# CS Earnings Call – FY2023 Q3



Date: November 3, 2023

**Operator**

Good day, and thank you for standing by. Welcome to the AXA 9 months 2023 Activity Indicators call. [Operator Instructions]. Please note that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Anu Venkataraman. Please go ahead.

**Anu Venkataraman**

Good morning, and welcome to AXA's 9 months 2023 Activity Indicators Call. This morning, our Group CFO of Alban de Mailly Nesle, we'll go through briefly the highlights of last night's press release, after which we'll be ready to take your questions. Alban?

**Alban Nesle**

Thank you, Anu. Good morning to all of you, and thank you for joining the call today. So I'll start with the key highlights of our 9 months '23 results.

**Operator**

[Operator Instructions]. We will now take the first question coming from the line of Andrew Sinclair from Bank of America.

**Andrew Sinclair**

Three for me as usual, please. First was just on the nat cat budget. Could you remind me how you allocate that by quarter? Is it just straight a quarter in the budget for each quarter. I'm just trying to think about what's left for Q4? And how much of that is used by Otis and we've got a few storms so far. It feels to me like we could have burned through about half of Q4 budget already. So just any color on what's left to budget for Q4?

**Alban Nesle**

Thank you, Andrew, for your questions. So on nat cat budget, as you know, it's 4 points overall. And we think 4 points of combined ratio, obviously. And we think about it across the year. So what we meant when we wrote the press release is that we were at 3 points at the half year. And given the number of small but intense natural events that we had in Q3, we are in line with the 4 points for the full year.

**Operator**

We will now take the next question from the line of Farooq Hanif from JPMorgan.

**Farooq Hanif**

When you talk about the headwinds in 3Q, I mean what would you say is different from 1H because the list of items you gave is very similar. I guess nat cat is one thing you could talk about. But what actually do you think we should take into account that could have got worse than what you showed in 1H? That's question one.

**Alban Nesle**

Thank you, Farooq. So on the headwinds, no, there's nothing new on the Health in the U.K. or the level of lapses in Italy. That's very much in line with what we said in the first half. It has not worsened. We wanted to highlight them because that's what we said in the first half.

**Operator**

We will now take the next question from the line of Andrew Crean from Autonomous.

**Andrew Crean**

A couple of questions from me. Firstly, I noticed you have not done a debt issuance, so you're not doing your usual EUR 1 billion net debt issuance this year, which will take you to the bottom of your debt leverage range. Is that -- should we expect that to continue next year? Or should we -- will you revert back to raising debt largely in line with your shareholder equity?

**Alban Nesle**

Thank you, Andrew. On net debt issuance, so the reasoning behind the fact that we would not refinance it is that our solvency ratio is at a high level and that we have enough cash at holdco. So those are the 2 reasons, and I can't see why that would change going forward. So we will say more, obviously, in March with the plan, but I think the rationale will still hold. And on the revenue growth, when you strip out the -- what you mentioned, so the large health contracts, general account and nat cat reinsurance, our growth is at 5%, and that's where we would like it to be going forward.

**Operator**

We will now take the next question from the line of Peter Eliot from Kepler Cheuvreux.

**Peter Eliot**

Firstly, just a quick follow-up on the lapse comment. I guess if you're seeing the same level as earlier in the year. I mean I guess we might have hoped that it might have improved a little bit given the sort of the pressures from Eurovita et cetera, towards the start of the year. So I'm just wondering sort of how it compares to what you're expecting and whether you're seeing -- what sort of momentum you're seeing at the moment? And should we expect that to lead to any sort of review of assumptions behind the CSM.

**Alban Nesle**

Thank you, Peter. So on lapses, so I will leave aside France because you know that it's small portfolio specific. And on the rest, we see no change compared to last year. In Italy, I think it's not so much Eurovita. Obviously, Eurovita has some impact on the whole market but it's more the competition of BTPs designed for individuals and sold notably through bank branches. It's more that competition that creates that elevated level of lapses and also a reduced level of premiums because people would go more to BTP than to Life insurance.

**Peter Eliot**

Great. On the Asset Management, I mean, it was actually revenues as well as flows, but I noticed, but thank you for those comments.

**Alban Nesle**

Yes. I mean on revenues, it's obviously -- you know that on the core part, we are more a fixed income business than an equity business. So the fact that interest rates and yields have come down over the last few weeks is obviously a positive for our business.

**Operator**

We will now take the next question from the line of Michael Huttner from Berenberg.

**Michael Huttner**

And I'm always delighted to see delivering despite all these upsets and headwinds and everything. I have 3 questions. First one is the net outflows from the life companies and asset management were, I think, EUR 13 billion. The figure we see for a general account is EUR 6.8 billion, and I think there's just under EUR 1 billion from Unit-Linked. So there seems to be a big gap. And I just wondered what is that?

**Alban Nesle**

Sorry, Michael, can you say the last question again, I'm not sure understood?

**Michael Huttner**

Monte dei Paschi di Siena -- that you have a contract, you are exclusive distributor for Monte dei Paschi di Siena in Italy, understand that if there's a change of control and the break clause is invoked, you have effectively put up some which is less a EUR 1 billion or over a EUR 1 billion. And I just wondered how you see the probability of things developing in Italy in that direction.

**Alban Nesle**

So thank you for your questions. On the first one, which is the reduction of the outflows from AXA IM and that's the EUR 13 million, you wanted to reconcile that, sorry, with our own outflows. So obviously, there is the Life one. There is also the fact that on the P&C side, on a net basis, reserves that's also a bit decreased. And there is always the impact also that the dividend we pay because the dividend we paid made of the dividends paid by the entities, and therefore, it's also a bit of assets that is withdrawn from AXA IM.

**Operator**

We will now take the next question from the line of William Hawkins from KBW.

**William Hawkins**

First one, please, what was the contribution of required capital changes to the plus 7% and minus 3 percentage points capital generation and market movements in the solvency roll forward you gave?

**Alban Nesle**

William?

**William Hawkins**

Sorry, can you hear me?

**Alban Nesle**

Yes. I don't know if we were disconnected or you, but we -- I didn't hear the end of your third question. You were speaking of the accelerated rate increases in personal lines and then the line was cut.

**William Hawkins**

I do apologize if it was my side. So yes, accelerating rate increases in personal lines in the third quarter. Does that imply immediately improving combined ratios? Or is there the risk that your combined ratio is actually deteriorate because there's a process of adjusting loss picks first and then you get the benefit of these rates increases in the future. Just wanted to think about how we get the timing of that accelerating rate increase?

**Alban Nesle**

Okay. So on the question first question of the capital requirement, very much like the first half, there was no additional capital requirement. So the 7% is growth equals net, if you see what I mean.

**William Hawkins**

And can I just follow up? Sorry, thank you for the answer on the capital generation. But could I also just ask you the market movement of 3 points, how much of that was coming from changes in required capital, please?

**Alban Nesle**

No. So that's really the -- mainly almost exclusively the numerator effect the U.S.

**Operator**

We will now take the next question from the line of Will Hardcastle from UBS.

**William Hardcastle**

I just have one left. Is there any progress on the 3 areas where you've highlighted previously about potential cash unlock in the future? I think there were Japan, Hong Kong and XL? Or is this more meant to be a -- perhaps just a timing aspect of this. Is this more a year-end aspect? Or is this some time in the future, perhaps 18 months down the line?

**Alban Nesle**

So I think the -- it depends on the country, but the impact only material is once a year with the dividend paid by the entity. So that's done, that's over for '23. And so you will see the progress in '24 with the dividends we received from them. And part of it, as you know, if I take Hong Kong -- is the improvement is linked to the change in the local regulatory framework. So you will see that progress when that comes. But when I look at XL, the question was more on the liquidity constraints in the sense of regulatory liquidity constraints, and we've made progress on this, and that should show in the dividend that we received in '24.

**Operator**

We will now take the next question from the line of Dominic O'Mahony from BNP Paribas.

**Dominic O''mahony**

Thank you for taking the questions. 3 if that's okay. Just on the Italian lapse topic. Do you like that as I head into earnings. I would have guessed that elevated lapses would be a negative to CSM and so the earnings impact in the period wouldn't be so powerful. Can you just explain to why there is an earnings impact? Is it the contractor [ turning ] owners? And in particular, is this if as you describe, alban, that the trend hasn't changed -- if the trend of center remains roughly stable, should we expect a similar effect in 2024?

**Alban Nesle**

Thank you, Dominic, for your questions. So on the Italian lapses, no, you're right. I mean, the impact is mostly or exclusively on the CSM. But you know how it works. You have so-called group of contracts in our Life carriers. Those group of contracts in Italy reflects generally the funds that we have. And it might be then one can turn onerous, but it will -- if that's the case, it will have a nonsignificant impact. The real impact is on the CSM as you pointed out.

**Dominic O''mahony**

Can I -- sorry, just to clarify on the lapse and the CSM effect. Does that mean that the elevated Italian lapse topic isn't relevant to the underlying earnings? Or is there an impact I'd sort of implied that this is being presented as a potential headwind to the earnings.

**Alban Nesle**

It's -- I mean if there is an impact on earnings, it will be small. Let's put it that way.

**Operator**

[Operator Instructions] We will now take the next question from the line of Michael Huttner from Berenberg.

**Michael Huttner**

I just had 2 follow-up questions. One is, I think you probably answered it, but I just want to double check what is the leverage now given you've reduced that by EUR 1.2 billion. And the other question is on Health in the U.K. It's almost like a personal question. I've got a relative saying it's greater thing buying a private insurance contract, basically because people buy it because they want to claim. It's not just in case I will claim. How close are you to managing this given that potentially you have a change in behavior here?

**Alban Nesle**

So on leverage, Michael, you know that our denominator is around EUR 90 billion. So you have directly the impact with a EUR 1 billion nonrenewal of that debt. And on health in the U.K. So we believe it's a fundamental change in the market. And you know that our stance is that over time, it will be positive because it means fundamentally that the NHS will not be able to cover or to give coverage as much as in the past, and therefore, people will go more for private insurance, which also means that we need to design the right products so that they are affordable to a larger portion of the population.

**Michael Huttner**

Yes, [indiscernible] sorry.

**Alban Nesle**

And so as we said, it will take us another 12 to 18 months to get back to the right level of profitability in that business.

**Operator**

We will now take the next question from the line of Henry Heathfield from Morningstar.

**Henry Heathfield**

Good morning. Can you hear me?

**Alban Nesle**

Yes.

**Henry Heathfield**

Congratulations on the results. Just one question for me. On the pricing effects within P&C Personal Lines, and apologies if this has already been covered. It's plus 26%, 26.1% in U.K. and Ireland. And I was just wondering if you could perhaps reiterate or outline what line that relates to and whether that is just covering kind of increased severity and frequency or whether there's some other kind of catching up dynamic that's going on in there?

**Alban Nesle**

So Henry, it's -- the vast majority of it is motor. And you know that the profitability in the U.K. motor market, not Ireland, but U.K. motor market was not satisfactory to say the least. And hence, the significant price increases that we had. It's mainly severity because it's cost inflation. And now we are -- as we said at half year, we are writing business at a combined ratio below 100%.

**Henry Heathfield**

Sorry, could I take that as partially that you feel that AXA was slightly below the market? Or has that been in an incorrect read.

**Alban Nesle**

I mean I think when you look at our performance before inflation kicked in -- say, U.K. motor, and again, not Ireland, but U.K. motor, we were in the pack and clearly not leading in terms of profitability.

**Henry Heathfield**

And is there a shift in distribution in the U.K. or not at all, arrangements?

**Alban Nesle**

No, not specifically. The only thing is you may know that we have launched a third direct platform under the brand of Moja to gain scale and to diversify our offer and that's doing pretty well.

**Operator**

Thank you. We have no further questions. I will now hand back to Anu Venkataraman from closing statements.

**Anu Venkataraman**

Thank you for your interest. If you have any follow-up questions, please don't hesitate to reach out to Investor Relations. Have a good day.

**Operator**

That concludes our conference for today. Thank you for participating. You may now disconnect.