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Transcript

CNP Assurances
Third Quarter 2021 Conference Call
19 November 2021

Overview

Operator

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

Thomas Béhar

Thank you. So I'm very pleased to present to you the quarterly indicators – first nine months of 2021. So I'm Thomas Béhar, CFO of the Group. And at the end of my presentation, I will have the pleasure with the team to answer your questions. To be clear, we will never speak today about the operation that is in progress concerning CNP Assurances and the future IPO. So we will stick to the quarterly indicators.

What we could say about these quarterly indicators is that we continue with the very, very good performance that we showed – that we have shown at the first six months of 2021. So we have a very good commercial momentum. We are continuing to transform our technical reserves in France.

And of course, we are – have a very good growth of attributable net profit. This profit is now €1.01 billion for the first nine months. So it's a progression: an increase of 10% in comparison to 2020, and 2.4% in comparison to 2019. So we are well over now 2019 and we are continuing our growth. Premium income is €23.6 billion. It's an increase of 29.2% in comparison to 2020 and like-for-like, of course, and 0.7% in comparison to 2019.

Highlights

Thomas Béhar

If I go now to the highlights for the premium income, €23.6 billion. So it's an increase, as I said, of 29.2% like-for-like. Where this increase comes? It comes from the Savings/Pensions, essentially. We have a very good increase of the unit-linked sales in France.

- It's an increase of 69.1%, including a growth of 84.6% for La Banque Postale. Now in France, we have 28.9% of the share of the unit-linked in the new money.
- We continue to have very, very good performance of the transfers PACTE, €5.1 billion. We have 53% of the total market share for us for the transfers PACTE. So something where we are very overloaded as a commercial success of our performance. We are now at 81% of the revised targets of €6.3 billion of transfers for 2021.
- We have an positive inflow for unit-linked, €1.9 billion, and a negative outflow for our traditional contracts of €3.9 billion.
- This progression is also coming from outside funds. So 21.9% of increase of the Savings and Pensions premiums in Europe, excluding France, and 20 – 42.6% for Latin America like-for-like.
- For Personal Risk and Protection premiums, we have an increase only of 1.4%.

As a total, the EBIT is €2.235 billion. So an increase of 7.5% like-for-like.

Net profit I've already explained.

APE margin, we have an increase. It's in linked with the slight increase of the interest rates of 2.1 points versus 2020.

The Solvency capital ratio is 216% at the end of September 2021. We have an increase of eight points in comparison to 2020. This increase is mainly due to the increase of the interest rates in year-end.

Premium income and APE margin for the first nine months of 2021

Thomas Béhar

Consolidated premium income

If we – I go now shortly for the premium income and APE margin for the first nine months. So I already explained the increase of our sales. In comparison to 2019, we have 0.7% like-for-like increase of the sales. And if we are now not only at the scale of France, where we have 28.9% of share of unit-linked in the sales of Savings/Pensions. As a total, we are 50% of the sales in unit-linked products, thanks to the very high level of unit-linked that we are selling in Europe, excluding France, and in Latin America.

France

In France, increase of the premium income is 31%. We have now €15 billion sold of the premium in France. It's divided between Savings/Pensions and Personal Risk/Protection.

- For Savings/Pensions, the premium are €11.9 billion, which is an increase of €3.6 billion, an increase of 42.7%. It comes from the performance, especially from the high wealth network, CNP Patrimoine, and for the continuous progression of the unit-linked phase that we are doing. Of course, this report doesn't includes the PACTE transfers I have already explained. Also, we have 28.9% of total new money, which are unit-linked. And this evolution comes mainly from La Banque Postale. Due to the new group, we have a very good increase of 8.5 points in the weight of the unit-linked in the sales through La Banque Postale.
- For Personal Risk/Protection, we have quite stable sales of €3.1 billion.

APE margin is now 10% in France and the increase comes from the higher interest rate.

Europe, excluding France

For Europe, excluding France, premium incomes are €4 billion, an increase of 17.4%.

- Savings/Pensions premium income increased by 21.9%, a €3.2 billion. Unit-linked products accounted for very high 74.2% of the new money in Europe, excluding France.
- For Personal Risk/Protection, which is also the good news, we have an increase of 1.3% of the premium income, which comes from the sales of CNP UniCredit Vita in Personal Risk/Protection. Due to the COVID-19, especially in Germany, we have a negative impact of the sales of CNP Santander.

APE margin there is very good at level of 18.1%.

Latin America

In Latin America, we have a total premium income of €4.6 billion. It's up 20.2% due to the currency effects. Like-for-like growth was a strong 34.3%. This income comes from the new JV that we have now in Brazil, Caixa Vida e Previdência and Consórcio, and, of course, also from the – through the other business that we have still in the existing structures.

- Savings/Pensions are a very good growth for 27.6%, at €3.7 billion. Like-for-like, the growth is 42.6%, which is very, very high. As a reminder, 99.5% of Savings/Pensions in Latin America are done with unit-linked sales.
- For Personal Risk/Protection, so we have an increase of 8.5% for the sales.

APE margin is still has a very, very high level of 30.3%.

Value of new business

The value of new business, as a total, is €297 million for the nine first months of the year, which is an increase of 43.5%. It's coming mainly from the interest rate, but also from the sales that we are doing in term creditor insurance and from the margins of unit-linked.

Quarterly indicators for the first nine months of 2021

Thomas Béhar

Net insurance revenue

Now, I go the other indicators. Net insurance revenue, first, is €2,261 million, up 3.7%, and the like-for-like is 6.8%.

- In France, we have an increase of nearly 10% to €1.4 billion coming from Personal Risk/Protection technical reserve increase that we don't have this year the effects that we had last year about COVID-19, and an increase of the financial market-driven shift in the Savings products due to the increase of the equity market.
- In Europe, excluding France, net insurance revenue is up 8.9%.
- In Latin America, we have also, as like-for-like, a small decrease of 0.1% in linked, with a very specific condition of Latin America in these first nine months, especially in the first quarter due to the COVID-19. We can now say that we have a very good rate of vaccination in Brazil and that the spike of claims is now behind us.

Revenue from own-funds portfolio

Revenue from own-funds portfolio has raised 6.9% in linked, with the higher income coming from the equity portfolio and the realise capital gains that we did.

Total revenue

As a result, we have the total revenue rose with 4.3%, up 6.8% like-for-like.

Administrative costs

Administrative costs, as in the first six months, it's an increase of 4.4% like-for-like, in line with the increase of the total revenue.

Cost/income ratio, EBIT, and attributable net profit

We have a slightly better cost/income ratio. I've already explained the EBIT and the attributable net profit.

Consolidated SCR ratio

The Solvency capital ratio is 216%. It's coming, if I express only one point, is the increase from the mark-to-market effects of 13 points, which explain, as a priority, the evolution.

We have disclosed other matters. As you can see, so we have done a simulation of what could be the review of Solvency II as expressed today from European Commission. So we measure that with the business needs and the economic condition of today for the full charge that we will have in 2032 at the end of the traditional process. So the impact would be between minus 15 and minus 10 points.

In the same time, we are planning to create a *Fonds de Retraite Professionelle Supplémentaire [FRPS].* It will be next year and it could bring between 10 to 15 points for the Solvency coverage ratio.

And of course, we have not yet taken into account the subordinated debt notes that we have issued in early October, which will bring to us three points.

So that's for the main points in this press release. And now, with the team, we are open for your questions.

Q&A

Operator

Thank you Sir. Ladies and gentlemen, if you wish to ask a question, you may press 01 on your telephone keypad. So it's 01 on your telephone keypad.

We have our first question from Mr Matthew Severati from Jefferies. Sir, please go ahead.

Matthew Severati

Good morning, everybody. Thank you for taking my questions. So I've got two, please.

Number one. Could you maybe break down that 10 to 15 points negative impact from the full implementation of the Solvency II review to some of the major components of that, please?

And then, secondly, I appreciate you cannot talk about the proposed transaction with La Banque Postale, but maybe just a question for you on how transparency of reporting from CNP Assurances and how strategy at CNP Assurances, in terms of Group strategy, but also capital management strategy, how that will be handled in the context of a different ownership structure, going forward?

I mean, obviously, credit investors will be with the Group beyond the transaction. And I think investors would like to understand exactly what they should be expecting, in terms of transparency and how CNP Assurances will behave, going forward, whether it will be consistent with today or whether maybe change may come from that. So any colour of guidance there will be very helpful. Thank you.

Thomas Béhar

Okay. So two questions, to start – if, Philippe Le Mer, you can take the first one about the main impact of the Solvency II review?

Philippe Le Mer

Yes. So hello, everybody, if you hear me well. So maybe the first thing to say is that the impact of the Solvency II review will be fully taken into account in 2032. So the impact we disclosed this morning between minus 15 and minus 10 points. And the main impact is coming from the review of the calibration of the interest rates, the SCR in the standard formula, which is negative.

And this negative impact is offset by some other positive impacts, which are the review of the risk margin calculation or the simplification of the calculation of the long-term equity investments, which are positive in the calculation, with also a slight positive impact of the recalibration of the relative fee adjustment.

So taking all into account, it's minus 15 to minus 10 points in 2032, with the economic condition as of today. So – and also, there may be some other political decision between what the commission has disclosed in September and what will be the final proposal.

Thomas Béhar

About your second question, what I can say is that nothing, of course, is decided about future. But intention is to continue to do financial communication. As you know, we have more than €9 billion of debt that we have issued in the financial market. We will – we would, whatever is the situation. And so, I can say that we will continue whatever is the different possibility of the future, we will continue to do financial communication and to do a Roadshows for – in line with the debts that we have issued and that we will continue to issue on financial markets.

So we will have IFRS reporting as today and of course, road show to explain the strategy and what we are doing and to prepare future issue of subordinated debts, in case we are out of stock exchange.

Matthew Severati

Maybe if I could just follow up on that? Just to the point being, I would say, is that I think the market has become very accustomed to how CNP Assurances, for example, treats credit investors, for example, around call decisions of bonds. And I think, you know, you've built a very strong track record, in that regard. And my only nervousness would be is if, effectively, these sorts of decisions are being taken somewhere else by a different group of managers and with maybe different outlook on these sort of issues, whether there could be any changes associated with that if there's a shift in, effectively, where the decisions are being taken?

Thomas Béhar

Okay. In line with Philippe Heim and Stéphane Dedeyan, we don't expect a change in the way , in the quantity of information that we have to – and where we are today, delivering the information. So we will see about frequency of things like that, but we will continue to report, as you can know, especially yearly and half-yearly about these projections we are giving to the financial market.

We know that for people who trust us for debts – you know, it was first for the debt. But it's important that you have the same rightly information. And as you have seen today, with the agreement of everyone, we have disclosed something that not so many people have disclosed about the Solvency II review.

Matthew Severati

Understood. Okay. Thank you very much.

Operator

Thank you, Sir. Next question is from Mr Patrick Noel from Aviva Investors. Sir, please go ahead.

Patrick Noel

Anyway, it's just a question about your profit and loss account. I see that your premium income increased by 29.2% like-for-like, but your average net technical reserves increased by only 0.5%. So could you develop that?

And on the other hand, we see that your revenues and the reserves increased by about 7%. So can you give us more colour about these trends?

Thomas Béhar

Just going to the right information. If I expand that evolution of the technical reserve. So you have an increase, for example, for unit-linked technical reserves for the Group. We went from €64 billion to €73 billion for the technical reserves. And the increase comes half from the increase of the equity markets and from the net flows between the insured and us.

On the opposite, for evolution of the euros technical reserve, we have a decrease from €232 billion to €228 billion. So you have a decrease of €3 billion of the net flows, which are negative minus €3.4 billion, and you have the other components are quite equilibrate. So that's the impact on the technical reserves.

So does it – so coming from last December. So your question is between…?

Patrick Noel

So you're saying in spite of this low decrease of the technical reserves, you are able to increase your revenues and – a bit by about 7%. So how do you do that?

Thomas Béhar
The increase comes from different matters, as you have seen in the press release. You have a better impact of the different specific margins and provisions that we have on the debt guarantees on unit-linked. When markets are getting higher, we are able to release the revenues that are coming from the unit-linked as we don't need the same level of reserves due to the increase of the market. That's the first point.

Second point comes from the unit-linked sales. We are increasing what we can get as margin from this part. And the other points, you want specifically on Savings/Pensions or on the whole?

Patrick Noel
No, on the whole.

Thomas Béhar
And of course, you have to take to account that last year, we had extra guarantees reserve costs that we did on COVID-19. For delivery warranties last year, we consider to take in charge additional claims and we've done some provisions which have an impact on the net profits that we don't find this year.

Régis Vergez is at the Head of the Accounting team. Régis, do you want to add your points ?

Régis Vergez
Hello, everybody. You speak about the main things that we can notice for this closing. There is a main effect related to the fact that the previous year was really, really specific. We can speak about the dividends we have had, that it's much more higher this year, that could impact the total effect around €50 million. So we have this effect on the top line. We have the effect on the bottom line, which is – with this year, that is really, really specific.

Patrick Noel
Okay, thank you.

Thomas Béhar
You had a second question. Please could you repeat your second question, please?

Patrick Noel
No. That's all for me.

Thomas Béhar
Thanks.

Operator
Thank you, Sir. We have the next question from Mr Michael Huttner from Berenberg. Sir, please go ahead.

Michael Huttner
Good morning. Can you hear me?

Thomas Béhar
Yes, please, Michael. Go ahead.

Michael Huttner
Yeah. Good morning, Thomas, and thank you for these results. They're lovely. And two questions.

One is so you said you'd built – I'd forgotten – the COVID reserves last year and whatever else. And I just wondered if when you will release them and if you will release them.

And the second is you said on the front page of your lovely press release, the detail inside, page three, where you explained the Solvency ratio, going forward, that there could be a negative from the Solvency II reform of 10 to 15 points, but that could be offset by positive from the *Fonds de Retraite Professionelle*, I think it is, and I just wondered what that is. I didn't understand it. And I'm sorry, I probably – I don't know.

Michael Huttner

Thank you.

Thomas Béhar

COVID-19. So we did first €50 million, but I will give you Régis for the exact number, the floor.

Régis Vergez

In the middle of the previous year, we booked around €50 million. And at the end of the previous year, we book €30 million. So today, we are able to release. It's a potential release. We don't know today if we release everything. But during this Q3, we don't make a full analysis of the impact. So we have some work to do. But the potential effects of the release could be €30 million at the end of the year.

Thomas Béhar

On your second question, FRPS *(Fonds de Retraite Professionelle Supplémentaire)*, the way we have implemented in France - the directive on occupational pension funds - a supplementary retirement scheme in France. Every actors in the French market have the opportunity before the end of 2022 to shift the pension activity from the insurance balance sheet to a specific new kind of actor, FRPS, which is an entity that will be a subsidiary of CNP Assurances. And the advantage of this undertaking is that this rule under Sovency I puts specific economic trust scenario to fix the capital of the FRPS.

So globally, it's not between 1% and 4%. It will be slightly fine. It will be over that. But it's not the impact that we have on Solvency II, where we are overweighted short-term impact of the financial markets on the Solvency II capital measurements. We benefit from the long term of the Pensions activities, where short term fall of the equity market or impact of the interest rates have, in fact, no impact on the reality as this Pensions activity is for long term.

So we have a benefit, as all the players in the market, to shift the Pensions activity to FRPS, which is driven, if I could say, through Solvency I activity as measurement – Solvency I measurement, as you can see for this directive coming from 2003.

Michael Huttner

And how big is the amount in money in the total Pension funds?

Thomas Béhar

I think it was some, if I'm right €25 billion ?

Céline Byl

Yes, that's it.

Michael Huttner

Yeah. Fantastic. That's really helpful. Thank you.

Operator
Thank you, Sir. We have the next question Benoît Valleaux from Oddo BHF. Sir, please go ahead.

Thomas Béhar
Bonjour Benoît.

Benoît Valleaux
Merci. Bonjour. Few questions, my side.

First one, sorry, I understand that you're not allowed to talk about this – the operation. But nevertheless, you mentioned yesterday that you have appointed an independent expert regarding the fairness opinion on the deal. So can you just let us know when do you expect to get this fairness opinion, in terms of timing?

The second question…

Thomas Béhar
Please, Benoît, on this point, it's part of the transaction. So I will not comment.

Benoît Valleaux
Oh, okay.

Thomas Béhar
Anything which is linked with the transaction. And the expert is part of it. Sorry for that.

Benoît Valleaux
It's okay. Understood.

Maybe another question related to PACTE transfers. You have increased, I mean, your target for this year from nine months a year. What do you expect, in terms of transformation of reserves and transfers in France maybe for next year? I mean, your view of the stage on next year targets.

And maybe also just a question regarding PPE reserves. I've seen that you further increase or slightly increased your PPE reserves in Q3. You increased it over the first nine months of the year. And also, that there is a maximum available level, which is nine years of criting hights. It's still a bit too early to know exactly what will be the level of getting it at your end, but what is your view on this? I mean, do you feel that you will be close to the maximum level at year end this year? Maximum available level, meaning that in the future, we'll no longer be able to further increase a bit the PPE reserves or do you think that you might further increase these reserves, going forward?

And maybe , then, my last question. I mean, without entering into much details – actually, it's a very complex topic. But can you share with us your current view on IFRS 17 and the application for CNP Assurances ? I mean, in terms of level of earnings in normal year, impact on volatility in earnings,… Any comment, any view on this will be very helpful. Thank you.

Thomas Béhar
Of that, for PACTE transfers, I can't speak today about 2022. Probably we will speak about that in February, but we still have to have an approval of the budget, of the undertaking. And the classic, as others, the approval is in December. So it's too early to disclose an objective for PACTE transfers in 2022, if we wish to do so. So it will be on the yearly accounts that we will be able to speak a little bit about 2022.

About the liquidity with the rate, the discussions are taking place with the partners today about discretionary participation. It's, of course, also too early to give the effects of the discussion before the discussion. As in the past years, of course, last year, we are not delivering all the financial income minus the routes that we are taking to the policyholders.

Last year, we added amounts to the PPE. I don't see any reason to change for that. We continue to add to the PPE reserves, – if not, it would imply that the increase – the discretionary participation, which is not a question for this time. As you know, we continue to have a decrease of the interest rates that our portfolios are delivering. So it – we are continuous decreasing of the financial income coming from the bonds – from the current one. We're quite sure that we have some kind of continuity about our facilities. But to go more in details about what we will do, we have to finish our discussion with our partners.

Benoît Valleaux

Before just going on this PPE, once again, this was a legal maximum level on top of which you are not allowed to go, I mean. I mean, when you look at two-three years' time, I mean, don't you feel that at one – one point of time, I mean, you will release this maximum level and then you will no longer be allowed to further increase the PPE reserves. I don't know if it's in 2022, 2023.

Thomas Béhar

Of course, we are doing scenarios, looking for the future in many different scenarios. It really depends on the financial market, the way the PPE is useful in case of increase rates. We are, of course, using it to increase the discretionary participation over what the financial income can give in place of increase of interest rates. And if the rates are going down, of course, we are also using the PPE to give revenue to the policyholders.

And between two positions, it's different for the PPE. So it's really an amount that is very useful and that is used differently, depending on the financial market. And we are not at the maximum amount that we can have, on a theoretical basis, in line with the eight – that's the obligation to these in the next eight years duration of the PPE. And we have now €14 billion of PPE. So we have place and a few days to add to the PPE. But the way it operates, that depends on the financial market that we have.

Thomas Béhar

I'm not sure I'm completely understood. But is it okay for you, Benoît?

Benoît Valleaux

Yes. Thank you.

Thomas Béhar

And IFRS 17 is not disclosed today. Sorry for that. So it will have to wait for disclosure of that. So we disclosed for the Solvency II review today. Sorry for that.

Benoît Valleaux

Okay. Thank you.

Operator

Thank you, Sir. We have no other questions.

Ladies and gentlemen, I would like to remind you that if you wish to ask one, you may press 01 on your telephone keypad. So 01 on your telephone keypad.

We have no other questions. Back to you for the conclusion.

Thomas Béhar
If we have no other questions, so thank you very much for your participation.

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

Thomas Béhar
Thank you.