# Q3 2019 AXA SA Corporate Sales Call

## Company Participants

- Andrew Wallace-Barnett, Senior VP & Head of IR
- GÃ©rald Harlin, Deputy CEO & CFO

## Other Participants

- Andrew Sinclair, VP
- Colm Kelly, Director, Co
- Farooq Hanif, Head of Insurance Research in Europe
- James Austin Shuck, Director
- Jonathan Michael Hocking, MD
- Kamran Hossain, Analyst
- Nick Holmes, Equity Analyst
- Peter Eliot, Head of Insurance Sector Research

## Presentation

### Andrew Wallace-Barnett {BIO 18671460 <GO>}

Good morning, everybody. Welcome to AXA's conference call on our activity indicators for the first nine months of 2019. I'm pleased to welcome GÃ©rald Harlin, our Deputy CEO and Group CFO, who will be taking you through the highlights of the release from last night and will be very happy to take your questions afterwards.

GÃ©rald, for the last time, I hand over to you.

### GÃ©rald Harlin

Thank you, Andrew. And hello. Good morning, to all. Thank you for joining our call. As you can see from yesterday's release, AXA has delivered another strong performance for the first nine months of 2019. Overall, total gross revenues increased by 5% at group level with all geographies contributing to the growth and which continued growth momentum in our 3 preferred segments, i.e., P&C commercial lines were up 7%; Health, plus 6%; and Protection, plus 3%. Our balance sheet remains very strong with a Solvency II ratio at 187% at the end of September. We will come back to solvency later on in the call.

So let me now take you through the details of the activity for each of our geographies. In France, total gross revenues increased by 4% with growth across all lines of business and notably in our preferred segments. Health in France was up 7%. Unit-Linked sales were down 10%. As the rest of the French market that offset by an increase in our savings products, we remain extremely disciplined in managing our French General Account Savings business with inflows broadly offset by outflows. And so this mean no dilution of our French General Account from growth in Savings business.

In Europe now, total revenues grew by 3%, notably with plus 4% in P&C commercial lines, which increased revenues across all countries as well as plus 4% in health. Life & Savings revenues in Europe were also up 3% with growth across all countries except Switzerland in the context of the Swiss Group Life transformation.

Moving to Asia now. Revenues and APE in Asia were both up 4%. A few things to have in mind for the regions. As you know, in Japan, there was a tax rule change related to the COLI products, which are corporate -- company-owned life insurance in the Second Quarter of '19. This had a strong negative impact on APE. If we exclude the impact of the Japan COLI products, APE in Asia overall was up 15%. The strong increase was driven by higher sales in Japan from protection with Unit-Linked and Health. Strong sales in Hong Kong from protection with savings and continued growth in China. We did see some slowdown in sales in Hong Kong to Mainland Chinese customers in the Third Quarter following the impact of social unrest. This was, however, mostly offset by continued strong sales to domestic customers. APE for the nine months from Mainland Chinese customers was minus 20%. Growth from domestic customers was plus 23%.

International revenues grew by 5%, notably driven by Mexico, Turkey and Colombia with, again, continued growth in preferred segments. Revenues declined in AXA IM impacted by a lower nonrecurring fees.

Let's now move to AXA XL. AXA XL revenues continued to be strong, up 11%. We are growing selectively as you can see. Revenues in P&C Insurance grew by 18% and Specialty was up 8%. Reinsurance revenues were up 2%, with growth in Specialty Reinsurance business and reduced volumes in Property lines. Price increases at AXA XL for the nine months were 6.9% in insurance and 2.8% in reinsurance.

Pricing momentum continues to build. In the Third Quarter alone versus the same period last year, prices in insurance were up 11%. This is a very favorable environment for AXA XL's key businesses.

As outlined in our press release, in the Third Quarter of '19 and early into the Fourth Quarter, a series of several -- of severe natural catastrophe events occurred resulting in above-average claims, charges for AXA XL, mostly in Reinsurance. At this stage, given the severity of these events and combined with ongoing wildfires in California and other smaller nat cat events, we estimate that AXA XL may incur claims charges of circa EUR 0.4 billion in excess of the normalized level of cat nat at AXA XL for the second half of '19. This level of deviation from normalized and taking into account a relative normal year for nat cat elsewhere in the group means that we remain very much within our overall tolerance level for earnings deviation, which I remind you is EUR 0.5 billion at the group level net of tax for 1 in 20 years.

Now moving on to Solvency II, which, as I mentioned earlier, was 187%, well within our target range of 170% to 220%. This is a very strong level, especially in the context of the very low interest rates in September. Since then, rates are up significantly. And we have clear structural increases in the coming year with the integration of XL in the internal model, potential equitable holding sell-down and the sale of AXA Bank Belgium, all of these elements more than offsetting the impact of future deleveraging.

So to conclude, AXA delivered another strong performance in the first nine months of the year. We recorded strong top line growth across the group. Our balance sheet remains strong and resilient. And we experienced an elevated level of nat cat at AXA XL above our normalized level and through the rest of the industry -- and as for the rest of the industry. This should continue to contribute to a favorable pricing environment for AXA XL and its businesses.

I'm now happy to take your questions.

# Questions And Answers

## Operator

(Operator Instructions) The first question comes from Jon Hocking from Morgan Stanley.

## Q - Jonathan Michael Hocking

I've got 3 questions, please, all on XL. Firstly, just look at the Reinsurance segment of XL. How happy are you with the sort of risk appetite of that unit? And how long can we expect you to reshape our book, if at all, going into (Q1) renewals? That's the first question.

Secondly, in terms of the protection to Reinsurance business, I think at the Investor Day last year, you talked about the -- your sense of capital and capital protection for the Reinsurance segment. Could you talk a little bit about what the gross net is on those Reinsurance losses and how much protection we've got left for the remainder of the year?

Then just finally, can you make a comment on, if there's any trends of note in man-made losses in the quarter to date?



## A - GÃ©rald Harlin

Okay. So let's start with the Reinsurance business. So indeed, we had quite elevated cat levels. I could say that, normally speaking, we should benefit from higher -- you know that we benefited mostly from strong price increases in insurance and less in Reinsurance. As mentioned in Reinsurance, we were on -- we were at 2.8%. I should say as well that on the cat side, we decreased our top line. And that as we mentioned, we have protections. On your questions on should we reshape or not our risk appetite, I would say that this is something that has been done already. What we could do means that we could eventually slightly further reduce our exposure to cat, mostly in Reinsurance. That's a point that we will see. We will update you later on and mostly when we will publish our Q2 -- our full year figures in February. So that's what we can take. But keep also in mind that there are other lines, which are quite profitable. And globally speaking, I would say that the outlook for the global commercial lines is pretty good. We continued increase in rates. And we are not the only one to mention it.

So that's -- about the man-made losses, you remember that we said in the first half that we had roughly an excess of EUR 0.1 billion for man-made large losses. I would say that the trend is still there, is still more or less the same. So that means that a relatively high level of man-made losses. And we could say that it could be of the same magnitude of the -- than in the first half. So that's mostly it.

As far as the protection is concerned. So that means that we have our global protection level and our excess of loss aggregate protection. And that this protection has not been hit yet.

## Q - Jonathan Michael Hocking

And was there a big gross net on these nat cat losses so far?

## A - Andrew Wallace-Barnett {BIO 18671460 <GO>}

Could you repeat your question please, Jon?

## Q - Jonathan Michael Hocking

So GÃ©rald, I'm just saying is the numbers you put out in terms of being above the budget, is there a big difference between gross and net on those numbers? Have you actually got any meaningful protection that you benefited from so far in the second half?

## A - GÃ©rald Harlin

Okay. As you know, the protection is at much higher levels. So that means that, again, I should insist on the fact that we are within our tolerance level. I mentioned that we had -- we were in excess of EUR 0.4 billion over the expected level. It's EUR 0.4 billion pretax. I remind you that our tolerance level is EUR 0.5 billion post-tax. So that means that we are completely within our tolerance level.

## Operator

The next question comes from Andrew Sinclair from Bank of America.

## Q - Andrew Sinclair {BIO 17749036 <GO>}

Three for me as well, if that's okay. But I'll try to keep it at just 1 for XL. Just wondered if you could give us any detail on how much you've actually allotted for the California wildfires? I think the others were quantified. But not Cali wildfires. Just wondered if you can give details on that.

Secondly, just wondered if you could comment on debt levers today after you've done a few redemptions over the last few months. Just wondered if you could give a rough update.

And thirdly was just on AXA Life Europe. Should we still expect that transaction to complete by year-end this year?

## A - GÃ©rald Harlin

Okay. Andrew. So about the California Wildfires, we are not speaking from a very large amount. So it's part of it. But it has nothing to do with the scale of what happened last year. So globally speaking, you know that Hagibis as well as California wildfires are quite recent events. So we are just in the estimating phase. But we don't expect it to be very strong as far as we are -- and the impact won't be very strong on AXA XL. That's our guess today.

About the debt leverage. So we are -- you remember that we said that we would be at roughly -- we'll be at 30%, 31% at the end of June. We mentioned that we would be in September at 30%, I confirm it. And we should be at 28% -- around 28% by the end of the present year taking into account the reimbursement. I should say as well that taking into account the fact that we confirm that we intend to sell the totality of equitable holding up to the end of next year means that we confirm the 25%. So as far as the debt leverage is concerned, we are absolutely on track.

As far as AXA Life Europe, what I can tell you is that we are still expecting the green light from the Central Bank of Ireland. You know that it's always complex. So -- but we are expecting it. And the benefit, of course -- and the benefit of AXA Life Europe will be -- will come later on.

## Operator

The next question comes from Kamran Hossain from RBC.

## Q - Kamran Hossain {BIO 17666412 <GO>}

It's Kamran Hossain from RBC. Two questions. The first one just on AXA XL. Could you maybe talk us through what the losses might have been last year if you've had basically the same statutory losses, same reinsurance program -- or noted to reinsurance program what the kind of H2 might have looked like versus what you've got this year? So that's the first question. Then the second question is could you maybe update on when we expect AXA Tianping to consolidate?

## A - GÃ©rald Harlin

Okay. First of all, on the losses, I would say that the program was not fundamentally different. So it's been refined. But let's keep in mind that when you compare last year with this year, it was much stronger last year than it is today. So that means that the EUR 0.4 billion that I mentioned would have been much higher last year. AXA -- but I remind you as well that as we mentioned -- we mentioned that last year our excess of loss and our aggregate coverage, reinsurance coverage, didn't trigger. About AXA Tianping. So I believe that before the end of the year, anyway, we consolidate.

## Operator

The next question comes from Farooq Hanif from CrÃ©dit Suisse.

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

Apologies to keep asking this question. I just want to clarify the EUR 0.4 billion. It seems to me what you're saying is you made an allowance for events in Q4 and you seem to have some level of confidence that it's not really going to be much above EUR 0.4 billion. Is that because you think you're close to triggering protection? So can we be -- maybe ask it another way, are you still very confident that you'd be limited at EUR 0.5 billion within your tolerance almost regardless of what happened in Q4?

Question 2 is casualty inflation. So there's been a lot of commentary from U.S. primary carriers about problems in the casualty book. Can you remind us how much casualty business you write in XL and what potential reserves are there and whether you were seeing anything?

And the last question is if we take internal model for XL, the European VA business exit from U.S. Life and net deleveraging, where do we end up in terms of management actions on the Solvency ratio net from one of those actions?

## A - GÃ©rald Harlin

Okay. So Farooq, let's be clear, meaning that, as you know, we said that the average level of cat for the whole group is EUR 1.5 billion pretax. For XL, it's half, EUR 750 million. And what I said is, today, taking into account expected losses for Q4, which took place in October, then we would have a deviation of EUR 0.4 billion. And this takes into account exactly what we know today. It's an up-to-date estimate. And it's assumed that for the rest of the year, it would be in line with the average. That's what I can tell you.

About the casualty business. And I could say that there has been a large loss activity in the casualty insurance marketplace in the U.S. It's been driven by social inflation. And there has been a slightly higher frequency of large man-made losses on casualty. Outside the U.S., I would say, it's far lesser and the extent is much, much smaller. So it leads to an increased pricing across many of our casualty lines. And in the U.S., we can expect that this dynamic will continue in 2020. So it means that we benefited from very strong price increases in the -- in this year. And we can expect it to go on. That's mostly -- we can share the figures with you. And we have all the details of these figures. But it's -- that's fine.

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

So just to return, apologies. So basically, if you had more events by the end of this month and by the end of December, heaven forbid if bad things happened, would you still feel comfortable you'd be capped at EUR 0.5 billion above the budget?

## A - GÃ©rald Harlin

No. We wouldn't be capped, as I said, because we are not at the limit of our aggregate. I would say nevertheless that we are already in November. And I can say that from a statistical basis. And today, generally speaking, we said that the hurricane season ceases mid-November. So we are not very far. So that's what I can tell you. But for the time being, we cannot say that we are capped. Nevertheless, keep in mind that we assume that for the next -- for November and December, we are implicitly taking the equivalent of EUR 130 million roughly of cat coming from XL.

## Operator

The next question comes from Nick Holmes from Societe Generale.

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

Just one question. With the solvency ratio, can you explain a bit more how you achieved such a strong operating return of plus 5%? That really seems very, very strong.

## A - GÃ©rald Harlin

Okay. So Nick, we had normalized operating return of 5 points. We had -- we assumed minus 3 points coming from the dividend. And we have an operating variance of plus 2 points. You know that it's quite logical to have operating variance. There are more positives than negative because we are, as usual, relatively cautious. That's what I can tell you.

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

So could you tell us which business lines were contributing to that?

## A - GÃ©rald Harlin

Oh, it was mostly the P&C business.

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

Okay. So maybe reserve releases or...

## A - GÃ©rald Harlin

France and Switzerland. France and Switzerland.

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

Right. Would that imply reserve releases or something like that?

## A - GÃ©rald Harlin

No. It's not reserve releases. But it means that it's an operating variance coming from lines, which are P&C lines in France and Switzerland. You can -- okay, you can have -- Nick, it's not because you have releases, you know that you can have releases. But you can -- you have also -- we are tracking as usual the level of reserves. And when we consider that this level of reserves is increasing, this level of excess reserve is increasing, then we have to adjust it. And that's what we call the operating variance here. Is it clear?

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

Yes. It is.

## Operator

The next question comes from James Shuck from Citi.

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

I had 3, if it's possible, please. First one, just a quick one. For the losses of Dorian, Faxai, Hagibis, could you tell me what you're basing those off in terms of industry losses, please?

Second question, linked to kind of casualty trends and just the XL reserving situation, you booked a EUR 1 billion P-GAAP reserve margin at the time of the acquisition. Could you just tell me how that is developing over time given the trends you're seeing on the loss cost and other developments since then, please?

And the last question was just around the Solvency II development in Q3. So we had H1 with negative market impact of 9 points. By nine months, that had gone to negative impact of 3 points, implying 6 points of benefit in Q3. Just given the interest rate movement in Q3 stand-alone, I would have expected that to be worse in Q3, not better. If you could just shed some light on that, that would be helpful, please.

## A - GÃ©rald Harlin

Okay. Starting first with the 3 catastrophic events. So roughly speaking, it's -- we are assuming that it would be EUR 25 billion.

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

So could you split those between the 3, please?

## A - GÃ©rald Harlin

In total, in total. So EUR 25 billion in total.

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

Yes. Could you split those between the 3, perhaps?

## A - GÃ©rald Harlin

No, because we are making assumptions. So globally speaking, we prefer -- we have 2. One important point that I wanted to share with you, don't consider that the only way to assess claims would be a kind of top-down approach, it's a combination of top-down and the bottom-up approach. So that means that -- don't consider that we are starting from the EUR 25 million -- billion that I mentioned and that we take our market share. No. We are more sophisticated than this. Meaning that the EUR 400 million has been backed by, I would say, adequate assessment of the claims line by line. That's a better view. And it's a combination of these 2 approaches, which makes that, in the end, we announced the EUR 0.4 billion.

So the second question is the development of the casualty. You are right saying that we had minus -- that we had EUR 1 billion, it's euros, of excess reserves linked to our P-GAAP. And your question was clear and what's the evolution. That means that we consider that, today, we are well reserved. And that we are well-reserved and that this EUR 1 billion is sufficient in order to cover an eventual increase of reserves. So that's it. And I don't see in the foreseeable future any kind of need to reinforce our reserves taking into account this buffer.

The last question is on Solvency II. So we had minus 9 points into the first half. We had minus 5 points in the Third Quarter. So the total market impact is minus 15 points. And what I could add is that if we would do it today, it would be minus 11, meaning that we recovered the equivalent of 4 points by the nine months -- by the -- in November -- in October, in October and obviously, the first days of November, to be clear. So everything equal, it means that we would be not at 187. But we would be at 191. So that's it.

And there were some questions -- you asked a question about what are the moving parts. We could say that, as we mentioned, XL, we still are expecting that XL will be integrated in our internal models. And the upside by 2020 should be between plus 5 and plus 10. Then we have the operational return net of dividend, which could be expected between plus 5 and plus 10. Then we have equitable holding. I remind you that we still have an economic interest of 30% to sell 148 million shares corresponding to 5 to 6 points of solvency at the time it will be sold. Then we have AXA Bank Europe. It's been published. And you noticed recently and then we mentioned that the upside in terms of solvency should be plus 4 points. Last, AXA Life Europe, circa 1 point. This will be offset by the deleveraging. I answered the previous question and saying and confirming that we would be at 25%. And this is a minus 5 points' impact on the solvency. So I hope it's clear. These are all the moving parts that we could expect for the rest of -- for the rest. But it will be by 2020, pay attention. XL internal models, it's clear that it will be by the end of 2020. Operational return will be spread over the whole year. And equitable holding, it will be spread -- it will depend at the time when we sell it.

Last point, AXA Bank Belgium, it will depend on the closing. So it will be at closing that we'll get the 4 points. And for the deleveraging, on top of my head, it correspond to EUR 1.7 billion, of which EUR 1.5 billion should be reimbursed in April.

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

Okay. That's helpful. I think some of my numbers are a bit off for Q3. But that's helpful to get that pro forma. Just one quick question, in terms of the mix of debt between senior and subordinated, obviously, most of your debt at the moment is subordinated. Do you see any need? Or do you like to rebalance away from subordinated more towards senior?

## A - GÃ©rald Harlin

Not for the time being. So meaning that you are right saying that most of our debt will be -- when I say that we'll have 25%, most will be subordinated. So for the time being, there is no plan to fundamentally change. You know that, today the spreads are quite small, meaning that the difference between a subordinated debt and the senior debt is not so huge. So that's why we don't plan in the foreseeable future to change it.

## Operator

The next question comes from Colm Kelly from UBS.

## Q - Colm Kelly {BIO 19140684 <GO>}

Just on the solvency, a number of peers in France cite the challenges with respect to their subsidiary solvency ratios for the respective French life insurance businesses, which is logical given the low interest rate environment. I appreciate we've had positive interest rate developments Fourth Quarter to date. But I was just wondering if you could take the opportunity maybe to update in that context on the solvency for France. Is there anything that would concern you there with respect to upstreaming in the second half, et cetera?

## A - GÃ©rald Harlin

Okay. No. That's a good question because I am quite conscious that a lot of our peers or some have been communicating on the need for recapitalization and so on. It's not at all our case. And I wanted to be clear on this. In France, we have a General Account of EUR 110 billion. And this is on top of roughly EUR 35 billion of Unit-Linked business. First of all, I should say that our General Account business has been managed extremely cautiously over the last years meaning that we didn't dilute our business. Take the example of this year in -- over the first nine months, roughly speaking, inflows offset the outflows. And that's the name of the game. That means that all our peers who have been hit or communicated on some -- the absolute need to stop this General Account, where is it coming from? It's coming from the fact that they diluted their funds to such an extent that their fund is exhausted. It's not at all our case, with -- meaning that we can keep our fund over the last years. Roughly speaking, as I said, inflows equaled outflows. So it was quite well balanced. We stabilized the General Account. And we can -- over the next years, we have absolutely no fear. And we can keep it like it is with -- so taking also into account the fact that contrary to a lot of our peers, we sell much more Unit-Linked business. We -- in the first nine months, we were at 35%. And the peers are, on average, at 24%. So the combination of, I would say, a very prudent management of our General Account, no dilution over the next years, a strong percentage of Unit-Linked business. And I should say, which has been absolutely in favor of our policyholders, all of this makes that we have absolutely no fear, no need for recapitalization. And we are quite relaxed as far as our capital level of AXA France is concerned.



## Operator

And next question comes from Peter Eliot from Kepler Cheuvreux.

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

I'll give you some respite from XL, GÃ©rald. And ask 3 different questions, if I may. First one, on the solvency, can you confirm what management actions you took in the quarter and what impact those had? I think you took out some further hedging. But I just -- yes, it would be great if you could quantify any actions.

The second question was on AXA IM, very strong flows there. Just wondering if you could split those between the XL integration third-party inflows or anything else. And I mean maybe just in the context of the changes announced. I mean the results look pretty good, I would say, from this result -- from yesterday's release. So I'm just wondering if you want to elaborate on anything that you think can be differently in your new role.

Then maybe finally, the EIOPA review has been out for a few weeks now, just wondering if you had any comments that you wanted to share from your analysis to that.

## A - GÃ©rald Harlin

Okay. So management action, no, nothing specific that I could mention. Maybe one point that I didn't mention yet is that keep in mind that with the decline in interest rates, we have an exposure to Japan. And the decline of interest rates -- long-term interest rates in Japan has been lower than for other currencies. So meaning that we have always an active management of our solvency. You remember what I said many times. That means that in the investment side, we optimize. That means that we have -- we try to privilege the assets with a strong return on solvency. And that's what we did. So nothing specific, Peter. Nothing specific to mention on that side.

On AXA IM. I could say that on AXA IM we had, roughly speaking, plus EUR 10 billion coming from XL. We had plus EUR 2 billion on top of my head coming from the third parties. And we had also an outflow coming from the JVs and from China of roughly EUR 8 billion.

You asked me about my new role. I would say that my new role, over the last 10 years, I've been in charge as the CFO of the investment side of the group. So I know AXA IM quite well. Maybe some of you remember that I've been CFO long time ago. I've been on the board over the last 25 years. And knowing -- you know that the success of AXA IM up to now has been on what we call the win-win. What is the win-win? It's the fact that we invest first for the insurance company in new asset class. And then after a couple of years, we can sell it to the outside world. My mission at AXA IM, obviously, clearly, will be to develop this business. It's a nice business. It's a fee business. And on the both sides of the 2 categories of assets, which are core assets and alternatives, I remind you that today we have EUR 110 billion of alternatives over EUR 800 billion total AUM. Meaning that these 2 categories of assets will be developed. And it's my mission. I will do it. I'm confident that we'll achieve it.

So third question was the EIOPA. It will -- EIOPA is a completely different topic. EIOPA is, I would say, that, as you know, they've been -- we are in the preliminary phase. EIOPA is screening different, I would say, alternatives in terms of evolution of Solvency II.

Personally, I'm absolutely convinced that nothing will happen, not at all in 2020. At the earliest, it will be '23. Second, you can imagine that it's not because EIOPA is screening different opportunities including strengthening of certain criteria, of certain parameters that it will be accepted by the commission. So that's it. So honestly, I'm not worried by this. And it's a long time before we will see any change. Did that answer your question? Peter?

## Operator

Peter left the queue in his session.

## A - GÃ©rald Harlin

Okay. Okay. But we are still connected, right?

## Operator

Yes. Sure, sure, sure. Yes, yes. But for the moment, we have no more questions. (Operator Instructions) We have no more question for the moment.

## A - GÃ©rald Harlin

Okay. So I would like to thank you for attending this session. And I wish you a very nice day. Thank you.