Q1 2016 Earnings Call

Company Participants

- Alberto Minali
- Nikhil Srinivasan
- Philippe Donnet
- Spencer Lee Horgan

Other Participants

- Farooq Hanif
- Federico Salerno
- Gianluca Ferrari
- Giuseppe Mapelli
- James A. Shuck
- Kailesh D. Mistry
- Michael Igor Huttner
- Nadine van der Meulen
- Niccolo C. Dalla Palma
- Paul De'Ath
- Thomas Seidl

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Generali Group First Quarter 2016 Results Presentation Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Spencer Horgan, Group Head of Investor and Rating Agency Relations. Please go ahead, sir.

Spencer Lee Horgan {BIO 4241901 <GO>}

Thank you, operator. Good morning, everybody and welcome to our first quarter Q&A call. With me in the room, I have Philippe Donnet, Group CEO; and Alberto Minali as always, General Manager and Group CFO.

I know it's a busy day for all of you, so I suggest we get straight on with it. I'm going to hand it over to Alberto for a few short opening remarks, and then we're ready to take your questions.

Alberto Minali {BIO 16909383 <GO>}

Thank you very much, Spencer. As you've noticed around in the market, we live in a, let's say, challenging environment with very low interest rate and some market volatility which could explain some of the things we are telling you today.

As you've seen from our numbers, the technical performance of the group has been strong, remains very strong with a solid combined ratio around 92%, which also benefited from the absence of nat cat but with an underlying performance in most of the countries where we operate in, most of the lines of business very, very good, I want to say.

We also have improved the margin on the Life business. And so, on one side, technical performance, Life and P&C, on the other side, the efficiency and our focus on cost containment remain the key priorities for our future.

As you've noticed, the Solvency II ratio is 188%, down 14% from last year estimate. This 14% is perfectly in line with our sensitivity and had to be explained with the financial variable impact on our risk profile. Having said that, I think I can reaffirm our substantial commitment to dividends and remuneration for the shareholders.

Looking at this number, I can see that some of the negative, let's say, indication that I'm looking some of the reports of yourself, depend very much on the decision that we took at the beginning of the year, not to realize additional capital gains. And this explains the contraction of the operating result, and on parallel basis the contraction of the net income.

I would stop here because I think you have some question. And I will pass the word to you. Thank you.

Q&A

Operator

Thank you. We will take our first question today from Gianluca Ferrari from Mediobanca. Please go ahead. Your line is open.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Hi. Good morning. My first question is on the current income in P&C. I saw your financial supplement, and in absolute terms, the current income in P&C went down 12% year-over-year from €301 million to €264 million. This €12 million is the combination of 14% decline in margins from 77 bps to 66, and a 2% increase in average assets.

Now, during the speech, Alberto, you mentioned there investment rate in Q1 of 1.3%. So, I was wondering if you have an indication for us of where we are landing this year on the 3.2% currently that you reported in full year 2015. So, given this reinvestment rate where this 3.2% is going at year-end.

Second question is on the potential change in some geographies. Are you planning to revisit a bit your geographies? Are there some areas where you would like to increase your scale or somewhere else where you would like to reduce your scale? And is it mainly for Life or P&C? Third and final question is an update on the €1 billion real estate disposal we read on the press a few weeks ago. Thank you.

A - Alberto Minali {BIO 16909383 <GO>}

Thank you very much, Gianluca. Going to your first question, so the drop in the current reinvestment rate of 1.3% on the P&C business, this depends I would say very much on the fact that we have changed the amount of reinvesting different asset classes compared to last quarter.

We have slightly reduced the allocation to govies during the first quarter. We have dramatically reduced the allocation to corporate bond. We have also reduced the allocation to cover bond and agency/supranational business. So, this 1.3% is depending upon the asset allocation decision about the reinvestment.

Also, I have to say that the cash components of the business has increased because we do have, as you can imagine, a tactical view also on this redeployment of cash. At the moment, the cash position is very big. But in the next quarter, we will reinvest the cash quite efficiently. So, the 1.3% is the outcome of this multiple type of decisions.

About the changing some geographies, I don't have an answer at the moment. Together with Philippe, we are looking at the performance of every single unit entity and line of business the group. And if there is the need to updating the investors community, we will do so in the next call or in the next meeting.

The project regarding the real estate disposal under the name of Stardust has been suspended. We think that now is the right time to selectively increase the exposure to real estate. And we are discussing a plan of investment into major European capital city with liquid real estate secondary market.

And having said that, I want also to notice that real estate asset class has a nice diversification benefit within our internal capital model. And the returns of this asset class on risk adjusted basis are quite good. And we needed to have this asset class in our portfolio in order to generate additional current returns for policy of the funds and P&C business.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay. Thank you.

Operator

Thank you. We will take our next question today from Paul De'Ath from RBC. Please go ahead. Your line is now open.

Q - Paul De'Ath

Yeah. Hi. Good morning. Thanks for taking my questions. And firstly, on the...

A - Alberto Minali {BIO 16909383 <GO>}

Paul. Paul, can you speak louder, please?

Q - Paul De'Ath

Okay. Yeah. Sorry. Can you hear me now?

A - Alberto Minali {BIO 16909383 <GO>}

Yeah.

Q - Paul De'Ath

Yeah. Okay. Great. So, firstly, on the Life business, obviously, unit-linked sales have not been great during the quarter because of the market volatility. And I just wondered if you could sort of describe a bit more about what you plan to do to, I guess, make the unit-linked business a bit more robust in volatile markets. Can you change the products in some way or change the distribution? What is it that you're sort of looking to do there? That would be interesting.

And secondly was just on the restructure announcement from last night, where there's, obviously, now board representation. Looking at the – or essentially everything that isn't in the four main markets, does that suggest a greater focus on the kind of fifth market of everything that isn't in the big four? Does that change the retail Europe strategy at all? Just any thoughts on that would be great. Thanks.

A - Alberto Minali {BIO 16909383 <GO>}

Yes. Thank you, Paul, for your question. And we start from the first one. And then, Philippe will add his comments to the first one and to the second. So, the Life business, the unit-linked sale, yes, we had a contraction of unit sale production in the first quarter due primarily to the volatility of the financial market that has changed and reduced the underlying value of the assets. And so, we had a bit of a slowdown in the sale.

What we have decided to do at the beginning of the year is also to launch a new comprehensive program for refurbishing new way for changing the underlying asset in the business and make it more, let's say, resilient, less vulnerable to financial market condition. So, we are now in the process of implementing a unit-linked platform for the group that accommodates also the need of customers for having assets less depending upon the financial market.

So, we will have funds – either funds from Generali or third-party money manager funds invest in fixed income bond, corporate bonds which show a very low or lower volatility compared to the equity. So, we have already started to work on the unit-linked reshaping of the product. And this, I think, will bring you some fruits in the quarter to come. I pass the word to Philippe.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. Before answering to the second question, I would like to add something to what Alberto has just said on the unit-linked and hybrid product mix. As you have probably seen in the numbers, the biggest part of the life net inflow is made in Italy.

In Italy, most our distribution is proprietary channels. And this is a great opportunity for us to monitor the mix – to better monitor the mix. So, we do – our bancassurance channel is not that important compared to agents, compared to employees, compared to Banca Generali financial advisors. And this is obviously easier for us to monitor the mix. And we just have put together a plan in Italy to correct the mix compared to the first quarter, and we took many actions to do this.

And I will say that this is true not only in Italy because mostly speaking, our distribution is proprietary distribution. And I think that compared to many other open distribution channels, this is a great opportunity for Generali to monitor and control the mix.

Talking about reorganization. I mean, it's a reorganization. We are focused on improving our business wherever we do business. So, we want to improve in Italy, in France, in Germany, (12:12) everywhere else. The objective of the reorganization is double objective.

First of all, we wanted all of the business units, all the regions, all the countries to be represented in our management committee. And then, I wanted to reduce the number of my direct reports. In the previous organization, my predecessor had about 22 direct reports. For me, it's something difficult to manage and I prefer to have a more concentrate reporting line.

This is why we decided to create this new function with Asia, EMEA, Americas, and global business line. We decided to ask someone who has a great – who has a deep experience in these markets to join the group, also to strengthen – to further strengthen our management team. So, it's not a change of focus, of strategic focus, it's an improvement of our organization. And I'm convinced that with this new organization framework, we will be quicker and more efficient in the implementation of our strategy.

Q - Paul De'Ath

Okay. Thanks very much.

Operator

Thank you. We will take our next question today from James Shuck from UBS. Please go ahead. Your line is now open. Hello, caller, your line is now open. Please go ahead.

Q - James A. Shuck {BIO 3680082 <GO>}

Hi. It's James Shuck here. Can you hear me okay?

A - Alberto Minali {BIO 16909383 <GO>}

Yes.

Q - James A. Shuck {BIO 3680082 <GO>}

Lovely. Apologies for that. So, yeah, I had two questions, please. Firstly, again, around the reorganization announced last night. I noticed that Carsten is leaving the group. You mentioned that the Group COO role is going to be reallocated. Could you just highlight – describe what that means a little bit? I would've thought a Group COO role is quite important in a federal kind of set up, such as at Generali, because it gives the kind of overall insight into what's happening at a group level.

So, I'm just interested to know what the future is for that role, please. And if you could just comment in general about the role of the Center, I think previously, the previous year was looking at strengthening that Center. Just want to understand whether that still the case here, or whether you want to devolve some of that power back then to some of the regions.

And then, my second question is around France and Germany. In fact, just in general, this philosophy about up streaming capital to the group as quickly as possible so that it increases the group free cash flow, is that still the right strategy to be employing? It seems somewhat that there's been a certain degree of under investment in France and Germany that might be starting to manifest itself in some of the competitive positioning. And I just want to understand whether there is a need to start investing properly in those territories? Thank you very much.

A - Alberto Minali {BIO 16909383 <GO>}

Thank you, James, for the question. The role of the Chief Operating Officer, yes, certainly it will change in the future. We have decided not to have a Chief Operating Officer sitting in GMC. This comes from different type of consideration.

First of all, it goes back to the role of the holding company. The holding company has the function of monitoring the performance of the group, allocating the capital and this is a central activity, whatever capital it is, equity or debt, but also holding the function of supporting the local entities for running the business.

The accountability of running the business is in the local Chief Executive Officer. And so, the holding company needs to sit together with the Chief Executive Officer of every single entity and support him or her in running the business. But we don't have to have a holding company replacing the decision process at the local level.

So, the idea was – or the idea is in the next months to change also – and there is also cultural shift here to do to change the role of the holding company and transform the holding company from a monitoring decision-making type of activity to help monitoring and supporting the business for the development of the business locally.

The role of the CEO has been very important in the last three years. And I have to thank Carsten for the great job he did, especially in terms of the OpEx. The OpEx management will become part of the CFO function because I think that the CFO is in charge of cost management and cost budgeting.

And the role of the new Chief Operating Officer will be more centered on IT, technology and data, in order to support program at group level that can facilitate running of the business and business decision process. So, that's a change in the role of the COO where the word operation will become more I in terms of information and information technology.

I disagree with your comment on the second question, France and Germany. We decided, as you've seen in the past, not to upstream capital as quickly as possible. We announced today we gave up the dividend payment in France for three years essentially. And we have reinforced the technical reserves. So, we made a huge investment in France in terms of capital strength.

So, the idea is not to upstream as quickly as possible. It's to coherently understand which are the investment projects that the company should finance and what is the profit that the company can remit back to the holding, which is the dividend. So, if you ask me if we have a need to invest, I think we made already huge investment in France in terms of structure, in terms of people and in terms of capital strength.

And already, we made investment in Germany. If you think about it, we made an expenditure of €190 million of restructuring costs which, on the other side, could be considered an investment for having a more efficient organization. So, I tend to disagree with the comment that we didn't invest. I think we already invested. And now, we needed to have an improvement of performance, especially in France. But colleagues are working very hard. And I think we are moving in the right direction.

Q - James A. Shuck {BIO 3680082 <GO>}

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

Operator

We will take our next question today from Kailesh Mistry from HSBC. Please go ahead. Your line is open.

Q - Kailesh D. Mistry {BIO 15396670 <GO>}

Hi. Good morning. I've got three questions. First one, going back to the Italian reorganization. If I understand it correctly, it seems like the governments of the Italian business goes back to similar to what it was pre-2012. So, basically, the group CEO has an overarching role on governing Italy. Apart from the simplification of the Italian operating companies, is the other key difference versus the regime pre-2012 that the group holding company is separate from the Italian holding company or the operating company? That's the first one.

The second one is around investment strategy. I think at both of your Investor Days in 2013, management spoke about investment strategy, the governance around that, high hurdle rates, et cetera. How does your investment in the Atlante Fund fit in to these criteria? And in terms of the investment itself, is it just being held at the group level or within the individual business lines?

Thirdly, just on the Solvency II – sorry, internal capital model moving from 202% to 188%, could you just run us through the main sort of elements that are driving that movement? So, modeling changes, operating return, market effect, et cetera. And also, if you could just cover on whether it includes dividend accrual. Thanks.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. I'm going to answer the first question on the Italian reorganization. No, it's really different from what it was before 2012. I just want to recall that in 2012 there is no – there was no Italian subsidiary. There was no country Italy. Assicurazioni Generali was managing both the rest of the world and Italy. So, the Italy was included in Assicurazioni Generali to a part of the holding. It's completely different. It's completely different.

It happens that as of today, I am still the country manager for Italy. We have appointed Marco Sesana as the CEO for the company Generali Italy but I am still for the time being the country manager for Italy. It doesn't mean that I will remain the country manager for Italy forever. This is absolutely not my plan. We will make that – when it will be the right time, we will take the decision.

So, for the time being, the right thing to do is for me to remain the country manager for Italy as of today. As I already mentioned, thanks to the creation of the general manager function, area of responsibility. Thanks to the creation of the new global and international function. I was able to reduce very significantly the number of my direct reports. So, it's not – it's quite convenient for me to keep this responsibility from the time being in Italy because I have only five direct reports coming from this function. The companies in Italy are all performing very well. They have significant size. They produce a significant amount of results. So, it's something very manageable for the time being.

A - Alberto Minali {BIO 16909383 <GO>}

Going, Kailesh, to your second question regarding the investment in Atlante Fund, the board has decided to make this investment of €150 million under the recommendation of the management team because we have considered that it would have been more important to participate in this fund than to suffer in case eventual propagation effect of a program (24:44) in the banking systems. So, the investment in the Atlante Fund, it's an investment that we consider important for protecting our exposures and our assets towards maybe volatility coming from the Italian banking system.

It's allocated in the operating entities, predominantly in Italy, I would say, because this is a country-on-country as the location principle. We do expect to have additional return from this fund. It depends very much what the fund will buy, if the capital increase not taken by the market or the NPL. And we are working with the other players of Atlante Fund for improving the governance and also the investor committee governance, which is very important for avoiding any conflict of interest in Atlante.

Going to your third question, the internal capital model, the main elements driving the movement are 4 percentage point coming from the decrease in the interest rate, 7 percentage point coming from the variation of the equity component, and 1 percentage point, broadly speaking, coming from volatility. And the dividend is not accounted in the calculation. So, it's a sort of a under estimation of our capital generation possibility in the group. The dividend is nothing.

Q - Kailesh D. Mistry {BIO 15396670 <GO>}

Thanks.

Operator

Thank you. We will take our next question today from Farooq Hanif from Citigroup. Please go ahead. Your line is now open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. I just want to return to the earlier question from James on the COO. Well, you committed historically to quite a big investment in digital. And I know you're saying that the COO would still be responsible for that. But I'm just sort of worried that there will be issues of target – operating model there will be learnings between different bits in the business, which really need to be the (27:00) coordinator. And I wondered what comment you can make on how you will sort of protect that or whether there's a change in approach there. That's question one.

Second point is, in your Life, your (27:11) technical margin was pretty strong in spite your – and your net inflows as well obviously are very, very strong despite the shift in mix. So, I mean, are you really worried about the product mix having changed? Or do you think actually you could comfortably live with a slightly elevated level of traditional sales going forward? And last point is – last question is – I mean, do you have – particularly with your new appointment, do you have any ambitions now to return to commercial lines or global lines in P&C? Thank you.

A - Alberto Minali {BIO 16909383 <GO>}

Thanks for the question, Farooq. Going back to the first one, the commitment of big investment in digitization, as you know, Generali is now running the race of some other players, say, we invest €1 billion, €1.5 billion, and we say €2 billion, and the other say €2.5 billion, it's not a race. We need to make interesting, efficient investment in digitalization. We are selecting – we have already selected very few projects in digitalization.

One has already been launched three weeks ago, which is the so-called, internally called mobile hub. It's a huge investment that we are going to do on iPhones and iPad in order to create a possibility for the customers of Generali not only to ask for a quotation on different policies, but also for managing the claims and be completely informed about the claiming process.

Just to let you know how this project – this mobile hub project is handled, it's centrally coordinated by the marketing team and the IT team altogether. There is certainly the contribution from the technical people in terms of product offering. But the development from an IT architectural point of view is then outsourced in a way to the countries. Italy will do the architecture of this mobile hub application. France will work on the claims part of it. And Germany will work on the pricing tool.

Once we are able to develop this three kernel of the application, claims, pricing, within the architecture, all of these kernel will be made available to the other counties in the group. And you can imagine that this is centrally coordinated but locally funded because we have the team – the local IT team that are particularly versatile in this type of things. And we need to, being a group, work with them.

So, it's not a program that is centrally dictated and centrally implemented. It's a program that is centrally controlled and monitored, but locally developed. And this means that the companies of the group voting into the project and their committee with investment in people for the realization of debt.

Another second project regards the agency distribution, and we are working very, very hardly on this. And then, there is a third one on other type of application in the digital world. So, instead of making bold announcement about investment in digitalization, we will focus on a few things that we consider crucial for the transformation of the industry and for this disruptive journey, so no change in the approach but a different focus on the project.

Going to your second question, the Life technical margin, no, we are not worried about the shift. We know there is a quarterly shift. As Philippe has explained, most of our distribution network is a proprietary. And so, we have the possibility of controlling the mix, and in a way, dictating, or let's say, moving the mix in the right direction. So, I'm not worried about this mix. And certainly, we are working on the products as we said, especially for the unit-linked for changing a bit the products offering to our customer

Ambition to go back to commercial line. To go back, I think, is not correct. We are in commercial line. We write more than €2 billion in commercial line, 90% combined ratio, very profitable business done through a network of very competent people, again, managed centrally, but then locally – with a local underwriting capability. If there are opportunities in the commercial line, maybe we can consider them. And the thing that Frédéric is joining the group will also give us further opportunity for understanding where to focus the development of the commercial business, not going back to commercial business.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much for that. Thank you.

Operator

Thank you. We will take our next question today from Michael Huttner from JPMorgan. Please go ahead.

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

Thank you very much. Three, and you might have covered them, but one is pricing trend in non-life by region, that'd be really interesting. The second, could you detail, and you've probably done it already, but as much you can the exposure to Italian bank bonds? And the third, could you update us on your cash flow, the €7 billion target which kind of boils down to somewhere around €1.5 billion a year? And to my mind, because it's a legal thing, the dividends, my guess is you've already done much of the currency effects (33:02). Just wondered if you could provide some kind of insight. Thank you.

A - Alberto Minali {BIO 16909383 <GO>}

Thank you, Michael, for your question. I will start from the pricing trend in the non-life business. We do have in Italy still some effects of the, let's say, price competition. We do have a slight reduction in the average premium of the new production while, for example, in France and Germany, the market remains hard. In France, it has become hard; in Germany, remains hard, so with a positive sign.

We do see some pricing trend negative in the CEE countries. But in overall terms, we think that there is no revolution, I will say, in the pricing trend. Maybe especially for Italy, some of the players that have started this price war, maybe they are coming to better terms and condition and trying to reduce a bit this price tariff war.

Going to your second question, the exposure to Italian bank bonds, it's €4.9 billion. It's predominantly a senior exposure for 45% of it. The rest is subordinated bond and mezzanine. And in terms of the cash flow versus the €7 billion target, no, we don't have a quarterly update to give. This is something that it comes after we close the accounts in a way because the €7 billion target then dictates the €5 billion target dividend. And we do this analysis especially towards the end of the year in order to steer the amount of dividends that can be upstreamed to the holding company.

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

And could you – on the Italian bank bonds, can you provide any kind of color because you mentioned the Atlante Fund and some kind of participating in the reduction of the contagion risk? It's just – it's where Generali is clearly different. It's the other large insurance groups that have that.

A - Alberto Minali {BIO 16909383 <GO>}

I have to say that our exposure leads 1% of the total asset under management. Maybe I can ask Nikhil, if you want to give him some color.

A - Nikhil Srinivasan {BIO 7419225 <GO>}

Yeah. Sure. Yeah. I'm sorry I didn't quite understand your question. I think point number one, as Alberto said, the overall exposure is 1% of our total assets. We have the largest asset base in Italy, so it would be logical we have some Italian bank exposure. Close to two-thirds of the exposure is the biggest banks in Italy. So, it's the Intesas in all of this world. So, these are, by any global standard, important - systemically important banks. I think that's the other point to make.

We don't have significant exposure on individual name (36:01) basis to any of the smaller banks. So, should we have issues with some of the banks in due course, it will have no material effect on our balance sheet or on our profit and loss from that point of view.

So, does that quite answer your question or do I miss something?

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

No. No, you didn't miss anything. I'm trying to think of an even better question but your answer was very good or brilliant rather. But thank you, yes. And then, yeah, that's lovely. Thank you very much.

Operator

Thank you. We will take our next question today from Giuseppe Mapelli from Equita. Please go ahead.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Yes. Good afternoon. I have two question. The first one is on the Motor TPL in Italy. If you can give us a picture in terms of frequency, are you seeing a sort of a normalization of the trend or maybe a (36:54) considering the traffic figures, say, in motor is going down? And my second question is on internal model for the Solvency II. Can you update us on the approval process if there are any novelties on that? Thank you.

A - Alberto Minali {BIO 16909383 <GO>}

Thank you very much, Guiseppe. For first question, the Motor TPL in Italy, in Italy, we have a slight reduction of the frequency. The trend is then negative. The frequency is 7.2% and we have minus 0.1% quarter-on-quarter. In Italy, we have also an increased number of contracts, more or less plus 1%. We also have noticed traveling also in Italy and we have noticed that there is an increased traffic on the roads, but this does not materialize in any part on the frequency. On the contrary, the frequency of our portfolio remains very good and very stable on downward, let's say, trend in all the companies of the group in the country.

About the internal model, still there is no, honestly, update here about the approval process. The risk management team is working with the regulators of Austria, Spain, and France having the first conversation for expanding the model and expanding the perimeter. It's very, very early days to say more than this. We are working and the teams are starting the analysis of the project. And then, we will have further interaction with the regulators. So, I think we will not have any update also in the next quarter because it's a preparatory work phase at the moment that sees the involvement of the risk management team.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Thank you.

A - Alberto Minali {BIO 16909383 <GO>}

Maybe in France, we can have, let's say, slightly more visibility on the process because we already had the approval for the P&C business model. And some part of the documentation has already been submitted to the French regulator. We had conversation with them. And we hope to be able, hopefully, by the end of the year to get the approval. But again, I don't want to commit on this because it's entirely up to the regulator to decide the times and the steps of the process.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Thank you.

Operator

Thank you. We will take our next question today from Thomas Seidl from Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. Three questions. The first one is on impairments. You show audibly (39:47) stable numbers year-on-year, given your exposure to the banking sector just discussed on the equity and bond side. I wonder, if market's there at today's level. Should we expect impairments later in the year, and hence, the low impairments right now is mainly driven by your impairment policy, first question.

Second question, on Atlante, just a follow-up question there, you expect positive results, but in case you need to write down your stake in Atlante, would you be able to share this with policyholders or is this completely for the shareholder? And the third thing is on the Life business, you mentioned the low production in hybrid unit-linked. Do you also see higher lapse rates because people get disappointment by the performance of these products? Or is it really mainly the new business which is hurting here?

A - Alberto Minali {BIO 16909383 <GO>}

Thank you, Thomas, for the question. The impairments, yes, we have a stable number. Personally, I don't expect a further impairment later in the years, unless there is a systemic crisis in the financial sector. But this is something that I cannot predict for the simple reason that most of the assets, that there is a small exposure to equity. And the equity is the most important asset class where impairments come out. So, I don't have an expectation of future impairments later in the year. But this is honestly impossible to predict.

On] Atlante, I'm not – in my memory, I don't remember if we have already decided where to allocate Atlante, as I said, in the operating entities. It will be a portion on the segregated funds, a portion in the equity account, and it depends on the allocation if there is the need of making an impairment policyholder, in case, will participate or shareholders will participate. It depends on the allocation. But after three days we have done the investment, I'm not thinking about an impairment of it. So, if you and me address the same question the next quarter, I can be more precise.

On the Life business, there is no increase of lapse rate. It's not an issue of lapse rate. It's related to the new business we sold and also the underlying assets of the new business that were more exposed to financial market. So, the low production in average (42:27) unit-linked business refers to the type of the unit-linked component that, as I said, with (42:34) a new program we are now changing and reshaping.

In terms of the lapse rate, in terms of number, in the first Q 2016, 4.3%; in the first Q of 2015, 4.7%. So, there is no lapse issue in our Life business.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thanks, Alberto.

A - Alberto Minali {BIO 16909383 <GO>}

You're welcome.

Operator

Thank you. We will take our next question today from Nadine van der Meulen from Morgan Stanley. Please go ahead.

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

Yes. Hi. Good afternoon. Question on the new business margins in Life that went up to 27%, can you call on the outlook here to what extent this is sustainable also, potentially in light of fee pressure as fee levels have been quite high in some of the regions, particularly Italy? That's one.

The other question I had was on the non-life side, on the non-life environment, given the premiums were down in both motor and non-motor. The pressure in motor I think recent quarter has been offset by better performance in non-motor. Can you give, yeah, an outlook there? Is it stabilizing or could we expect further improvement? And, lastly, do you have – or do you disclose an excess cash position at the holdco level? And if so, what is that level? Thank you.

A - Alberto Minali {BIO 16909383 <GO>}

Thank you, Nadine, for the question. New business margin, if you compare 2016 first quarter with 2015, you see a huge increase of the margin. I will say that one-third of this increase is due to the change in mix and the continuing change in mix, while two-third is due to the type of assumptions that we have used for the calculation of new business margin.

As you know, the new business margin at the quarter-end is calculated with the assumption at the beginning of the quarter. And we had relatively better assumption at the beginning of the quarter. So, if you now ask, what is the recalculation of the margin with the quarter-end type of assumption? I can tell you that this 27% will go down to roughly 20% because at the end of the quarter, we had particularly negative financial assumption for the calculation of new business margin.

In terms of outlook, most of it will depend on the product mix. And as we said, I think we are able to direct the mix of the production towards the more profitable business, apart from financial market volatility. I think we are going in the right direction. If you look also, our unit-linked share compared to the peers progressively over time, this get – has reduced dramatically.

Now, we have to work even more on protection business. And the reduction of the guarantees in the saving business is continuing. As you've seen, we are – we've been able to reduce the guarantees in anticipation of the contraction of the yields in the market.

In non-life premiums, in motor and non-motor, the outlook, very difficult question; I think the outlook for the non-motor business is depending upon or dependent upon the general level of the economy. And in Europe, there is no much sign of growth. So, I don't think that we will have a fantastic premium growth in the non-motor business. And that's why Philippe and I insist a lot on technical discipline and cost control because we know that growth is difficult in this European situation.

The motor business, as I said before, it depends very much on country-by-country. In France, in Germany, it seems that we are growing the motor business, premium volume; while in Italy and CEE, we do have some price competition still to face for the rest of the year. The cash position level at this quarter, we don't have it in – we have it, but we don't disclose it. We will have a disclosure at year-end on this item.

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

Thank you very much. Just coming back quickly on the non-motor side, so do you actually foresee that there's a possibility that, that is getting more competitive in pricing on the non-motor side because...

A - Alberto Minali {BIO 16909383 <GO>}

My understanding (47:13)...

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

I think it's been quite benign. It's been quite benign, I suppose.

A - Alberto Minali {BIO 16909383 <GO>}

Yeah. But on one side, may be. On the other side, my understanding on the business is that while in the motor business, it's easy to be competitive by cutting the prices and getting market share, the non-motor business requires more technical ability, more servicing. You need to have a structure in place in the country. You need to have loss adjusted for the claims.

So, the non-motor business requires a type of architecture, infrastructure and knowledge that is not a commodity. And if you look at the presence of Generali, we make very good money in the countries where we are well-structured because the non-motor business requires this level of attention to the customer. But I think Philippe wants to add a comment.

A - Philippe Donnet {BIO 4657671 <GO>}

Yeah. I just wanted to give you an example. In Italy, we – on the small and medium companies, we have a very strong market share, around 35%. And we have on the field all over Italy about 100 field underwriters who are specialists for underwriting this kind of risk. No one else has this kind of organization in Italy. So, as you can imagine, the entry barrier is quite tough.

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

Thank you very much.

Operator

Thank you. We will take our next question today from Federico Salerno from MainFirst. Please go ahead.

Q - Federico Salerno {BIO 2565091 <GO>}

Good day, everyone. Couple of questions, please. The first is on Alberto's comments on prudent policy on realized gains. Do you think these will continue going forward? Or was it related to an already good contribution from P&C's technical income in the quarter. The second is on France. You already reached and bettered actually your 100% combined ratio target. Do you feel like providing another target for this year? Or give us an idea. And lastly, on your EV and Solvency sensitivities, the move in the quarter was consistent with what you published at the beginning of the year. But I was wondering, are you working to reduce those sensitivities like some of your European peers or not at the moment?

A - Alberto Minali {BIO 16909383 <GO>}

Thanks, Federico. Prudent policy on realized capital gains, yes, we will keep this prudent approach to the realization of capital gain. On top of that, I have to say that the realization of capital gain needs to get married in a way within market condition. There is no point in selling assets if we want to sell assets where market are not supporting the prices or where we can wait better times and sell at best price. So, there is a prudent policy general stance on realization of capital gain.

The other of the coin is that our investment officer needs to take a view, a tactical view, on how to do it, when to do it. And markets should have good price at the moment when we want to do it. But the general intonation of the music, in a way, it's a prudent approach on capital gain realization.

France move below 100%. It's fair to say that today they did a very god job in terms of pruning the motor business, especially the fleet business in particular and the contractors' liability business. We don't give them another target, but they already have a target, the management, in the balance score card, to go deeper and 100%.

We are happy with the direction. Not completely satisfied about level, and they think there is still room of improvement in French combined ratio. We can go down even more. And my colleagues are really working hard to achieve this.

The third question is a very complicated one because reducing the sensitivity and the outcome of many different management actions that we (51:45), certainly, we want to reduce the sensitivity of the interest rate by selling more (51:50) products. We want to reduce the sensitivity to equity and we are not going long on equity in the next quarters. But also it depends on some hedging programs and some other activities.

So, there is the intention of reducing the sensitivity because of good management decision on different items but this is not, in general, per se, a target. The sensitivity comes out from the balance sheet, from the model, from our risk profile. Certainly, we want to invest the capital in a more efficient way. And so, (52:28) maybe the sensitivity could be reduced.

Q - Federico Salerno {BIO 2565091 <GO>}

Thank you.

Operator

Thank you. We will take our next question today from Niccolo Dalla Palma from Exane BNP Paribas. Please go ahead. Your line is now open.

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

Yes. Thank you for taking my questions. So, the first one is, you mentioned, Philippe, correction of mix, the plan to correct mix in Italy and (52:57) allows you to do so. Just wondering if you could say something more in terms of what the levers are? Is there – is commissions to the distribution lever at all in terms of directing what they are most incentivized to sell, can you change the structure of that? Is that potentially something?

So, the second question is on the average guarantees. You start to sell in some countries like France some products with 80% of the capital guarantee. So, my simple question is how do you – when you give us the average guarantee of the group, do you – how do you calculate this? Is it – do you take 100% guarantee of 80% of the capital or I suppose not the minus 20%? But just wanted to know how you're going to present this as probably over time mostly more and more of this, it's probably today very, very small to have an impact. But just wondering how you get this over time.

And lastly, on the Atlante Fund, if you could just say whether you would consider at all any investments on the leverage tranches of it once it starts to lever up to buy the NPLs, whether you exclude a priori, whether you would look at the conditions once you have more details or how you think about that. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. We're going to use, I would say, the usual lever we can use to monitor the business of proprietary channels. So, we don't change the commission system, but we use the incentivation system. Obviously, I'm not saying that we are going to increase the cost of the incentivation system. We are just changing it.

Basically, we do not incentivate anymore the traditional products, but we do incentivate the hybrid products, which are the best products for our channels. On top of this, we are also managing some limits. We do not exclude to use limitation of the possibility to sell traditional products. So, this is something we also start using. So, it's fully under control through limits and incentivation.

A - Alberto Minali {BIO 16909383 <GO>}

Going to your second question, the average guarantee, I think it's probably the last question because then we have to stop at 1. The average guarantee, how we calculate the guarantee at group level, the guarantee of the French new products, it's defined in this way: 0% minus the fee, which means that in a way, there is a sort of a negative guarantee. And so, this will reduce the average minimum guarantee at group level.

Having said that, I have to underline that we have just started to sell these products. So, they are not material at group level in terms of the dilution effect. But it's a very smart way also, I think, of reducing the inherent riskiness of our product. And that's why the margin in – new business margin France moved from 10% to 18% also because of this type of guarantee.

Atlante, we don't have a lot of appetite for the leverage tranches. But as we always say, let's have a look at it case by case basis. But for the time being, I don't think we have appetite.

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

Okay.

A - Spencer Lee Horgan {BIO 4241901 <GO>}

So, thank you, everybody. As Alberto said, we're conscious that we don't want to run over. I know there's obviously another call at 1:00. I can see there's still a few of you in the call. So, if you want to, obviously, call the Investor Relations team immediately after this, we can handle your questions. Other than that, thank you very much for your time. And the operator will close the call. Thank you.

Operator

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