Q3 2017 Earnings Call

Company Participants

- Luigi Lubelli, Chief Financial Officer
- Spencer Horgan, Head of Investor & Rating Agency Relations

Other Participants

- Andy Hughes, Analyst
- James Shuck, Analyst
- Mark Cathcart, Analyst
- Michael Huttner, Analyst
- Nadine van der Meulen, Analyst
- Niccolo Dalla Palma, Analyst
- Nick Holmes, Analyst
- Paul De'Ath, Analyst
- Peter Eliot, Analyst
- Thomas Seidl, Analyst

Presentation

Operator

Good day, and welcome to the Generali Group Nine Month 2017 Results Q&A session. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Spencer Horgan, Group Head of Investor & Rating Agency Relations. Please go ahead, sir.

Spencer Horgan {BIO 4241901 <GO>}

Hello, everyone, and welcome to our call on the nine months '17. We are going to have around one hour for your questions this morning. We will finish just before 1 o'clock CET. I know it's a very busy day for results today. I know that there is another call at 1 o'clock. So, we will stop just before, to give you a few minutes to switch over.

With that I going hand over directly to Luigi for a few opening remarks and then we'll be ready to take your questions.

Luigi Lubelli {BIO 4108780 <GO>}

Thank you, Spencer. And hello, everyone. Thank you from my side for joining the call with us today.

I hope that you have already been able to see our release this morning. Nonetheless, please let me briefly highlight what I believe are the main takeaways. Our figures and results continue to demonstrate the consistent execution of our strategy and our focus on technical excellence.

Firstly, I would like to talk about our volumes. In Life, we recorded a further quarterly recovery in premiums issuance, as we saw in the second quarter, which has taken our nine months figure back to almost the same level of 2016. Of course, this is achieved while still maintaining our selective product focus.

In flows are strong at 8.2 billion and here too we saw a further reduction in the gap against 2016. Consistent with what you saw in the first half, this net new money is driven by unit-linked and protection products.

Non-life continues to grow steadily at 1.4% with a notable increase in Motor, while Non-Motor is closer to stable, with growth in EMEA and CEE, offsetting some reduction in Global Corporate & Commercial business, especially in Italy.

Moving to technical performance, in Life, the success of our actions to rebalance the new business portfolio has had a strongly positive effect, with overall new business value increasing by 57% year-on-year.

In Property & Casualty, our combined ratios remained outstanding at 93%, despite the higher levels of natural catastrophe losses we endured. Prior year results are slightly larger than in 2016, while as was the case in the first half, acquisition expenses are higher due to our efforts to develop the Non-Motor business.

Lastly in the Holding and other segment, we continue to have a good contribution to the operating results from Banca Generali, as well as from our asset management, real estate and private equity businesses. A further good contribution came from the cost savings at the Group head office.

The non-operating results show the pattern broadly aligned with the first half, contributing positively to net profit growth, thanks mainly to lower impairments and decreased interest payments. As I mentioned in the first half results, a slightly higher tax rate reflects a smaller amount of tax-exempt income this year.

Our bottom line amounted to EUR1.5 billion for the first nine months. And here we saw the effects of the previously announced loss on the disposal of our Dutch business. However, our performance underlying this is a strong and encouraging one. The profit from continuing operations grew by more than 7%.

Lastly, our solvency position has strengthened once more, our regulatory ratio moved from 178% at year-end to 1 95%. And on the full internal model view from 194% to 215%. The improvement comes mainly from the strong normalized capital generation of the Group, which continued at essentially the same pace as in the first half and from variances, mainly as a result of the more benign financial market conditions we have witnessed so far in 2017.

The final ratio then calculated again after deduction of the dividend and accrual, at the pro-rata rate of last year's dividend paid of $0.80.

And with that I'm happy to take your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) We will take our first question today from Thomas Seidl of Bernstein. Please go ahead. Your line is open.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. Two questions, first on -- maybe three questions if I may. The first one is on Life operating result, it's down 15% versus Q1, Q2, you had already pretty high expenses previously for your investment in Asia. So I wonder, what has been driving this 15% drop and what it means for Q4 Life operating income?

Secondly on P&C, you commented a sharp drop in average premium in Italian Motor. I think there is another 50 year of drop. And I wonder, what it does to your underlying profits? You already commented I think that reserve releases are going to be even higher than last year, but at what point basically do you think that this weaker underlying Italian Motor margins are coming through?

And the third question is, could you please give an update where you are on the disposal of the German Life business in terms of process? Are you making progress towards the disposal, how should we think about the situation there? Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Good afternoon, Thomas. So, in terms of the fall in the Life operating results, I would say that basically the expansion of the distribution network in Asia continues, it's something we continue to work on. And it indeed had continued to have an impact in the third quarter, plus traditionally there is some seasonality in this quarter. So it's a normally lower than the previous ones.

Non-Life, in Italy, I wouldn't say there was any major difference in trend compared to the first half. We continued to be very selective in our -- in the choice of risks and in the pricing of them. And actually, the results are very good. The comment I made on reserve releases was -- which by the way, there is only a slight increase compared to a year ago, was not referred specifically to Italy. I wouldn't say -- I wouldn't say that it was a driver of the performance there. In Italy, we are increasing prices and we are observing a certain, let's say, improvement in the overall market environment.

In terms of operating performance, Italy -- I mean it's not disclosed, but actually barring the impact of natural catastrophes, it was quite good in the quarter. So we're actually quite happy about the performance there.

I really have nothing to say about the disposal of the German Life business. You know we are going ahead with a reorganization of the activities in Germany. We have put -- we are putting I should say, Generali Leben into run off. And as we said when the news were communicated, we are open to assess other alternatives for this company, but that's as much as I can say on this one.

Q - Thomas Seidl {BIO 17755912 <GO>}

(inaudible), said this morning that they have already received a couple of quotes, is that also the stage you are at Generali Leben?

A - Luigi Lubelli {BIO 4108780 <GO>}

Look, as I said, I -- that's what I can comment now at the moment. We will have news to report on that we will.

Q - Thomas Seidl {BIO 17755912 <GO>}

And maybe a follow up on the Motor Italian, you've commented in your press release, it's a drop mainly due to the average premium in Motor and average premium are down 20% over the last four or five years in Italian Motor. So, I just wonder what is going on there, are we at a simply lower loss level and hence, this is sustainable or how do you think about that?

A - Luigi Lubelli {BIO 4108780 <GO>}

No, clearly, there has been a -- an intensely competitive environment. As far as we are concerned on our new business, we are increasing rates. So we certainly -- as I said before, we are selling selectively at appropriate prices, and we think the results of that will be seen going on. We are quite happy about the performance in Italy. There is no specific concern there, but there are moments in which the market is more challenging than other and that has been the case in Italy.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. Thank you very much, Luigi.

A - Luigi Lubelli {BIO 4108780 <GO>}

You are welcome.

Operator

We now take our next question from James Shuck of Citigroup. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi. Good morning. I also have three questions please. My first question around the capital generation. So I think previously you guided to around 17 points of operating capital generation across the year. My question is really around the new business profit, because new business profit is up very strongly. So I should presume therefore that the capital generation of 17 points is going to be higher, so if you just clarify whether that's the case and if not, what's the offsetting impacts, please?

Secondly, around the -- I was looking at the (inaudible) and just looking at the solvency ratios in the legal entities, I can see that 2016 by France and Italia have very high solvency ratios at legal entity level, could you just clarify whether you are doing anything to try and release that capital and upstream cash flow to the holding company, and if so, how long that would take?

And then, finally, improvement in the solvency ratio at the nine months, this year there was a benefit from the BTPs. I am not entirely clear how you treat the BTPs in your internal model. Obviously, I am pretty sure, you don't bring them in at BBB level in the solvency capital requirements. But if you could just talk about how they are included and perhaps the interaction with the VA in the period that would be very helpful? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, James. So, let's see, basically all your questions revolve around capital and contribution to solvency. And actually, thanks for the question, because I think it's something that will be in the minds of many today. In terms of the internal capital generation, we basically continued at the same pace you saw in June. So we are basically maintaining the same speed that you saw in June. So I am not making forecast for year-end, but basically we are continuing along those lines, which is, as you correctly say, an outcome of the -- certainly, the main driver is the margins of the new -- on the new business we are writing.

Just to illustrate, although the figures were not disclosed, I would say that that was the bigger component, the relative -- in relative terms the bigger component of the internal capital generation. Then we had the financial market variances and there is also some contribution coming from the fact that we are increasingly applying a very careful selection of investment based on risk-adjusted performance.

You said -- so regarding the other question, the BTPs have a capital charge in our model. And we are using the dynamic VA and we are applying the same reference portfolio as EIOPA.

Regarding the -- what we're doing about the companies, I mean nothing to report now. I mean there is nothing we are specifically doing on France and Italy now, but yes of course we are considering ways in which capital can be upstreamed in greater amount I should say because we already are receiving from this countries a significant part of our total remittances. We are certainly looking at ways and approaches in which we can improve the upstream of capital going forward. And that is something we'll update you about in the future.

Does this answer your question, James?

Q - James Shuck {BIO 3680082 <GO>}

Well, not really. Can I just go back on a couple of things?

A - Luigi Lubelli {BIO 4108780 <GO>}

No, just ask them. What's the part that's remained unclear?

Q - James Shuck {BIO 3680082 <GO>}

So two points, one is, so the capital generation of 17 points that you're guiding to for the current year, did that already take into account a very strong increase in new business value or is the strong increase in new business value something incremental to the 17 points? That's the first point.

And then the second point is, can you actually tell me what capital charge is on the BTPs please?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, I cannot disclose that as part of our internal model, but I -- as I told you, the capital generation from the new business was progressing at the same pace as in the first half. So this contribution was basically similar to what you saw in the first half, the contribution from new business.

Q - James Shuck {BIO 3680082 <GO>}

Okay. That's helpful then. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay.

Operator

Our next question today comes from Michael Huttner of JPMorgan. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. And so, three questions, one on the -- I think the difference between the standard and internal model on solvency is that the three main countries Austria, Switzerland and Spain, I just wondered, if you can talk about the progress on the internal model for this?

And the second is, it kind of relates to the two previous questions, your organic capital generation is clearly very high and that's very attractive. But it's not -- there is still a big disconnect to reported earnings and the reported cash flow. And I just wondered, when you will provide an update of how one becomes the other or how quickly or how slowly one becomes the other? That would be very useful.

The third point, at the six-month's stage, the underlying combined ratio so reported less reservity spend on -- not to the less natural catastrophes, was 92%, at the nine-month's stage is 91.2%. So there this being quite a sharp improvement, maybe I didn't do the math, but it sounds like Q3 standalone is around 90. And I just wondered, which -- where this relates to? How this relates to -- I mean which countries?

And then the final thing is, on France, you've said in the past, your wanted to expand distribution and make it better. And I just wondered what your current thoughts are on that? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Hi, Michael.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

So, with respect to the convergence of the regulatory model towards internal model, I'd say there is nothing new with respect to what we reported as of the first half. As you know, we are continuing to work on the inclusion of Spain, Austria and Switzerland plus the operational risk. And basically, it's the same -- we would hope and think that over the next three years some of these modules will be included in our internal model, but of course, that depends on the approval by the supervisors. So that's basically is the same news as we gave you as of the first half.

With respect to the organic capital generation, this is a legitimate and frequent question and thanks for asking this again, because this, I also think is in the mind of many around the phone. What I can tell you is that, it will clearly translate into larger operating profits and stronger cash generation going forward. This is something we know we have to give you a better disclosure about and we intend to do so with the full-year results, in which hopefully we will be able to address this interest by the market in a more comprehensive way.

You were asking me about the combined ratio, I cannot give you figures by countries. As I said before, basically, there was -- if you compare it year-on-year, I mean I wouldn't over blow this prior year development elements, because basically, yes it was larger but it was not terribly larger. We also had a higher acquisition expense component compared to the previous year. And basically, the two kind of erase each other. So the --

I wouldn't say it distorts the perception of the combined ratio. The combined ratio was affected by natural catastrophes. If you exclude natural catastrophes, the ordinary business, the non-catastrophe business, was actually performing quite well in a few places. So, there is basically the -- simply that the underlying, underwriting experience is proving to be quite good. That's what we see.

Q - Michael Huttner {BIO 1556863 <GO>}

And could you say which places maybe, or give examples?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, for instance, a country I mentioned before is Italy. So Italy has -- I mean we would not disclose the figures, but Italy on its own has an increase in this combined ratio, which is solely driven by the natural catastrophes and other than that, is actually doing quite well. We would have had natural catastrophe impacts in several places. Notably, Germany was an affected country as well. We had impacts on the commercial business from that.

But other than that, the performance -- France is a country -- France is one of -- possibly is one of the -- as was the case in June, is one of the positive swinging factors of the year. France is doing quite well in terms of combined ratio, and it's a large country. So I would say that is clearly one of the positive drivers.

Talking about France -- sorry you can --

Q - Michael Huttner {BIO 1556863 <GO>}

Yeah. No, exactly. Sorry.

A - Luigi Lubelli {BIO 4108780 <GO>}

Talking about France in distribution, -- distribution, what we're doing there is we are taking a close look at the profitability per channel. So we want to make sure that we get good business in terms of risk adjusted performance from each channel. And -- but we are also ambitious again about agents' distribution, so we are quite willing to reinforce our agents' distribution footprint in the country.

Q - Michael Huttner {BIO 1556863 <GO>}

Would you consider buying a large network or is this more piecemeal?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, we will -- I'd say that, for the moment, we are rather looking at organic -- including the agents workforce [ph] .

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. Thank you very much. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're very welcome.

Operator

We will go to the next question, which comes from Nick Holmes of Societe Generale. Please go ahead. Your line is open.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. Couple of questions. First is, wondered Luigi if you could elaborate a little bit more about the benefits of a disposal of the German life book versus a runoff, I mean purely in concept and theoretical, wondered what the attractions would be?

And then, secondly, just looking at your unit linked, I mean this is really booming. And I just wondered, how sustainable, do you really think this is? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Nick. This -- your first answer is one that is honestly, not easy to answer in lack of a concrete example, because it's -- this is only theoretical , if we had a disposal scenario in front of us to compare to, then I could be more precise. I would say that, we clearly have concluded that the runoff is beneficial and we have a very clear idea of the benefits that it will bring overall in terms of how we can manage that portfolio and how we can ensure the resilience to future stressful interest rate environments.

I'm not breaking any extraordinary news by saying that clearly, we would entertain that possibility if whatever came from outside where clearly better than what we -- than what we can do on our own, but at this moment, I'd say, that would be the answer to your question, not having the specific example -- the specific concrete disposal opportunity in -- before me, right. So --

Q - Nick Holmes {BIO 3387435 <GO>}

Yeah. No, that's very fair, fully understand that. Yeah.

A - Luigi Lubelli {BIO 4108780 <GO>}

And the booming unit linked, well, it is. Where can it stop? It's difficult to say, because clearly this is our sales orientation and I -- and as you can imagine, we are very pleased with what is happening, which is nothing but the outcome of -- because you've seen this quarter-after-quarter-after-quarter for over a year now. And this is the outcome of a very precise strategy execution across many countries.

I'd say that, we are having a -- we're especially pleased about the performance in Italy and France. In Italy sales of unit linked are doing specially well, but France is at very similar levels in terms of growth. And look, I think it boils down to the attractiveness of the products and the effectiveness of our network. I said it, for the moment, this is the sales outlook we have for what we can see now, we will continue along this trend. I don't see any reasons for the moment to see any variation in terms of how our inflows will come to us.

Q - Nick Holmes {BIO 3387435 <GO>}

Great. That's very clear. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

Our next question today comes from Nadine van der Meulen from Morgan Stanley. Please go ahead.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Yes. Good morning and thank you for taking my questions. I've got a question on the capital side. So capital comp piece to strengthen the regulatory, yeah, so obviously is now close to 200%, economic now at 215%. And what is your ideal level? Yeah. So, above which level would you consider to have excess? And in that light, perhaps also a question on your leverage. You've commented previously that you -- probably I remember well, were proactively looking at reducing your leverage in the near term. Has that changed?

And then a last question, just a quick one on the investment income, so the current return dropped a bit in Q3, at 2.3% versus the first-half 3.2, what's the particular reason for it and what level should we expect going forward? Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Nadine. Interesting questions, so let's see. Firstly, we have not yet commented openly about a level which Generali considers a number above which we have an excess. This clearly I -- your question is very fair. This is a kind of analysis that we are, as you can imagine, performing internally. I would say that it's good to have to talk about excess capital. So this is something we clearly are pleased about. It's also true that we are, I would say, in the infancy of Solvency II and we have to -- this year looks this way, last year looked in a different way. So there is a certain element of volatility with which we -- everybody has to get familiarized in order to say this is a level above which we would find ourselves in a solid excess.

What I can tell you is that something we certainly are looking at, and it is likely that we will tell you more about this in the future. Actually, I don't recall saying that we were decreasing our leverage. What we have always said that we did not want to increase the stock of that. The factor, given that the equity and capitalization of the Group is improving, that means that gradually -- and actually it's a fact, if you look at our leverage figures over the last three years, they have been falling precisely because the debt has been stable.

But we have not announced any action about an actual reduction of the amount of debt, which continues to be around EUR12 billion.

Your question on investment income, I think you were referring to figures that were not annualized. I would say that in terms of what we are observing in the accounts, as was the case in June, we are experiencing a better reinvestment rate in the Non-Life business. We saw that in June and we're seeing that again in the first nine months. In terms of the Life business, the reinvestment rate continues to be below a year ago, but that difference is narrowing, in the sense that we are seeing an improvement in reinvestment rates there as well, although we have not yet recovered to the levels of the previous year. I wonder if this answers your question?

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Yes, it does. And with the debt reduction, that's exactly what I meant, that during the past, that you wouldn't --

would not proactively take action on that front. And I was just wondering whether in the current situation, your thoughts have changed on this?

A - Luigi Lubelli {BIO 4108780 <GO>}

No, there is nothing compared to previous conversations we had on this one.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Okay. Thank you so much. Very clear.

A - Luigi Lubelli {BIO 4108780 <GO>}

You are welcome.

Operator

Our next question today comes from Mark Cathcart of Jefferies. Please go ahead. Your line is open.

Q - Mark Cathcart {BIO 1891927 <GO>}

Yeah. Hi. In relation to Solvency II excess capital, the key point has going to be what your sensitivity now is to interest rates. And surely, if your sensitivity comes down, and you've got a Solvency II ratio verging on 220%, you've indeed got excess capital. So given the fact that you put Generali Leben into runoff, can you confirm that at least that would decrease your Solvency II sensitivity to interest rates?

The second question is, last November, the CEO gave us a nice pointer towards the cash remitted going up by more than 10% for the full year. Surely you can say that it will at least be 10% given the 53% increase in (inaudible).

And then the final point is, in terms of your disposal program, you're shooting for over a billion. I just wondered where are you at the moment in terms of how much capital you've actually released from the non-core disposals? And can you confirm that it will indeed be nicely over 1 billion when it's all said and done, please?

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. So let's see, I am trying to go back to your question, I mean the -- it's by -- you said by selling Generali Leben or by putting Generali Leben into runoff?

Q - Mark Cathcart {BIO 1891927 <GO>}

Yeah, by putting Generali Leben into runoff, surely that will decrease your sensitivity to interest rates. I mean that's a given.

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, it certainly has increased our ability to withstand the variation in interest rates, because clearly the capitalization in Germany was greatly -- will be greatly enhanced by this transaction. So yes, indeed, we have a greater ability to withstand variation -- the negative variations in interest rates. You had some question on excess capital?

Q - Mark Cathcart {BIO 1891927 <GO>}

Yes. So, I guess that points to the fact that it's going to be much easier for you to show a position of excess capital because the Solvency II level that you wish to be at, say whether it's 210 or 220, before you declare excess, the lower your sensitivity to interest rates, the lower that number can be. So I'm suggesting that actually this is a key issue for you that put it into runoff. So, it suggests that you are indeed now in the position of excess capital.

A - Luigi Lubelli {BIO 4108780 <GO>}

Excess capital depends with respect to what? I mean, clearly the -- it depends where you want to take your questions. I mean, clearly it is evident that the economic solvency of the Group has improved considerably. So that is a fact. If your question is whether that is having -- I'm trying to read your question, if your question is, whether this is having any impact on what we plan to do with respect to dividends, the answer would be, no. In the sense we have a plan. We have a commitment to the market by 2019 and for the moment that will not change.

And we clearly have a business plan update by the end of next year and we'll tell you more about what we're going to do forward at that time. Is that what you wanted to ask, Nick?

Q - Mark Cathcart {BIO 1891927 <GO>}

Mark.

A - Luigi Lubelli {BIO 4108780 <GO>}

Mark. Sorry Mark. I got --

Q - Mark Cathcart {BIO 1891927 <GO>}

That's okay. And in relation to the cash -- the cash remitted, can you give some sort of commentary on the cash remitted please? In other words --

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, you said, something about 10% increase. I don't know exactly what you are referring.

Q - Mark Cathcart {BIO 1891927 <GO>}

It was really a year ago at the Investor Day, the CEO suggested that your remittance was up some double digits amount as at the nine months' stage. I am just wondering, if you could give us similar guidance now to just to confirm that actually your remittance is still (inaudible) away, like it was last year. And so, therefore, meaning your run on track for beating nicely your billion target for the full year period?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. Look, last year, we had indeed a very strong increase in cash remittance, about 20%. So that is something that is certainly a challenging increase to repeat, I would say. Was already very large a year ago. We are continuously and consistently working on increasing our remittance. I cannot tell what figures there will be for 2017, but it's certainly something we aim to raise. More importantly I was answering before another question of a similar nature, we clearly are looking at ways in which the upstreaming of capital from our subsidiaries can be enhanced. Going forward, that's something we are actively working on. And when the right time comes, we will be updating you about that. I am right that you had another question, Mark?

Q - Mark Cathcart {BIO 1891927 <GO>}

Yeah. It was in relation to, where are you in relation to your 1 billion program or just confirming that (inaudible) you would be over 1 billion that you're releasing overall please?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes, look, we have not yet given an update in terms of amount, except for the amount that was known about the Netherlands, which was 140 million. And because with the target -- just to remind everyone, the target we gave was in cash proceeds. So in terms of cash proceeds, we have those coming from the operations, we already sold and -- but disclosure was given specifically only about the Netherlands.

I mean qualitatively what I can tell you, we are, I would say, quite pleased about the way in which the -- sorry, the disposal process is going on. We are working on all the companies we had in mind. We have already announced this year a few transactions and we are confident that over the next few months, we'll be able to announce new developments. So that's what I can tell you so far and we remain confident about what we announced to the market.

Q - Mark Cathcart {BIO 1891927 <GO>}

And when you show your Solvency II ratio that is not pro forma for what has been announced, but not actually completed?

A - Luigi Lubelli {BIO 4108780 <GO>}

No.

Q - Mark Cathcart {BIO 1891927 <GO>}

That's great. Okay. Thank you, Luigi.

A - Luigi Lubelli {BIO 4108780 <GO>}

You are welcome.

Operator

Our next question today from Peter Eliot of Kepler Cheuvreux. Please go ahead. Your line is open.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Had a couple of quick follow-ups, please. And then one new question. First of all, the Life operating result, Luigi, you mentioned seasonality and you mentioned the investments, obviously, seasonality is one-off. Should we expect the investments to fall away as well, or can you give us any guidance to what the underlying performance we should expect going forward?

Secondly, on the economic and regulatory model convergence, you mentioned the three years, are you able to give us any sort of better guidance on -- for the next year or two to (inaudible) anywhere where you are close to securing approval?

And then, finally, can I ask on the 13% growth in third party assets under management. I mean you mentioned, you attributed that to Banca Generali in your release. I was wondering if you can give any comments on how your initiative is progressing that you announced with the Q1 results, and whether you're seeing anything there that you can comment on yet? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. So, yes indeed -- well, you're asking when that will stop. I mean if anything, we are certainly very committed and stepping up our efforts to increase our distribution capacity in Asia. I would say that, if you look at our figures, if you look at our figures, in terms of the new business values, what we are achieving in that part of the world is very encouraging, and actually we expect that to continue delivering goods going forward.

So, honestly, I do not have a date in mind. I mean it's a -- these are large places. Especially, China is a place where we are expanding our distribution in several provinces. I cannot tell you, if that's a small -- faster or slower pace, but for the short-term, I would say, it will continue. I don't have a specific date to give you as a reference. In terms -- as I said honestly and please understand that there is no guidance we can give you on the approvals of internal models additions because they are beyond our control. So that's an ongoing debate we have with the supervisory authorities.

And -- but honestly it's something that's -- it's impossible to give a guidance about. So, what we can give you guidance about is about our efforts. And so, we're clearly supplying all information and evidence as required by the authorities on each extension that we want to achieve. And so, there is certainly no shortage of effort on our side to achieve that, but there are some times that have to be followed and clearly, the supervisors are sovereign in that.

With regards to the asset management, indeed Banca Generali was a very strong driver. Actually, it was the development in assets under management was especially good because basically in the third quarter, we kind of achieved as much as we have achieved in the first six months. So this quarter has been very good on that front.

But I understand your question was about the update on our asset management strategy. We are doing what we said we were doing. So, we are working on securing agreements with asset managers from multi-boutique arrangements. We are reorganizing the companies we have in the Group to -- in this business. We are strengthening our teams and we are reviewing the management line. So I would say that basically -- I mean, it's not being such a long time, it's been basically six months since we announced that, but during this six months, we have been working relentlessly on that. And with the full-year results, we'll shortly be able to give you an update on what we have achieved in the year.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thanks a lot.

Operator

Now, we will move onto our next question, which comes from Paul De'Ath of RBC. Please go ahead. Your line open.

Q - Paul De'Ath

Yeah. Hi there. Thanks. Couple of quick ones from me please. And firstly on the P&C business, Non-Motor is obviously your focus and the expense ratio has increased slightly due to investments to try and grow that business. yet it's growing slower than Motor still. When do you think you can -- we can expect to see some positive growth coming through in Non-Motor? And that's question one.

And then, the second point was just following up on the 1 billion of cash proceeds target. And I am not sure whether you will answer this, probably not, but is it possible to know whether or not a sale of Generali Leben is within the plan to get to 1 billion or whether that is on top of these plans? And so, if you sell Generali Leben then -- during the year, you are going to be well over 1 billion? Thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Paul. Let's see. The fact, the two things are not necessarily related, in the sense that Non-Motor includes both the retail business and the commercial business. So commercial business this year is falling and that's especially pronounced in Italy. And so that clearly detracts from the development of the overall figure of the Non-Life, Non-Motor business. For instance, that business is progressing very well in the C, in terms of development, it's developed -- it's developing very well in Europe Assistance, in terms of figures.

So, we are actually achieving results and in Italy, we're certainly making efforts in terms of products, in terms of customer awareness, and in terms of incentives to the network. So similar efforts, we're also undertaking in France. So, we're actually confident that we will achieve that, but as I say, the lever of the G&C business is such that if it decrease this year, it overshadows whatever improvement we may achieve on the retail side.

Regarding your other question, Generali Leben sale was not contemplated at the time we announced our targets, so clearly would logically be on top of the amount we announced.

Q - Paul De'Ath

Excellent. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Welcome.

Operator

Our next question today comes from Nicco Dalla Palma of Exane BNP. Please go ahead. Your line is open.

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

Yeah. Good afternoon, everyone. So my first question is on the new business value. You comment that the improvement is also a result of the economic scenario, which is showing a slight recovery. Does it mean that financial assumptions changes did have an impact in Q3 unlike H1 or does it actually mean your operating assumptions improved for all the nine months, thanks to your economic scenario? I am trying to (inaudible) both the financial assumptions that changed or the operating ones as effect of the economic scenario?

The second question is, could you share even if the -- via ranges or indicatively what the duration assumptions are roughly for hybrid products and did they change at all following a couple of years experience or now three years of experience of selling these?

And thirdly, on products, we clearly know the names of some of the flagship products you're selling in Italy from Valore Futuro, Equilibrio, Valore and the new Peer. Is there anything you can tell us in terms of mix of inflows on these, just to understand, is it Valore Futuro still taking the lion's share or if the others are now having a good success?

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Niccolo. So, I'm afraid your questions maybe a bit too detailed in terms of the level that we cover here. In terms of the assumptions, I would say, that we gave you some information as of the first half. And you have variations by quarter, but frankly, they were minor and they were erasing each other. Year-on-year, the reality is that management initiatives are overwhelming in the improvement of the margins. In terms of financial assumptions, are marginally helping if you compare them year-on-year, but the lion's share, and it's the best way to say, to Generali comes from management initiatives.

I'm afraid that the questions you're asking on the products are a bit too detailed, and some of them are proprietary. So I cannot necessarily disclose them. What I can tell you is that, we are very pleased with the performance of the products we launched this year. They are doing very well. We are especially happy with the sales that, for instance, we are achieving through Banca Generali, for instance in terms of distribution channels, but generally speaking throughout the network, we are very satisfied about our sales performance.

Third quarter was a good quarter. The response of the network and the customers to our products is very good. So, actually Italy is one of the countries we are most pleased about in terms of performance this year. And clearly, the new products play an important part in that.

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

If I could just ask, the -- when Banca Generali sells life new business, that's not included in the life new business value of your Life division, right, because it's -- it's in the other part? Just understanding both for new business value and for inflows, is it included even though the profit goes in the other divisions or not?

A - Luigi Lubelli {BIO 4108780 <GO>}

Look, obviously, to the extent that it's a Generali company underwriting the business, it is.

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

But then the profits would end up in the non -- not in the Life division, but in the others? Just understanding, because I -- so we have the new business value in Life --

A - Luigi Lubelli {BIO 4108780 <GO>}

There are two lines of business, one is the insurance companies and the other is the bank. They contribute different streams of profit to the consolidated accounts. So whatever pertains to the Life -- to the life insurance companies is reflected in the life insurance company, and which is generated in Life. And then, clearly, there is a stream of revenues that the bank is obtaining, especially in terms of fees and that is reflected in the Holding and other activities line.

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

So that means that when you single out Banca Generali in operating result, it's not everything. There's other bits that goes into Life business?

A - Luigi Lubelli {BIO 4108780 <GO>}

Of course, we only reflect what comes from the bank's accounts as consolidated into our accounts.

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

Okay. Thanks.

Operator

We now take our next question, which comes to Andy Hughes of Macquarie. Please go ahead. Your line is open.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. guys. Couple of questions, one on the P&C business, I guess I struggle with the 93 combined ratio and the kind of rather weak top line. Is your combined ratio coming from (inaudible) business you sold two or three years ago? And the kind of new business you are writing is less profitable, because obviously if you are saying this is the way, it's suggests there is a level of competition in the market, which means you're making huge margins on the P&C book?

And the second question was about capital and dividends into Group, which I think a lot of people are focused on. I would so Generali had a kind of heavy guarantee, the Italian business is running off generating huge amount of surplus every year. And you suggest that that's not the case, that a lot of your surplus generation is coming from this, basically on new business, which opens up two questions, one is the kind of surplus you are generating on the Group level is from this, that really is a going to turn into Group dividends anytime soon because you are hit by the local GAAP restrictions on paying dividends back to Group?

And the second is, the quality of capital will be deteriorating as well. So to what extent should we actually look at this Group Solvency ratio and the operational cash generation that you are producing? Because it doesn't seem entirely relevant for any dividend metrics that might come out at any point. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. So good afternoon. Andy. Let's see. You struggled to see it and I struggled to see your point. So, what I can see is that firstly, our premium volumes are growing and that is a fact. So, overall, I wonder if you are actually referring to a specific country, but overall, Generali is growing and this growth is coming especially from the Motor side and that is a fact. So our top line is going up.

So, secondly, as you know, we have been focusing on our technical excellence which is a manifold in terms of aspects we are touching. It's a matter of selection, it's a matter of pricing, it's a matter of handling claims, it's a matter of service provision, it's a complex multi-pronged effort that we are undertaking in this business.

And, if anything, what we are seeing at Generali is an improvement in the underwriting -- not only an improvement in the underwriting performance, we are also seeing a resilience in our underwriting performance because actually, we continue to remain steadily at levels which are industry leading. So from my point of view, actually, we do have both growth and underwriting performance improvement.

Competition, there is and there always will be. And it's a different levels in various countries. Somehow I sense that you may be referring more to Italy, perhaps because indeed Italy is a country where we -- it's basically the only place where we have seen a Generali -- Italy and commercial business are the places where you are seeing material contractions in terms of premiums, which as I say, are more than compensated by growth elsewhere.

But even in Italy, even with the reduction in premiums the underwriting performances is very strong. Actually, one of the strongest we have in the Group. So, I just don't -- I do not understand what angle you are coming from.

Q - Andy Hughes {BIO 15036395 <GO>}

Well, as you say, Italy is fine, if it's got a very good combined ratios, why are you shrinking the book?

A - Luigi Lubelli {BIO 4108780 <GO>}

Look, it's not that we are intentionally shrinking the book. We are selective in the business we buy. So we are not prepared to write business at any price. And so we focus on maintaining the quality and the technical result of our business and we are quite determined at that and we prefer to add some business, if it's not good enough for us. That's what we're doing in Italy. But we are not deliberately shrinking the business, not at all. We are as competitive as it gets at the right times.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. And on the capital side?

A - Luigi Lubelli {BIO 4108780 <GO>}

So on the capital side, I have to say, I also have some confusion there. Look, we do have a good business from the past, yes. It is generating profits., yes, as well, but we are also and hopefully it's showing powerfully, I would say in our figures, we're also working on writing new business that will be even better in the future. The business is better because it's between mix, it's better in terms of loadings, it's better in terms of guarantees and it's less capital consuming than the business we had in the past. So it's true that Generali has written very good business in the past, but it's also true -- I mean actually in my humble view, if anything, we are laying in a very structured and precise way the grounds for an even better profitability and internal capital generation going forward.

So if this, as we believe will deliver the outcome, we are writing the business for, it will certainly have great internal capital generation, which means will add Tier 1 to the Group. And as I said before, eventually rather -- over time rather than eventually, this would also translate into greater capital generation -- I guess cash flow generation and remittance from subsidiaries.

You are right in pointing out that I shared with you that there are local restrictions to that, but I think also in that regard, we have quite some consistency in terms of the increase in remittance over the last year.

Q - Andy Hughes {BIO 15036395 <GO>}

I'm just trying to work out in terms of your comments about how the Group capital generation is coming from new business and this, contrasting that with the fact that the inter-Group transfers I think are coming from the back book, where the earnings are coming from. So, I don't dispute with your comments about the nature of the business you are writing today, but what I don't see is the connection between having a (inaudible) contract which makes profits over the next 20 years, and how that would necessarily contribute to high inter-Group transfers even though it adds to a little bit of surplus generation at the Group in terms of Solvency II. And so I guess my point is that, although you are adding Group surplus, are you really adding inter-Group dividends?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, that's what I was trying to answer to you before, in the sense that, I mean, if you expect the new business volume to be on day one cash and immediately remitted upwards, that's not going to be the case. So, that is -- but that I think is fairly obvious. The -- what we are working on is on laying the ground for a consistent recurring and increasing cash remittance from our subsidiaries going forward. But, of course, it takes years to do so. To some extent, the recent element in which -- which I wonder if it answers your point, but it certainly is a case, of course, let's say that you had some restrictions on your ability to -- let's, say you have the cash, but you are restricted in your ability to upstream the cash because of capital, clearly, if you generating more capital -- but we are talking at local level here, going upwards, clearly if you are generating more capital locally, it does increase your room and ability to use the cash flow for upwards payment. I wonder if that answers your question?.

Q - Andy Hughes {BIO 15036395 <GO>}

I mean, I didn't -- I think we are kind of agreeing with each other anyway, but all I am asking for is when you do reveal disclosure on the capital side, if you could do something that would give us a hint as to how we can get through remittances because adding more VIS [ph] at the Group level or even adding more VIS into the capital locally isn't necessarily going to drive the remittances higher. It's things like what happens is, assets are in Germany, what happens locally -- obviously as James pointed out before, you've got some pretty well capitalized local subsidiaries, if you write more Italian Life business that has big VIS, is that going to translate into bigger dividends from Italy? I'm not sure in the short term it does. And so that would be very helpful.

Okay. As I said in the beginning of the call today, that point is well taken from the contribution of the many of you to the dialog with us in this and in previous meetings and we will -- we're working on an enhanced disclosure for the full year results so to help you understand this better.

Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Welcome.

Operator

That will conclude the question-and-answer session. I would now like to turn the call back to Mr. Spencer Horgan for any additional or closing remarks.

A - Spencer Horgan {BIO 4241901 <GO>}

Yeah. Thank you everybody for joining us. As I mentioned at the beginning, we do need to draw the call to a close now. I know there are still a couple of questions in the queue that we didn't get to, apologize for that. But obviously myself and the Investor Relations team will be happy take your questions afterwards. And with that, we wish you a good rest of the day. Thanks. Bye

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.