Q2 2017 Earnings Call - Q&A

Company Participants

- Luigi Lubelli, Group Chief Financial Officer
- Philippe Donnet, Managing Director and Chief Executive Officer
- Spencer Lee Horgan, Group Head-Investor & Rating Agency Relations

Other Participants

- Alberto Villa, Analyst
- Andy Hughes, Analyst
- Farooq Hanif, Head-Insurance Equity Research Europe
- Gianluca Ferrari, Analyst
- Giuseppe Mapelli, Analyst
- James A. Shuck, Head-European Insurance Equity Research
- Johnny Vo, Analyst
- Lance M. Burbidge, Analyst
- Michael Igor Huttner, Analyst
- Nadine van der Meulen, Analyst
- Niccolo C. Dalla Palma, Analyst
- Paul De'Ath, Analyst
- Peter D. Eliot, Analyst
- Ralph Hebgen, Analyst
- Thomas Seidl, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to the Generali Group First Half 2017 Results Q&A Session 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 & Rating Agency Relations. Please go ahead, sir.

Spencer Lee Horgan {BIO 4241901 <GO>}

Good morning, everybody, and welcome to our first half 2017 results Q&A call. With me, as usual, I have Group CEO, Philippe Donnet; and Group CFO, Luigi Lubelli. We're, of course, going to dedicate the vast majority of the next hours taking your questions. But first of all, I'm going to hand it over to Philippe for some short opening remarks. Philippe, over to you.

Philippe Donnet {BIO 4657671 <GO>}

Thank you, Spencer, and good morning, everyone. And thanks to all of you for joining us. I believe you had the chance to read our results announcement from this morning and to see our briefing video on the Generali corporate website.

We are very proud of these results we presented today. They reflect the execution of our strategy with strong technical margins, robust net inflows in Life with an improving mix and confirmation of our excellence in Property&Casualty. Meanwhile, we have a high level of solvency. In fact, it has strengthened even further.

Thank you again for joining our call. Now, Luigi and I would like to invite you to ask any questions you may have about these results. And I pass the floor directly to you.

Q&A

Operator

Thank you. We will take our first question from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. I've got three questions, please, actually. First of all, on the Argentina issue of the gap between the inflation and discount rate, any way to quantify that or exactly or tell us what the impact was on the Americas combined ratio there?

Secondly, Italy, mostly premiums, I guess, it looked like they've developed a little bit less well than I might have expected given your previous comments. I was just wondering if you can elaborate on what you're seeing there.

And then finally, you've reiterated your target of disposal proceeds of more than €1 billion. I mean I appreciate you can't comment on rumors, et cetera, but some of the sort of potential sales that seems to be in the press they might suggest that the 13 (03:03) businesses you might be able to get more than that. I mean, if you do go above that or if you release more capital than you might initially expected, just wondering what the prospects might be for giving some of that back to shareholders or do you still think that you can reinvest any proceeds you might get? Many thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Peter. Good morning. This is Luigi speaking. In terms of your first question on the gap in Argentina, we don't actually give that figure, but broadly, you can take the difference between the – basically, the increase in the combined ratio to be driven by that essentially. By and large, that will tell you the figure.

Italy, less well than our previous comment. I would say that – and also for Philippe to elaborate on that. I mean, the Italian market itself is challenging at the moment. Relative to the market, we actually think that our companies are doing pretty well in the sense that in non-Life, we are holding our ground. We're certainly quite disciplined in our underwriting. We continue, as we said, to pursue the underwriting of Non-Motor business, and actually, that's one of the drivers in the combined ratio because that's the reason for the expense ratio going up.

And on Life, actually, we were very pleased with the results. The actual sales performance improved in the second quarter compared to the first one, and we have very respectable net inflows of €3.2 billion and in my personal view, an outstanding performance in margins.

I wonder, Philippe, if you want to add anything to that.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. On Italy, we stick to the positive comments we made the last time. Actually, we continue seeing positive signals in terms of pricing of the Motor new business in Italy from, I would say, the main companies. But the premium are driven also by the portfolio, and we said that they are mostly driven by the portfolio. So to see the positive impact of this repricing will take some time. But I confirm the positive trend of the Italian motor market.

On the proceeds of the disposals, the target was at least €1 billion. The more we work on these disposals, the more we are involved in competitive processes to sell the assets we want to sell, the more we are confident on our ability to deliver at least the €1 billion. So the €1 billion was a minimum. It's not a target. It's a minimum. So we are pretty confident that we will achieve at least €1 billion.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. Thank you very much.

Operator

We will take our next question from Alberto Villa from Intermonte. Please go ahead.

Q - Alberto Villa {BIO 16005221 <GO>}

Hi. Good morning. A couple of question from my side. One is just a clarification. If you can give us detail on the impairments during the second quarter if there was anything related to Atlante or other that we have to consider.

The second one is on the Monte dei Paschi situation. Now that the process is well on track and you will become a shareholder of the Bank, have you got anything to share with us in terms of your intention to maintain or to exit from the capital of the Bank or it's too early to comment on that?

And finally, if you can give us an update on the – there was something on the press launches we have seen, et cetera, on the German life portfolio. How we can expect to develop the German life business after this transaction, if any, is completed? Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Good morning, Alberto. In terms of the impairments, we had impairments clearly in the quarter there. You can see them in the disclosures and amount. We did not break up by name as we normally do with very few exceptions. As you know, we, as a policy, try to keep all our assets close to what we consider to be their fair value depending on how they can be measured at any time. In the case of Atlante, indeed we made adjustments. You can guess what those adjustments were. They were basically made to reflect the value of some of their most prominent investments. So that has been reflecting and whatever should not be adjusted was not. That's quality...

Q - Alberto Villa {BIO 16005221 <GO>}

So, basically Atlante, one to zero, close to zero.

A - Luigi Lubelli {BIO 4108780 <GO>}

Is that a football score or – but yeah.

Q - Alberto Villa {BIO 16005221 <GO>}

Okay.

A - Philippe Donnet {BIO 4657671 <GO>}

Okay. On the Monte dei Paschi situation, as of today, we don't know exactly how much will be our share in the capital of Monte dei Paschi. We believe we will be the second shareholder after the Italian state but very far from the Italian state. As I would say, this is not a strategic participation for us. Nevertheless, we will manage this investment with the objective of maximizing the value of this investment where we will exit if it's better for us to exit. We will stay if it's better for us to stay. So we'll be very opportunistic in managing this investment.

Regarding the German life portfolio, we have still three options that are still open for the time being. Reinsurances of the Generali Leben portfolio is one option, putting the company in run-off is a second option, and selling the portfolio totally or partially is a third option. All three options are still open, and we will probably make a decision before the end of the year. Anyway, this decision, in any case, will not reduce or weaken our position in Germany. It's probably the opposite. With such a decision, we are going to strengthen our business in Germany. We will not reduce our market share in Germany. We will not reduce the results coming from Germany. We will probably free up capital and we will be able to reallocate these resources, distribute resources to the growth of our profitable business in Germany, and we have many profitable businesses in Germany. I can give you two examples. Unit-linked business of AachenMünchener Leben and the protection business of CosmosDirekt. So we have many opportunity for further growing and strengthening our business in Germany.

Q - Alberto Villa {BIO 16005221 <GO>}

Thank you very much.

Operator

And our next question comes from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there. Thanks very much. Three questions, please. Your capital generation looks very strong under your economic capital model. To what extent has this been influenced by the improvement in new business margin and can we take that new business value number as a kind of like-for-like almost in the capital generation number? That's question one.

Question two, obviously, your quality of capital is very good under Solvency II, but your senior debt levels are very high. So, just wondering to what extent you worry about that and you feel that that's something that you would like to address in the next few years.

And last question was really on the financial result which is also very strong. So, if we take out Banca Generali and look at just your own financial result, what's been driving that and what do you see as the trend for the rest of the year? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. I think I know the answer to your first question, but could we please ask you to explain it a bit better because I was a bit confused by the like-for-like part of the question.

Q - Farooq Hanif {BIO 4780978 <GO>}

Oh. Sorry about that. I'm more (13:12) explaining myself. But yeah, I mean, obviously, your new business value has gone up.

A - Luigi Lubelli {BIO 4108780 <GO>}

Sure.

Q - Farooq Hanif {BIO 4780978 <GO>}

There is obviously a positive contribution from Life new business in capital generation.

A - Luigi Lubelli {BIO 4108780 <GO>}

Indeed.

Q - Farooq Hanif {BIO 4780978 <GO>}

The two numbers might not be the same, but what's the difference really? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, obviously, the internal capital generation - I mean, if you look at the figure this year, you clearly can see that we have a much stronger capital generation this year. So, clearly, the new margins are feeding directly into that, and it's going through. I mean, there are some differences in new business value, and Solvency II is calculated in the same fashion but with an NBM of 6% and not of 4% and without cost of capital. That's one of the reasons. But basically, yes, you can take the internal capital generation to be reflecting those margins that you see there. And clearly, the good continuation of the performance in non-Life had ultimate costs. So, I wonder if this answers your question.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yes it does. Did you just say that the margin of 6% in the Solvency II capital ratio not 4%?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. In Solvency II. Yeah.

Q - Farooq Hanif {BIO 4780978 <GO>}

All right. Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

And then thank you for your compliments on the quality of capital, which we, of course, share. You were saying that whether we worry about our leverage levels, not particularly, I mean, in the sense that over time, they're actually improving. You know that Generali has been holding a stable amount of debt basically.

Actually, if you look at the amount of financial debt since the end of 2016 and compared to a year ago, we are basically in good shape although there were some double accounting. But relative to what is our economic capitalization, we are doing fine. Clearly, the debt levels and the senior debt levels is something we constantly look at. You know that in the past we've undertaken several initiatives in order to work on our debt stock and improve its cost and composition. And we, of course, depending on the development of the opportunities, we'll continue to do that. But for the moment, actually, we are quite comfortable about that.

With respect to your question on the other, I mean, I think it is the rest of the financial results in the presentation. But basically, primarily, we had revenues from our private equity companies and the improvements in the profitability of our real estate companies.

Q - Farooq Hanif {BIO 4780978 <GO>}

And would you say that that's a sustainable thing or there are some one-offs in there?

A - Luigi Lubelli {BIO 4108780 <GO>}

I would say that's reflecting our present investment strategy, they're going to be increasingly recurring. As you know, we are focusing on more and more on the investments in real assets. So, the more we focus on that, the more you will see this sort of income coming through in the P&L.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

A - Philippe Donnet {BIO 4657671 <GO>}

Farooq, can I just make sure you didn't mishear one thing that Luigi said. So, the 4% versus the 6% is the market value margin, the amount we had for the risk margin. I think, I don't to make sure you haven't confused this with the new business margin of 6% in Solvency II after (17:17).

Operator

And our next question comes from Giuseppe Mapelli form Equita. Please go ahead.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Yes. Good morning. I have two questions. The first one is again on (17:33) in Italy. We understood that there is an improvement in terms of average premium. Can you give us the year-on-year change on that indicator on the first half, please?

And then my second question is on data reported by ANIA annual report and that are showing an improvement in the cost of claims with, let's say, severe bodily injuries. What are you experiencing on that front in Generali perimeter? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. On the Motor TPL, what we can tell you on our side in terms of pricing, we are certainly applying great care to that in terms of that - on the new business, we are certainly strengthening our pricing in Italy in reflection of the conditions. In terms of average claims cost, they are actually both - frequency, we have a pretty stable level, and the average claim cost is performing quite well, is improving compared to a year ago.

Q - Giuseppe Mapelli {BIO 7269722 <GO>}

Thank you.

Operator

And we will take our next question from James Shuck from Citi. Please go ahead.

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

Good morning. Thank you for taking the questions. I had three questions, please. Firstly, I wanted to return to the point around the level of debt gearing, particularly, sort of how we should think about it going forward. You're obviously generating a lot of surplus capital or Solvency II capital on an ongoing basis particularly after the dividend. And I'm just interested to know whether you intend to repay down your sub debt or whether you look to keep the absolute level stable in which (19:32) the level of gearing in percentage terms does improve over the medium term. I guess, the reason why I ask the question is because when you look at the Solvency II tiering buckets, you have plenty of capacity. But if you look at your debt gearing at least your sub debt gearing on a tangible book basis, it looks somewhat higher, and your dealings with rating agencies is a little bit confusing to me. So, perhaps just give a little bit of outlook if it continues to generate much capital as you are, whether you look to reduce that debt or keep the same in absolute terms?

My second question is around the Solvency II ratio or at least your target range because unlike peers, you have a floor of 160%. You're generating a lot of capital 207% great result in the first half of this year. What should we be thinking about in terms of the ceiling level at which that you start to either re-risk or do something with that capital? You did mention you would look to do things in Germany particularly if you free up capital from the back book, but it's difficult to see why and if those options would be particularly capital intensive. That's my second question.

And then finally, just on the digital agency rollout, could you update us please on where you are in terms of the progress in key territories, the timing and actual rollout of that digital agency? And I'd be very interested to hear of actual tangible examples of success with this digital agency program. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Thank you, James, for your question. I can see also from the previous question that is a subject that is in the minds. I imagine this is a direct reflection from the fact that we are – I am glad it is being seen. We are having a stronger internal capital generation. We have a strong cash generation, and that's what allows us to pay dividends. And so, that for the moment is what we have.

I think but I may be mistaken. So, all your questions are kind of around the management of capital at group level. I think for the moment, we have a commitment of paying a total of €5 billion of dividends which we stick to. We've paid half of that. And that's clearly, in my view, a relevant employment of the capital and cash generated by the group.

The first maturity of debt that we have is for a small amount towards the end of 2018 and, clearly, although it's not that far away in the future, it's still some way away. So, the closer we approach that date, we'll see what decision we take about that debt which could also be retiring it if at the moment we consider it is appropriate. But I have to say, in honesty, for the moment, it has not been taken.

You were referring, I understood, about the rating agencies. Actually, my impression, especially based on the most recent Fitch report by the rating agencies is that they actually quite appreciate the evolution of our capitalization and our leverage. So, I do not think it's an issue with them. And if it is, it is certainly a diminishing one over time. So, I wouldn't say that's one of the biggest topics for discussion. I wonder if this answered the question or answers the question on that, James.

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

Yeah. I mean, I guess it's sort of – if you just roll forward the book value for a few years, then your debt – your gearing level will mechanically fall down. So, I guess...

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes.

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

...I'm just struggling to see if your gearing level is 30% or whatever you think it is, would you look to hold that steady in absolute terms and grow in line with the book value?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, like everything, as I say, that's what I gave as an answer before. I said a prospect – I mean, if you have as we do, a stable stock for a while and improving balance sheet overall, clearly, the more time passes, the less debt becomes an issue, which is what I said in my previous answer. I would say it was a very rough and on the fly answer to your question. I would imagine it will depend on what alternatives for the employment of our cash flow we have at the moment, if that comes for maturity.

As I say, it could even be that we will partly retire or replace that with something else. But for the moment, in all honesty, there is not a decision or – there is no decision about that.

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

Yeah. Yeah. Okay. And on managing the top end, kind of any target range?

A - Luigi Lubelli {BIO 4108780 <GO>}

Well, we do not have, let's say, a set of actions. We communicated, if I'm not wrong, in the beginning of 2016 how we were going about our capitalization levels, but we actually gave no range. We clearly are in a comfortable position. As I said, we have, I think – because the question is whether we're going to do something about dividends or capital repayments for the moment. As I say, we have a commitment, we stick to that, and that is the commitment we have so far. In terms of re-risking or de-risking, it's something that's decided as the business progresses.

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

Okay. Thanks. And then just the last question is on the digital agency rollout. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. Well, it's progressing well in all the regions of the world, in Europe and in Asia as well, in Latin America as well. I can give you an example. For the first time this year, we organized a global contest for all agents in the world and this contest was based not only on the business, on the production, but it was also based on the digital transformation of the agent. And it was a great success. Agents were very motivated and we had a big event in Rome to gather the best digital agents from the whole world. It was quite exciting and we will do this next year and every year as well because it's very important for us to continue investing in the digital transformation of our sales force.

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

Okay. Thank you very much.

Operator

And our next question comes from Paul De'Ath from RBC. Please go ahead.

Q - Paul De'Ath

Yeah. Hi there. A few more questions from me, please. Firstly, just looking at the Life business, I see the new business value has increased significantly year-on-year which is very good. And I just wondered if you could give us any thoughts because one of your peers has talked about essentially how the new business value translates into future IFRS earnings and essentially use a multiple of sort of 3 times to 3.5 times. Would that be similar for yourselves with that €942 million if we turn that way say 3 times? Is that what you would expect to see through future IFRS earnings? That's question one.

And then the second question again on new business value, just looking at the margin. Obviously, the margin has increased very strongly largely due to management actions. Just wondering if you can give any thoughts on where that margin goes going forward? Essentially, is there more to come in terms of management actions to drive that margin higher, notwithstanding obviously the change in business mix as well going forward? Thanks.

A - Luigi Lubelli {BIO 4108780 <GO>}

Good morning, Paul. Look, for your first question, I find it intriguing. But honestly, not knowing exactly the mechanics of the analysis, I wouldn't be able to give you an answer relative to where Generali is now. I think the point is noted but that's the most that I can say. I think that evidently out of common sense, the outlook for our technical profitability in Life based on what we're writing on an IFRS basis is certainly quite bright, I would say. But in terms of the exact mechanical translation of that into IFRS, I would like to reserve the answer for the moment.

Very fair question on number two, I would think that a lot of the management actions has taken place. I mean, clearly, I think what's interesting – actually, I highlighted it on certainly in my video webcast, the one that you have seen this morning, is that what I would like to appreciate and focus on is on the consistency of what Generali says and does in the sense that if you look back at a year ago, we said precisely that we would be only writing savings products which conform to our standards, and we would emphasize our efforts on unit-linked and protection. And we've done, word by word, what we said.

And actually, yes, for instance, there is, as you can see, an important work that we have done already, I would say, on the design of the products, on the mix, on the guarantees, on the loadings. So that, I think, it's already underway.

Another figure which I quoted and I myself, I'm impressed with but, of course, I'm particularly happy about, is the fact that the new business value is now, in amount, twice as large as it was as of June 15. So it's only two years and that's testament to the good execution.

Clearly, in my opinion, I mean, a good chunk of that or, if not most of that, in terms of product design and approach, is there on the market already and underway. So we already are industry-leading. We used to be P&C leaders, we are also Life leaders and so I think it's good staying there. I wonder if you want to, Philippe?

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. I just would like to add a few comments. First of all, this excellent result of this first half 2017 is not a surprise to us because we've been working with a lot of persistence on this since four years, because we started this four years ago in Italy when we launched the first hybrid products. And all the product – the new products we've been launching has been great commercial successes. We've been accelerating the shift of the business mix in the past few years and we've been accelerating everywhere one year ago.

In the first half of this year, the net inflow – the Life net inflow is really excellent because it's €2 billion of protection, almost €4 billion of unit-linked, and the net inflow on the traditional savings is negative by €100 million. And so I think that it's a great commercial success.

We launched recently in Italy a new generation of hybrid product which has been another great commercial success, and all this action have been contributing very significantly to the improvement of our new business margin, of our new business value which is now – it's the best class performance on the market. But we should not take for granted that it's so easy to do. I mean, it's always very challenging. I remember that we had some more difficult quarters some time ago because every time the equity market or the financial market are volatile or negative, both customers and sales force have the temptation to go back to traditional products and we always need to find this kind of natural tendency. So we are always improving our monitoring of the sales force, but we should not forget that it's a continuous challenge.

So for us, definitely our objective is to keep this kind of margin, this kind of quality of net inflow. But we are very humble and we know it's a continuous challenge. I think that we demonstrated that probably more than many of our competitors. We know how to manage this, but we should not forget it's a challenge.

Q - Paul De'Ath

Excellent. Thanks. I mean, just as a quick follow-up, broadly, you'd say in terms of the line of business margins that you show on slide 24 and you wouldn't expect a big uplift in those going forward but, obviously, the shift in business mix would potentially move the margin going forward. Is that a reasonable assumption?

A - Luigi Lubelli {BIO 4108780 <GO>}

You are referring - yeah, exactly to slide 24. I think that what Philippe - I mean, Philippe will certainly may clarify exactly his thought, but the essence of what is being said here is that business mix varied in terms of the orientation of the business mix, clearly. I mean, this is real life, so this is not - it's not as if sales are set in stone, right? But broadly, our orientation is towards the product.

The mix in every quarter will change. As you can expect, there's a constant refinement on the terms and conditions of the products being sold which make these margins vary. I mean, margins, it's a question you always ask us both in Life and non-Life. Margins are a relative concept. They have to be seen relative to the economic context and to the competitive context, what we are confident - but I think this is for Philippe to elaborate and say - is that with respect to what the market can deliver at any moment, we are leaders in terms of performance. But I wonder if - does that cover your question?

Q - Paul De'Ath

Yeah. Thanks.

Operator

And we will take our next question from Thomas Seidl from Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. Three questions from my side. First, on Life. You used to show the current return versus the existing portfolio guarantee it was 3.21% income versus 1.73% in-force guarantee in the full year numbers. Could you give us an update in particular on the guarantee and the spread here to the investment income?

Second question on P&C. Attrition and loss ratio, up from 67.8% to 68.9% (sic) [68.1%] which is, in a way, not fully in-line with what you told us at the Investor Day where basically, you said technical excellence will allow you to more than compensate price pressure. And hence, loss ratio should be coming down. So how do you think about that? Why is it not working right now and why should it be working going forward?

And the third question, I'm not sure if you are willing to comment but I'll anyway ask you the question. You had a €50 million one-off benefit from a lower allocation to risk provisions in P&C. What do we have to think about that?

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Good morning, Thomas. So with respect to the first one, if I understood, that's an information we give on a yearly basis. I mean, qualitatively, as you can imagine with the work – and I wonder if I'm answering your question but, I think I am, in part – the work on guarantees goes on. And hence, the average guarantee on the portfolio continues to fall as we said it would. So that is something you will see reflected in those figures at year-end. But as I say, these are figures that we'll publish at year-end. But let's say that like in the comments I was making before, we are doing precisely what we said we would do.

In terms of the combined ratio, I was slightly confused. I am under the impression you're referring to a quarterly movement. Once again, referring to my previous comment, I wouldn't judge firstly the combined ratio always in absolute terms. As I say, it's always a relative exercise. And secondly, life happens in the sense that you do have claims from time to time on a quarterly basis which may make you deviate in terms of losses. I would say that – I have few doubts that this combined ratio is at the very leading edge of the industry.

And from my perspective, it's been fairly stable. I would say, that the development in Argentina was kind of one of the biggest pieces of news which is relative to the total group, fairly small. We did have, let's say, comparing first Q to second Q, we had more Nat Cat in Q1 than we had in Q2. So, in Q1, we were above the previous year. As of the first half, we are below the previous year because of the allocation. We did have these so-called low frequency Nat Cat. So, we had the small natural events which don't make it to Nat Cat. But nonetheless, damaged your results. We handled that in France for instance. We handled that in Central and Eastern Europe and that had some impacts on the loss ratio. We did have a few of commercial insurance claims in the quarter but, as I say, that's life that happens. But by and large, the loss ratio I think is very good.

Am I answering what you were asking me, Thomas, or is it something else you are asking?

Q - Thomas Seidl {BIO 17755912 <GO>}

No. I think I mean you're talking about half year numbers here, right? And I refer to your Investor Day presentation. I'm not looking at quarterly and I prefer to look at annual numbers. But on a half year basis, half year 2016 to half year 2017, there is a deterioration. At the Investor Day, you showed us that technical excellence showed little improvement. Now, you say it's broadly stable. So, I'm wondering how you think about the underlying loss ratio, excluding Nat Cat and any noise in that. How confident are you that you can bring it down like you have shown us last November or is it now more the opinion that you're going to keep it stable here?

A - Luigi Lubelli {BIO 4108780 <GO>}

As I say, we're talking about an €11 billion as of the first half year of business. So, you're talking about 30 basis points variation in the loss ratio which is, if you round it both ways, continues to be at 68%. To me, it's not such a bad development. And as I say, it must be seen in the context and relative to our peers. The technical excellence, the efforts that we've (42:34) seen in other aspects and there, you should compare us with our peers. For instance, we have a falling frequency. That falling frequency, that is the outcome of our underwriting work and what we're doing on the ground. What I would encourage you is to make this kind of comparison with our peers. And I'm pretty sure that the targets we published were not absolutes. They were relative to our competition, as they can be. It's the only way they can be, by the way.

A - Philippe Donnet {BIO 4657671 <GO>}

Yes. To be precise on this, first of all, we didn't take any commitment on half year combined ratio because half year combined ratio are not full year combined ratio. And then the commitment we talked during the Investor Day was on the gap between our combined ratio and the second best competitor. And if I remember well, our commitment was to increase this gap between ourselves and our best competitor. But as we just said, there was no commitment on an absolute value.

I may have said – I remember that I said that I thought that we would be able to improve our combined – to further improve our combined ratio by the end of 2018, but that was a personal comment. But the commitment is on a relative basis.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. With respect to your third question or...

Q - Thomas Seidl {BIO 17755912 <GO>}

Yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. So, the other line is a line in which we have been labeling, indicates a number of elements. So, one of them is service revenues. There are service revenues from sales of precisely services by the non-life companies which are there. Then, we have some minor increase. And then, in a bigger proportion, what we have there is appropriation of and releases of funds that are connected, for instance, with salary reviews of employees, partly reduced with the movements in staff. So, there are variation in contractual agreements which, in last year, we had a recognition of charges and this year, we have a smaller recognition of charges and partly some releases, so that's the net.

I wouldn't – but my – as I think I'm understanding your question, it's also to the benefit of your colleagues, I imagine you want to see somehow the stability. I would say that this quarter was possibly, especially good on that front. Perhaps the figure for last year was closer to, let's say, what you would expect to be an average reference figure for this line.

I would say that in terms of which your question is very fair and, actually, thank you for asking it. In terms of the total appreciation of the operating result for this first half, somehow things offset each other. So, on one hand, we have this variation. On the other hand, we had the adjustment in Argentina I was referring to previously. Bearing all of this in mind, many – mostly these variations offset each other. So, I would say that the total figure for the operating result for the non-Life businesses in this quarter is representative of what's the underlying performance of the business, hoping this will help you appreciate it better.

Q - Thomas Seidl {BIO 17755912 <GO>}

Absolutely. Thanks a lot, Luigi.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're very welcome.

Operator

And our next question comes from Gianluca Ferrari from Mediobanca. Please go ahead.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes. Hi. Good morning. I have one question around the increase in the economic solvency implied in Q2. If my numbers are correct, market movements were above 10 points, 10.5 points. Can you break it down in individual components with particular interest in the contribution from narrowing spreads on govies and corporate bonds. Is it fair also to assume you had positive effects on swaption volatility.

And second and last question is on the tax rate. In the first half, it was a bit higher than the guidance of 32%. What should we model for year-end? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Gianluca. So, let's see this. Well, we have the – I imagine you are referring to the variation in the second quarter versus the first quarter.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Yes.

A - Luigi Lubelli {BIO 4108780 <GO>}

So, the financial variations were overwhelmingly driven by the spreads in terms of the financial side compared to Q1 and...

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Can you quantify that?

A - Luigi Lubelli {BIO 4108780 <GO>}

I'm afraid I can't because I didn't give the figure but, by and large, that was the figure. Also, if we – let me just see how I can help you. Yeah. I mean, the overall figure, well, we actually did not give this compare in Q1 as a figure. So, I have some trouble making a comparison. But for the qualitatively, what I can tell you was basically the OATs and the BTPs as in terms of spread which, from a financial standpoint, move the development in Q2. That's certainly...

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

We have some impact of rates but they were much smaller than spreads and of some non-economic variables. But even the sum of that is lower than the spreads.

So, regarding your question on the tax rate. Tax rate, I wonder if it is – as a guidance, I mean, tax rate is an outcome of profits and where you make them, as you know. I would say there's a lot of variations in there. As I said in the first quarter last year, it's 2016 in the first quarter, we had large positive income in Germany because of some recoveries of tax paid in previous years in which we actually also received interest from the German tax authorities and that distorts the comparison year-on-year. So, if you were – because as you can imagine, it's a part in which many changes go into in a group as large as ours.

Overall, I would say that the tax rate, if you were to normalize things, the tax rate is falling year-on-year. The fall is basically driven by the reduction in the IRES in Italy. So, kind of if you take the proportion of profit in Italy and the decrease in the IRES, you can kind of calculate the reduction in tax rate. It's not super material, but there is.

Q - Gianluca Ferrari {BIO 15042989 <GO>}

Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

And our next question is from Andy Hughes from Macquarie. Please go ahead.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. Also three questions, if I could. The first one is about the Solvency II capital generation. Maybe could you give us a clue as to where the Solvency II generation is happening. Because if it's happening, I don't know, in the weaker capitalized subsidiaries, I see that being much of a positive than it is adding to the capital position in already well-capitalized subsidiary, maybe for example, Generali Italy, where you're kind of writing hybrid products.

And then, a second question is on the hybrid products. When you say you're signing lots of unit-linked business, do you mean you're signing lots of hybrid business? And what kind of bonus rates are you paying currently and what do you think is going to happen when the bonus rates kind of blend down on the hybrid product?

And I guess the third question was about the P&C businesses where, obviously, you can see year-on-year in the first half, the premiums are down quite a lot on last year. Is that something you expect to continue or – and the combined ratio is up and the top line is down. Are you kind of saying that the Italian business is going to continue to shrink at this sort of rate or what are saying you therefore (51:53)? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. Look, it's a very intriguing question. I mean, it's not as if we are piloting where the capital generation comes from. As you can imagine, the degree of improvements, I think that's primarily – let's see what kind of slide I can use to help you. I think if you move to slide 25, where we have the Life new business margin because, at the end of the day, that's where most of the gain in the capital generation is played in the year, right, in terms of the variation.

So, there are clearly differences in where the margins improve. But I'm afraid it's not – you may say yes, I mean, indirectly the answer to your question is yes because, clearly, where we put the most effort into was in those countries where the margin was farther away from where we wanted it to be. I think a case in point, which is actually the case in point of this half and of the first quarter of this year is France. If you look at France and what margin it had in Life a year ago and what margin it has this year, clearly, that I think is a positive answer to your question. Yes, we have a country that was farther away from the other in terms of capital generation. We put most of our management efforts there, and that is where we got most outcome.

Another example in point in my view would be Asia. Asia last year in the first quarter was selling a product which was absolutely dis-aligned with what we wanted it to be. We worked on that. We are selling much less in Asia, but we're selling with an economic value that I think is multiplied by eight, if my memory doesn't fail, year-on-year.

So, I wonder if I'm making a big circle in order to answer your question, but I'll say that, by and large, yes. The answer is yes, we are putting most efforts in the countries that deserve the most, yes.

Q - Andy Hughes {BIO 15036395 <GO>}

Does that mean some regions like France might pay bigger dividends going forward or any – I don't know if France Life was paying a dividend last year, but I guess France was paying Life – dividend last year but I don't know with others.

A - Luigi Lubelli {BIO 4108780 <GO>}

France, as a matter of fact, has been increasing the dividend payout. Well, not just France Life. France, as country, has been paying much more dividend in the past year. So, I think it's, overall, financially, is where I would say of the large countries, you've had the most – relative to the starting point, you had the most remarkable changes, yes. And indeed in dividends, we had a major increase in the figure. Yes, that was published with the full year results.

Q - Andy Hughes {BIO 15036395 <GO>}

On the hybrid products?

A - Luigi Lubelli {BIO 4108780 <GO>}

On the hybrid products, if you don't mind, this is supposed to be something to take offline because the bonus rates, I honestly wouldn't have them available now. Or if you don't mind, we take this offline and give you an answer.

Q - Andy Hughes {BIO 15036395 <GO>}

Yeah. I'm just curious as to where the bonus rates are versus the margins you're reporting. So, my theory is that when you do the EV, you will see the bonus rates collapse in line with the yields whereas actually what you're paying is kind of the excess of the EV assumption?

A - Luigi Lubelli {BIO 4108780 <GO>}

Yeah. But if you don't mind, because really now, I would not have the information in order to give you an appropriate answer to your question.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

With regards to Italian P&C, I'll leave the word to Philippe.

A - Philippe Donnet {BIO 4657671 <GO>}

Okay. First of all, I think it's important to look at the overall growth in Italy because Italy is growing. It's growing very significantly on the Life business. The net inflow of Italy is more than the half of the net inflow of the total group in the first half of the year. So, we are talking more than €3 billion net inflow for Italy. When you compare these to the total Life reserves in Italy, we are talking about 3% growth of the Life business in six months. So, this is an extremely strong growth.

On the other hand, as you said, the Property&Casualty premiums are decreasing, both Life and both Motor and Non-Motor. On Motor, it's again the impact of the war on prices that took place in the past few years in Italy. At the end, it has an impact even if I confirm the positive comments I made previously for the new business, for the trends on the new business.

By the way, the average premium in Italy is starting increasing again. We are increasing the prices this month. Last month, we increased the prices in Italy for the new business. And we are diminishing the discount on the portfolio. All this has a positive impact on the average premium.

On the Non-Motor business, I think that the business, the premium are quite flat on the personal lines and the premiums are a bit more challenged on the Corporate&Commercial because this is the market trend. It's a soft market on Corporate&Commercial.

Having said that, you know that the easiest thing to do in the insurance business is to grow the premium. You just need to be a bit less selective and immediately, you can grown more aggressively the premium. This is not the choice we made for Italy because Italy is focused on further increasing the quality of its Life business which is excellent now. So confirming the shift of the new business to protection and unit-linked. Italy is focusing on the profitability of its Property&Casualty business.

So we are focusing on increasing again the average premium on the Motor business, and Italy is focused on the improvement of the customer experience and the simplification and the digitalization of all its processes. So these are the priorities for Italy.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thank you very much.

Operator

And we will take our next question from Niccolo Dalla Palma from Exane BNP. Please go ahead.

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

Yes. Good afternoon. So I have three questions. The first one is on the Life flows. You gave us a lot of positive commentary. There's one data you highlight, however, in the press release, which is about increased surrenders in Italy, France, and Ireland. I wonder whether you could say something more about this given that you highlighted.

My second question is coming back to the last answer of Philippe. The one part I still don't understand is you actually highlight the high acquisition cost ratio is driven by the efforts on increased penetration in Italian Non-Motor products, but still we're not seeing it in the top-line. So what's missing before we see the impact of that given we already see the impact on costs?

And the third question that (1:00:43) on the restructuring cost, I wonder whether you could give us an update on what's in the planning for restructuring cost for the next two, three years? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Niccolo. So yes, there are surrenders indeed as I've said in the press release, which is I think a relatively normal as we have been in any way not at the level which is particularly alarming. It's just the normal behavior, I would say.

As we said, and I think it's evident, we're being very disciplined with our offer. The products that we are offering now in savings have no guarantee. So they have zero guarantee. And some – it does happen that some customers, if they actually only are interested in that when the product matures, they will – they decide to do something else with their money. And most customers were actually, as we see – as you see, we are being quite successful in selling the new products, which I also think, in the interest of customers, are better these days because they can give them an opportunity of better returns.

There have been some instances, but really nothing major to write home about in France and in connection with the political uncertainty. There were some surrenders, possibly motivated by that, I wouldn't know, but not a large amount. And so that I would say, kind of summarizes the recent news about surrenders.

What Philippe said was in terms of the acquisition costs was referred to the retail business. In Italy, Philippe also said that in Italy and in Europe at large, we do have a fall in the commercial business. So Non-Motor includes both retail and commercial. The performance of retail, excluding commercial, is much better. So that is what you – but I appreciate that you cannot see it in the figures that we provided to you.

We don't have a published target in terms of restructuring costs for the next two, three years, so I cannot share that with you. I would say that in terms of this first half results, the restructuring expenses had a comparatively lower influence than they did in the first half of 2016. But I'm afraid we don't have a target for that.

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

Okay. Thank you.

Operator

And our next question is from Nadine van der Meulen from Morgan Stanley. Please go ahead.

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

Yes. Good afternoon. Thank you very much for taking my questions. The first question is coming back to the cash remittances that you were just talking about a bit earlier on the call. If you look at the cash generation, at the full year, you showed quite a nice slide with the different countries and a room for upside given that the operating profit coverage of the dividends upstream flow (1:04:25) was still quite high at I think on average 1.5 times. France was particularly high at 1.8 times. Can you comment on what we can expect this year? Will remittance ratios be higher like you indicated at the full year?

And the second question is with regard to the distribution of cash to shareholders against sort of investing in growth regions like Asia. And I'm asking sort of how you're balancing that in light of previous comments at full year, I believe, the percent that Asia was going to represent nearly 30% of the Group new business value by 2020. I mean, that was not a target by any means, but it was a comment that was made.

And on reserves, the reserve releases have been fairly high in the last two years, well above 4 percentage points. Will you stick to the 3 to 4 percentage points guidance going forward or should we expect this to maintain a little bit elevated?

And lastly, on the investment performance, the current returns in Life stayed stable at 1.6%, and that's broadly in-line with the run rate of last year at 3.2%, whereas in previous years, it was gradually declining like we've seen everywhere else. But do you see this bottoming out now or maybe you can comment on that as well. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi, Nadine. Okay. Quite a bit of questions there. I think that your first answer is something we talked about on occasion of our full-year results release in the sense that – I mean, everything has to be taken with some balance. If you look at 2016 versus 2015, you're talking about an increase of 20% in the total remittance year on year. So 20%, I hope you appreciate, is a lot. So an increase of 20% every year is, in my view, unrealistic.

But clearly said that it is obvious that we are trying to increase the remittance from our subsidiaries. That's certainly a focus. And as with the good progress we are delivering on the operating side, that's what we certainly look forward to in the coming future. But I don't have an expectation to give you or a forecast to give you for this year except for the fact that, of course, we are striving to please our shareholders and through the increased remittance from our operations, which, at the end of the day, is a testament to the success of our activities.

Distribution of cash to shareholders, once again, when it comes to cash to shareholders and we do have a public commitment and the public commitment remains. For the moment, there is no – because I also think that that public commitment is generous and reasonably rewarding already for our shareholders. So there is no balancing with the investments in the business because the investments in the business are a different matter, and they are looked for the merits whenever they are made. But if this is a question to ask us whether if there is no investment, there is going to be more distribution, for the moment, the answer would be no.

I don't see the guideline in reserve releases. The reserve releases happened. I would say that this year, they clearly reflect the development of claims. This year, we are kind of basically in line with the same level a year ago. We are below the level for 2016. And I'd say nothing to report of any especially relevant nature, safe of course for the development in Argentina I referred to.

And your last question is interesting. The answer is a qualified yes in the sense that it's not yet apparent in Life. But indeed, for the moment, we're seeing that more in the Non-Life portfolio than we're seeing in the Life portfolio. But yes indeed, we are seeing some ticking up in the reinvestment rate compared to a year before. So, yes, it's very modest to hail it as a big change, but it is indeed happening. Yes.

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

Thank you very much. Very clear.

A - Luigi Lubelli {BIO 4108780 <GO>}

You're welcome.

Operator

Our next question is from Lance Burbidge from Autonomous. Please go ahead.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Afternoon. Just a couple of quick questions from me. I just wanted to get back to the Italian retail Non-Motor business. I think you said, Luigi, in the call transcript that the premiums were down 2.3-ish percent year-on-year. But I think you sort of also commented that the quality of the business is improving. So, is that decline in premiums really a business that you're happy to let go I suppose to some extent, as you saw in Motor business and is that trend we should expect to continue?

And then slide 24 which is very helpful gives those margins on a product basis. So, I wondered if you had a rough idea on the unit-linked on the protection business, which they've both gone up in terms of margin quite significantly year-on-year. So, how much of that is coming from just geographic mix and how much is coming from what, I suppose, you might call management action like repricing and changing the products?

A - Luigi Lubelli {BIO 4108780 <GO>}

Hi. It's interesting the statement about business we are happy to see leave. Normally, I'm not happy to see a business leave. But certainly, what we are trying to be is being selective. We are certainly happy with the – at the end of the day, I think what it is evident and hopefully, increasingly evident in our results, in our performance is that Generali, by and large, only write what it thinks is good from a technical standpoint. So, that is increasingly – that I suppose also partly answers Thomas's previous question in the sense that we are certainly focusing on that. And we are putting a lot of effort on retail Non-Motor in Italy and, hopefully, with more positive news to come, coming forward.

The reality is that some markets are easier than other. Italy taken specifically perhaps is compared to other and that's possibly also the beauty and the attractiveness of it is that's a market in which Non-Motor is comparatively less developed than others. So, it takes on one hand a bigger effort to sell it but going forward, possibly also the rewards will be nicer (01:12:57).

A - Philippe Donnet {BIO 4657671 <GO>}

Yes, maybe we can add the comment that the penetration of the house insurance in Italy is very low. Only 24% of households have insured their house, which means that the non-motor retail business in Italy is more a small and medium companies business. On this business, we have a market share which is over 30%. So, we have a strong market position on these small and medium companies segment of market. Definitely, in Europe, generally speaking and especially in Italy, these small businesses are facing a challenging environment. The growth is not that high, so it's quite normal that the premiums on this business are flat.

I just want to remind you that a couple of years ago, the combined ratio on this side of business was quite high, and the priority of Italy a couple of years ago was to turn around this business. So, we've been focusing in the past three years in reducing the combined ratio of this line of business, and we have been successful. But now, we are shifting to a growth strategy, but it's normal that it takes some time to shift from turnaround strategy to a growth strategy in a very flat environment, economical environment. It's a bit normal. It takes some times to see better numbers on this line of business. So, I hope this explanation is quite clear.

A - Luigi Lubelli {BIO 4108780 <GO>}

Going to your new business margin question, I think that qualitatively what, as I'm sure you do know, protection and unit-linked products are comparatively much less influenced by financial assumptions, and, therefore, it is the positive product mix that is affecting that.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Okay. Well, it was really that I suppose this qualitative geographic mix and the protection issue, which is obviously Asia and CEE have seen quite a lot of efforts there.

A - Luigi Lubelli {BIO 4108780 <GO>}

Yes. But exactly, what is then your question on the geographic mix?

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Well, I suppose it was just a sudden move from 7.58% to 9.66%. Is that mostly explained by the geographic shift towards Asia, for example, rather than in Italy or France? You've changed pricing of those protection products, and that has affected the margin.

A - Luigi Lubelli {BIO 4108780 <GO>}

Asia and CEE. Yeah. Asia and CEE for sure are having a strong influence on this half year on protection. If that's your question, yes. The answer is yes on those geographies, yes.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Thanks.

Operator

And our next question is from Ralph Hebgen from KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Hi. Thanks for taking my question. Actually, we can remain on slide 24 because I have a very similar question. This one is on the savings increase in the new business profit margin, which, of course, is also impressive. Would you be able to give us some more color on the background here? Was that increase driven by a reduction in capital requirement, which presumably in turn might have been driven by the increase in sales in hybrid or was there some other dynamic driving this?

And also second part to this, if you could just give some additional color to the margin improvement in the segment. Has there been any particular influence, any one-offs, any positive impact on this dynamic by perhaps a materially large contract, which you sold anywhere? Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. Starting from your last question now. There wasn't any large contract influencing this. Basically, the savings margin, as you know, we have repeated it many times today but also in previous calls, we are working on the guarantee. So, the average guarantee has fallen, has fallen a lot, and continues to fall, and basically, the reality is that most products are sold with zero guarantee.

In some countries, I think the most remarkable example of that would be France, but other countries are also relevant. We have had a revision of loadings, and we have higher interest rates. So, the combination of these three and new products as well. And the combination of this explains the change in the new business margin and the new business value of the savings business despite the falling volume of sales.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Welcome.

Operator

Our next call comes from Johnny Vo from Goldman Sachs. Please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Hey. Good afternoon. Thanks for letting me ask some questions. Just a couple of questions in relation to your disposals. In the event, obviously, with your disposal, you said you'd achieved €1 billion, but it will have less than 1% impact on earnings. If your disposals at least €1 billion or if not more but it has a greater effect on earnings than 1%, would you use the excess proceeds to effectively utilize the dilution? That's my first question.

And the second question is just in regards to the big change in new business mix of your Life business, is there a change in the liquidity or cash profile or the local GAAP profile from that change in business mix? Because clearly, unit-linked and protection has a different profile to that of the savings business. And this is in relation to the old business sold. Thank you.

A - Philippe Donnet {BIO 4657671 <GO>}

I will answer the first one, and Luigi will answer the second one. On the disposal, I said that we are expecting at least €1 billion as the proceeds. Definitely, we want to use these proceeds to invest in the business, to recreate a bigger, by the way, a bigger net income at the end. So, we are pretty confident that we will be able to reinvest these proceeds in better performing business, in more profitable business , in markets that are more in line with our strategy. This is definitely our objective.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay.

A - Luigi Lubelli {BIO 4108780 <GO>}

Okay. As far as your question on changes in business mix on liquidity, frankly, no. There is nothing major to report from the various countries on that front. You always have to think that although it is very relevant and we are, as I think it's pretty evident, quite proud about it, the new business is relatively small relative to the whole book of activities of the company. So, that has an impact to a point. But to cut the long story short, the answer is no, no big impact.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Thank you.

Operator

And we will take our last question from Michael Huttner from JPMorgan. Please go ahead.

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

Thank you very much. Three questions. On the disposal, the three which was cited, so Liechtenstein, Guatemala and Colombia, how much was that? And the second question is you cite in your prepared remarks a rise in large claims in Motor in Germany. Can you just maybe explain what's happening there or how you see it? And then the last question, which for me is the most important, you have this very lovely annualized organic capital generation of €3.6 billion, so €1.8 billion at the half year. Congratulations. You must be best in class now.

The cash flow last year on a remitted basis, €2.4 billion, on a free cash flow basis, €1.9 billion, so assuming this goes up a little bit, but it's still a huge gap. What is the difference and should we expect the cash flow to converge to that annualized organic capital generation or should we expect the gap to remain sizable? Thank you.

A - Luigi Lubelli {BIO 4108780 <GO>}

Look, thank you for the questions, Michael. In terms of the disposals, I'm afraid the agreement on each of them with the bank parties was not to disclose the amount, so unfortunately, I cannot give you that figure.

I think anyway clearly, as you can imagine, these are not massive countries, and they're not massive operations we're disposing of. I think what is especially relevant is that once again, hereto, we said we would do it and we are doing it. So, it's happening.

Large claims in Spain, yes. It is going to Germany, yes. There have been some claims in motor insurance, I mean, big accidents with some payout especially because of casualties. That was the reason, but it's just happened. As I said, these are the ordinary things that, in this case, unfortunately, happened in the ordinary course of business.

This is the permanent question and hence, elicits the permanent answer in the sense that clearly, the organic capital generation, which partially connects to the previous question, it is evident. The more we write more profitable business, the more we'll have larger profits in the future, the more we'll be able to generate more cash and hence, pay more cash. But A, this does take time. And unfortunately, the dividend payment story is a sad reality that is based on local accounting rules and whatever is the payment ability of any given subsidiary in a moment. So, let's say this is a theoretical, certainly reliable, theoretical indication of the future capacity of our companies to generate profits and hence, remit dividends, the actual dividends being paid now clearly reflect on a local basis what is the profit generation, the dividend, the legal dividend capacity, and the available cash because cash may be needed for other purposes at the local level.

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

Fair enough. Thank you very much.

A - Luigi Lubelli {BIO 4108780 <GO>}

You've very welcome.

Operator

As there are no further questions, I would now hand the call back to Spencer Horgan for any closing or additional remarks.

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

Okay. Thank you, everybody, for participating. Apologies we went on a little bit longer. If there are any other further questions, obviously, the Investor Relations team are at your disposal. And with that, I wish you a very good day and hopefully, a good and well summer break. We'll speak to you soon. Good-bye.

Operator

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