# Q1 2019 Earnings Call

## Company Participants

- Cristiano Borean, Group Chief Financial Officer
- Frdric de Courtois, General Manager
- Giulia Raffo, Head of Investor and Rating Agency Relations

## Other Participants

- Andrew Ritchie
- Farooq Hanif
- Giuseppe Mapelli
- James Shuck
- Johnny Vo
- Michael Huttner
- Niccolo Dalla Palma
- Nick Holmes
- Peter Eliot

## Presentation

### Operator

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

At this time, I would like to turn the conference over to Mr.Frdric de Courtois, General Manager of Generali. Please go ahead, sir.

### Frdric de Courtois

Thank you. Good morning to you all. I would like first to welcome our new Head of Investor Relations, Giulia Raffo. And I'm sure all of you know Giulia, we are extremely pleased to have Giulia on board in Generali, together with a very strong Investor Relation team.

Now, I would hand it over to Giulia.

### Giulia Raffo {BIO 20301563 <GO>}

Thank you very much for the very kind introduction. Good morning, everyone. Welcome to our Q1 2019 results conference call. My name is Giulia Raffo, and I'm here with our General Manager, Frederic de Courtois; and our Group CFO, Cristiano Borean. Before we open up the Q&A session, I would like to hand over to Frederic and Cristiano for some opening remarks. Thank you very much.

## Frdric de Courtois

Thank you, Giulia. Some comments from me. First, we are very pleased with the Q1 result. Of course, these are only Q1 results, but we are very pleased with the results. We are pleased because they are strong industrial results and because they are absolutely in line with the targets of our new plan.

A few comments on the quality of these industrial results. First on the volumes. So volumes are accelerating. We continue to see what we have seen last year which is a good growth on the P&C side with more than 3% growth and we are pleased with this. We had during the first quarter, as you may have seen a very strong net inflow. So at more than EUR 4 billion. And we are also happy with this. So we see a trend of accelerating growth.

Second comment on the margins you have seen and I'm sure you'll have some questions on this, that globally margins be it on the P&C side or on the life side remain at the highest level. So this growth -- this accelerated growth I've just discussed about, does not impact in a negative way the technical margins and we remain extremely focused on the technical margins.

Third comment and I'm sure you will also have questions on this, it's not totally easy to read the result of the -- of our asset management business and we'll come back to this later. But let me just tell you that we are on track with our plan and we confirm our targets on the asset management.

Last but not least, we continue to reduce costs and the Q1 is in -- on track with the targets that we had announced at our Investor Day. And we see benefits in having a stronger growth and continuing to reduce the absolute amount of costs.

Thank you. And I give the word to Cristiano.

## Cristiano Borean {BIO 15246531 <GO>}

Good morning, everyone. And thank you for Frederic. Frederic just mentioned, we are very pleased with these results, as they confirm our focus on value generation and the profitable growth.

Before, we open the Q&A, I would like to spend a couple of words to explain the main drivers of the Solvency II ratio movements during the quarter. Out of the total delta of 10 points, we can isolate seven points, driven by the expected implementation of regulatory changes. Specifically, we have one point impact from the lowering of the Ultimate Forward

Rate as required by EIOPA 3 percentage points from EIOPA changes of the reference portfolio which we use to discount the liability as well.

And three percentage points from the treatment of the French IRP business agreement we had with the regulator. A part of this seven points, when we look at the other part, our normalized capital generation contributed to more than four and half percentage points or if you want to compare after dividend accrual, around 3 percentage points. So, the partial redemption of subordinated debt, in line with our deleveraging strategy costed us one percentage point.

The positive impact of M&A, net of acquisition was below 2 points. I recall you we had acquisition in the first quarter. Financial variances had a negative impact of around 6 percentage points, mainly driven by the combination of the following industry rates and the widening of the Italian BTP spreads.

I would like also to add the effect of having Generali Leben in the 31st of March, accounts had a one percentage point impact negative. And I hope this is helping explain the bridge between the two periods. I would like to conclude, adding that our estimated group solvency ratio at the end of April stood at 212%, also benefiting from the amount in gross sale of Generali Leben.

Many thanks for your attention. Let's now open the Q&A session.

## Questions And Answers

### Operator

(Question And Answer)

(Operator Instructions) Operator, we will now begin the question-and-answer session. The first question is from Peter Eliot with Kepler Cheuvreux. Please go ahead.

### Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Sorry to start on solvency, but that was very helpful those moves you just gave us. I guess within that, the market movements were a little bit more than I've been expecting, based on the sensitivities that you had disclosed. I'm just wondering if there's any particular reason there or if you think that the sensitivities that you last disclosed are still quite in the current environment? This will be the first question.

the second one, just looking forward on the solvency, I believe that new proposals after the end of this year the country VA will kick in at lower levels. If those -- that's correct and those regulations, were already in place today. Can you say what benefit you would get on your ratio from that? I assume the sensitivities would then be the sort of plus or minus 7 percentage points in both directions once that was enforced?

And then finally, separately, I was wondering if I could just ask on the asset management. I mean I guess the earnings growth was a little bit -- it was up, but was a little bit slower than we've seen or given the development where we've seen there, and I'm just wondering if you could perhaps comment on -- you said it was difficult to read. I was wondering if you could give us a bit more help in understanding sort of economically the progress there? Thank you very much.

## A - Cristiano Borean {BIO 15246531 <GO>}

Thank you very much Peter for your questions. So let's start from the first question which is the market movement likely higher than expected in your sensitivities. So, let me try to clarify that the driver for the drop on the market variance is as you know the interest rate sensitivity.

And then, as you know, our sensitivity on the BTP movement which is calculated on the movement of the swap rate above the swap rate, had a little higher effect than what was there explained in the sensitivities.

The second question related to the fact of the country VA kick-in level. I'd like to recall you, as you know that what is going to be approved by year-end '19 by the local regulator having it been proposed by the European commission changes, is not a change of the mechanism per se. It's just a change of the threshold above which in you activate the mechanism. What does this mean, from the sensitivity standpoint, what happens is that you would have a lower attaching point of movement, asymmetric movement between the reference portfolio of EIOPA and the BTP. That will trigger this.

But, sensitivity speaking, we have some sensitivity as we said in the benefits at the level of the seven percentage points should not change. But on the solvency of Italy, CEE would have triggered a better value starting from a lower spread movement on the BTP. And as you know the trigger point has been decreased from 100 basis point to 85 basis point. Then I give the word to Frdric for other question.

## A - Frdric de Courtois

Good morning, Peter. On asset management, as I said at the beginning it's not totally easy to read these results. So the increase of 5% of the operating results and of 24% of the net results, just to focus on the operating result. The first factor that you need to have in mind is that we have not consolidated in the Q1, our new boutique and especially Sycomore. And we will do it for the first half, but we haven't done it for the Q1.

If we had consolidated the boutique in Q1, the increase of the operating result would have been 10% instead of 5%. So as you see the first part of the answer. Second part of the answer, as you know that we are focusing more on private assets indeed for Generali balance sheet or for third-party asset management, there is some seasonality in the fees we received especially on private equity and real estate, and it also has an impact on the Q1 results.

So to conclude, we absolutely confirm the ambition of the asset management and the linear progression of the results of the asset management business, until over this year and the coming years.

## Q - Peter Eliot {BIO 7556214 <GO>}

That's correct. Thank you very much. And could I personally just come back quickly on the second, one the country VA, I can probably go into the sums. But just wondering if you could confirm whether that would kick in at current levels? And also are you able to quantify the benefit that you would get from that equivalent so?

## A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Peter. So just try to clarify this point. Also the answer for the first question on the asymmetric movement in the market. In the sensitivities you use to show the movement of the BTP, being each sensitivity, a stand-alone sensitivity than above the swap curve, when you have the cross effect of swap rate decreasing, the corporate bond decreasing, changing the reference portfolio weight of EIOPA -- of Italian BTP as it happened in the review of the first quarter.

you have a cross effect of joint movement, which are against the potential threshold activation. So just to clarify that this would have not triggered at the first quarter and this would have not triggered even at the levels you are observing today. And this is the reason why you get this extra sensitivity, because this has not been triggered. I hope I answered your point.

## Q - Peter Eliot {BIO 7556214 <GO>}

Yes. I think I was just looking for the benefit that you would get the step of discontinuity as and when the country period kicks in, but I can follow up offline.

## A - Frdric de Courtois

Principally on the sensitivities as we disclosed there.

## Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you.

## Operator

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

## Q - James Shuck {BIO 3680082 <GO>}

Hi. Good morning. Good afternoon, everybody. A few questions from me, please. Firstly, the outlook for the tax rate at the group levels you flagged the reduction in the Italian rate. So I think your effective tax rate has historically been about 34% going forward, kind of maybe a little bit less. But just keen to know what the guidance is that tax rate going forward, please? And whether that has actually been captured already in your at least 6% EPS growth target?

Secondly, as I've mentioned, third again, I think you split out third party AUM and the total AUM I think that includes Banca Generali. Could you give me the actual assets under management that relate purely to BAM division only please?

And then just thinking about how the margins on those assets have developed in the quarter. I think there were some plans to increase the charging on some of the insurance assets, so I just want to see whether that's come through at Q1, please.

Next question was around the acceleration growth point, but particularly on the Life side. As you mentioned you've seen the net inflow very strong in the quarter EUR 4 billion or so up about 60% year-on-year, it seems though that unit linked were down, lapses have done a bit better and you're selling more traditional product, which is not necessarily the product that you want to be selling. And as a result of that, the only business value is actually down slightly in the quarter.

What's the outlook for the new business value growth going forward, please? It seems to me that you're saying lower margin things except that maybe unit-linked might come back a little bit, but it seems a bit of a struggle to see the accelerated growth coming through in the life business value.

And just very final quick one. Can you tell me the contribution to operating profits from Generali Leben please in 2018. Now that deal is closed. Thank you.

## A - Cristiano Borean {BIO 15246531 <GO>}

Okay. Hi, James, it's Cristiano. So first point, the effect you're seeing in this quarter is as we explained, driven mainly by an effect of the lower taxation in Italy our a component and a lower -- a higher base of deductible earnings in China. This is a movement on the quarter, you should not focus only on the tax rate of this quarter. The guidance stays always in the 30% to 33% range, and this is the range onto which we built the plan and there is no change on the party related to the -- on the plan related to this.

Then, related to the second question on the Asset under Management and non-third party, I'm not sure if I get your point. You would like to have this split between Banca Generali and the Assets under management third party? yes. I give the word to Frederic.

## A - Frdric de Courtois

Hi, James. On the third party asset management, just to tell you, we had EUR 72 billion of third party asset management at the end of the year and it moved to almost EUR 84 million, so it's a plus EUR 12 billion. Then the Banca Generali impact out of this is EUR 3 billion, so about one quarter of the increase. Then I do not give you the split for the quarter on the inflow the market value and so on, but, I guess, I hope I was clear in my answer.

Then moving to the life net inflow, yes, so you're right. The life net inflow has been extremely strong. You're also right that we've sold less unit-linked in Italy and in France compared to 2018. This is obviously due to the impact of financial markets at year-end. Interesting to see that it was not the case in Germany. We've continued to increase unit-linked sales in Germany which by the way is a good sign on the integration of our channels in Germany.

An additional comment on fees -- two additional comments on fees. The first one is that the protection sales are extremely strong, so in Q1 we've increased the new business and protection by 13%. And by the way we see the technical margin -- the positive technical margin flowing in, in the P&L on that. So strong protection sales.

And my last comment which is something that we're going to discuss next week in London, you know that, especially in Italy, we sell more and more product only with maturity guarantee So what I would call ultra capitaliized with very good margins.

## Q - James Shuck {BIO 3680082 <GO>}

I guess why is the new business value not growing?

## A - Frdric de Courtois

The new business value is not growing, because of the lower unit-linked business.

## Q - James Shuck {BIO 3680082 <GO>}

Yeah. Okay. On the last one -- on Gel --

## A - Frdric de Courtois

On Gel, James, I hope to be clear. Being disposed entities, the impact of Generali Leben in the 2018 results on operating profit was zero, because it was fully accounted under IFRS 5 principle. So this is the way we account it. I hope I gave you the clear answer with the figure of the year-end result disclosure.

## Q - James Shuck {BIO 3680082 <GO>}

Yes. Maybe I'm misunderstanding it, but the -- if I look at the German life divisional results for 2018, I thought they still had the Generali Leben in it. If I'm not correct?

## A - Frdric de Courtois

No. It is not correct. When we do the comparison like-for-like, we always make the comparison ex IFRS 5 entities, in order to allow you to have the best comparison in the trend between the entities, which are now in the group what would have been their contribution last year. So I think, it is a fair way to represent it and I recall you last year results from Leben was also impacted from changes in asset allocation, which is not the recurring value result you can extract, as we already discussed with you in the year end '18 results.

## Q - James Shuck {BIO 3680082 <GO>}

The 424 million operating results at Generali Leben -- sorry German life was reported in 2018, I agree you changed the like-for-like when you report. But it seems like the reserves are still included at the full year 2018 and it seems like the profits are included in the operating result. Maybe I can take that off-line if I need to.

## A - Frdric de Courtois

No, James but I confirm you, it is not that we can go on off-line. It's really the straight and strict application of the IFRS principle. Really the moment I sign or I have the knowledge of the high probability to have this realized. I have to take this in this IFRS specific category, which is final net contribution and take everything out from the operating results contribution. That was already done in 2018, after the signing and so everything has been clear about.

## Q - James Shuck {BIO 3680082 <GO>}

Okay. That's great. Thank you very much.

## Operator

The next question is from Andrew Ritchie with Autonomous. Please go ahead.

## Q - Andrew Ritchie {BIO 18731996 <GO>}

I wonder if you can give us a bit more color behind the strong non-life result. The combined ratio was kind of flattish year-on-year, despite the fact, I think in Q1 '18, you had a very, very benign man-made kind of average nat cat. So just a bit more color that man-made experience, what is the experience on the combined ratio would be useful.

Second question, stock rates. German bond yields are back to the lows of 2016 pretty much. What -- has there been any change in the group's reinvestment strategy year-to-date in terms of geography, generation or any other measures you're taking to further address the decline once again, back to the lows in reinvestment rates? Thanks.

## A - Frdric de Courtois

Good morning, Andrew. I'll start with the technical profit and the combined ratio. So, I'll comment on the claims ratio, but the basic necessity is that the current year claims ratio, excluding cat and man-made -- is actually -- so attritional if I may say is actually improving by 0.8 points, so let me give you a bit more color on this.

The first comment is that you are right. We had a quite benign quarter on cat, so we had a positive impact on cat. Then we had a negative impact on man-made. We have some more man-made compared to last year -- first quarter last year. And last but not least, we had in the first quarter less result on previous years. So if you restate everything again current year attritional claims ratio is improving to Q1 last year by 0.8 points.

## A - Cristiano Borean {BIO 15246531 <GO>}

Andrew, it's Cristiano for the second question. So indeed, rates are low and we are managing strictly according to our investment strategy as announced already during the strategic plan. For your information, if we just compare the current year quarter-over-quarter all on the book, excluding the disposed entity because I would like not to talk about the sensitivity of Leben being not an issue of Generali anymore.

We are basically stable current yields. We are matched against our liabilities in our duration and we are pursuing the strategy to invest in more private debt and infrastructure as announced, which is important for us to keep some premium above the bond. And above the Bond itself you may be having seen the result of the allocation on German governing bond of the group. We are absolutely not big investor in this asset class. So, we are basically matching the liabilities. Keeping the real asset strategy live and managing the dilution. Also thanks to what Frederic said on the technical side, we are working with a very profitable saving business underwriting with the new products, especially when we were -- the one mentioning in Italy and the strong new production as well with the organization in Germany.

## Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Great. Thank you.

## Operator

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

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

Hi. Good afternoon. So a couple of questions on the business on the P&C side. So Q1 saw 3% growth after, I think six years of negative reported growth, I appreciate the like-for-like in constant perimeter. But is it -- are you happy to say is the turning point and just making sure that levels of Q1, if we start extrapolating that? Or is there anything specific to Q1?

And within that, Italy is things have turned the corner as well. Are you happy with that, going on for a bit more? Is the market disciplined enough not now to grow again a little bit in motor? So anything on outlook there will be helpful.

And on the life side, you mentioned on the flows in Asia and France, the lower surrender. Is there anything structural to this? Or was it just specific to the quarter? And lastly, a bit on Solvency II. Can you just quickly remind us of the future impact of the pension treatment for coming years? Just a refresher of that will be helpful.

## A - Frdric de Courtois

Good morning, Niccolo. So, on P&C top line, so we're happy with the growth that we have of 3.1%. A few comments on this. The first one on Italy. Italy is starting again to grow. We had 0.7% growth in Italy, which is linked to the fact that we -- the average premium -- the average motor premium in Italy is now stable and unlike last years, which is good news.

Plus the fact that we have taken over the deep fleet contract in Italy for the state vehicles and which we know well because, we had it before so we know that it is a profitable contract.

So the Italian situation has improved on volumes. Apart from Italy we continue to see relatively strong growth across the board, this is especially the case in Australia. And see, France is growing well. If I had one explanation, but it will be too simple, I would say that, our strategy to sell modular products including more guarantees and services is giving some results. But I wouldn't say that this is the only explanation.

On the life side, so I'll comment in Asia and I'll let Cristiano comment on France. So, in Asia, we had very strong business in the Q1. So more or less, if I look at the net inflow, the net inflow in the Q1 is increasing by close to EUR 900 million, and let's say that it's half a more premium than last year and half less surrenders. So why do we have less surrenders, because in fact last year was exceptional, the Q1 last year was exceptional, because we had a generation of product coming to maturity. So we had a lot of surrenders last year. So I would say that this quarter in China is more normal than the quarter last year.

Maybe last comment on China, before I give the word to Cristiano. So you know that in China, the Q1 based on how the Chinese market works is very much linked to beginning of the year campaigns and very much focused on savings products, which are less profitable than what we have all over the year.

In other words, we've sold in China in the Q1 more savings product and less protection product that we usually do and it will be smooth over the year as we are starting again to sell more protection products and less savings products and it had a negative impact from the NBV in Asia and one of the group.



## A - Cristiano Borean {BIO 15246531 <GO>}

Thank you, Frederic. To complete the second question on France. Is it structural lower surrender rate? I can confirm you, since last year, I mean, 2017 changes, I think it is a very structural change coming from the fact that the tax benefit after September 2017 has been different in the product.

So, the people having older product are less prone to surrender, because there is less benefits to open up a new contract after. So, from this point of view, we deal this as a structural and unfortunately this behavior has not been accounted for in our solvency II models, because on the contrary, what happens is that the regulator asked to, let's say a little bit strengthened the dynamic behavior of the policyholder. And apparently even when you look at your new business value, you have a much higher elasticity, versus the interest rate movement. But the one that you are really observing in the figures. By the way this is also a factor of slightly affecting lower new business value when you look at the figure on our French business.

On the third question, how do we treat under solvency II, the IRP business the pension business in France? There has been an agreement with the regulator, that this business being treated in this regime IRP, which for the people who doesn't know allows to treat in a kind of solvency I like approach in the business, because of the longer term and maybe because of the lack of final regulation in Europe around that, had an agreement of accounting for the unrealized capital gain, net of some technical shortfall in longevity risk, which are the longevity charges.

I always mention when I speak about the lower technical impact of both. You have capital gain minus charges. At year-end '16, we were allowed to account for 100% of this figure. For the whole year for this year of '17 we were allowed to have 75%, year '18 50%, and year '19, 25% and the year '20, which is the asymptotic landing point of 15%. So we have still a small impact of let's say about slightly more than one point in the next year to be expected around this agreement.

What is important to know, is that this year, our digital effect, so you are -- at year-end, an amount. And the first quarter you report immediately the digital loss, that's why you see this three percentage point impact in fact in our Solvency as we disclosed in our own funds supplementary information at the year-end '18. Hope, I gave you sufficient visibility on that treatment.

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

Thank you very much.

## Operator

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

## Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks very much. Just very quick question. So you mentioned the strong growth in nonmotor in your mix which clearly is something that you've been wanting to do. How much of that is coming from Italy and what proportion of your business in Italy now is it nonmotor in P&C?

And secondly, on the technical margin in life which is elevated. You mentioned the higher protection mix. So presumably, it's sustainable for the rest of the year? Thanks.

## A - Frdric de Courtois

Good morning, Farooq. So yes, we of course, post to develop the matter. In Italy, actually if you look at the figures, so first on premiums the mix in Italy in Q1 is around EUR 500 million motor and EUR 700 million nonmotor. Nonmotor was slightly positive, but close to zero and actually, because of the precontract that we've taken, our motor grew close to 2% in the first Q1. So I would say that's a bit counterintuitive because we try to develop nonmotor, but in the Q1 motor grew more than nonmotor.

Then on the technical margins, so I think your question was related especially to protection, right? So it's difficult to predict the future of volumes, but protection is a high priority for us and for our distribution channels. Actually, I'm expecting more protection sales in Asia during the rest of the year. So, if everything holds in other countries, I would expect that again, this is a high-level guess that protection sales and new business could accelerate during the year. But again, I'm probably just -- I take a small risk in seeing fees.

## Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. That's very helpful. Thank you.

## Operator

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

## Q - Michael Huttner {BIO 1556863 <GO>}

Yes. Thank you very much. A few questions. The first one is, what is the amount of investments in alternatives? You mentioned, infrastructure and also in private funds.

The second is if I take the EUR 616 million adjusted figure, what ROE is that equivalent to you have an 11.5% before -- over 11.5% target on that. And then the final question, just going back to solvency, at the beginning I think there was a discussion around and you said that sensitivities have changed. I just wonder if you can potentially give us some update on the current sensitivities to the BTP and the risk-free? Thank you.

## A - Cristiano Borean {BIO 15246531 <GO>}

Hi, Michael. So, speaking about specific amount on investment -- on seeing this strategy, we do not disclose this amount. I just confirm you that our plan has a 3-year time horizon to invest around EUR 20 billion among real assets between infrastructure, private debt, real estate, and private equity.

Second question related to the return on equity. I mean, if you just take the quarter, given the impacts of the capital gain, you are at a higher projected level on the year. But on the normalized effect, we are absolutely in line with what we are accounting. And if not slightly higher due to this impact with respect to what we have disclosed in the strategic plan target.

The third question related to solvency update and sensitivity, basically, the sensitivity did not change in. I mean the meaning, maybe I was not clear in the point. The fact that when you measure a sensitivity of a BTP spread movement, all the swap curve which is the first important point, because there is clear reference rate for solvency in swap curve, you need to take into account different facts.

When you disclose the sensitivity in BTP at year-end '18 at 7 percentage points, where the sensitivity is where all else equal, a movement of a few basis points would have triggered this effect that becomes specific VA What happened in this quarter, is that the joint effect of higher BTP spread, lower risk free rates and in lower corporate bond rate and lower rate of the BTP in the EIOPA portfolio, which is the reference point onto which you calculate the difference, created a in time negative movement, versus what you were expecting. So everything moved, it was not a single, stand-alone movement of mobility. That's why you should not have done this calculation with the seven percentage point, but you should have done this with the one we found the activation of the country rate, which was 12 percentage point.

Sorry for the long explanation, but we are thinking about jointly movement of four different animals, and among these four animals there were many other small babies, which are all in the different of the government's bond and the other corporate spread rates in the EIOPA portfolio. So it's quite complex. But basically message is four different things moving together, all in the opposite direction not allowing you to trigger a stand-alone sensitivity to seven. Hope these were clear.

## Q - Michael Huttner {BIO 1556863 <GO>}

If I may just -- I think I understand and I love the faces of the little baby kind of mirroring. But the -- so if I understand the activation on change would benefit by 12 points, if it happens. And the fact that the activation didn't happen and that all these things move. Is it that the problem or the seeing we didn't calculate properly, will the activation point move? Or is it that all these the BTP and the swap, et cetera, created a kind of correlation, which increased the market movements?

## A - Frdric de Courtois

Just to clarify your first point the activation, when it happens is not 12 points, it is the difference in sensitivity versus 100 basis points movements moves from 12 point to 7 points. Then, when you speak about the movement and the market change, it is not that they are uncorrelated. When you do a sensitivity, you need to create a stand-alone movement, then you have the so-called joint effect.

The point here is at year-end I told you that we were basically less than 2 basis points from the activation, but the delta against which you move is again a moving factor because, the delta onto which you have to measure the movement of the BTP is not stable, these changes, depending on the corporate bond change, the government change and as well the weight because if they look at changes that reference portfolio as they did the weight of the Italian BTP could change the basis.

So, there was a joint effect of -- on one side we have a movement, but on the other side of the reference point your thermometer change in degree. You see we are not more in the Kelvin, we are in the Fahrenheit just to explain it because, we changed the reference. This is the complexity of this system. Unfortunately, you cannot predict the movement, the joint movement of four different elements that contributes to the activation trigger.

## Q - Michael Huttner {BIO 1556863 <GO>}

Understand. That's very clear. Thank you so much.

## Operator

The next question is from Nick Holmes with Societe Generale. Please go ahead.

## Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. A couple of questions. I have a little bit more simple than the last one. Firstly, coming back on unit-linked sales. you're seeing recovery so far in Q2 on the back of market recovery. And then secondly on P&C, just wonder can you update us on whether the Italian banks are having any disruptive impact on P&C pricing. Thank you.

## A - Frdric de Courtois

So, Q2 is on the April, I would say and high-level comment slight recovery compared to Q1. The banks, we see no impact on our business in Italy.

## Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Very good. Thank you very much.

## A - Frdric de Courtois

Thank you, Nick.

## Operator

The next question is from Giuseppe Mapelli with Equita. Please go ahead.



## Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Yes. Got to answer two questions. The first one is on your combined ratio. You stated that your underlying combined ratio improved by some 80 basis points year-on-year, can you give us an idea, and isolate what has been the impact on nat-cat in the first quarter? Thank you.

## A - Frdric de Courtois

First -- Good morning, Giuseppe. I said that on the claims ratio, not on the combined we had a reduction of the attrition of current interest ratio by 0.8 points. We have a slight deterioration of the acquisition costs, because globally business mix is moving towards nonmotor especially in Austria, in CEE and in Spain, so globally we have a slight deterioration of the expense ratio by 0.4 points.

So if you do the sum of the two halves, I have minus 0.8 on the claims ratio, plus 0.4 on the acquisition ratio, so let's say minus 0.4 on the combined. Then on the impact of cat nat, so not including man-made in the Q1 '19 impact was 0.9 points, compared to 1.5 last year. So an improvement of 0.6, 0.7 points.

## Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Thank you. And just another question on your motor DPL[ph] trended your experience in Italy because someone is saying that the pressure has once again increased in terms of average premium. Can you share with us what's your view on the market and also for the outlook for 2019? Thank you.

## A - Frdric de Courtois

What we see in Italy, is as I said now flat average premium. So it remains the competitive market, I confirm it. But flat average premium is much better than what we had before. The good news is that the frequency are continuing to decrease, so I see a relatively significant improvement of the profitability in Italy due to the, as I said the flat average premium on one hand and the decrease in frequencies.

## Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Thank you.

## Operator

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

## Q - Johnny Vo {BIO 5509843 <GO>}

Yeah, thank you. Just asking about the remittance ratio and the remittances to the holding company. I guess, you're adjusting the shareholder structure or the group structure, the financial structure of the group. And given the solvency move -- has moved for this quarter, has there been any impact on the remittance profile of the group?

The second thing is just again on the remittance. Is the remittance following the organic capital generation of the group, or is it exceeding the capital generation?

And just third question, you make a point with regards to the current yield on your book. But what is the economic reinvestment rate? Are they now above the previous reinvestment rates or below the reinvestment rates? This is on an economic basis. Thank you.

## A - Frdric de Courtois

Hi, Johnny. So, first of all, the restructuring of the holdco core and the different intermediate holdco core group. I confirm you that we are working in order to optimize our capital management framework as we announced at the group plan in November.

So, this is going on which is also consistent with all the operations and also the way we will manage the cash upstream. On the fact that the movement in solvency II whether, this is impacting or not our remittance capacity, I absolutely confirm that there is no absolute change in that, because we are still as I recalled you the 212% end of April and solvency level is a very solid one, which is absolutely in the middle of our risk appetite range, preferred range and there is nothing which is changing there, our structure of the plan.

On the second question, organic cash generation, is it exceeding the capital generation? I mean, given the high-level of capital generation we have which is well above even the dividend capacity as you know which is more than twice That one, I confirm you that the capital generation is higher than the cash generation.

But as we explained also in November that we continue to explain, this is just taking the time to see this increase going forward, thanks to the higher profitability of the new products and the total transformation that we'll be managing through our liabilities, which are the product. The third question related to the current year, the reinvestment rate --

## Q - Johnny Vo {BIO 5509843 <GO>}

Economic reinvestment rate.

## A - Frdric de Courtois

Yeah, I mean by economic investment rate, I hope if we can agree on the definition, it is the IRR of the bond you are buying, so --

## Q - Johnny Vo {BIO 5509843 <GO>}

The market value, which is a little bit, what, not the book accounting ideally.

## A - Frdric de Courtois

Yeah, the market value investment rate versus the previous quarter of 2018, there are even in some cases due to the strategy of reinvestment in the so-called private debt and the real asset. We have a slightly higher rates versus first quarter '18 of reinvestment in non-life and basically stable in life. This is the actual situation in the group.

## Q - Johnny Vo {BIO 5509843 <GO>}

Got it. Thank you.

## Operator

Ladies and gentlemen, there are no more questions registered at this time.

## A - Giulia Raffo {BIO 20301563 <GO>}

Thank you very much. As usual, the Investor Relation team remains available for any question or follow-up you may have. I just wanted to say that we all look forward to seeing as many of you as possible at our exploring Generali event which is scheduled to take place in London on Monday -- on May 24, next Friday. Thanks a lot everyone for your attention. Have a good day.

## Operator

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