Transcript
CNP Assurances Conference Call, 19.11.2020

Thursday, November 19, 2020

Summary of the main points discussed during the conference call of 19/11

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Presentation

Facilitator

Ladies and gentlemen, welcome to the CNP Assurances Conference Call. I now hand over to Thomas Béhar. Sir, please go ahead.

Thomas Béhar

Good morning, everyone. We are at the end of Q3 so we are only publishing a press release and my comments cover its main points. Premium income for the first nine months is €18.6 billion and our net profit is €918 million. The solvency capital ratio is at 203%. Our numbers show good resilience although this is a crisis environment. Premium income is down 25.7% and 21% at constant exchange rates.

We have a very strong commercial momentum in all geographies and especially in Brazil and in Italy. In France, we have an outflow from traditional savings of €5.7 billion and, by contrast, an inflow for unit-linked of €0.9 billion. At the Group level, it's the first time we have a very strong unit-linked component in our savings and pensions. As a percentage of saving and pensions, unit-linked is over 50% at 50.7%. In France, we have increased the percentage of unit-linked, and at this stage we are at 24.4%.

EBIT is €1.9 billion. It's down 6.7% like-for-like. Net profit is down 7%. The impact of the real is hedged, which enables us to have this level of attributable net profit. APE margin is 12.2%. It's down in France and up in the international markets. I've already spoken about the Solvency Capital Ratio and the reduction of it reflects the impact of the lower interest rates.

We have not been impacted, at this stage, by the second COVID wave and all the Group is functioning at distance from the office. Everyone is working at home and all of our partners' branches in Brazil, Italy and France are functioning normally.

I will go on to page two, COVID-19 impacts. So at this stage, all the impacts come from the first two quarters of the year. We have an impact of €3.5 billion due to the lockdown and the closure of the different partners' branches that we had in April and May. Nothing new on that point. In France, we have no change on the impact of the cost of exceptional commercial measures of €50 million and the negative impact on personal risk/protection has not changed at €17 million.

Movement in financial markets is a little bit better with a negative €230 million for the first nine months, €50 million for the reduction of revenue from the own-funds portfolio, where it was €60 million before, and €9 million for the guaranteed yield reserve. It was €17 million before. No change for the voluntary contribution to the government's solidarity fund.

In Latin America, there is no material effect coming from this crisis. And in addition, we have a cost savings plan that has delivered €5 million of reductions of operating expenses through better management of expenses in Latin America. In Europe, excluding France, revenue was reduced by €17 million.

Let's go to the numbers from the different zones. Consolidated premium income, as I already said, is around €19 billion. In France, we have a reduction of 30.5% to €11.4 billion. Savings and pensions is where it has decreased the most, 37%. We have sales of €8.3 billion, including €4.3 billion from La Banque Postale and €2.5 billion from BPCE in this segment. The decline is linked in the first instance to the lockdown that we had in April and May, except at CNP Patrimoine, where we limited sales of traditional savings products and we now have 64% of unit-linked in the business of CNP Patrimoine in France and in Luxembourg.

We had very good success with PACTE transfers which amounted to €2.5 billion. It's a huge success and we have the capacity to increase the unit-linked portfolio with the contracts that are transferred. The impact of the transformation is at least a 10-point increase in the share of unit-linked in the transferred contracts.

We now have 24.4% of unit-linked in our portfolio in France and especially for high net worth where we are at 64%. And so we have a net inflow for unit-linked and a net outflow from traditional products.

For personal risk and protection, we have a reduction. We have €3 billion of sales. We have a strong demand for term creditor insurance despite the lockdowns. No significant impact. And the contrasting decline in personal risk premiums due to COVID-19 was a fact that we were able to measure in the first two quarters. And that's continuing. And so we have reductions where we have less margin. APE margin is 3.2% at the end of September, a steep decline from last year.

In Europe, excluding France, we have €3.4 billion of premium, a decrease of 8.8%. For savings, it's a contraction for CNP Luxembourg in the high net worth segment, but we have a very good performance at UniCredit Vita, where savings and pension premiums have grown by 10.9%. So we are well over any effect of lockdown. It's down to the success of the pure unit-linked product My Selection, which helped drive 24.2% growth in the Italian subsidiary's unit-linked sales. And in UniCredit, we now have 80.1% of savings premiums in unit-linked versus 62.1%.

So sales growth in Italy was clearly driven by unit-linked business that accounted for 80%. In personal risk/protection, we have a contraction of 3.8% at €750 million. We have an increase at CNP Santander with the success of some telemarketing campaigns in Germany and the launch of a new product in Poland, but a reduction in term creditor insurance business in Italy. APE margin is at 21.8%. It has increased.

In Latin America, the main factor, of course, is the impact of the real, but if we remove this currency effect, we have an increase of 1.1%. The lockdown affected the premiums that we were able to write. For savings and pensions, we had an increase of 0.1% at constant exchange rates. We have a very good market and a good performance in savings and pensions. And as you know, savings and pensions premiums are 98.9% unit-linked.

I'm going to the next page to finish the presentation of sales. Personal risk/protection increased. We have a 4.3% increase at constant exchange rates. This increase is linked to the good performance of Prestamista and we are very proud now to say that we are the number one for Hipotecario mortgage insurance. And we are now also the number one for consumer finance term creditor insurance business in Brazil. Previously, we were number four and number three respectively. We are now the number one in the market thanks to the excellent performance of our partner, Caixa Econômica Federal in consumer finance. The APE margin is at 33.1% and has increased. Value of new business is €201 million at the end of September.

We have an increase in average consolidated technical reserves of 1.3%. If we go now to revenue, after presenting sales, NIR has increased 1.4% like-for-like. In France, we have the impact of COVID-19, which is partly offset by the 6.5% growth coming from the savings business. In Europe, excluding France, we have strong growth in unit-linked savings. And so we have an increase of 0.3% of NIR.

In Latin America, it's an increase of 4.4% in local currency. This was due to the increase of all the stocks that we have, stock of pensions and stock of credit insurance. NIR in France was affected by the non-distribution of dividends by undertakings in our asset portfolios. So it's a reduction of 4.5% of the revenue from own-funds portfolios.

Reductions in revenue from the own-funds portfolio came not only from the equity portfolio - linked to the non-investment of dividends - but also from the decline of our proprietary bond portfolio. Total revenue is around €2.6 billion. Our administrative costs are down 7.3% as reported. The cost/income ratio is stable. And we have EBIT down 6.7% at constant exchange rates with increases in Latin America and in Europe excluding France.

Attributable net profit is €918 million and the solvency capital ratio's at 203%. The main impact is the impact of the market where we have a reduction of 37 points. We will be able to come back to the explanation of the change, if you wish, later.

This concludes the presentation of the press release. It's just an introduction to enable you to put your questions to the CNP team. It will be our pleasure to answer your questions.

Question & Answer

Facilitator
Thank you. Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. We have a first question from David Barma from Exane. Sir, please go ahead.

David Barma
Yes. Good morning, Thomas. Thank you for taking our questions. My first one would be on French protection and mortgage insurance specifically. There was a report out recently on the markets suggesting that all the insurers have maintained their market share over the last few years, pricing has come down significantly for similar levels of guarantees. So when I look at your French protection margins, they seem to be pretty resilient. Can you give us a bit of colour on what's going on in that business line: are you not seeing any margin pressure in mortgage insurance or are other business lines just offsetting that?

My second question is on the dividend. Is there any update on that front? It seems that, unlike other countries, the French regulator has not sent out letters to the insurers to avoid dividend payments in Q3 and some other French insurer has been able to distribute capital. Could you give us an update on what your plan is for the dividend?

And then lastly on FX. You mentioned that the Brazilian real hedging benefits were below the line. Could you remind us how much that was in Q3 please, and what the offsetting factors are in the fair value items line? Thank you.

Thomas Béhar
Okay. First your question about mortgage protection. Quentin, perhaps you can say a few words about what is going on. I see that the margins are roughly the same.

Quentin Boudoux
So in France, we have a quota share system that has been increasing for BPCE. Under our agreement in 2020 we have this increase, which explains the slight decrease of our APE margin. But mortgage insurance sales have been quite good except for this effect.

Thomas Béhar
So as you have seen, David, in Q2, with BPCE we are now on a 50-50 basis for the new business scope, before we were 66%-34%. But, in fact, we are continuing to increase our stock with BPCE and so it gives us good revenue. And so at this stage there is no sign of any negative change. Our partners are interacting with their customers, in full compliance with the law. In particular, we have a good increase in premium income from our new offer distributed by La Banque Postale and BPCE, especially with Banque Populaire where we have seen an increase of 20% for example.

Your second question is about the dividend. For the dividend, we have to interact with the French supervisor. The European supervisor has not changed its mind. It’s not a surprise, because we are just in the middle of the second wave and in the middle of the second lockdown for everyone. So at this stage, we have no final plans concerning payment of the dividend and yesterday during the Board meeting, it was clear that we are continuing to respect what the supervisors are asking, as we always do. And so there will be no distribution of dividend this year.

The solvency capital ratio continues to take into account the fact that we would have paid the dividend. We will not change that and the dividend is still open to being distributed one day. I don’t know if it will be distributed in full in addition to the dividend next year. We will see. And it will be up to the Board that will meet to approve the annual accounts next February. But we have no difficulty next year to the pay the normal dividend for 2021 and something out of the dividend that we would have had to pay in 2020. But we will see what instructions the supervisors give us next February and how the situation evolves until then.

Number three is what the impact of the real will be in the line of – sorry, I’m just looking at the impact of it, of the real. So we have at the end of Q3, an impact of the real which is a positive €37 million. So the impact of the hedge is €37 million and it enables us to offset a negative currency effect of €58 million. So hedge €37 million and currency effect €58 million on net profit of the undertaking. Does that answer your question, David?

David Barma
Yes, it does. Yeah. Thank you. I'll go back in the queue for that. Thank you.

Thomas Béhar
Okay.

Facilitator
Thank you. The next question is from Michael Huttner from Berenberg. Sir, please go ahead.

Michael Huttner
Yes. Two questions. The first one is, could you explain – I'm completely new to this – how the PACTE Act works and what proportion of your reserves it could affect and how you're influencing the transfers and whether those figures are included in these net inflow, net outflow figures which you cited? And the second question is you said you would give us some detail on the solvency measures and I just wondered whether you can do that? Thank you.

Thomas Béhar
Nice to meet you again, Michael. For PACTE, so it's a law which enables people to change their contract with the same insurer with no impacts on tax. They keep prior tax treatment, but they can move from an older contract to a new contract. So under PACTE you can move from a contract having a 100% euro component without the possibility to buy any unit-linked to a new contract, a savings contract where you have a proportion of unit-linked and a proportion of euro funds.

Usually you have a meeting between the network and the client. It's an opportunity to review all the personal finances of the insured and it usually leads to a new contract being written with an increase of the unit-linked component. On average, we tend to see an increase from 12% of unit-linked before to 25% after transformation. And usually, it's also an opportunity for networks to attract additional premiums on the contract. For example, for La Banque Postale you can go from an old Ascendo or GMO to a new Cachemire or Cachemire Patrimoine through the transformation

So it's the impact of this transformation which is occurring. We are one of the leaders of the transformation due to the age and size of our portfolios. It works also for BPCE with the contract that we have with them and with Amétis, our in-house network. So it's this – we are referring to this part of the PACTE law. You have other parts of the PACTE law which currently have little effect on us. We have launched a new "PACTE law" individual pensions product for BPCE and LBP, the PER1. Sales of this product are very limited at this stage of the development of the contract, and COVID-19 has not helped to promote this new pension product. But for transformations, the numbers are good. The networks will continue to increase transformations of in-force contracts and this will help us a lot as the solvency capital requirement for the transformed contracts is lower. It is a type of savings contract.

Michael Huttner
And included in the net inflows and net outflows?

Thomas Béhar
It's a transformation. For the net inflows and net outflows, you don't have the impact of the PACTE transfers except the additional premium that we may get. In parallel with a transformation, customers usually pay an additional premium to increase what they have on their contracts. So it's inside, it's not a move or transfer of a contract from the old one to the new one. And on the same subject, for a multi support product you can move – you can move savings from a traditional euro fund to unit-linked or from unit-linked to euro. These transfers are also not in the inflow or the outflow.

Michael Huttner
And is there any incentive for your sales people to do these PACTE transfers?

Thomas Béhar
No. The impact will be on the fee. As you know, there is a higher fee usually on unit-linked than on euro contracts. There is no specific remuneration for the transfer. Perhaps we can go with Stéphane Le Mer about what you have seen in the press release about the different changes of the solvency capital ratio.

Stéphane Le Mer
Yes. Hello everybody. So the consolidated SCR coverage ratio is at 203% at Q3 versus 227% at year-end 2019. The main movements are explained first by an increase of 10 points due to the inclusion of the PPE reserve in Solvency II capital. This is a change of method that was made in Q1 in line with the recommendation of the French supervisor. It's related to the change that we have in French regulations at year-end with the PPE reserve decrease.

We also have 3 points that are related to the creation of capital net of – in the first three quarters – net of dividends. And we have the high impact of unfavourable market movements during the first three quarters of minus 37 points. It's mainly due to the decrease of risk-free rates and also due to the fall in the markets. The movement that has been observed on corporate spreads is neutralised by the volatility adjustment.

And we have one point less, that we have taken into account in Q1, due to the reduction of the ultimate forward rate, which is taken into account to determine the risk-free rate that we use in Solvency II, and one point of other impacts. So if we do the sums, we have a drop of 24 points during these first three quarters.

Michael Huttner
And how much was the creation of capital from earnings?

Stéphane Le Mer
So as I explained, it's plus 3 points and there is – yes.

Michael Huttner
And that's net of dividend?

Stéphane Le Mer
Yes.

Michael Huttner
Lovely. Thank you so much. Thank you.

Facilitator
Thank you. The next question is from Benoît Valleaux from ODDO BHF. Sir, please go ahead.

Benoît Valleaux
Yes. Good morning, everyone. A few questions on my side. First of all, can you tell us what is the impact in terms of sales from the new lockdown. You just mentioned that banking networks are open, but I would like to know in terms of activity and sales what you're seeing over the last few weeks.

My second question is on the revenues from own account. You mentioned a strong drop in the level of capital gains Q3 this year versus Q3 last year. I would like to know what are the figures. I just would like to know what is the drop, if you can quantify the drop, and what has been the level of realised capital gains within your own account for the first nine months. And a third question is really on investment. Have you made any change in your asset allocation in Q3. Have you put in place any hedging, or is there anything specific to be mentioned on that side? Thank you.

Thomas Béhar
Okay. On the impact of lockdown on sales, the lockdown began after the end of September, so to answer your question I would need to comment on a month where we don't show numbers. In fact, it's too early to see anything. You have some kind of delay

between the contact in the branches and the completion of the contract. At this stage, I can really see no impact on sales from the lockdown, but it's too early to conclude. It will not change until the end of November. We are on the same trend as before, but as we're talking about numbers that haven't yet been published, I will not go further. As I said, all the branches in Brazil, Italy, France or elsewhere are running normally – meeting with their clients. It's a very different lockdown from the first one as you can notice outside.

On the second question, revenue from the own accounts, Régis, perhaps I can let you explain the main points.

Régis Vergez

So, on the own account, we have a decrease of €139 million, which includes a €70 million reduction of dividends on stocks, €90 million related to real estate dividends and €43 million related to revenue from French sovereign bonds, for example. And we de-risked all the own account portfolio during the previous year, so we have less stock in our portfolio.

Thomas Béhar

So you have a reduction of dividend income and a reduction of the revenue coming from the bonds due to the reduction of interest rates year-after-year. It's all those points and you will see them again at the end of the year.

Benoît Valleaux

So, if I may, you mentioned also a drop in the level of your realised capital gains versus Q3 last year, which was a very high level. Can you just quantify this impact?

Régis Vergez

Yes. You have that on the numbers for Q2. We realised our net gains in January and February and we did not realise any more gains after that. So there was no change for July, August and September. You can check out numbers that we have for Q2. If you have seen them, you can see at the bottom of our P&L. I think it's around an impact of – sorry, I don't remember the number, but 200 last time and only one this time. So this decrease was– so yes, 100 this time and around between 200 and 300 last year, but you can check that in the Q2 report.

Benoît Valleaux

Okay, , thank you.

Thomas Béhar

Olivier is with us, Olivier Guigné. And he can answer your question about, have we changed something in terms of asset allocation since July and do we have new hedges in this part of the year, specific new hedges?

Olivier Guigné

To answer the question, there are no specific new hedges. We already have our current annual programme of hedging. So we have continued this programme during the year. It concerns both the interest rate hedging programme and the equity programme. We have pushed – continued this programme, and especially with the equity index going up we could have set some higher strikes for options.

But it's part of the programme and we have no new programme, I would say, concerning the situation. And in terms of allocation, there have been no specific moves. The big move of the year, I would say, was during March and April when spreads were getting very much wider with the beginning of the pandemic in Europe. We invested quite a large amount in corporate bonds at that time, which means that the current yield of new investments for the year is still above 1%. Given the very low rate environment, this is quite a good thing for us I think.

We are maintaining this policy during the second half of the year. And so far, even if interest rates on the new investments are decreasing with the OAT at minus 30 basis points, you still have this large amount of corporate bonds purchased in the first half of the year, which help us to sustain revenue this year and in the years to come.

On the equity side, so we have – again, the big move was in the first half of the year when we sold a reasonable amount of equities in January and February. And we have bought back this amount during the year in a rising market. So we have, today, some positions which are uncomfortable in terms of value. So the end of the year is not a good one, but we do not see any major effect of the crisis in the unrealised gains and losses on our portfolios. We still have a very good level of unrealised gains in reserve in our accounts.

Thomas Béhar
And Olivier I think you are continuing to look at all infrastructure investment opportunities in the market.

Olivier Guigné
Yes. You're right, Thomas. That's one of key points of our discussions. We are looking at some specific parts of the market, concerning infrastructure investments and perhaps they represent the next big thing. But you know, infrastructure projects sometimes take a very long time to reach the market. So we are working on this, but there have been no material effects so far.

Benoît Valleaux
Okay. And if I may, do you have plan to change your allocation to real estate or not really?

Olivier Guigné
No. For real estate, we – I think this year and the year to come we will be cautious because, like everybody, we expect the structure of the market to change a bit and we are waiting to see the effect of the pandemic and also of home-working on the market and on the office market, especially. So far, we haven't seen any impact on prices because prices are remaining very stable this year. I think it's – you have, on the one hand, the impact of the pandemic and on the other hand the very low interest rates. So I think some effects are putting downward pressure on prices and other effects are making prices go up. So it's quite stable at the moment.

It's not the case for some segments of the real estate market, I mean, retail property. But with the latest announcement of the vaccine perhaps being in place in early 2021, I think the impact on this segment of the real estate market is also perhaps less sharp than it was before. So we do not expect any very significant move in real estate prices, but we are going to remain very cautious in this market for this year and the year to come.

Facilitator
Thank you. The next question is from Thomas Fossard from HSBC. Sir, please go ahead.

Thomas Fossard
Yes. Good morning, everyone. Good morning, Thomas. The first question for me will be on Solvency II. I'm looking at the mark-to-market impact. So year-to-date, we've got 37 points negative, but it was 30 points negative at Q2, implying a 7-point drop in Q3 standalone while markets were slightly up on the equity side and broadly unchanged on the fixed income side. So it's quite surprising to see this drop of 7 points in Q3 standalone. If you could come back on that.

The second question would be on PPE reserves. It looks like – I mean, it's typical to see at nine months, but looking at the part of the PPE reserves, which is in the down to the bottom line or at the bottom line level, it seems to me that so far you've been increasing the reserve at a slower rate than in the past. So I just wanted to get your view on this, and if this would be the case as well on a full year basis.

And the last point will be coming back to your full year 2019 dividend potential catch up, I was wondering what could be the positive or negative driver of these decisions. For example, linking this to Brazil, I mean, if you were to buy out the 46% stake in the bank book – if you were to go for this type of move, will that be a trigger for not paying the 2019 dividend or, I mean, maybe if you can answer both questions or link them together. Thank you.

Thomas Béhar
On the first question, perhaps Stéphane, can you explain the difference of 7 points?

Stéphane Le Mer
Yes. It's directly linked to the drop in interest rates between Q2 and Q3, which is a reality that impacts the solvency ratio. On equity markets, there was relative stability between Q2 and Q3. Stocks have been increasing since the end of Q3, so it's not in the Solvency II ratio.

Thomas Béhar
Is that okay Thomas for the first answer? I will go to the second one.

Thomas Fossard
Yeah. I will look again at the sensitivities. Thank you. Yeah.

Thomas Béhar
Okay. On the second one, your question about the PPE. Don't count on us to tell you what kind of discretionary participation we will give at the end of the year, because the PPE is clearly also linked to the level of discretionary participation that we will give. We are discussing that with the network. Of course, it will be below last year, but it's too early to discuss and to comment about that at this stage.

Thomas Fossard
But Thomas, on that, is it fair to say that on the quarterly basis compared to what you've done in the past, the accrual of PPE reserves to nine months has been far less significant than it has been in previous years?

Thomas Béhar
Yes. And so that we can disclose. We have, at this stage, or at this Q3, our net profit takes into account €141 million in additional PPE.

Thomas Fossard
Okay. Thank you.

Thomas Béhar
So it's obvious that it's less than before, but we didn't get the dividends from the equities that we have. We have seen the reduction of the own-funds – of the revenue from the own-funds portfolio, it's clear that it's below what we have had previously, but it still exists. And for the last point, it's very – of course, we can always consider buying 100% of the run off. Discussions are not open. We still have to have JV1 [Joint Venture 1] in place in next January. So it's our priority at this stage that it works and it operates normally in January. Everything is, at this stage, on track and the team will keep working for that. But as you know, our remaining activities outside of JV1 or JV5 is the activity that we have with YOUSE. The activities in the run-off book that we have concern Caixa Seguradora for hipotecario and open model with Previsul or Odonto and the remaining consórcio. So we will see. We don't expect the fact that it can have an impact will restrict us from paying a dividend or reducing the dividend in any way. And our policy, our guidance, barring restrictions from supervisors, has not changed. It's to have a dividend which increases from one year to the other. I don't see an impact of the level of the investments that we have to do. If we were to invest more in CSH than today, I don't see that it would change the decision about the dividend. The amount is too small.

Thomas Fossard
Okay. That's interesting. Thank you, Thomas. Maybe one, the very last one for me, is that in – so you mentioned that for the morbidity claims, you came in with €50 million, which is an unchanged number compared to Q2. I think that in the past you hinted that the €50 million may prove to be a conservative number. What's your view at the present time?

Thomas Béhar
Of course, we will see what we have after the second wave, if the disease evolves - sometimes the disease can evolve. This is not yet the case for COVID. It's still people in the same age group who are affected. And what is very different from the first wave is that people can work at home or with a mask. A lot of the people that we are insuring are able to continue their activities, for example, people who are working at home or helping older people.

And so I can say that the €50 million remains conservative at this stage and we will see in Q3. The actuarial team will see with the numbers – with the data that we will get from our providers how we adjust this reserve at the end of the year. But for the moment it is clearly conservative.

Thomas Fossard

Thank you.

Facilitator

Thank you. We have a new question from David Barma from Exane. Sir, please go ahead.

David Barma

Yes. Hello again. Sorry, I just had a few follow ups on some of your answers. Firstly, on your answer to Benoît's question on investment income. And apologies, I'm not sure I got the breakdown there.

And then just a small one on solvency. Firstly, on PPE. I think you mentioned earlier this year that you may make some refinements to your methodology by year-end. Do you still expect that? I think it was something like a five-point benefit.

And then following up on Thomas's point on the effect of market movements on solvency. I think it seems that quarter after quarter market movements are higher than what we expect and it seems to be coming from interest rates mostly as you described. Are you doing anything to – for instance lengthen the duration of your assets to partly resolve this or anything else? Thank you.

Thomas Béhar

Okay. On France, Olivier are you still present, how do you see changes of the matters that drive the net revenue that we can derive from the own-funds portfolio from a financial standpoint?

Olivier Guigné

Yes. I think you described it, Thomas, really. For this year the decrease comes mainly from the corporate dividend cancellations. We have received around half of the dividends we usually get from the equity portfolio. And you have on top of that the natural decrease, I would say, of interest income on the bond portfolio, given the low interest rate environment we have been experiencing for the past five years I think. Five years that rates have been below 1%.

So you have a natural decrease in the revenues of the portfolio and the accumulation of these two effects makes that, for this year, we have lower income from the own-funds portfolio. You also have a small impact of real estate revenues but it's not significant at this stage. And for the year to come, I think the change will come from the level of dividends received on our equity portfolio.

We do expect that they will be a bit higher than this year. So we could expect some more revenues on this side. But we still have the decrease in the revenues of the portfolio – of the bond portfolio. At this stage, we expect that the one effect will offset the other one, leading to relative stability of income from the own-funds portfolio for the year to come. But we have quite a lot of volatility in the market, as you said. So we'll see during the months to come what it will be exactly.

David Barma

And sorry, the €70 million that you mentioned earlier on equity dividends, that's the year-on-year drop in equity dividends you received?

Olivier Guigné

Sorry, I didn't catch your point.

David Barma

You mentioned earlier €70 million I think of lower equity dividends.

Olivier Guigné

Yes, that's roughly the amount around, yes.

Thomas Béhar

Yes. We have a reduction in dividends for €50 million, but we also sold some equities last year and there is also a reduction that comes from the asset allocation, the fact that, as Olivier said, we are not at the maximum of asset allocation on equity. And so you have two effects. €50 million due to non-payment of dividends but also a change in the asset allocation where we have sold some equities.

Olivier Guigné

Yes. We sold €3 billion during Q3 and Q4 2019.

David Barma

Right. Thank you.

Thomas Béhar

Okay.

Facilitator

Thank you. We have no other questions.

Thomas Béhar

Yes. But we have not finished answering the question of David Barma.

Facilitator

Sorry.

Thomas Béhar

Concerning PPE, yes, you're right. We have still a step in the solvency – calculation of the solvency capital ratio. A step that can increase it. But what we can say at this stage is not to focus on this kind of step, some steps are backwards, some steps are downwards, so we are in the middle of working on the adjustment for the end of the year. And so at this stage, we are not expecting an impact of that, be it plus or minus, but we will see.

On the market impact of interest rates, do we increase duration? Yes, we are trying to increase duration but it will not have a lot of impact. Olivier?

Olivier Guigné

No. In fact during the year, we have increased by around 0.5 I think the duration of the portfolio. But yes, we are naturally not seeing the impact immediately in the various metrics we have. And we have also to say that we made some allocation choices during the year, with more investment on the corporate side as we have seen wider spreads in the first half of the year. This is not going to have a very big impact on duration because on the corporate side, we are still in the eight to 10-year maturity band so far. And we are not going to invest much in longer maturities on the corporate side.

We made a choice this year to invest at much wider spreads in some sections of the markets and perhaps to leave some room for further improvement in the duration for next year.

Thomas Béhar

On the other hand, to help us meet the interest rate challenge we work not only on assets but also on the liability side. We have spoken together about the PACTE law and the transformation that we can do. And as Antoine Lissowski said in his quotation, we are looking seriously at all that is needed to adapt the mix of our savings and pensions portfolio between unit-linked and euro contracts, and our work is also on this side to adapt. So we have a lot of work, which is being done with La Banque Postale to adapt this part. The work is not only on the asset side but also the liability side. But we will come back to you about that in the full year communication.

David Barma

Great. Thank you.

Facilitator

Thank you. We have no more question now by phone.

Thomas Béhar

Okay. Thank you. Thank you very much for your attention. Okay. Take care of yourselves. Thank you very much.

Facilitator

Thank you. Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.