Y 2019 Earnings Call

Company Participants

- Antimo Perretta, Chief Executive Officer, AXA Europe
- Etienne Bouas-Laurent, Deputy Chief Financial Officer
- Gerald Harlin, Deputy Chief Executive Officer and Executive Chairman AXA Investment Managers
- Jacques de Peretti, Chief Executive Officer of AXA France
- Thomas Buberl, Chief Executive Officer

Other Participants

- Catrin Shi, Acting Managing Editor
- Maya Nikolaeva, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, everyone, welcome. Thank you for attending the presentation of the AXA France. The presentation will be followed by a Q&A session, you can ask questions through the webcast, but the priority will be given to this room here.

Over to Thomas Buberl. Thank you.

Thomas Buberl {BIO 16182457 <GO>}

Good morning, everyone. I am very happy to be in front of you to present the results of the Axa Group for 2019. As you will recall, 2018 turned out a year that saw action, a landmark year. 2019 was certainly the implementation, the execution of our strategy and the continuation of our 2020 Ambition, which consists and is based on two pillars. The Focus pillar and the Transform pillar. You noticed that on the Focus pillar, we managed to have a beautiful growth in targeted segments, especially health, protection and commercial lines.

Now, on the simplification front, we made good headway, you have seen a few disposals, you have seen how we've simplified the organization and all of this took place in low rate environments. But very clearly, we have shown that the solidity of our balance sheet is right there plus 5% in terms of Solvency II. And at the same time, we reduced our debts.

Regarding the Transform pillar, you certainly noticed that we made progress with respect to the change in our risk profile, with the disposal of equitable holdings in the US and the transformation as well, of our Life business in Switzerland and of course the integration, the onboarding of XL, definitely we did change our portfolio, our risk profile towards far more technical risks.

Additionally, we work in every large market towards satisfying our customers, I am extremely pleased to see that today, we are at 75% of the markets, which are at the average of the market or above, plus 21 points, which is very good. It's very much related to our efforts relating to innovation. You certainly noticed that our partnership with ING is making progress, we've done a lot when it comes to the vertical integration in Mexico, in Egypt and certainly, when it comes to the climate element and the parametric insurance there, we have really made good moves.

All in all, the performance is quite solid. You can see once again here, the revenues, up by 5%. We are really proud to see that the top-line is moving so much in the right way. Note the underlying earnings per share also plus 5% as I said earlier, so the solvency ratio during a low rates period plus 5% again, and will offer it to our shareholders a dividend rise of 7%, which leads us to a dividend at EUR1.43.

Now, if we look at the top-line in specifics, I said plus 5% all in all, but that plus 5% is truly speaking driven by our focus on our preferred segments and those preferred segments today account for about 60% of our business. Truly, this is the heart of our business. I am very proud to see that commercial lines are up by 7% health, plus 6% and protection is up by 4%. These figures, I am very proud of these figures. So all of this occurred with an improvement of our technical profitability or return out of -- in every field with P&C, health and protection.

This -- these underlying earnings driven actually by every entity. AXA very clearly is very strong in France and I'm really happy, I'm very proud that France once again has contributed substantially to the success of AXA. We are at plus 9% and Jacques de Peretti is with us. He will delve more into the details and see how we drove these plus 9%. Europe also is very solid, plus 1%. However, in Europe we have done many changes, I mentioned just before the transformation of our Combined Life business in Switzerland, there we conducted a major transformation. This is why I am very proud of that result.

The Asian markets, as well as international markets now which we combined here, is there, you see very strong growth, plus 6% and this is never very easy. This is about markets that by nature are far more in the whipsaw effect, I am very proud to see that we made good headway there now AXA XL. We are at EUR0.5 billion, that's a major rise of revenues compared to last year with XL. We are in a phase where we have a significant rise in prices. This is key that we continue approach our profitability and making sure that our portfolio at XL is a profitable one.

Now looking closely at our business in terms of changes in our portfolio, I spoke earlier on about disposing of AXA Equitable in the United States. Now, we listed that company in

2018 and we gradually moved out of that business, well last year in December more specifically, we fully moved out of it.

In other words, it was a key pillar in order to change our portfolio towards technical risk and which are less financial or in the investment arena, we also mentioned that we would cut back on our debts which temporarily was last year 32% and you noticed that right now at the end of 2019, we are at 29%. And our aim is very clear, we want to even further deleverage down to 25%, 28% and when all these transactions that we carried out, there is no doubt in our mind that we will achieve that.

Regarding XL now it's a beautiful business. The strategy of having bought XL was the right one. And you can also see in the market today and even in the French market, by the way, that large risks are attracting some interest. We were the first ones who went into this. And right now, we have completed the operational onboarding or integration. And as I said, the environment is such that we now have some experience of Nat Cats, which sometimes is higher than what we expected. At the same time, we see some very strong growth in terms of higher prices. We noticed that AXA XL's revenue has risen by 10%, which is great and since we are also leaders in that segment we are the largest in that segment. Therefore, we have the power to implement these price hikes which are necessary. The EUR0.5 billion as indicated is colored to a large extent by Nat Cat events. This is the reason why we've taken three key decisions. The first one is the price hike, you saw first effect in 2019. We want to continue with this approach in 2020 and we can certainly see in January that such a price increases are we continuing plus 10%. If we take the 2019 revenues it shows that we will see the positive effects in 2020. The second decision that we made was about how we can even further reduce risk and volatility, you noticed that we cut back on, no exposure to Nat Cats.

We also cut down on our exposure in terms of liability, and we bought reinsurance coverage to even be better protected against volatility. All of this will lead us to a forecast for 2020, EUR2.2 billion XL. It's EUR1.2 billion, actually. I said that we worked very -- a lot and we were able to satisfy our customers, and especially when it comes to ideas and highly innovative initiatives. At the heart of our strategy there's a (inaudible) to partner thought. In other words, what can we do to go even beyond the payment of claims or of builds towards a real partnership with our customers, clients and I am very proud to see that we've made good progress on this either in emerging countries, where we work towards vertical integration in medicine, such as in Mexico where we created clinics in order to help our clients for better medical care. And now the partnership between ING and AXA in Europe is very strong and highly innovative. It is a highly digital partnership, which is very much connected with the new customer needs that are emerging, and especially when it comes to the weather or the climate we shouldn't only be paying the Nat Cat claims, it's also key to work and develop new solutions and with the AXA Climate, certainly in the Parametric Insurance, we're working a great deal in developed countries, but also in emerging countries on how we can better cover farmers and make it easier for their lives.

Another key topic for us remains the so-called social commitment. AXA is -- as an insurer is at the heart of society of business is about diversifying risk, combining mutualizing and through this we are also a major social player. Certainly, one topic which is very strong in market today and it's about fighting against climate change and we are directly concerned, but we are also into action on two fronts. On the one front, we are working on the issue of insurance coverage and you notice that we announced once again in November 2019, some disruptive steps in order to really focus on how we can support such climate change, and supporting a much greener solutions and really break out the auto, I mean, take the call out of the insurance and out of our investment portfolio in the first phase of that approach.

We have already made important moves with our investments. We have move -- we have moved out of coal and we have reallocated these resources and even more into green investments. And in the current phase, we are focusing on the transition, in other words, how can we help energy producers from moving from coal towards gas, so that we can really continue with this approach that we initiated.

So all taken together, we are on track of Ambition 2020 which we launched in this room, in June 2016, and which we will complete at the end of this year.

We have four targets. The first target was the underlying earnings per share must grow between 3% and 7%, and today between 2015 and 2019, we are at 5% right in the middle.

Now on -- operating free cash flow front, we have a range between EUR28 billion to EUR32 billion and as accrued at the end of 2019 we stand at EUR25 billion. In other words, with one more year, we certainly, we are in a good position in order to hit that target.

Now, on the profitability front during this and -- we have increases ambition. Right now, we want to be between 14%t and 16%. We had quantified 16% already at the end of 2019. In other words, we're very proud again that we are standing there and I've talked already about the solvency issue. We have gained 5 points in solvency in low rates environment, which is never very easy and I'm very proud of having 198% of solvency.

Thank you very much for your attention. I will now turn it over to Jacques de Peretti, who will present to us the good results of AXA France.

Jacques de Peretti {BIO 18970697 <GO>}

Good morning, everyone and thank you for being with us today. So I will be presenting to you the performance of AXA France. Thomas told you, we had posted a fine performance, so unsurprisingly, we are on track with respect to growth of our gross revenues and of our underlying earnings.

Let us start with the top-line up 4%. What can be said is that it is driven by the so-called preferred segments that is Health up 6% and 6% growth is very much balanced for both Individual and Group insurance. And the 6% growth for Group insurance is posted internationally with a good development in countries. Life and Savings, up 5%, this is driven by growth in Savings by 8%, which in the sluggish market is very fine performance but what can be noted is that the structure of the Savings business is very much favorable, 38% is our diversification ratio and we've increased our gap with the average amount of the market, which is 11% this year.

With respect to Protection business, it's a complicated market, as you know. To grow fast, we have posted a 5% growth in 2019, which again is very fine performance. Now P&C business is stable because basically it is a result of three different situations. First, we combined with the Group strategy with the Commercial P&C, we've grown 5%, which again is fine performance in this market and we are delivering the result from synergy with XL collaboration and the breadth and depth of the supply, with our tied agents. Now with respect to Retail or Personal lines, we have achieved stable profitability because we don't want to engage in a price war, even though we've started to increase the prices. Now finally, with respect to the international business, we have a continued selective business development strategy. Now with respect to underlying earnings, up 9% following a growth of 10% in prior years.

So AXA France can deliver earnings over time, as can be seen here. This is driven by the P&C business, up 24% and looking at the combined ratio, the combined ratio has improved by 1.6% reaching 90.7% which possibly the best combined ratio of AXA France in its recent history. And this fine performance of 1.6% is driven by two things there. First, current ratio is up 0.5, that is loss ratio down. This is a result of the selective underwriting policy. Then the expense ratio is down by a 0.5% which is the result of the hard work we've done on savings and organizational streamline. And 0.5% is driven by best prior-year development experience. In the Health sector, we are slightly counter performing, minus 17%, down 17% in Health and this goes back to what we said about the top-line. We've engaged in an ambitious growth policy in the Health segment and we want to gain market share, whatever they were internationally and we conducted the sales and marketing investments to take up positions and this is why the top-line internationally grew at 12% on contracts which are renewable contracts. As of January 1, we took corrective measures to make sure that the combined ratio next year would be in line with the previous year's level.

And then Life and Saving business, we grow our profitability, thanks to in fact the protection and even the increase of our investment margin. Many thought that investment margins would go down. While, you can see that at the end of the day, they keep increasing and we have a high degree of confidence for the future. So much for the numbers.

Now let us go into some of the reasons, which have driven such high-quality numbers. All this is based on the hard work and efforts of the AXA France teams, which focused on three areas. The first, clients, although on downside, we are fully convinced that customers and clients will be at the core of how we manage our business and serve societies at large, we took a couple of initiatives.

The first is personalized management of claims. What does it mean? It means that claims now are managed by one and only one person, one advisor from A to Z, which is a true evolution in the way we do things and organize ourselves. We started implementing this process in 2019. Today 500 advisors work in this way. Midway through the year, all of our claims handlers will be working in this proactive and personalized claims management, which will improve the standards of quality serving our clients and customers.

We also have implemented new tools around the telemedicine service. We pioneer the way in this field, we extended this to a specialist medicine. 30,000 customers called upon our telemedicine services last year and 30,000 customers have expressed their degree of satisfaction to the level of 95%. We also took advantage of the French PACTE law being introduced to introduce a new tool, unprecedented tool in the market, which is called Ma Retraite 360 that is My Retirement 360-degree view, which gives individuals good visibility on their pensions. 40,000 customers of ours have used this Ma Retraite 360 tool within just two months. The last point of great importance according to us is in addition and above the digital and IT tools that we've introduced, and you can see we are innovative, we truly believe that what our customers and clients expect is the best type of local advice and consulting. So we decided to strengthen our local presence, we recruited 200 tied agents, three times more than fiscal 2018. I'm very proud to say that our network of tied agents is growing.

Now simplicity is the second pillar and the second area of focus as well as innovation. As Thomas said, we need to present simple solutions to our clients and customers, which foster buy-in. Just one example, the Mon Moteur Solution that is My Motor Insurance, which was introduced last year which groups together all the products in existence, providing offline and online management. So easier to use, great success, great appeal with our customers and clients this year. The AXA France Motor portfolio is growing positively net by some 25,000 contracts. We also worked on digital technology tools to gain some additional market share. A few words on the so-called PER contract, which involves simplifying our supply, we had Article 83, the Madelin, we had the PERCO, we had the PERP solution. All these were groups together into one and a single PER solution. We are the first ones to introduce it in October last year. It was a great success. We enjoy a great market share in Savings. It was indispensable that we hit the ground running with this reform, which is key in the French -- in the field of the French pension landscape. Last point, last pillar, this harks back to what Thomas said about social, and societal and community commitments. We have the true belief that we need to be more present and more dynamic share with our communities.

AXA has a role to play to serve our communities and our environment which is quite fragmented today. We want to play a key role and this has been our DNA ever since former Chair Claude Bebear. And our employees are more and more engaged day-in, day-out in such initiatives. Last year, for example, we had 11,000 employees of AXA who committed within the AXA and took initiative with the community grassroots organizations 40% more versus prior year. We also wanted to go beyond the iconic landmarks like Louvre Museum or the Chateau de Versailles and go to engage with white spots of France and we worked with the so-called Mission Ban [ph] which is a Heritage Action Foundation and we've been a financially contributing to restoring churches and historical monuments.

And the last word about AXA Prevention. AXA Prevention celebrating its 30th anniversary, EUR10 million in its annual budget and it's aim and cause is to raise the awareness of the French people on the trivial and day-to-day risks and we focused this year on the hyper-connectivity and the risks of a hyper-connectivity while driving.

Let's watch a short video which we found very impressive.

(Video Presentation)

Why are you only asking children to look in front of them? We will learn the right gesture. There is no reason why you should forget them while driving. Motorists, two-wheelers, pedestrians, you know you have the life in front of you. Look above and look around, look up. Well, thank you.

I would like to turn over to Etienne Bouas-Laurent, now.

Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thank you. Well done for this performance, we are all very happy about this. Let me review things through geographies by starting with Europe. Europe means Europe without France, of course. In Europe, we have a growth of 4% of our growth, which is solid, which is well balanced among our three lines of businesses, starting with P&C. And to illustrate this, I have chosen the main contributing countries towards our results and revenues starting with P&C Great Britain sees a rise of 4% driven by volumes and price, especially in regard to Motor. In health, we have a rise of 4% driven by Germany, thanks to very positive price effect. By the way in Germany, we are the fourth player in the market with the share market of about 5%. And in UK, we are number-two with 8% market share. And lastly, in Life and Savings plus 6% driven by Italy, thanks to unit-linked contracts. We have a balanced production between the general account and the unit-linked accounts through multi-support contracts. In the unit-links, we are ranked six.

Moving on now to our underlying earnings. It is up by 1%, driven by P&C, where we see a combined ratio down by 1.2 points at 93.2% which is a very satisfactory level. It is driven both by the current loss ratio down by 4%, and we have 0.8 points down, thanks to Switzerland.

In the Health business and in Life, we are down, but mainly due to non-recurring elements. In the Health business, there was a very positive experience in regard to claims losses. And in costs -- in the PPP in the UK, which is not back again but the profitability remains quite strong there. And in the Life and Savings business, we have been impacted by the transformation of the health model in companies following a transformation that we initiated in 2018, such a change aimed to transforming companies, AXA Winterthur, AXA Switzerland moving from an insurer bearer to a some -- an insurer who manages risk, so that we reinforced the return on investment in business. So very solid whole set.

Now, Asia and International markets. The 5% rise in our top-line and as we saw in Europe as well, quite even by lines of businesses, starting with P&C up by 5% driven by Turkey. In Turkey, we're the fourth player there. Market share is 7% there. So very strong growth there, which is due not only to volumes, but also to very higher prices.

Health is sharply higher at plus 8%. That growth is underpinned, thanks mainly to Mexico, which is a country where we are ranked second with the market share at 18% in Health, a very strong dynamic in terms of business and prices as well. And by the way in the Health arena, we are also developing a model of vertical integration with hospitals and we do this in partnership with the specialized player from South America.

And lastly Life and Savings plus 3% with a strong contribution by Hong Kong, especially in regard to Protection, such growth was obtained, obviously, in the first half. Now the second half as you would suspect was slightly disturbed through the demonstrations there. We are now facing in that market an overall slow down of business related to the coronavirus outbreak. And for us, it's an opportunity especially when it comes to Health to show our commitment and our quality of service with our customers, but all hospital personnel and were very present there. We are increasing coverages by topping free of charge and our client contact platforms are up and running constantly, even if administrative personnel work in a network based at home.

Now, the underlying earnings are up by 6%, with very strong contributors in P&C and Health. In the P&C sector, the combined ratio is down by 2.5 points to reach 97.1%, chiefly thanks to positive results previously.

Now on the Health side plus 16%, it's also very sharp increase. The Japanese contribution is quite decisive now on Life and Savings. We are down by about 3% mainly due to China, which is at this stage, at least that was the case up until last year, where it saw a rise in its investments, in distribution networks of ICBC, our partner, the bank and of asset management all of this, through our common subsidiary with ICBC, which specializes in life insurance. This is what I could share with you about Asia and the International front.

Let's now breakdown XL, revenue at EUR507 billion -- maybe in euros. It exceeds what you had last year, slightly below what we expected this year for three main reasons. The first one, it's a level of expenses due to Nat Cats, which exceeds by EUR300 million or what we expected initially, and what the models were telling us, which take into account several scenarios. The second thing, it's a deviation of the claims loss due to so-called social inflation in, especially in the US and also there is a high cost when it comes to large claims that we saw throughout the year.

There is a very dynamic element, which is the price hike, revenue up by 10% which is a very sharp rise in the Commercial lines. It's driven mainly by higher prices on average, as you can see prices increased by 8%, those 8% do not reflect the momentum in terms of the rise we saw quarter-after-quarter, and you see that in the fourth quarter, we were at a 4% rise in 8% and 11% and 14%. So this dynamic therefore is extremely brisk and in the number of lines, the most hard hit such as liability in North America. Prices in the fourth quarter were up by about 29%. In terms of commercial liability North America plus 19% and that rise is gaining momentum in the first quarter this year. So obviously, it's quite dramatic. It does amount to a catch-up relative to cost deviation, but it's also a source of future revenues that is noteworthy. Most of these price hikes are not reflected in 2019, but will have a negative impact this year 2020. Reduce volatility and risks, were one of our priorities. We have seen that in the fiscal 2019 volatility was high versus our expectations and we took two types of measures. The first is that we reduced our exposure to property Nat Cats both with respect to primary insurance coverage and reinsurance coverage as well. We also reduced our capacity across casualty and liability lines, especially in the US, in a market where capacity is being reduced by some 25% currently, which is quite significant, which basically makes it possible to restore profitability levels.

Now the second measure we took is that we showed up our reinsurance coverage on two areas. The first was to have a gross quarter share reinsurance across all commercial property losses. The second was reinsurance coverage to avoid the cumulative impact of large losses in excess of the thresholds we experienced this year, that is in 2019, which appeared to be very high to us.

Now finally, with respect to AXA Investment Managers, our assets under management are up 10% to EUR801 billion. This increase is mainly due to market effect, but also all to a positive net inflows. There is a slight drop in our top-line, mainly due to the non-repeat of exceptional commission fees, despite cost reductions. So I just want to mention here a specific feature of AXA Investment Manager. This is the very high share of alternative investment on the order of EUR131 million growing constantly by 13% percent this year makes it -- making us the leading player in Europe, especially in the release -- in the real assets, but also in structured finance operations. What is of importance for any insurance carrier today is to have access to unlisted classes of assets, which gives us a competitive advantage with this business operation, which has a standout from other players in the market.

Now all-in-all, and so that you have a comprehensive view and to give you visibility by market and by business line, what can be said here is that first growth of underlying earnings. If you take the buy market view has been driven by France as Jacques brilliantly explained to us a few minutes ago, as well as Asia and International business. Now if you take the buy business line view, you can see that the P&C and Life & Health, sorry, have been driven -- have been driving underlying earnings upwards while Life and Savings is holding firm. The rise in underlying earnings is 2% with a like-for-like ForEx.

Now net income is sharply up by 75%. This very sharp increase is mainly due to the non-repeat of goodwill amortization effects due to the exiting the Equitable Holdings of last year. Now, looking at the underlying earnings and the net accounting income and you have the waterfall in the middle, the main items we usually have some EUR400 million in net realized capital gains and mainly due to the disposal of buildings in France and in Belgium.

The second item is a change in fair value of derivatives, one-third being connected with equities, because we have hedges against all -- on our equity exposures for one-third of the impact and the counterparties that we have unrealized capital gains going up sharply because the market value -- when the market values up the value of derivatives is down and the impact is positive, when you add up at the net income and the balance sheet. The second item is the ForEx, same mechanism, the euro depreciated and the value of our derivatives went down but the balance sheet and our income has taken the positive impact due to these ForEx, and then we hedge our interest rates on the AXA debt so lower rates. This is on fixed rate has had the cost to us. Now the third item is that of exceptional discontinued operations, mainly connected with the disposal of AXA Belgium Bank. Axa Life Europe and the deconsolidation, this is a major impact of AXA Equitable Holdings in the US.

Now you have integration and restructuring costs, which are accounted for as net income and this year they are mainly originating in the XL integration. The key item is of course dividend payout. You can see that dividend payout is up 7%. This is a growth rate in excess of that of our underlying earnings per share, which is up -- which are up 5%, which illustrates the high degree of confidence we have in the recurrence of our earnings and the fine future growth prospects, as well as the robustness of our balance sheet.

Now this robustness of our balance sheet, which is illustrated in a number of key financial indicators. The first is the increase in our shareholders' equity upper EUR7.5 billion mainly due to the increase in the value of our fixed-income proceeds and our equity investments. Now return on equity up to 16% from 14%, despite the increase in shareholders' equity, which reflects the transformation of the company's operations, fewer shareholders equity consumed for more income. Solvency ratio up by 5 percentage points from 193% to 198% in the low rate environment. And thanks to the exit from Equitable Holdings and the good operating return. And this ratio is in the middle of the bracket as part of Ambition 2020. That is in between 170% and 220%. Finally, you have financial ratings, which remain extremely stable. We are AA minus with a positive change with Fitch, which placed us in a positive outlook in 2019.

Thank you very much for your attention. Over to Thomas Buberl now.

Thomas Buberl {BIO 16182457 <GO>}

Thank you very much. In conclusion, you notice that 2019 turned out to be again a successful year in the implementation of our 2020 Ambition, 5% growth in revenues, 5% growth of our underlying earnings per share with a balance sheet extremely solid, plus 5% solvency ratio, which means that we are on the right track towards the expectations of Ambition 2020, which will end at the end of this year.

Thank you so much for attending and we now move to your questions.

Questions And Answers

Q - Maya Nikolaeva

Maya Nikolaeva of Reuters First question about your ambitions for the ROE. You noted -- I didn't understand, well, do you think that 2020 could be a higher than 16% or not? Second question on the coronavirus outbreak, you spoke about the Health field. Could you give us further details about this business you have in Asia, the revenues? How many complaints have you had in the past -- or claims she means probably, and for other products? Do you have any claims going from corporate clients or private or retail. I have in mind tourist insurance or insuring cruises. We saw the situation in Japan, are you Impacted by all of that? Thank you very much.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you for your two questions. I suggest that the first question be taken care of by Etienne. In regard to the 16%, I think 16% is already a very lofty level but Etienne will shed some light about the fact whether we can do better or not. Now on the coronavirus, I will take that question after Etienne's answer about the return on equity.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Thomas, I think you also said exactly what I meant to say. So 16% is extremely high on an absolute basis and on a relative basis. So displaying that kind of performance is extremely satisfying. At this stage, it's not about imagining that the ROE will be moving up to the sky in the context of low interest rates and of the current competition 16% is quite satisfactory. Now, as an aside about the coronavirus before Thomas addresses this, I was mentioning as a matter of fact, this topic in my presentation regarding Asia, especially when it comes to Hong Kong. What we are seeing actually it's not so much a matter of claims losses, it's not so much rise in our claims costs. It's more the lower -- a very sharp decline in our business base.

I have in mind Continental China and Hong Kong. So the way we are communicating today with our customers is mainly through the live, through the web, through the phone. Through the web, we are seeing a doubling effect for the past few weeks, not only to deliver services, but also for commercial, I mean for commercial businesses.

What is important here is to support the customers we have and who need that, and they are -- I mean the claims loss aspect is not meaningful. This is not our experience today. The challenge is how to remain connected with our customers, how to provide support to them, and how to deliver more than what we promised.

A - Thomas Buberl {BIO 16182457 <GO>}

It's too early to call. Look we are impacted by three matters. Firstly, our own business, what can we do, in other words, to help our staff members to continue their job, because after all this is a problem that everyone is staying at home and in order to continue to work you have to plan for this operationally and our managers who are there have this under control and it's making good progress. Etienne also indicated that our digital investments that we've been doing in the past few years, especially in Hong Kong under the leadership of Etienne at that time we launched, a service called Emma, which is truly speaking it's about interacting with customers. And as Etienne said, we see a sharp rise there in the use of these services. And if you cannot physically travel, we can at least combine these digital services and use them. The second area where we are hit is the -- our business, our activity, our operations in Hong Kong and in China. Our operations are dwindling down due to the fact that people are not traveling, or being able to move around. This is temporary because if we look at the fundamentals of these markets and if you look at the needs there, it's very clear the needs for pension, retirement health will be back on track once the flows of people have become normal again.

Now regarding claims ratios or claims losses, certainly in China, yes, we are the large -- we are number 17 in the market, the biggest foreingner, but on the health front, we are still small. Our experience as of today is not very meaningful. Now, when it comes to our corporate clients, I mean commercial line certainly in terms of the industrial ones but also those related to tourism once again it's way too early to know about it, to say anything. We are at the very beginning of this outbreak and we have to wait a little bit, bide our time. The most important thing is to help our clients because after all their who are there, there are Chinese clients who are being impacted there are some corporate clients. And with our teams, we are doing our best to help our clients and provide for measures, so that we can help them.

Q - Maya Nikolaeva

Thank you, Thomas.

Q - Unidentified Participant

(Inaudible) Two questions if I may. The first one regarding climates. You said that if you can normalize Nat Cats -- I have in mind XL's results, if you can normalize level of Nat Cats, it would be higher -- what makes you think that the levels we saw in 2019 are not the normal-normal? And in that context, could you explain further the new solutions that protect your customers against climate-related risk? Second question on health, a 5% rise in your results. Are you happy with the pace of progress? Is it in line with the growth of your overall top-line? Are you happy about this? Would you like this to increase more rapidly, I mean to outpace your overall top-line.

A - Thomas Buberl {BIO 16182457 <GO>}

Fine. I'll turn these two questions to my colleagues. The first one on the climate Etienne spoke about normalizing things. Let me add after that if things about the part of new solutions. Now is 5% enough? We will certainly ask this question to Jacques de Peretti who is facing this challenge day-in and day out. Etienne over to you.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Hello. Well, right. Normalizing the Nat Cats events has been a concept which results from the models we use and our models use historical data, but factoring lots of potential scenarios which might happen. So, and there is a general consensus on the way we've been model -- modeling the Nat Cat events. What we've observed today is that the increased -- the increases in prices has been quite moderate in this field. This is one of the reason we've cut our exposure. Now, when you have low price increases, it is because we consider that the negative loss ratio in large losses and Nat Cat events in the market do not represent the normal situation, "this normality", so much for answering your first question.

Now, what we've tried and done with our program of underwriting and reinsurance has been to reduce our risks, our volatility, and our exposure to this great degree of uncertainty and this will deliver a short-term effect because in fact "this normalization" plays out in the long-term, but volatility in the short term is much sharper. This arbitration which we are trying to engage in but the markets have not acknowledged today that there has been massive deterioration of the Nat Cat events on a sustainable basis. There might be an increase of prices in the second half and next year possibly. But we haven't observed this happening in the last few months.

Now with respect to the new solutions to address customer risks as Jacques de Peretti would you like to answer?

A - Jacques de Peretti {BIO 18970697 <GO>}

Yes. On the health business, there has been a growth of a top-line and underlying earnings in the Health business. Is it enough? No. What's clear is that Health is not a capital-intensive business, so you can't analyze Health combined ratio as you do with the P&C ratio starting from 98%. Health combined ratio is excellent with great ROE. This is your first point.

Second point, very clearly in many countries, the Health market is an emerging market. What's important for us is that we gain market share, we establish our position, we provide solutions, we help governments to set up their infrastructure and these medical services and health services, and it's not our ambition. So we don't want to outpace or to outcompete the growth of the market in emerging countries. You have double-digit growth levels in mature markets, as the Health market is a safe, non-volatile mature market with good ROE and want to be present evermore. With the new solution system we have seen an impact of new technology delivering these new solutions. To give you just two examples at AXA XL we have some 400 people who are so-called risk engineers who manage risks day-in, day-out and this is can be seen with the momentum of Nat Cats that there is a need for gaining more insights company-by-company, factory, plant-by-plant, where the risks are, where the hazards are and how we can better protect ourselves and the prevention side has been growing and this is a good thing because it is very much connected with our payer to partner strategy.

The second example I mentioned is AXA Climate we have introduced solutions, which are directly connected with satellite data, so leveraging new technology, once again, digital technology or when you provide insurance coverage to farmer's land, it's a question of connecting insurance policy payment to some weather parameters, whether there was snow, whether there were storms, whether the temperature levels went down to a certain degree. So, and these initiatives have been greatly appreciated in developing countries, in mature advanced countries and in emerging countries. You might have seen that in India, we have registered great growth in these technology-based solutions and we want to lead the game and lead the pack in this field to better serve our clients and customers.

Q - Unidentified Participant

My name is. Florial (inaudible) of (inaudible). I wanted to have a clarification on the French business operation with a few numbers you gave on the number of PR contracts you signed ever since the new PR offer and the euro growth. You mentioned this in the press release. Now, the second question is about a statement I did not fully understand when you said Jacques about the price war, you don't want to engage in, and even though we've started engaging in it. This is what you said. Knowing that you've signed a 25,000 additional motor contract, but you have a stable revenue. So I guess you haven't started this price war. And also I would like to know how many contracts you signed in-home? So you have minus 8,000 contracts with the personal P&C, I guess, you must have a minus 33,000 home insurance contracts. Many questions motor, home insurance and you said initially Euro Growth and the PR contracts. That's a lot of questions, right?

A - Jacques de Peretti {BIO 18970697 <GO>}

That's right and I'll answer them. First, the PR contracts you may know that the PR offer is essential. We have 20% market share which -- and the PR contract is great diversification because we have some 60% or 70% of unit-linked products with the PR contract. So we've been introducing this new product, as a great opportunity and great interest that's why we were among the first movers or to introduce the whole gamut of offers for both personal and commercial lines. And over the next -- the first few months with respect to the numbers, which were communicated by the government 22% of all PR contract signs AXA PR contracts.

With respect to Euro croissance, so Euro Growth. This has been an initiative we've been working on for the last three years and with the French PACTE law, the terms were eased up, great importance was we're possibly one of the most active player with the Euro Growth portfolio in 2019 even before they eased up terms we posted some EUR200 million in revenues, up 40% over 2018. And here our intention is that in the next few months, we'll be introducing every day, the Euro Growth products in our PR contracts, so it's connected with the PR contract, so that Euro Growth is a great opportunity for the French people between a Euro Fund with performance and return going down yet guaranteed and the potential of gains offered by the Euro Growth portfolio.

You all -- I know that you are great at math, right? With motor, thanks to the new motor contract, which as I announced for the last three month -- for the last three years would come in at point when we would consider that the price war would be behind us between mutual companies and bank insurance institutions so that we could protect our profitability levels, 98.7% of combined ratio. This is a high profitability. And well this year, we decided to move into this area of the market. We penetrated in March and we had positive gains in this part of the market, but you saw that our current year ratio did not go down. It did improve by 0.5%.

Now with respect to home insurance, your calculation is right. We lost some 8,000 contracts with personal insurance. We did again 25,000 for motor and we did lose some 30,000 personal home insurance policies in the year. But in the next few months, we'll have good news to tell you with respect to home insurance.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you, Jacques. Next question.

Q - Unidentified Participant

Thank you. (inaudible). I have a question on the solvency ratio. Does it factor in already the PPP impact? Also second question on the gearing ratio how it went down and how you want to achieve the gearing ratio target? You indicated at the beginning of your presentation.

A - Thomas Buberl {BIO 16182457 <GO>}

So two very financial questions, which will be answered by Etienne.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Now, well overall, with respect to the solvency ratio by year-end we factor in the PPP impact, which has a positive impact for France. But it is un-significant at the group level. One or two percentage points for the solvency ratio, for a very simple reason, even though we have a wealth ratio versus the rest of the French market, which is 50% more than the market. We do not actively use the PPP mechanism, for a very simple reason that is there is lots of technical constraints, including the need to payout the success wealth within the next eight years.

So with the prospect of a sustainable low rate environment, we suggest we keep this wealth as unrealized capital gains, which remain unallocated located, which gives us more flexibility and more guarantees for the long-term for our clients. To give you an idea if we were to have the practice to allocate PPPs which will be comparable to the French market practice, we would have a higher impact on the order of 10 percentage points on our solvency ratio. So if we were to use -- even to go higher, if were to use the excess level versus the market and allocated to the PPP we would have even higher impact. So much for your first question.

Your second question on the gearing ratio. Well, in fact, the number one lever to reduce gearing mechanically is to reduce financial debt, investment debt, which we have started to do this year. This is why we are confident because we've made this decision, we should reach a ratio in between 25% to 26% to be even more aggressive than the bracket, which was announced by Thomas earlier, without too much of a degree of uncertainty.

Q - Unidentified Participant

Perfect. Thank you.

(Inaudible) You indicated 60% of revenue for targeted operations. Could you give us a figure too for comparison purposes, against the past like three or four years ago? And second question on the environmental policy and coal. Are you giving up really on certain businesses and can we quantify how much business you are giving up? And third question if I may, you are highlighting very much especially in the case of XL price increases. And you said you were increasing also the reinsurance business. Now will also prices in the case of reinsurance increase as well?

A - Thomas Buberl {BIO 16182457 <GO>}

So, three questions. For the first one in regard to targeted operations, I'll turn it over to Etienne. I will take the other two questions. Let's start maybe with the environmental policy. There, there are two effects. The first impact is on investment and there you noticed that we have shifted investments in coal towards green investments and the return of these two classes of investments does now show a major difference. In other words, the economic effect is not material because we are replacing one with the other. And the projects and profitability in green projects today are quite interesting.

On the insurance side, very clearly, we have withdrawn from call insurance. Clearly it has an effect on premiums. We are stopping contracts but at the scale of the Group. It's rather small and since we are a major player with a large distribution footprint everywhere we can easily offset this. You certainly see in our revenues that we've made major changes. I have And have in mind the transformation in Switzerland, which I cited and where we worked on a large part of premiums like 5 billion or 6 billion of premiums in Swiss francs. We transformed them into a solution, which is more about asset management, which is about cutting down on our premium. You don't see anything in our figures, despite the fact that we saw lower premiums due to portfolio transformations we have still a 5% growth at the scale of the Group that is so large, we still have always an opportunity to offset this properly, as you notice.

Now on the XL side, and let me come back once again about what are the steps that we adopted. We have taken three major decisions. The first one was to say hey, we'll sharply increase prices where we need to do so and you saw that premiums are changing by 10% and this trend is continuing at the start of 2020. Traditionally, this is the way that the -- I mean it's much stronger to have price hikes. It's more normal to have in the primary insurance, we see increases of prices around 10% which is unlike what you see in the reinsurance, where it's more around 5% or 6%, so it's double, more or less.

However, we are large -- we are a major player in that market and we have the ability to implement such price hikes. That's the first decision. Now the second decision, we decided to reduce volatility even further and reduce our risk exposure. In other words, in our reinsurance business we take in (inaudible) we reduced our appetite, we take fewer risks in terms of Nat Cats. And secondly, we bought more reinsurance cover in order to reduce volatility. And the third decision, and about which we haven't spoken yet this morning. We noticed probably that we changed our XL governance, we hired a new Chief Executive Officer. We are moving now from an on-boarding integration phase, which is successful to the transformation of XL in order to make XL more profitable and we've recruited a new manager from Chap [ph], someone who comes from the business, a major expert, he will help us to even further make this subsidiary profitable.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Now, the 60% of our targeted operations.

Q - Unidentified Participant

What was it before?

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

The major event is the XL acquisition with a revenue of about EUR18 billion. Overall, we have EUR100 billion in total revenue. We replaced roughly speaking life insurance through a commercial P&C insurance, where we are at 60%. We were certainly below 40% let's say three years ago.

Q - Unidentified Participant

(inaudible) three questions. First one, how do you feel or analyze the Solvency II reform? According to what you understand, what could be the impact on AXA and on your own solvency? Now regarding solvency, now the current level, does it free you up some capacity for more potential acquisitions? Are there any you have in mind, especially in terms of the international front? Are there is some complementarities could you buy in non-priority countries and let's not forget they're contributing to growth. Could you give us an update on the AXA IM roadmap you was highlighting that you're number one in terms of real assets? Are there any things that one should expect in terms of a different strategy? And lastly, concerning China in Tianping, with what is taking place now, is this calling into question, your growth pace? I think you are moving from motor to -- you want to move more towards health isn't difficult there?

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you for these four questions. I'll take the first and fourth question. I suggest that Etienne take the second in regard to Solva and the acquisitions. And we also have Gerald Harlin with us, who is managing today AXA IM. He will certainly be very happy to answer about the AXA IM roadmap.

For the first question, how do we feel about the Solvency II reform? What is going on right now, we are seeing the review of Solvency II which was put together several years ago. And look, this system so far has worked well. Every player involved was able to adjust to this new regime. It gave rise to more clarity and discipline across the market, and this system will now be reviewed against interest rates that remain low. There are two trends today in terms of review. First of all, there's the technical review, where we try to see what it involves, are all these elements in low rates integrated into the models. And certainly, there are a few parameters pending such as should we model yes or no, negative rates. That is the second element in the discussions, which is more about the political flavor. Governments are facing today the question of who and how can we finance this change and this climate transition. There are numericals to be expected, the money we see today and the money that is available for such investments. And the big question is, how can politics change and redirect the existing flows towards transition projects

Let me tell you as well that technical analysis and political wishes are not always 100% aligned and we will see now during the discussions that will be coming, how such needs and these wishes here will end in regard to solvency revision. I must say that AXA is very much involved in these discussions. I'm Chairing right now, the European Insurer and this is the number-one item on our agenda. We are very much present there and we want to find together and help together with the state, the governments and the EIOPA, who is the European regulator on this topic, to find a good solution that would contribute towards the solidity of this area, but at the same time be able to help this question of funding.

Now the question what it does it mean for AXA? This question, unfortunately, comes a bit too early. We don't even know what are the changes. In a few months, we'll be smarter because we'll have more food for thought and we'll have more quantitative studies to try to understand what it all means. Let me immediately take the last question about China and AXA Tianping. Insurance is a long-term business. We don't look at the short-term occurrences. Our investment basis is about the demography of the country and its development. We see in China, there is a good -- there are good demographics and strong growth and the resources of these people through the wealth that has been piling up in that country, we see also very strong needs in Health and in Retirement Pension and we are well-positioned today. And look, we are number-one as foreigner in China, highly involved in asset management with SPDB, in the Life business with ICBC, the largest bank in the world, and now with our AXA Tianping subsidiary, which is 100% owned by us. The coronavirus has short-term effects but it does not challenge at all our commitment in China. Solva, Etienne and roadmap Gerald afterwards.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Well, answering the question earlier when I answered about the financial leverage, I told you that our priority was to cut the financial debt to reach 25% to 26% gearing ratio. This is the first answer to your question. Second thing to be said is that 198% is basically the middle part of our range. So, I would not call our solvency level as showing an excess. We are not in a position where we believe we are sitting on cash abundantly with abundant solvency here there and everywhere, so much for the financial part.

With respect to the strategic plan, we can never exclude some additional bolt-on acquisitions, but when you look at our performance, you see we have a high organic growth and that -- true priority has been to integrate XL, and this will remain our priority going forward for 2020. Gerald?

A - Gerald Harlin {BIO 7424807 <GO>}

Good morning, everyone. So with respect to Axa IM, as was said earlier in Axa IM we have delivered good growth and net positive contribution when you exclude the joint venture contribution. We have contributed some EUR22 billion this year, which is well distributed, EUR12 billion in Alternative Investments, EUR10 billion on the Conventional Investment Management. The roadmap is basically focused on growth that is organic growth. You may know that in a low rate environment as today, the demand for alternative classes is very high, this was mentioned in the previous slide.

With respect to real assets that is real assets covering both real estate and infrastructure in both debt and equity, we are number one in Europe and we ranked fifth globally, EUR137 billion in alternative investments. If I factor in the structured finance product. Growth going forward will be both in core investments and alternative investments. Remember that we have passive method for Investment management that the fixed-rate products are with active and passive management, you need to have both. The second and the last thing I wanted to say is that this growth will be delivered, largely thanks on and building on our ability to engage in impact investments and socially responsible investments. We announced this in November.

We are the first to introduce the Transition bond. So it's a question of capacity, not just lip service. Day-in, day-out, we have implemented long-term investment management processors for these responsible investments and including all our unit-linked products. Thank you, Gerald. Other questions. We have two more questions in the room. Yes.

Q - Unidentified Participant

My name is (inaudible) of the Les Echos newspaper. I have several questions to ask on the outlook. On the outlook, you mentioned that return on equity of 16% is very high and that you couldn't go much further. Does it mean that the underlying earnings will not go -- the sky is the limit or could it even go down? You also had a question on the possible buyback program before the earnings meeting. Are you thinking (inaudible) even though you're not announcing anything today or given the very uncertain environment, you might be tempted to be more cautious and conservative? Now a Bermudian based reinsurance company could change owners might that have an impact on your reinsurance coverage, especially in France as Covea might be the buyer? Well, these are three questions to you.

A - Thomas Buberl {BIO 16182457 <GO>}

Thank you for these three questions. With respect to the 16% ROE, as Etienne said, it's a very active performance, very high performance and you could see in our accounts that not just the nominator has increased, but the denominator has increased. That is our shareholders' equity has increased and our desire has been very clearly announced that is to stabilize these shareholders' equity by reducing our leverage, which means by definition denominator needs to keep growing so that we can maintain the 16% level. We have no intention or plan to reduce our underlying earnings. Number two, with respect to share buyback before the earnings meeting this today is the Earnings Presentation meeting. You haven't seen or heard of any share buyback program and we've been focused on the three priorities we've announced last year. Now the exiting from AXA Equitable done, integrating XL in-progress, partially done with respect to the operational processes, we still hard work on our plate. With respect to integrating the model of making XL as a company, making it profitable. We are focusing hard on this set of initiatives. The third priority was to reduce the gearing ratio down to the bracket between 25% to 28%. We know are 29%, we still have some way to travel. The means to get there are very clear. We are 100% focusing on these three very clear priorities and nothing else.

Now with respect to the Bermudian reinsurance company which might change owners. Well, you have to look into this issue with a broader perspective. I'm very happy to see that there is a high interest in international diversification, in large risks and AXA so far has been pioneer, this was back in 2018, to really engage in global consolidation and in this risk diversification efforts by acquiring AXA XL. And I'm very happy to see that all the other players are following our lead. Other question.

Q - Unidentified Participant

My name is Benoit (inaudible). I would like to pick up on the (inaudible) question and on your answer Mr. Buberl. What are your prospects with respect to the reinsurance business you acquired, as you acquired XL, will you keep the reinsurance portfolio? Will you grow it or will you be skinning it down in the next three years with respect to your diversification goal? And second question, with respect to the European disposals, can we expect further disposal, so you consider that the Group scope is a final one now?

A - Thomas Buberl {BIO 16182457 <GO>}

With respect to your first question on reinsurance, once again reinsurance business today accounts for EUR5 billion in premium income. This is a major player at the global level and reinsurance business for us is of great importance for us with respect to how we achieve additional diversification. Just take an example, today we are not actively present in primary insurance coverage in the cyber insurance coverage of the US SME's. This is a very tough market to penetrate and via re-insurance provided to a US company operating in this market, this has given us an indirect exposure to this market. Now these exposures are of great importance for the sake of diversification and you may have seen that when we acquired XL, we announced that we could save EUR2 billion in shareholders' equity by combining AXA XL and XL standalone, basically monetizing and capitalizing on the synergies by way of diversification. Our desire and gold is to keep on growing this reinsurance business in this very spirit. That is number-one. To get more exposed to the reinsurance risks in those regions where we have little presence in primary insurance coverage. And number-two, to continue developing and expanding the business mix towards more insurance lines, which are less exposed to natural catastrophes. And we showed you the first stage of these efforts when we lowered our exposures to Nat Cats and this was mainly done in the reinsurance business.

With respect to your second question on disposals, you have observed the few European disposals. We are very clear as to our portfolio segmentation. Three years ago, we had 10 large geographies and divisions accounting for some 80% of our bottom line. We have defined six countries, which we call high potential countries, which account for another 16% of our profits and we have more countries, smaller-sized countries which account for the remaining 4% of our profits. Now we need to say that today all our markets are profitable markets. And in those markets, which are so-called part of the international markets, we have grown our business very well, right? You have observed very high growth in our business volumes and activity but we always scrutinize our position in these markets. But you will understand that I would not share with you any more detailed information on our portfolio moves and plans. Last question, are there questions over the phone or online. Yes, we have two questions, one from (inaudible) Radio Core with respect to the developments of AXA in Italy whether it is possible that the European insurance market gets consolidated?

Catrin Shi of Insurance Insider, asking your question in English.

Q - Catrin Shi

In AXA XL and do you anticipate taking additional measures to manage volatility in 2020?

A - Thomas Buberl {BIO 16182457 <GO>}

I suggest that the question on Italy is answered by Antimo Perretta, who is the Head of our European operations and Italy as part of our European scope and Etienne will answer the second question as to here at AXA XL now goods or do we need to take additional measures. Antimo?

A - Antimo Perretta {BIO 18246589 <GO>}

Good morning, everyone. I must say that we are very happy with this situation and of the growth and development of AXA Italy in the Italian market. You've seen the performance in a tough market we always outperform the market, which means that logically, it will bring us market opportunities to expand portfolios to outpace our competitors.

We do not have any plan in the pipeline, but given our robustness, the share of our partnership with MPS we are extremely well-positioned in the Italian market and the performance numbers have shown this. We are posting find growth and we'll keep introducing new products on the back of innovation, we'll keep simplifying our product lines and our operating processes, especially customer-facing processes because we've increased our NPS score and this strategy will be continued in Italy. And if there are opportunities out there we'll be right, looking at them.

Thank you, Antimo. The second question will be answered by Etienne.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

Shall I answer in English or French?

A - Thomas Buberl {BIO 16182457 <GO>}

In English.

A - Etienne Bouas-Laurent {BIO 16523089 <GO>}

So we have been extremely proactive over the last months to analyze the volatility of the market, to analyze volatility of AXA XL. We have already taken the measures in terms of underwriting and reinsurance to have a satisfying level of volatility and risk for 2020. So we don't intend to add on top of these further measures.

A - Thomas Buberl {BIO 16182457 <GO>}

Very good. Thank you, Etienne. And thank you all. We've come to the end of our meeting. We're still a few minutes in this room if you have more urgent questions we can have one-on-one discussions. I would like to thank you for your attention, your participation, and for your questions and I greet you all. Thank you.
