# Generali hits targets with green first

On 23 September, Generali reinforced its sustainability push by issuing the first green bond from a European insurer. The landmark trade was the finale to a liability management exercise that helped the Italian insurer attract €3.25bn of orders to the €750m 11 year Tier 2, allowing for a negative new issue premium. Generali's *Giulia Raffo*, *Lucia Silva* and *Laura Venchiarutti* discussed its sustainability and liability management strategies with *Bank+Insurance Hybrid Capital*.

**Bank+Insurance Hybrid Capital: What determined the structure of the offer and what were your objectives?**

**Laura Venchiarutti, group head of debt capital markets, Generali:** The tender offer was structured in order to achieve three main financial objectives. First of all, we were aiming to reduce our 2022 refinancing risk by proactively managing the debt profile, extending the average maturity of our debt and smoothing the peaks going forward. Secondly, the transaction was designed to achieve a €250m debt reduction, consistent with the group strategy of reducing external debt; this was achieved by repurchasing €1bn and issuing €750m. Thirdly, the transaction has enabled us to reduce the annual interest expense by €68m, which means that by January 2020, when our senior bond will expire, we will exceed the €70m-€140m interest expense reduction target range that was announced at our investor day in November 2018.

Tender offer structure enabled Generali to retain a very significant degree of flexibility and discretion — *Venchiarutti*

**BIHC: What was investors' feedback on the exercise?**

**Giulia Raffo, group head of investor and rating agency relations, Generali:** The feedback has been very positive. Pure credit investors have appreciated the consistency of the exercise with our group strategy while ESG/green investors have praised the clarity of our green bond framework and the strong link between the framework and our sustainability commitments. What pleased us in particular is that we received orders and requests for one-to-one meetings from investors who had never previously participated in our deals in the primary market.

**BIHC: Why were these existing bonds chosen? Why didn't you give a clear priority among the target bonds?**

**Venchiarutti, Generali:** The bonds were selected in order to reduce the amount of debt to be redeemed in 2022. The decision not to include any explicit priority was driven by the objective of avoiding discouraging holders of the non-prioritized bonds from participating in the tender offer, hence jeopardizing the outcome of the entire exercise. We structured the tender offer in a manner that enabled us to retain a very significant degree of flexibility and discretion, and this served us well during the execution process.

**BIHC: Why did you decide to accept all instructions on two bonds and have a larger proration on the third one?**

**Venchiarutti, Generali:** The decision was primarily driven by financial risk management considerations. We repurchased all the bonds tendered on the 6.416% and the 10.125% issues because

these were coming due first, with call dates in February 2022 and July 2022. We believe that this choice is very consistent with the risk management objectives we set for ourselves in this transaction.

**BIHC: Why did you choose the 11 year bullet structure for the new issue?**

**Raffo, Generali:** As we often said during internal discussions on this transaction, "those who do not study history are destined to repeat it". We learned from the past that concentrating more maturities in one year can lead to sub-optimal outcomes, such as the debt pile in 2022 that we tackled with this transaction. Already having a 2029 bond in the market, we decided to issue a 2030 bond, also keeping in mind that it is possible that in 2021 we may issue new debt to pre-fund the remaining 2022 maturities.

**BIHC: Why did you issue the new bond in green format?**

**Lucia Silva, group head of sustainability and social responsibility, Generali:** The November 2018 investor day put sustainability at the centre of our strategy. Every department in Generali is rethinking the way it does business with a focus on sustainability. As such, our group CFO, Cristiano Borean, launched the initiative of creating the Generali green bond framework, which is also an element of continuity with the green credit lines negotiated in 2018 and the update of the Euro Medium Term Note programme in the same year. Having the group CFO's endorsement has enormously facilitated the success of this project.

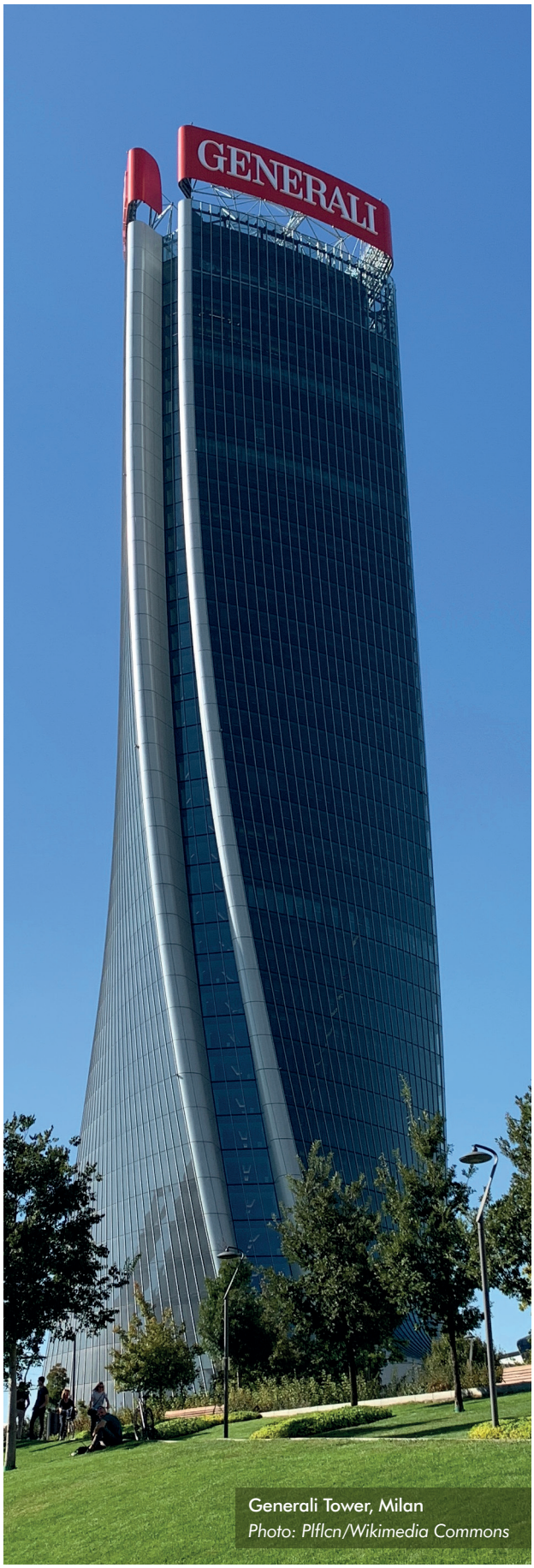
We believe that the insurance sector is playing and will continue to play a very significant role on climate change, and we are proud to have been the first European insurance company to have issued a green bond. We believe that we have paved the way for more and more green bonds issues from the insurance sector.

**BIHC: How does the green bond fit into Generali's overall ESG strategy?**

**Silva, Generali:** The green bond is really about creating long term value, focusing on the impact we can have on the environment and on the society that is at the core of our ESG framework. It definitely supports our focus on integrating ESG into our core business, using our technical skills to accelerate the transition toward a more sustainable society.

**BIHC: How do you manage the green bond proceeds from an ALM perspective?**

**Silva, Generali:** The proceeds will be managed by applying the so-called "equivalence principle" and will be primarily invested in green buildings and green infrastructure, especially clean transportation. These investments are consistent with our strategic asset allocation and provide the kind of duration we need for our ALM.




Generali Tower, Milan
*Photo: Plflcn/Wikimedia Commons*

The pricing dynamic was undoubtedly supported by the strong demand from dedicated green investors — *Raffo*

**BIHC: Why did you proceed with the transaction at this time? To what extent were market conditions a factor?**

**Raffo, Generali:** The current market environment — with BTP spreads below 150bp versus Bunds and with the strong demand for yield engendered by the dovish tilt of both the ECB and the Fed — provided the ideal backdrop for issuing an 11 year subordinated bond, which was priced at a 2.124% coupon, the lowest coupon ever on a subordinated bond issued by Generali.

**BIHC: What are your takeaways on the extent of investor demand and the distribution of this green bond? Did investor diversification play a role?**

**Raffo, Generali:** The green bond attracted enormous demand. The orderbook was around €3bn and over half of that came from investors who declared that their order was for ESG/green portfolios or within the context of an ESG/green investment plan. The price tension on the new issue demonstrates this strong demand: the deal was announced at mid-swaps plus 260bp and priced at plus 225bp, basically flat to the ASSGEN 3.875% January 2029 bond in terms of spread, despite having a maturity date 20 months later. This dynamic was undoubtedly supported by the strong demand from dedicated green investors. Many of these investors have never bought Generali bonds before, so the green bond format not only led to a lower spread but also translated into a broadening of our investor base.

**BIHC: To what extent is Generali aiming to become a repeat issuer in green?**

**Silva, Generali:** This was our first green bond, and it is likely that it will not be the last. Issuing green bonds fits perfectly with our sustainability commitments. In addition, our pool of green eligible assets will continue to grow as the new investment strategy, which emphasizes real estate and infrastructure debt, continues to unfold.

**BIHC: Do you anticipate doing further similar liability management exercises?**

**Venchiarutti, Generali:** We do not anticipate another liability management exercise, but we demonstrated that we are flexible and that we look proactively at all options when it comes to making our debt structure more efficient. We pay close attention to the objectives of our investors and in the coming months we will continue to engage closely with them. We believe that this this two-way dialogue provides us with valuable insight and enables Generali to be a renowned issuer in the European credit market.

Issuing green bonds fits perfectly with our sustainability commitments — *Silva*

**BIHC: How resilient is your Solvency 2 ratio to the current interest rates environment?**

**Raffo, Generali:** The gradual product re-design that took place over the past three years with the expansion of our unit-linked offering and the introduction of at-maturity-guaranteed policies has mitigated our sensitivity to interest rates. In addition, in the past three years we have closed the ALM duration gap and revised our strategic asset allocation to make it more capital-efficient. These actions, combined with the asset disposals we have executed in the past two years, have also reduced our sensitivity to interest rates. However, we acknowledge the challenge posed by the current interest rate environment. As a result, we are working to shape our product mix, investment portfolio and business profile to navigate through the low rate landscape. ●

**Issuer:** Assicurazioni Generali S.p.A.
**Issue rating:** Baa3 (Moody's)/ BBB (Fitch)/A- (AM Best)
**Description:** Senior Dated Green Subordin\ated Notes, Tier 2
**Issue size:** EUR750m
**Maturity:** 1 October 2030
**Coupon:** 2.124%
**Re-offer price:** 100.00%
**Re-offer spread:** mid-swaps plus 225bp
**Distribution:**
By geography: UK and Ireland 23%, France 20%, Italy 15%, Switzerland 9%, Germany and Austria 8%, Benelux 8%, Nordics 6%, Iberia 5%, other 7%
By investor type: Asset managers 67%, banks and private banks 15%, insurance companies and pension funds 9%, central banks and official institutions 8%, other 1%