the new series that has been formed at the end of the year, we have this market. We are also very good in pensions, we are the number three in the market for pensions with around 19% of market share. For the revenue it's a slight increase of 2% of the revenue due to the addition of the generation especially for pensions. So it's an increase of 1% for the net insurance revenue. Administrative cost is a slight increase of 0.1% of the EBIT 2.3%.

If we go now to the value of the new business. So on one side you can see -- on one end you can see the effect of the good diversification of the good balance of the business mix. So we have Latin America and Europe, excluding France, which has very good APE margin, 17.2% in Europe, 35.5% in Latin America. At the opposite, we have France, due to the saving business we have 4.1% as the total loss APE margin for France due to the negative interest rate environment that we know. At total the new business value is EUR339 million.

Let's go now to the bottom line of the accounts. We go from the EBIT to the net profit. I will only look at fair value adjustment and then net gain and losses, so we have done, of course, less net gains during this year. And we have done --we have offset net gains by non-recurring items, of course, we have the EUR25 million that was decided the first part of the year as a contribution to the SME separate fund of the French Federation of Insurance. But we have also done EUR300 million growth, transfer to the policyholders' surplus reserve, which is the EUR205 million net transfer. Among this EUR300 million, we have EUR200 million, which go to the PPE in unit-linked which will help the transformation of the contract.

Net operating free cash flow is EUR1,334 million is the net operating free cash flow. So we have not taken into account this number, the subordinated debt that were issued during the year. We are at the same kind of level as the net profit, which is playing. Also our capacity to pay the dividend and of course due to the level of interest rate you have an increase of the required capital for new business.

SCR is at 208%. What are the main explanations comes from the market changes, it's a reduction of 40%. We have now fully taken into account the PSR and we are respecting SEPA rules to take into account this PSR, there's an increase of 17%. And as a total amount inside this 208% of SCR, you have 77% which come from the PSR which is EUR12.6 billion which are included in the surplus own funds. And you have on the right the different sensitivities that we have on the SCR.

In this Slide 26, so we remind you that we are now followed by three different rating agencies, and in addition to Standard & Poor's and Moody's, we have now Fitch, which is following CNP Assurances. On the asset liability management side, you have the financial income that we were able to get from -- written from fixed rate investments. In 2020 we had 2.15% on the fixed rate even for In-Force. And on the new business we were able to invest at 1.08%. We don't have guaranteed yields as you can see and it's a permanent policy of the Group.

If we look at what kind of investment we have done, we continue to invest on equities, private debt, property and infrastructure and private equity. And you can see the level of the bonds we have both in 2020 and the average maturities of them. We continue to invest only in positive interest rate bonds. If we look to our support to the real economy, you can see the different numbers that we have shown to invest in 2020 private equities, property and forest assets, infrastructures, private debts, and you have seen our recent press release about (inaudible) infrastructures that -- and we will continue that kind of policy in 2021.

Let's go now to the last part, corporate and social responsibility. If we begin by corporate, so we remind you of the rating that we have, the parity score of 99 out of 100 for the third consecutive year on gender pay. We had an agreement signed with the Paris Region to help to provide appropriate housing for people representing an aggravated health risk and we have helped some people for reducing social inequalities in term of healthcare in France. For responsible investor, we had an objective of 40% reduction in property portfolio carbon footprint, it has been achieved last year. And we are continuing to invest in SRI funds, we were only at EUR2 billion last year and we are now EUR11 billion of unit-linked which are 100% SRI label. We have long-term commitment, we are fully subscribing to the United Nation principle for sustainable insurance. And we have the commitments to withdraw completely from the thermal coal industry in EU, OECD by 2030 and the rest of the world by 2040. And we had set up new policies regarding oil and gas industry.

As a new climate objectives for the period to 2025 aligned with the goal of making the investment portfolio carbon neutral by 2050. So we are fully committed to help to meet the Paris Agreement of limiting global warming to 1.5 degrees and you can see on Page 33 the four different objectives that we are targeting. And especially we are engaging conversations with companies where we have equities and asset managers to encourage them through this dialog to adopt the 1.5 degree strategy before the end of 2040. And we will publish the details of the progress in meeting these objectives each year.

In Page 34, you have some detail box, what we are trying to target to protect climate and the biodiversity with tighter rules of investment in fossil fuels and green investment. And you see the ban that concerns direct investment in companies operating in the oil and gas industries, that derive more than 10% of the revenue from unconventional fossil fuels. Investment in greenfield or brownfield infrastructures for the extraction of unconventional fossil fuels and investment in greenfield oil infrastructure. Green investment, we wish them to be doubled by end of 2023 to EUR20 billion. And at the end of 2020 this objective was 86% met.

That's the end of the presentation. And with all my colleagues, we are now ready to answer your question.

Questions And Answers

Operator

Thank you very much. (Operator Instructions). We've received the first question. It is from David Barma of Exane BNP Paribas. Your line is now open. Please go ahead.

Q - David Barma {BIO 19957338 <GO>}

Thank you and good morning everyone. So I have questions on two topics on dividend first and on solvency sensitivities next. First on dividends. The -- you announced today as you say around 40% payout for the 2 years. In the past you used to do something more north of 45% closer to your 50% upper range. Should we see this year's announcement as of sort of a compromise given the global environment or should we read anything into it for the following -- for the next years in terms of a payout level? That's my first question.

And then on Solvency II two small ones. So first if I look at the evolution of your solvency sensitivities and on rates especially, rates have moved quite a bit again by just looking at the end of '19 versus '20. And so that combined with the complexity of the book, I would have expected solvency sensitivities to increase, but they haven't moved much on rates. Is there enough setting factor there from the increase in asset duration that has taken place during the year. And is there anything else to take into account when looking at those sensitivities?

And similarly on equities, markets have been quite strong at the end of the year. And I expected a higher positive than what you've disclosed from equity markets. Is the lower sensitivity just driven by your -- the changes in asset allocation you've done in earlier in the year. Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Thank you, David. I will answer first, the first question, dividend and Stephane will answer the second one. On the dividend, EUR1.57, in fact we are living very exceptional years 2020-2021 with the COVID-19 crisis and the financial crisis that we all know and the Board has chosen to be at the bottom of the range 40% to 50%. So it was when we decide to be at the lowest point between 40%, 50% without seeing and even discussing what it will be in the future. So we first leave this year with all the difficulties that you know outside us. And we take careful position being at the bottom of this trend 40% to 50%. And of course the Board will decide later next year what it will be for the next years, but there is no decision and even no discussion about the future dividends, it will be seen later.

Of course, we have seen that, as we have not paid anything in 2019, so we are now taking back and being able to this year to pay with, as you have seen, we haven't had any fund supervisor as there was no provision for paying the dividends this year. And we have looked carefully about all the stress test before proposing such kind of dividends to the Board. You can see also that the net profits were very solid, very good results. We've only had a decrease of 4.4%, which represents very solid performance, which explains also that the Board was confident for this level of payout ratio. And it's also confident also both in the capacities of the Group to adapt to the very low level of interest rate that we all know today. Transformation is in due course and we'll continue to operate in the next year.

Perhaps we can go to the second question. Solvency II sensitivity. Stephane Le Mer from the risk group direction.

A - Stephane Le Mer

Yeah, so, on the sensitivity and the interest rate sensitivity is quite aligned with the sensitivity that we have in previous reporting and effectively there is a new factor that is taken into account because as it was explained the methodology that we use to compute the surplus fund, we -- when we -- and we are now taking some additional items in the conference. At year-end 2019 the computation of the surplus fund was based on the conventional approach when -- where we took 70% of the PPE. And now it's a calculation that is in line with ACPR technical guidance. And it's actuarial calculation and this item is consisted by taking -- discounting on projected cash flow of the PPE and where -- when the rate decrease, there is a slight increase of this item. So that's why you see a relative stable sensitivity on interest rate compared to the reporting of last year end. So, this is on interest rate. And the second question on the sensitivity on equity. Compare on the reporting of year-end 2019, the sensitivity is quite stable. And this is still quite natural as the equity market are at a level comparable at the year end 2019 and year-end 2020. So we had -- we have relative stability on the sensitivity on the equity.

Q - David Barma {BIO 19957338 <GO>}

Right. Thank you. And just if I may, on the interest rate points for 2021, do you still aim at reducing your duration gap for recent changes in inflation and rate trajectory, expectation change anything to that?

A - Thomas Behar {BIO 18964489 <GO>}

I will give the floor to Olivier Guigne, which is -- who is the Head of Investment Department.

A - Olivier Guigne {BIO 18263857 <GO>}

Okay. Thank you Thomas. Regarding the duration gap, we first we have the same strategy as before, it is to complete the gap very progressively. And we still have the strategy for 2021 as we did it in 2020. And so, it's not in -- we are (inaudible) regarding the evolution of the market also and I think with some rising rates recently, it's still a good strategy for us to be very progressive in that movement.

A - Antoine Lissowski {BIO 4384399 <GO>}

And especially, you can look on Page 29 of the duration of the assets that we have bought during the year and especially for Sovereign and the average maturity is around 22 years, which also goes that way.

Q - David Barma {BIO 19957338 <GO>}

Yes. Perfect. Thank you very much. I'll go back in the queue for other questions.

Operator

Thank you. The next question is from Michael Huttner of Berenberg. Your line is now open. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Okay, thank you very much. And thanks for that, lovely surprise on dividends. And I had two questions. One is on equities and the other one is on transformation. On equities, so you said of flows 9% was invested in equities and I think 3% in private equity. And at the half year, I just looked it up, I think it was 5% in equities, and 2% in private equity. So the flows have gone up. And can you explain why and will you be increasing equities more? Beyond I am hoping to hear that's probably wrong, is that, this is partly linked to the fact that yields allows you a little bit more flexibility for the capital needed for particular class of equities I think long-term or something.

And my second question is on the transformation. And here, the more you can tell me because I don't understand very well the transformation of the French traditional life portfolio deal of your contract. And so you started with EUR3.4 billion, where could this figure go to this EUR3.4 billion PACTE transfers? And is there a kind of figure that you have in mind that you would need to achieve to transform the portfolio and make the interest rate sensitivity and the exposure to low interest rate much less of a challenge? Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Okay. First, as you can see, due to the PSR that we have now, which is included inside the calculation of the solvency capital ratio, one of the aim of the government when they decided to align the French regulation to the German one, which enables that kind of funds to be taken into account in the ratio was also to help undertakings to be present in the equity market. And though that's -- in fact what we have in reality apply. When we look to the numbers and to the level of the solvency capital ratio, we're able to take a little bit more risk, not a lot of risk. We've always choice of the time -- of the timing of the investment to increase slightly this equity in investments. And we still think that due to the level of the interest rate, it's also very good for the insured person to have assets backing the contract, which are the components of equities, which is significant as the opposite of other insurers. So it's something that's characterized as us, but it also helps to give good revenues to the policyholders and to our shareholders. Perhaps you can develop that, Olivier?

A - Olivier Guigne {BIO 18263857 <GO>}

You said almost. Also has that, yes, just a few points on the equity, you remember perhaps that we sold almost 3 billion equities in 2019 in the last quarter of 2019. We sold a bit more at the beginning of 2020. So we were a bit short of our target allocation regarding the equity side. And so, we bought back part of this equity sold before under (inaudible) as you see it in the figures during the rest of the year. So it has led the portfolio to grow in value in fact. So from the equity point of view, it was a good year, it's 2020 because our portfolio has grown in value during the year given the fact that we sold some at the beginning and we bought back afterwards.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you.

A - Antoine Lissowski {BIO 4384399 <GO>}

Questions, so you ask matters about the PACTE transformation of EUR3.4 billion, in fact it's an opportunity for the networks LBP or BPCE to meet the customer and look at the insurance contract and see if this contract fits or not well fitting the current position of the insured regarding risk, regarding savings. And so, it's an opportunity of discussion of dialog with the customer to look at contracts. And when they look at the contract due to the level of interest rates, at the end of this meeting usually there is a transformation going to an old contract to a new contract that is being sold. But it comes from a 100% contract to more a mixed unit-linked and always we have an increase of the unit-linked component there in contract, which is over 10 points. So then this go up to 20 -- 15 points depending on the network of increase of the unit-linked components inside the savings of the insured. We have French flow PACTE which enables us to do that without any tax penalties and no taxes in line with this transformation. And especially regarding the limit of the 7 years old hedge that we have in the French flow of the matters. So it's -- and we -- and just keep the tax structures that are in this old contract. So it's a benefit from the (inaudible) the new contract, which is more adapted to its new situation and it's also good for our balance sheets with an increase of the unit-linked component.

Do we have targets? Of course we have targets to do this transformation. But, as usual, we are not disclosing futures target -- future confidentiality objective. But this policy will continue and as you have seen in the different lines of the strategic objective, this part is number one in what we have to do as management of the undertaking, which is a transformation of our savings business. And so, we are working hard to continue that and the new unit-linked that we are proposing to the customers is also an opportunity for the customers to go to more unit-linked (inaudible) contract. And you have also seen that we have bonuses for policyholders who have more than 30%, 40% or 50% and in 2020, so we had very good policy bonuses up to 1.9%, which is over traditional bonuses from insurers that were given to people who have more than 50% of unit-linked. So it's part of the whole policies that we have to transform our business mix on the stocks that we have.

Q - Michael Huttner {BIO 21454754 <GO>}

Okay. Is that EUR3.4 billion figure, given that 2020 was first year you did this, what could we expect this year, could it double?

A - Thomas Behar {BIO 18964489 <GO>}

We don't give numbers like that. But we...

Q - Michael Huttner {BIO 21454754 <GO>}

Maybe you can say...

A - Thomas Behar {BIO 18964489 <GO>}

(Multiple Speakers) policies, as we can figure.

Q - Michael Huttner {BIO 21454754 <GO>}

But put it other way, what was the -- in January this year compared to January 2020?

A - Thomas Behar {BIO 18964489 <GO>}

For the first part of the year, I think you have to wait until May that we disclosed the first part of the year numbers. What I can say is that the branches of the various networks that we have are opened and are fully operative during this part of the year as they were in the last part of 2020. So all the activities are fully operating nowadays as it was last year. But for the numbers, I think you have to wait a little bit. So therefore [ph] it is public, you can see that the age of the people who are suffering from COVID-19 has not changed for the best part. And so, further you can see in the statistics that people were below 60, 65 years are not dying from COVID-19. And so, you can suspect what it did for our death insurance.

Q - Michael Huttner {BIO 21454754 <GO>}

Lovely. Thank you very, very much.

Operator

Thank you. The next question is from Thomas Fossard of HSBC. Please go ahead, your line is now open.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good morning. Just two quick questions. The first one would be on the reinvestment rate in 2020, so you had 108 basis points. It was up from last year, which is a bit (inaudible) having in mind the drop in interest rate and the reduction in the spreads. So maybe you can help us to understand how you managed to achieve that. And possibly if you expect additional changes in your asset allocation as far as you further concerned in order to maybe be stable or a further increase with 1.08% reinvestment rate.

And the second question would be relative to your risk. The risk part of your business, if I'm looking at the combined ratio, the combined ratio was up in 2020, not significantly, but still up 1% to 92.1, little death or mortality due to COVID. So maybe if you could shed some light on the, on the increase in the combined ratio.

And the last point would be, maybe a more strategical question relating to your -- the transformation of your business model. Antoine mentioned that, I mean, you will become the main or the key insurer for La Banque Postale, so there might be some sale of assets as well taking place at some point. Would be also interested to better understand for us when this may take place and what the process. And yeah, any color on that would be interesting? Thank you.

A - Olivier Guigne {BIO 18263857 <GO>}

Perhaps -- so Olivier Guigne speaking. I'll start with the first question on the reinvestment rate in 2020. So it's, yeah, you're right, it's up in comparison with the previous year. And it's linked to the fact that we invest especially during the crisis period in March and April 2020 when the spreads have widened a lot. And so, it allows us to add this higher rate that we could have expected during the full year. So it's -- it is -- so this market timing explain the trait for 2020. And regarding the allocation on how we could manage, it's right on the new investment. Our allocation strategy is not to take more risk on the asset, on the bond portfolio. So we remain very cautious and we aim to keep the average rating of the portfolio at a very high level, you know. And we prefer to take some risk on equities as Thomas said. And to have a kind of bubble in the portfolio is a very secure part on the bond side. And perhaps a bit more risky side on the diversification with some equities.

A - Thomas Behar {BIO 18964489 <GO>}

So second question is about the combined ratio. As we have 82.1% at the Group level versus 81% last year, I would say that the evolution is not very significant, because it's an average of the evolution of three different areas. In France, you have a better combined ratio 99 point -- we have a reduction of 1.5% at 89.9%, 89.9%. In Latin America we are 44.1% -- 55 point sorry, 54.1% an increase of 3.1 points. And in Europe, we are at 86.4%, an increase of 1 point. So you have a decrease of 1.5 points in France, increase of 3.1 points in Latin America and the 1 point in Europe, outside France. So it's also a result of the combined ratio between claims and premiums. In funds you have two different effects, you have an additional EUR30 million which is cost of the extra guarantees that we have taken into it -- we have taken in the first part of the year on one set, so reduction of EUR30 million.

In addition we have EUR30 million in the claim cost, but on the other side, we have reviewed some commissions that we had on collective risk, which is a one-off point of EUR60 million. So both plus EUR60 million minus EUR30 million, so it's a release of EUR30 million of claims cost which explains the evolution of the combined ratio for funds. Latin America, Europe upfront [ph], we will begin with Europe upfront, you have a slight increase of claims very limited one, but which exist for Santander, our JV with Santander, CNP Santander with some additional reserves that have been done due to some guarantees regarding coming from unemployment guarantees of things like that. And in Latin America, it's an increase of 3.1 points, which is an evolution of both the claims and the premiums during the year. We got a very important explanation behind this evolution due to the evolution of the objectivity.

Last question, Thomas, was about the transformation with acquisition of the subsidiaries of LBP. As Antoine said, there is a long process that will take place in 2021, in fact, understand that acquisition will be fully operated in 2022 when all the measures will be done, all regulatory matters. And after the publication of the accounts, so we will begin to open the book of French subsidiaries from La Banque Postale in insurance, and look at them and we will have a process of, technical process of acquisition of them, that will take place without having yet a precise agenda, but it will take place in 2021 and with regulatory approval hoping in 2022.

Any question?

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Thank you, Thomas.

Operator

Thank you. Then we go to the next question, it is from Benoit Valleaux of ODDO BHF. Your line is now open. Please go ahead.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Yes, good morning. Two questions on my side. Maybe the first one is regarding dividend. I know it's not ready for you maybe to comment. But can you tell us what has been the discussion or the turn of the discussion with the French regulatory. You were just saying that the 40% payout ratio over 2 years is a decision from the Board, but it's also a constraint coming from the French regulatory or not? And still regarding dividend, I know that you are sticking on your 40% to 50% payout ratio policy. Nevertheless, if '21 I would say is a bit more normal year, at least from a financial point of view, will you say that, it is fair to assume that you should pay at least EUR0.94 dividend per share this year, which was initial proposal for 2019. Or would you say that it's a bit too early and that it will depend from various factors?

Second question regarding to earnings. When you look at your earnings, you have -- you said two significant negative impact in 2020. First one is coming from lower revenues, coming from your own account, so due to lower interest rate, but also to lower dividend received. Regarding dividend, can you quantify or give us some view on what do you expect for this year, which level of pickup we may expect on this side and if it may or not counterbalance the negative impact from low interest rate?

And then second I guess, impact is coming from a negative FX impact, especially in Brazil. Can you tell us what is your hedging policy for this year. I mean, at which level are your hedged regarding any potential decrease on the Brazilian real. And maybe my third or fourth question is related to solvency. Can you tell us what could be the potential impact on your solvency margin from the FFA [ph] proposal on the potential hit [ph] on Solvency II? Thank you.

A - Thomas Behar {BIO 18964489 <GO>}

Okay. First question is about dividends. France, what was the discussions with the French regulators. And of course we are before public decision from the French regulator SEPA and we have all listened carefully to the Governor of the French of Banque de France who said that in February, the French supervisor for insurance will express the pubic position regarding the dividend for insurers. As it says there was no public communication for that, so the only possibility was to present stress test about our solvency capital ratio for the next years. And we have presented this -- the stress test to the public supervisors, (inaudible)

(Technical Difficulty) of the economy? To have (Technical Difficulty) to the Board. But still we don't know and we are very careful about that kind of decisions. And quite -- I may think that the real discussion that can happen on that topics will only be in next year during at the same kind of time -- of timing possible.

For the third question is about the expectations about equities. So well we can all also try to know what will be the different decisions regarding dividend for the undertakings. We all hope that the dividends will be paid again. But Olivier is looking also about how this (inaudible) priced in the market with -- and you can get access also to the pricing of the fact that the dividends will be paid or not and perhaps Olivier, you can say a little bit about that as you, we are looking at the market.

A - Olivier Guigne {BIO 18263857 <GO>}

As you may know the market as we saw it is not expecting a full recovery of dividend as soon as this year. So our expectation is that we will recover some of the difference, but not all the difference. On the other side, as you ask it, we still have a decreased interest rate on the global portfolio, as you see it in the presentation. So we will see it, this increase in dividends in comparison with last year could compensate totally or part of the decrease in rates, but it's perhaps too early to say at the moment.

A - Thomas Behar {BIO 18964489 <GO>}

On the FX and hedge that we have on 2021, you have some -- the program is always in slides that we are publishing. And it's at the end of the document. If your question was about the hedging strategy, according to the real and you have the description of it regarding currency risk on Page 63 of the document. And that Olivier, you can say a little bit about our policy for this year.

A - Olivier Guigne {BIO 18263857 <GO>}

Regarding the currency risk, so we continue the same strategy as the year before, which means that we are hedging the results of the Brazilian subsidiary again to depreciation of the real. So we did it again this year. On that all what we hedge regarding the real.

Q - Benoit Valleaux {BIO 2443205 <GO>}

At which sorry -- at which even [ph] are you hedged exactly because I just saw the figures in terms of nominal coverage (inaudible). But I mean, what is here the absolute FX, (inaudible) at which you are fully...

A - Antoine Lissowski {BIO 4384399 <GO>}

So we usually (inaudible), so it's technically we hedge it through a (inaudible) option. So it's -- it means that we cover the results against the variations that could occur during the whole year are not specifically at one point. And the strike of the option is around the level of the end of the year. So, it's around 6.50 and with a little margin. So it's between 6.50 and 7 for the current option.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Okay. Thank you.

Operator

Thank you.

A - Thomas Behar {BIO 18964489 <GO>}

The last question from Benoit about Solvency II calculations about the future, Stephane?

A - Stephane Le Mer

Yes, thank you, Thomas. So we prefer not to provide any element regarding stand-out that has not been yet approved. And we also remind that, (inaudible) technical advice in December so that some just to say changes, positive in equity negative in interest rates. However, there is a long journey before this standard been completely approved and implementing because it's necessary to have a transposition into national law. And regarding what has been publicly said by the different bodies, we expect that the full implementation will be around 2025 or 2026.

A - Thomas Behar {BIO 18964489 <GO>}

So again what will be the adaptation of Solvency II to the current context and what will be the decision of the European Commission, that we don't know yet. Thanks, Benoit.

Q - Benoit Valleaux {BIO 2443205 <GO>}

Yes. Thank you very much.

Operator

Thank you. Then we now have another question of Michael Huttner of Berenberg. Your line is now open. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. Two very light question. The first one is on the policyholder participation. I think you mentioned the figure of 1.9% for the policies, which are either 40% or 50% in unit-linked. And I just wondered what the -- what happened to the standard -- what is the standard distribution and how that changed relative to the previous year? And my other question is on the accounting, did I understand correctly that the 20-

year deal with Caixa on this Consorcios is not fully closed, would that have an impact on solvency or cash or anything? Thank you.

A - Thomas Behar {BIO 18964489 <GO>}

I will first answer your first question and after that, we will ask you some details about the second question. For the first one, the average discretionary participation in front is 0.94%, 0.94% is a reduction of EUR0.20 of the participation. It's in line with evolution of our main competitors that we have seen in the first publication for the survey [ph]. So we are continuing to decrease the participation not at the same level of the decrease of the financial income, but we thought that the reduction of dividends was not a recurrent one. And so, we decided to apply newly what was recurrent in the reduction of our financial in capital, reduction of EUR0.20, 0.94%.

On the second question, could you perhaps explain a little bit your question please?

Q - Michael Huttner {BIO 21454754 <GO>}

It's probably a long question, so you know, you did the deal, the big deal with Caixa, which was closed just before the event. And then as I understood it, there is still discussion on the 20-year contract for the Consorcios product. Would that have any implication on cash or solvency for the Group?

A - Thomas Behar {BIO 18964489 <GO>}

For Consorcios, it's already taken into account in the Solvency II calculation. So you don't have to expect any implications on the solvency capital ratio. But it's not the same kind of this according to the amount as the first one, it's more very limited numbers if I understand. I don't have in mind the precise number for Consorcios, it's BRL250 million, EUR39 million, so it's a very limited number. But it's already taken into account in the calculation.

Q - Michael Huttner {BIO 21454754 <GO>}

Just -- thank you. Yes, so I did, yes. Just on the participation rate, the 0.94%, did I understand correctly that when -- if I have a contract, which has a lot of unit-linked, I would get 1.9%?

A - Thomas Behar {BIO 18964489 <GO>}

More than 50 depends on the contract, it depends on the networks. But if you have one, for example, in La Banque Postale we have a (inaudible) contract too. And you have again you can get 1.9%. But it depends on the contracts and on the network that you -- that you have, but you can find all our discretionary participations on our website. And it will be our pleasure if you want to win the right one.

Q - Michael Huttner {BIO 21454754 <GO>}

And then I had a last question. You know when the advisors do these PACTE discussions, do they get a commission on the transformation?

A - Thomas Behar {BIO 18964489 <GO>}

Sorry, for the question, the...

Q - Michael Huttner {BIO 21454754 <GO>}

So you know when you do the PACTE discussion so to transfer, to look at the old contract and maybe transform it to a new contract. Does the advisor gets a commission, is that an incentive?

A - Thomas Behar {BIO 18964489 <GO>}

You all know the IDD's directive, which prevents any incitation from the networks in going for in advising something to the customer, which might be a difference between unit-linked and euro components. So it's something which is prohibited to direct the commission that we pay to the network to this kind of advice. And for the last point, in fact it's part of all the commission arrangements that we have with the networks. And I'm not sure that we disclose that kind of arrangements that we have with our different networks.

Q - Michael Huttner {BIO 21454754 <GO>}

Brilliant. Thank you very much.

Operator

Thank you. As there are no further questions at this time, I would like to turn back to you. We just now received a follow-up question of Thomas Fossard of HSBC. Your line is now open. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, sorry, just a very quick one. That was on the free cash flow, because looking at my notes, the free cash flow in H1 was down at 27%. And it seems to be relatively stable unit year-on-year. So yeah, I guess as part of that, you too -- to the operating profits, but as the new value -- the new business value was also a bit under pressure, maybe you could give us a bit of flavor of how we should think going forward about the evolution of your full cash flow? Thank you.

A - Thomas Behar {BIO 18964489 <GO>}

So, perhaps, we'll give the floor to Quentin Boudoux which is our new -- with our new actual function head, Quentin, so perhaps you, I don't know if you can answer a question that I have also, which is the forecast of MCEV and OFCF, which is something not so easy to do. That's about the evolution.

A - Quentin Boudoux

(inaudible) free cash flow is slightly decreasing because of the cost of capital on traditional selling products. So the new business value is decreasing, so you have impact on the operating free cash flow, but concerning the (inaudible) is decreasing because of the environment -- economic environment. So we could not forecast the decreasing of the trend for the next year. So, I could not disclose this information.

A - Thomas Behar {BIO 18964489 <GO>}

And of course you have some sensitivities that you can see in the MCEV report regarding to the forecast you can do on the numbers, can give you some insight about, for example the risk evolution that we can have in the future. And as you know in Solvency II, the fees is part of the own-fund, so it can give you a flavor that what could be the future about this numbers, if you take your own assumptions about the evolutions of the numbers, (inaudible) sensitivities that are on our website in the MCEV report.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. That's clear. Thank you.

Operator

Thank you. There are no further questions. I hand back to you.

A - Thomas Behar {BIO 18964489 <GO>}

Thank you very much. So it was my pleasure to be with you today. And I would like just to tell that it's the last results point for Antoine Lissowski as CEO as we will have a new CEO at the next general meeting. But it's also the last year results presentation for our Investor Relation, Nicolas Legrand and (inaudible) will succeed to him in the next month. Thank you very much, Nicolas, for your participation through this presentation. So thank you very much and have a good day.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.