FINAL

Bloomberg Transcript

Q3 2018 AXA SA Corporate Sales Call

Company Participants

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

Other Participants

- Andrew John Crean, Managing Partner, Insurance
- Andrew Sinclair, VP
- Colm Kelly, Director, Co
- Farooq Hanif, Head of Insurance Research in Europe
- Henry Heathfield, Equity Analyst
- James Austin Shuck, Director
- Johnny Vo, MD
- Michael Igor Huttner, Senior Analyst
- Niccolo Cornelis Modesto Dalla-Palma, Research Analyst
- Nick Holmes, Equity Analyst
- Peter Eliot, Head of Insurance Sector Research
- Unidentified Participant, Analyst

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 2018. 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 and will be very happy to take your questions afterwards. Gerald, I hand over to you.

GÃ©rald Harlin

Thank you, Andrew. Hello. Good morning to all. Thank you for joining this call.

As you can see, AXA has delivered another strong performance for the first nine months of 2018. Top line growth is accelerating compared to half year of 2018, with total gross revenues up 4% at group level. We grew in all 5 geographies and across all our business lines.

This overall strong growth was notably driven by our Preferred segments with Health revenues up 7%; Protection APE, up 10%; and P&C Commercial lines revenues up 2%.

Our balance sheet remains very strong, with a Solvency II ratio at 195%, including the impact from the XL acquisition, in line with our guidance of 190% to 200% for full year '18 and well within our target range of 170% to 270%.

Let me now take you through the details for each of our geographies. First, in France, we recorded an excellent first nine months, with revenues increasing by 5%. APE was up 18%, with a strong performance in Health, up 53%; and Protection, up 7%. Both on strong growth in group business as well as G/A Savings, plus 9% on higher sales of capital light products, in line with our strategy.

P&C revenues in France were slightly down at minus 1%, mostly due to continued market competition in personal lines.

In Europe, total revenues grew by 3%. We continued to see the successful business composition towards Preferred segments, with sales revenues, plus 4; Protection APE, plus 8%; and P&C Commercial lines, plus 3%.

Europe APE grew strongly, plus 7%, mainly driven by continued recovery in Italy from our health sales, in capital lines, General Account savings and Unit-Linked through our JV with MPS. Protection was also up 8% notably from higher sales of semi-autonomous products in Sweden.

Moving to Asia now. We continued to see 2 major trends in the regions. On the one hand, our Asian current engines are doing very well, with new business strongly up in Japan and in Hong Kong due to successful Protection and G/A Savings product launches respectively in the First Quarter of 2018. On the other hand, we are definitely improving our business mix in high potentials, especially in China. As you know, in China, we are moving away from short-term single premium products and focusing towards more profitable premium Protection products. And hence, improving our NBV margin.

In the U.S. now. We recorded a good profitable growth in the first nine months of 2018 in both Life & Savings and at AB. AB was up 6% from higher advisory sales in Mutual Funds and in Protection, plus 9%. Combined, we saw strong recovery in Unit-Linked sales in the Third Quarter, plus 17%, mostly from higher sales on non-GMxB Variable Annuity.

AB revenues were up 9% from both higher average AUM and higher management fee business -- basis points due to an improved business mix.

In International. Revenues were up 4%, mainly driven by good performance in P&C, plus 4%. And health, plus 11%, especially in Mexico.

In AXA IM, revenues were up 4%, driven by higher performance fees and transaction fees. In terms of flows, some positive third-party net inflows of EUR 3 billion despite the loss of large mandate, were more than offset by outflows from the agency JVs, minus EUR 6 billion.

In the Third Quarter, we closed the acquisition of XL Group, a key milestone for group. We will be fully consolidating AXA group from October 1 as part of the new segment named AXA XL, gathering XL Group, AXA CS, AXA Art and AXA Matrix.

As for the core market, the level of net cap was significantly reduced in Q3 and Q4 to date and we wanted to bring some transparency about the associated claims at XL and the accounting treatments in the context of the acquisition. Hurricane Michael occurred in October in the U.S. has established major preliminary estimate for associated claims is circa EUR 200 million pretax and net of reinsurance. We consider the P&L impact of this event as immaterial at group level. The impact corresponds to roughly twice the typical cap charge for our Fourth Quarter.

Since this event occurred in Q4, it will be reflected in AXA Group consolidated P&L in full year '18.

During the Third Quarter, several nat cats occurred, including Typhoon Mangkhut in Hong Kong, Typhoon Jebi in Japan, Hurricane Florence in the U.S., Typhoon Trami in Japan and a number of convective storms in North America. These events are estimated to result in claims of circa EUR 300 million before tax. And net of reinsurance. Here again, this correspond to roughly twice the typical cap charge for the Third Quarter.

Since these events occurred prior to October 1, they will be reflected in shareholders' equity in accordance with purchase GAAP methodology.

Now moving on to Solvency II ratio, which, as I mentioned earlier, was at 195%. This is fully in line with our guidance of being in the 190% to 200% target by the end of the year 2018. The 38 points decrease versus June is driven by the following items: 2 to 3 points from our strong operating return, net of AXA dividend plus 2 to plus 3; circa 6 points on purchase of additional equity hedges; and the remainder mostly from the closing of the acquisition of XL.

So to conclude, AXA recorded a very strong first nine months of the year, with continued top line growth in all our geographies and lines of business. Our balance sheet remains very robust with Solvency II ratio at 195%, well within our target range for end 2018 of 190% to 200%.

I'm now ready to take your questions.

Questions And Answers

Operator

(Operator Instructions) We have a first question coming from Colm Kelly from UBS.

Q - Colm Kelly {BIO 19140684 <GO>}

Three questions, please. Firstly, on the XL loss estimates, can you just detail the market share of industry insured losses that you're assuming or expecting based on those estimates? The market shares appear to look at least as high than they did for the HIM losses last year. And I know you did take some actions in terms of retrocession to reduce the loss volatility in XL visions versus last year. But again the market shares of these losses appear elevated again. So maybe -- can you give some detail on that and any further action you may be taking vis-Ã -vis retrocession from here? On the revenue growth obviously good growth in the quarter, driven strongly by the U.S. business, up 13% year-on-year. Can you give some detail on the underlying drivers of that in terms of the products, how cyclical is the revenue growth in that business? How linked to the S&P? How sustainable is it in terms of future growth? Then lastly, on the U.S. life business. Obviously, the life mutual fund flows are very strong. But the AB, the Asset Management net flows were quite weak. I appreciate it's not like-for-like. But maybe can you provide detail on why there's a large directional difference between the flows between the life and the Asset Management business in the U.S?

A - GÃ©rald Harlin

Okay. So starting with your first question. I could say that roughly speaking, our market share is 1.5%. So -- and I would say across the board that's roughly what I can say. About the volatility, maybe a few words because I believe it's important to just to let you understand as a follow-up of what I presented for half year '18. At that time, you remember that we said that we presented natural events in excess of normalized events. And the other is nat cat events, costs plus tax for the whole AXA Group is EUR 1 billion. And what we presented in June was the fact that in 1 in 10 years, negative deviation would be EUR 0.5 billion in 1 in 10 years, in one in 50 years, EUR 0.8 billion. And you remember that at that time, I compared. And we compared it with the before and the writing action before this aggregate Protection that we bought. And at that time, it was -- before all these measures, the 1 in 10 years deviation was EUR 1 billion and 1 in 50 years was EUR 1.6 billion. So that impact, we significantly decreased the deviation, mostly through this aggregate. And just to explain that so long as in Q3 this year we have EUR 300 million of cat loss and EUR 200 million in Q4 corresponding to Michael, I'd say that it's roughly twice the norm. That means that the negative deviation is roughly EUR 150 million for the first -- for Q3 and EUR 100 million for Q4. The total is EUR 250 million. And you can see and notice that the EUR 250 million is below the EUR 500 million deviation, which is a kind of gap. That's just to explain why. Just for you, in the last info, I believe it's important to keep this in mind. Last year, interestingly, the total cap amounted to EUR 1.5 billion. So clearly, the objective of all the measures we took in order to reduce the volatility coming from capital fees was mostly aimed at reducing the maximum loss in case of very severe cat losses. Here, we are in the case of where we are below, I would say, the aggregate. That's what I can tell you. For the last part of your question, do we take further action? Yes, for sure. And you can imagine that the objective is to get to a better balance and to monitor even better our volatility. And you can expect that we will discuss it -- we will further discuss at the IR day at the end of the present month. The -- your second question was relative to the U.S. And what I can tell you is that it's -- in the U.S., the Third Quarter actually increased by 13% in the Third Quarter and it's mostly from Unit-Linked. And in Unit-Linked we are plus 17% quarter-on-quarter. And it's mostly higher sales on non-GMxB Unit-Linked products, with more sales in (SES), which is an individual retirement product and also in group retirement. So it was indeed a very good quarter. And for the time being, you know that there is an acceleration, which is quite noticeable of our business.

Q - Colm Kelly {BIO 19140684 <GO>}

Just a follow-up in terms of that acceleration. Obviously, the year-on-year growth is 3.7% on a comparable basis. I mean given the strong Unit-Linked component to the growth in this quarter and given where the linkage to the S&P, I mean how sustainable should we be thinking about that growth beyond this year?

A - GÃ©rald Harlin

No. Because in the U.S., it's not only linked to this equity-linked product. It's also linked to Protection. And we made a significant increase in Protection in the U.S. So I would say that, for sure, we have and we are dependent on the global market. But not over-reliant on this equity market.

Q - Colm Kelly {BIO 19140684 <GO>}

Okay. Then just lastly, to clarify the deviation between the strong U.S. life flows and the weaker Asset Management flows in AB.

A - GÃ©rald Harlin

So weaker Asset Management flows, I'm not worried at all by this. Because indeed, we dropped in the institutional segments and we increased in the individual. Which means that the business mix improved. As you know, we have higher fees on individuals. And this indeed means that our business mix is better. And that's the reason why we have a strong growth in terms of top line. So I'm not at all worried by this trend, not at all.

Operator

Next question comes from Peter Eliot from Kepler Cheuvreux.

Q - Peter Eliot {BIO 7556214 <GO>}

The first one, if I could just follow up a little bit on that XL topic. So my understanding from what you just said is that the -- if you had not taken the steps that you have taken on the Protection, then the deviation would've been about twice as high, i.e., the losses would've been about 50% higher. I was wondering if you could just sort of confirm whether that understanding is correct. And secondly, your comment on wanting to take further action. And I'm just wondering have the events of Q3 and Q4 caused a slight change of view there? Because I sort of was under the impression that most of the actions that you felt you needed to take on the Protection had already been taken. So grateful if you could clarify that. Then the second area, I just wanted to ask on the solvency ratio, I just wondered if you could help me understand why the purchase of hedges have had such a large impact. I mean, if I look at your sensitivities to markets, it's now very low. So I'm just struggling to understand the size of the benefits and also whether there's much more of this sort of thing that you can do in the future.

A - GÃ©rald Harlin

Okay, Peter. So let's start by your first question. What I said is not that we would have experienced much bigger losses if we wouldn't have taken these measures that I briefly described. No, because it's an aggregate, which means that an aggregate makes that, as I said, we have -- it's a way to cap our cat losses to half at the group level 0.5 to 0.6. So it's almost flat between 1 in 10 years and 1 in 50 years. So in other words, we are below this threshold. And I took the example of last year because, obviously, last year, we experienced -- XL experienced in Q3 very strong losses. But for the time being, it's a lot of individual cat events which are quite severe. But the accumulation is below the threshold of EUR 500 million. And again. So EUR 500 million, that's at the group level, it's not for XL only. But at the same time, you can see and you are aware that elsewhere in our group, we didn't experience so much cat losses, which is also the beauty of the model, because it confirms the strong diversification that you can bring out at our level. So the second question that you raised is about our business and did it lead us to revise our -- the way we manage or our perception of the business. Not at all. I would say that we consider that at the group level, it will bring some more volatility. But this volatility will be contained. Why? Because this kind of business, which is a part of the cap is quite profitable over the cycle. And it doesn't change our state of mind. What we will find, of course, is a better balance in term of risk appetite between these different lines of business. Last is Solvency II. The way I could explain it -- the way I could explain it is the following. You know that we decided 2 figures. But just for you to understand. We decided to hedge a bit more than EUR 3 billion of equities with a bit more than two years put with a strike at 85%. The cost of such hedging is roughly EUR 100 million after tax for a bit more than two years. And the amount of equity -- the amount of capital corresponding to the 6% is EUR 1.5 billion. So if you divide the cost, EUR 100 million for two years, i.e. roughly 50 of (inaudible) and EUR 50 million for one year, divided by this EUR 1.5 billion, it makes a cost of capital, which is extremely low because we end up with 4%. Where does it come from? It comes from the fact that the volatility is extremely low. And it's exactly the same reason as the one I explained previously in the year. It's a time where the volatility making that -- the price of option is pretty low and the expectation of equity market-wise are relatively small. Look, the S&P performed by plus 4% since the beginning of the year, means that it's quite relevant and quite effective in terms of capital management to buy such put. I hope I've been clear. But I wanted to just to be clear on why we did this.

Operator

Next question comes from James Shuck from Citi.

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

So I'm going to go back to XL launch losses again, please. Just in terms of the normal run rate, I think you've been quite clear, GÃ©rald, that the normal run rate for both AXA and XL combined is around EUR 1 billion level. And that's a net of tax number. I think you disclosed that at the half year. But based on the 10 year previous averages and then, obviously, you have the aggregate cover that you just mentioned as well which protects against that. But it does seem from the comments you said in Q3 and in Q4 that the -- there is a EUR 500 million or so relating to XL hasn't actually come down at all. It's still kind of running in line with that previous 10-year average. So my question really is, I appreciate you protecting against the tail risk events. But do you actually expect that normal run rate to trend down? Are you happy with running that kind of EUR 1 billion total level number? Or is that something you'd like to manage down in the context of the AXA Group? Because it's about 15% of your total pretax earnings, which seems quite a large number.

Second question is around the -- could you just update a little bit in terms of Q3 man-made large losses? There's been no comment outside of the nat cats. I'm also interested in terms of has there been any prior year reserve development from XL in Q3? Because I think Q2 saw a negative development on nat cat. So I'm just interested to see whether the nat cat has continued to develop unfavorably and if you could update also, on any casualty trends that we've seen in the quarter, please. And final question, just a quick one really is around Asia. I guess, 2 points within this. One is that the Asia high potentials, largely business value, slowed down quite remarkably in Q3. So your business value is up 17% in H1; at nine months it was only up 4%. So if you could just clarify a bit around that. And Asia P&C, where you've made a number of acquisitions over the years, including HSBC and Tian Ping and other things, Asia P&C just seems to keep declining year after year. And that's continued into the 9-month stage. And the revenue number is now kind of running below EUR 1 billion and you probably spent EUR 1 billion in acquisitions in that region in Asia P&C. So if you could just update on what the problem is there, please?

A - GÃ©rald Harlin

Okay. So let's start with your first question. I believe that I already covered it. But anyway, the EUR 1 billion, I remind you that the EUR 1 billion average is something which correspond to our -- to the risk appetite. We will improve, of course, the mix of business. But roughly 500 for XL, 500 for AXA itself. So the point is much more to try to -- you mentioned that it's a coverage of the tail risk, it's not so much tail risk, I would say that linking deviation to EUR 500 million is not huge at the scale of our group. So it's -- that's why it's not really the tail risk, we are protecting ourselves beyond this tail risk. About large losses, you mentioned man-made large losses. Nothing material at the group in isolation or an aggregate, above the prior year are not significant. About Asia, what I can tell you is that in Asia, you should take into account what you said about the top line is absolutely right. So meaning that in the high potential, we are suffering from a drop in China. But at the same time, it's -- what is important is to notice that the NBV increases by plus 4%, which means that also we have probably minus 14% AP going down in Asia high potential. We are plus 4% in NBV. And where is it coming from? It is mostly coming from the -- from China. I remind you that at the beginning of the year, it's been announced a new regulatory requirement that's been enforced in April. And according to this new regulatory requirement, all the insurers are required not to sell stock to maturity product. Meaning, fake long-term product that would be surrendered extremely quickly. And at the same time, it's mandatory now that each product tangible embedded value should be positive. So all of this is more good news than bad news. So of course, it has a depressing impact on the top line. But it's extremely good for our profitability. Last is about Asia P&C. You're right, that means that it's coming from the motor business in Korea. As you know, we have been facing -- as you may know, we have been facing tough competition in this market and we had focused our efforts on the high-teens, more profitable long-term products. So that's mostly. Nevertheless, I just would like to highlight the fact that in term of top line, it's 100 Asia high potential correspond to EUR 113 million out of the total P&C business of EUR 25 billion. So it's extremely small. This is a drop. But you know that our Korean business is small.

Operator

Next question comes from Andy Sinclair from Bank of America.

Q - Andrew Sinclair {BIO 17749036 <GO>}

I'm actually going to ask 3 questions, enough about XL. So firstly, on the Unit-Linked sales in France. This slowed a little bit again on an APE basis. And we're now down 7% year-on-year on an APE basis. Just wondered if you could give any color there. Secondly, Protection sales have been very strong, particularly in Japan with the new product. And France where we've seen a big year-on-year jump. Could you just give us any more color on that in France? And how much of the Japan jump do you think is a one-off from the new product launch? And how much of that will continue? And thirdly, just kind of again on Asia. Could you explain some of the moves that you've seen in Hong Kong? You've seen a bit of a step-up from a new G/A Savings product but lower protection sales. That seems to go against the grain a little bit. Just wondered if you could give us any more detail there.

A - GÃ©rald Harlin

Can you hear me? Okay. Sorry. In the -- I said that as far as France is concerned, we have a decline of 7% in Unit-Linked APE. But it's mostly coming from lower group pension business. So this business tends to be lumpy in comparison with individual business. But Unit-Linked APE was up 2%. So which is relatively good. So individual business performed quite well. And we -- I can say that our Unit-Linked rate remains higher than the market average. We still remain at 41% versus 31% for the rest of the market. So really, we performed quite well in Unit-Linked business. And you should not consider that this down -- this decline in the Unit-Linked business is a poor sign as far as our individual business is concerned. Then you had a question about Japan. Yes, for sure in Japan we did quite well. We have a good Protection business. You know that in Japan most of our business is in Protection & Health. And it confirms our ability to grow our business even in a country which is considered as a mature country. It's important. And it makes even more relevant our strategy at the group level which says that we should develop protection health and conceptualize. Here we are, hitting 2 boxes in Japan, which is an excellent sign for our strategy and for the rest of the group, which, as you know, is -- has a strong foothold in mature markets where the need for Protection & Health are growing and growing. The last question is about Hong Kong and the new product called Harvest is a savings product. So maybe you remember that, previously, we said that this product was lacking, that it was important to have a savings product, which is attracting our policyholders. It's a way at the same time to cross-sell other products. So yes, we did quite well in Hong Kong. And that's -- that explains our quite good performance in Hong Kong since we have an APE at plus 5%.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Sorry, just following up and going back to Japan again. So you have confidence that you can still grow Japan in 2019? We're not going to see a basis effect just from the launch of this product. You're still confident in growing that Protection sales next year?

A - GÃ©rald Harlin

We will see. It's difficult to answer specific. Nevertheless, we should still benefit from this product in '19. That's what I can tell you.

Operator

Next question comes from Johnny Vo from Goldman Sachs.

Q - Johnny Vo {BIO 5509843 <GO>}

Yes, just a couple of questions. Just again, sorry about this GÃ©rald, just asking about the cover that you have both from a peak and aggregate basis on the XL business. Can you just give us more color? I know you've probably given this before. But more color on the attachment point and how that moves through? That's the first question. The second question is just in regards to the options that you purchased in Q1, the put options in the holding company. I mean, are they in the money at the moment? And can you tell me the change in value of those options in the holding company? And the third question is just can you tell me now with the new options purchased in this quarter, what your net exposure to equities is overall for the group?

A - GÃ©rald Harlin

Okay. Let's start with the first part of your question which is the attachment point. I believe that the best for you is to go back to Page (31) of our June -- end of June presentation. And you can see that indeed, we have roughly, I would say, a non-ledge expected loss of EUR 1 billion and the deviation will be limited to EUR 0.4 -- EUR 0.5 billion in 1 in 10 years and EUR 0.8 billion in 1 in 50 years. So again, what I explained is that we are below this threshold at the group level due to the combination of the fact that we were below at the level of success, because EUR 150 million plus EUR 100 million deviation means EUR 250 million. And EUR 250 million. Taking into account that adding the EUR 250 million to the existing cat losses deviation, which is close to 0 at the group level because at the group level on Europe and on new storms and so on, we are quite benign and in line with the expectation. I think that we are roughly to make it simple, we are below the EUR 500 million threshold. I'm hope I'm clear but that's exactly the way it works. The second question is about the -- this -- about the...

Q - Johnny Vo {BIO 5509843 <GO>}

The put option.

A - GÃ©rald Harlin

Equity put option. So this -- we were at -- at the time of the -- at the time we put you -- remember that we said that these options were at 80%, 85% put option. We were at 3,500 at the time of the inception and now we are at 3,200. So meaning that we dropped by 10%, which means that roughly speaking, instead of being 15% out of the money, we should be at 5% half-year towards the money. That's more or less what you can keep in mind.

Q - Johnny Vo {BIO 5509843 <GO>}

But what is the change in value of that option?

A - GÃ©rald Harlin

The change in value of that option, we had a decline in the time value of money. And meaning that roughly speaking, it's more or less in line with the price we paid at the time of ideology. So because we have a -- we gained in term of money net but we lost in terms of time value of money. But we are not speaking from large amounts. And your last question, sorry, Johnny, I don't -- it was ...

Q - Johnny Vo {BIO 5509843 <GO>}

Yes. What's the net equity exposure of the group now given the new hedging put in place?

A - GÃ©rald Harlin

Roughly speaking, the net equity exposure of the group today, taking into account these options, should be roughly EUR 6 billion net, roughly speaking EUR 6 billion net (sales).

Operator

Next question comes from Michael Huttner from JPMorgan.

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

My questions really are mainly on 2 things. One on the solvency and two, the nat cat. The nat cat figure, I'm a little bit intrigued by the score which is a specialist reinsurer. So it's a slightly different business. But they've raised their estimates or their budget, if you will, for nat cat from 6% to 6.5%. And your -- in your presentation, you used a 12-year average of EUR 1 billion for the combined group, which kind of implies that you're kind of thinking, well actually the world hasn't changed. Well if it's not changing, EUR 1 billion is the right figure. This is a bit, which I'm a little bit uncomfortable with, particularly given the results we're seeing also from other groups, which are not good. It's not AXA which is under pressure here, it's just nat cat seems to be accumulating and using an old figure seems to be a little bit, maybe not fully prudent. So I wondered what your thoughts are on that and whether this -- and then the second is on the aggregate cover. How much more losses do you need to actually hit the point where it's fully capped? Then the final point, on the 195%. So the moving parts, as I understand, are 6 points from this equities hedge, slightly better-than-expected run rate of operating profit. And the reduction, as I see it from the aggregate cover. I just wondered whether you could give us a little bit more of a feel for the aggregate cover benefit in terms of solvency ratio, the fact that you've put that in place. And also maybe a few words or some kind of ceiling for this slightly better-than-expected run rate contribution from the normal operating profit in Q3?

A - GÃ©rald Harlin

Okay. Yes, on your first question, which is an important one and which relates to the EUR 1 billion. Are we comfortable with the EUR 1 billion? And the answer is yes. And you can imagine that for a company like us and I'm sure that we will further develop this at the end of the month for the IR event. Can imagine that it's a figure that has been under strong scrutiny. Meaning that yes, we are comfortable. Yes. We considered that EUR 1 billion is quite -- is a good level and that EUR 1 billion is sufficient. We don't believe that we should increase this EUR 1 billion level and all our program and all our insurance products is calibrated around this figure. So yes, we are comfortable. About the Solvency II ratio, the 2% to 3%. You remember that many times we said that it was -- it could be 8% to 10% net of dividend per year. So we are at 2% to 3%, yes. And nothing new, I would say, on that side. So -- and your question, the other question is quite interesting. What you said is, if I well understood your question, that it means that your Solvency II ratio benefit from this program, yes and no. Yes, because as you know, AXA SA and all the XL, all are benefiting from the internal model. No, on the other side because -- will be consolidate up to most probably the end of 2020, we will consolidate XL, AXA XL -- through equivalents. So it's already in. You remember that the point that I made -- that we made in March when we presented this acquisition, we said starting from March, starting from 2020 -- end of 2020, most probably, we hope, we'll move to internal model. And at the time, you remember that we said that we could expect to have a gain 8 to 10 point profit. So that's my point.

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

And how much of the aggregate cover?

A - GÃ©rald Harlin

Sorry, we said that it would be 5 to 10 points, 5 to 10 points.

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

Five to 10 points. Then the aggregate cover, how much is left before it attaches? I mean, how much more claims do you need?

A - GÃ©rald Harlin

No. We are below this level, which means that we are in -- at the end -- we are mid-November. So we don't expect to reach this threshold. So that means that and we still have some leeway before reaching it. So that's -- you cannot exclude, I would say, for the time being, to reach this threshold before the end of the year but -- because we still have some room left, a few hundred million. Yes, let's say, I made the calculation EUR 250 million. So EUR 250 million plus the level, the excess from the very rest of the group should be less than EUR 100 million. So you can see, most probably, we should have EUR 150 million, EUR 200 million, something of this magnitude. I don't have the precise figures. But we shouldn't be very far. That's it.

Operator

Next question comes from (Dina Rozhenko) from Goldman Sachs.

Q - Unidentified Participant

I just wanted to follow up on the credit side, if you could provide some color on your capital plans, including the 6.463 bond, which is a dollar bond and there was an issue on Bloomberg in terms of call announcement. I understand that the call announcement has to be made before 1st of December. So just wondering if you have any color for the investors.

A - GÃ©rald Harlin

Okay. So I understand. And so we obviously, there was a narrow entry in the U.S. clearing system when the bond was originally issued. And this led to speculation in the market regarding the redemption of the series (A 62) floating rate notes on the first call date, which is, as you know, December 14, 2018. As usual, any redemption should we decide to exercise this call would be announced in accordance with the terms and conditions of the relevant notes, i.e., at the latest, 15 calendar days before the first call date. Meaning that before November 30, which is not far. And at the same time I could say that, as you know, the section of this would be published on our website. So I'm very sorry for this. But it was not our fault. But it's really a material mistake coming from the U.S. clearances.

Q - Unidentified Participant

Okay. So waiting for the notice on the website then.

A - GÃ©rald Harlin

Yes, exactly that's what I can tell you.

Operator

Next question comes from Farooq Hanif from CrÃ©dit Suisse.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just ask about AXA Investment Managers? You made an announcement this morning about commercial real estate. Can you talk about your ambitions in the U.S. for growing further AXA Investment Managers? And just in terms of the health revenues, which have been very strong across the group, can you talk about the sustainability of this growth rate? Because I realize a lot of this is group business and it could be lumpy. So could you comment on that as well, please?

A - GÃ©rald Harlin

Okay. About the U.S., yes, we have a mission. As you know, real estate is a key component, a main component in term of real estate -- a key component of our alternative strategy, I could say. And what you saw this morning is the acquisition of Quadrant. You know that we are quite strong at AXA in corporate real estate loans. And -- but we were -- our strength was mostly concentrated in Europe. And through this acquisition of Quadrant, it's a way for us to expand it to the U.S. And you know that it's interesting not only for the U.S. market. But it could be also interesting for the European market. Why? Because through the -- a fixed swap -- now that the fixed swap are a bit more interesting, I would say in term of business risk, big spread, means that today it's a lot in this low interest rate environment developing yourselves in the real estate loan sector is quite attractive. I remind you that we are #1 in term of real estate in Europe. First of all the first part about Health. What I can say relative to Health is the fact that it's quite interesting. If you go to the press release on Page 10, it's quite interesting to just have a look at the roughly EUR 10 billion of revenues coming from the Health side. And you can see that it's not. And that makes me quite optimistic because it's not relying on 1 country. It's across the board. Look, France, 12%. Europe, 4%. Asia, plus 3%. International, plus 11%.

So we have only the United States. But as you know, it's very small, EUR 40 million. So across the board, I would say, that we have a strategy which consists in developing new product across the board. Maybe the only exception is Germany. And you know why, it's due to last year in 2017 where we had exceptional new sales in long-term care and it's also due to the political situation in Germany, mostly in the first half. So beyond this, I -- all the -- I could say that all the countries are faring quite well. We have a competitive advantage because we are much bigger than our immediate competitors like Alliance, Generali, Zurich. So it's -- we have really good positions there and that we develop organically quite actively.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just have one follow-up question, if you don't mind? You said earlier in the last question that you will have an 8 point benefit from Solvency II from an internal model applied to XL?

A - GÃ©rald Harlin

I said no -- I corrected it. I'm sorry. I just said that it's what we said was between 5% and 10%, between 5% and 10% benefit that will come from the internal model. And at the time, we will move from this equivalence to internal managed.

Operator

Next question comes from Andrew Crean, Autonomous.

Q - Andrew John Crean {BIO 16513202 <GO>}

Just one question. I didn't quite understand why in the Third Quarter when the stock markets globally went up, you get a 6 point hedge gain. I think markets have gone down about 6% since September. What will be the impact of your hedges on the Fourth Quarter?

A - GÃ©rald Harlin

You mean in term of -- so different points there. First of all, I could say that the gain will flow through the net income in terms of earnings, first point. Second point, the impact, I could say, in term of solvency is of course increasing. The calculations that I made just before is when the option growth in the money, by definition, you are increasing the gain in terms of solvency. And you can -- when I said -- the example I took is that instead of roughly -- instead of 40% capital costs in the Solvency II world, when we have an option which is 85% we said -- a put option at 85%, with a maturity of more than one year, in such a case you get a gain because your cost -- your capital would drop from 40% to 15%. By definition, when your option is going in the money and when your option instead gains, for example, 10%, then you gain the equivalent in term of capital. I hope I'm clear. But the gain in Q3 is because we both hedged in the Third Quarter and it was in July. And as you can understand, it reduced our SCR. That's the way it works, that's exactly what I explained. That means that instead of an SCR of 40%, we have roughly an SCR of 15%. And when the option -- and when the market goes down, it could even further reduce. So you can make note of this. I hope I'm clear.

Operator

Next question comes from Nick Holmes from Societe Generale.

Q - Nick Holmes {BIO 3387435 <GO>}

A couple of questions, please. Coming back to China. Wonder if you could give us a bit more color on the level of top line growth you're targeting over the medium-term once all the single premium stuff is out of the way. Then second question is, can you give us an update on the likely -- sorry, can you tell us what you think of the proposal to postpone IFRS 17 by a year? That's looking quite interesting.

A - GÃ©rald Harlin

Okay. Let's start with China. So you can imagine that for us, the growth in China is very important. When you have -- we can expect, normally speaking, to have a growth which will be close to 2 digits. So that's what we can expect. So it's -- what I said is that we are in the transition phase, we have the top line going down but we have the profitability increasing. And as soon as next year, I truly hope that we will recover. IFRS 17. As far as IFRS 17 is concerned, the point is that we should -- it's important to have a good framework and a good accounting framework. As you know, there are some topics which need still to be refined, if we want to have a good framework. I'll give you a few examples. If in the end IFRS 17 would lead us to much more non-GAAP indicators, it would be a real failure. And today the fact that we still will have some volatility not for the (DSA) approach. So I believe that the problem is solved for the participating business. But the real issue is for the nonparticipating business in line as in P&C. And as far as this is concerned, it will create a lot of volatility, leading us to introduce non-GAAP figures. And as we strongly believe as an industry, not only my position. But as an industry, we believe that such a big move which involves a lot of work for the entity should lead to a good framework that will help users to better understand our business. And if in the end it's -- it gives more complexity and more volatility, which is -- which would be unjustified, then it would be a real issue. So to make it short, Nick, I don't know exactly by how much it will be postponed. It could be postponed by one year, two years. I don't believe -- personally, I don't want to postpone it too much. I believe that it's better to do it in -- more or less in the timeline, even if there is a slight delay. But anyway, I can tell you that we are working actively on it. We believe that it will be helpful for the whole industry so long as it's a good framework and that's why it's so important to make a few changes compared with the initial product.

Operator

(Operator Instructions) We have one question from Niccolo Dalla-Palma from Exane BNP Paribas.

Q - Niccolo Cornelis Modesto Dalla-Palma

I'd like to follow up on a couple of questions. You said earlier I think to Johnny that at group level the deviation on large losses is close to 0. It's just not -- just to avoid any confusion, I wanted to check if this is a group excluding XL, or group including XL at the nine months? Secondly, on the put options. Is this -- as for the Q1 put options, is this both out of the holding? I understand that that's the case, just a confirmation of that. And one last point on the equivalence of XL for Solvency II. Is it true that part of the available capital that you include in the equivalent is senior debt? And does it mean that when you switch to internal model, you will lose this small part of available capital? I think it's around EUR 1 billion by memory.

A - GÃ©rald Harlin

First, on the -- your first question was?

Q - Niccolo Cornelis Modesto Dalla-Palma

On the deviation at group level for the large losses that you saw so far. You said it was close to 0.

A - GÃ©rald Harlin

Yes, no, I believe that it was close to 0. So we had a slightly higher cat in some countries. But it's not significant. So no, it's -- I believe that it's small, that's in line with our next trend, I could say. You remember that in first half, we presented and we said that it was at, if I might, at 0.7% -- 0.6%. The year before, it was much lower because it was 0.1%. So more or less in line with the global trends, as I could -- that's what I can tell you. About the senior debt, you know that we have a deleveraging plan which means that, to be clear and honest with you, I truly hope that you remember that you remember that we have this deleveraging plan and we will, I hope that at the time we move to internal models we'll have reimbursed this debt. So I don't anticipate any negative impact from it. I have no specific plan yet. And we will update it with you later on within the next month. But I don't have any specific feel from this side. And look, we have the Solvency II, we are generating a level of Solvency II organic growth which is quite strong. So no, I -- and you remember maybe that -- I don't know if you remember. But we said that when we presented our plan in '16 that at that time it was our intention maybe to reimburse or to refinance some -- Tier 2 debt with senior. So it's, no, honestly, it's not a matter fully for me. It's quite organic.

Q - Niccolo Cornelis Modesto Dalla-Palma

Okay. That's clear. And for the put options, they're all -- both from the holding. Is that correct?

A - GÃ©rald Harlin

Yes. No, not exactly the put option. You remember that the last put option at the holding level and the previous one, the one that I disclosed in Q1, it was 50-50. 50% at holding and 50% in the subsidiaries.

Operator

Your next question comes from Henry Heathfield from MorningStar.

Q - Henry Heathfield {BIO 19760919 <GO>}

All on P&C, please. Just on personal motor in France, it looks like pricing on Personal lines is up 1.5%, revenue is down 2%. I just wanted to inquire as to what's driving that volume decline. Then on the back of that, what's your average claim size looking like in terms of the trend? And how is the pricing in kind of quantum being used to offset any trend on that average claim size? Then second question on the P&C side in U.K. personal nonmotor, revenues is down 10%. I was just wondering if you could give me some color on what kind of lines we're talking about in here. Then third question on the commercial in the United States. I was wondering if you have any kind of pricing pressures on fleet's motor in that business line as well, please.

A - GÃ©rald Harlin

Okay. Your first question about France P&C revenues, indeed they were down 1% and it was primarily driven by Personal lines. As you know, competition has been quite fierce since the introduction of the AMLO because the AMLO is the way I remind you for all our policyholders to lapse instead of once a year, almost every month. Meaning that we continue to aim at the right balance between profitability and volume. And in Q3 '18, net new contracts were slightly positive as a whole. If I combine Household and Motor. So it's a sign of stabilization. But obviously, the market remains quite tough. And to answer your following question, it's just because we want to keep the strong profitability, that we don't dump the market and we want to keep a strong profitability and I have no fear on that side. In commercial lines, revenues were stable. And we had some large contracts. So if I exclude these large contracts, we were up 3%. Which means that globally speaking, we have a good momentum in commercial lines and for individual lines in France is a reason of a tough market. Your second question, if I'm right, was about the U.K. and the lower sales in Personal lines. Obviously, Personal lines were down 4% and mostly driven by Household from the -- we had a loss of a large partnership with Marks and Spencer and also we have lower volumes on the back of selective underwriting. I remember -- remind you that, on the back of Ogden, we had some of our competitors which simply revived the Ogden rate, which means that they dropped their price. And that's what we did. So that explains also why we are -- we have been quite selective in term of underwriting. Last question was?

Q - Henry Heathfield {BIO 19760919 <GO>}

Sorry, can I get a clarification?

A - GÃ©rald Harlin

It was on the U.S. side. Remember that -- could you maybe recite your question as far as the U.S. is concerned?

Q - Henry Heathfield {BIO 19760919 <GO>}

Well I mean you answered it partially. But on the U.S. I was particularly interested in fleet motor pricing on commercial P&C business. Then just a clarification on question 1, I'm also quite interested in what the average claim size within personal liability of motor has been doing and whether -- if that has been trending up quite sharply, whether you have been able to put enough pricing gate to offset that?

A - GÃ©rald Harlin

Okay. No, for the nine months we don't comment on the profitability. But I told you that I was quite comfortable. So that means that I don't fear any kind of worsening of the -- of our profitability in France. Yes, I -- you asked also the question on the price effects by country and business lines. And you can refer to Page 15 of our press release. And what I can tell you, which is quite a good sign, is that we are at -- for Personal lines, plus 1.3, for Commercial lines, plus 1.4. And this is compared to the first six months of, respectively, 1.7 and 1.3. Which means that we still keep a quite strong momentum in term of price effects.

Operator

(Operator Instructions) We have no more questions.

A - GÃ©rald Harlin

Okay. So I thank you a lot. Thanks for attending this meeting. And be happy to meet you at the IR Day in a few weeks' time on the 28th in London.

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

Indeed. Thanks, everybody. And see you in London in a couple of weeks.

A - GÃ©rald Harlin

Have a good day. Bye.