Q2 2020 Earnings Call

Company Participants

- Giulio Terzariol, Chief Financial Officer
- Oliver Schmidt, Head of Investor Relations

Other Participants

- Andrew Ritchie, Analyst
- Ashik Musaddi, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Jon Hocking, Analyst
- Michael Haid, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- Vinit Malhotra, ANALYST
- William Hawkins, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results of the second quarter 2020. For your information, this conference is being streamed live on allianz.com and YouTube. A recording will be made available shortly after the call. At this time, I would like to turn the call over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt {BIO 2473131 <GO>}

Thank you, Casey. Yeah, good afternoon, and welcome to our conference call. There is nothing specific to be added from my side today, so I hand over directly to Giulio.

Giulio Terzariol {BIO 17125489 <GO>}

Hi, good morning or good afternoon to everybody. Hope you are all safe and doing well. I'm going to go straight into the numbers. And then I'm going to be happy to take your questions. So if you go to Page 3, as usual in in the second quarter we start with showing the picture for the first six months of the year. And as you can see overall, we had a resilient performance when you look at the revenue, they are slightly down, this is due to slowdown in the Life business, which is clearly understandable considering the lockdown measures we went through. The operating profit is EUR4.9 billion. If you adjust for the COVID impact, the operating profit would be EUR6.1 billion, which is at the level of last year. When you look at the COVID impacts in Property-Casualty is about EUR800 million, which is evenly split between Q1 and Q2. And when you look at the COVID impact for Life/Health is EUR400 million, the majority of it is coming from Q1.

The net income is basically following the trajectory of the operating profit and then when we look at the operational KPIs, the combined ratio is 96.7%. If you do adjustment for the COVID impact, which was 3 percentage points for the six months, you get below 94%. There are other adjustments that are positive and negative that we can do, but still after doing all the possible adjustments the combined ratio is still below 94% for the six months.

The new business margin is 2.9%, which considering the environment is a very good new business margin, interest rates have dropped significantly compared to the level that we had one year ago. And then when we look at asset management, when we look at the outflows we have over [ph] EUR20 billion of outflows for the six months. But as you might remember in the first quarter the outflows were EUR47 billion, which means we had positive outflows again in the second quarter, and this is -- this is a sign of the quality of the business.

So overall, I would say, clearly impacts due to COVID and also the impact that we are seeing due to COVID is according to most of the expectations that we said a few months ago and then the underlying result is also coming strong in line with our expectation. If we move to Page 5 on the KPIs for the second quarter, revenue are down about 8%. This is mostly driven as I was saying before by the slowdown on the Life side where the growth rate has been minus 13%. But that is not a surprise considering as I was saying before the measure, the restriction on due to the lockdown. The operating profit is EUR600 million lower than last year. Here you can see the impact of EUR500 million due to the COVID. If you adjust for that and those if you take into consideration that last year we had the positive DAC offset that can impact you to in the Life business in the US, you can see that the operating profit is basically stable at the level last year and also above the EUR3 billion mark. And the net income as I was saying before is basically following the trajectory of the operating profits overall; EUR2.6 billion of operating profit for the second quarter, in the first quarter the operating profit was EUR2.3 billion. So you can see that as markets became more stable, we see already an uplift in the operating performance, but clearly, we still have to digest the COVID impact on our underwriting results in the second quarter.

At Page 7, we are showing the capital situation of the Group. And clearly, we are focusing here on the Solvency II capitalization. The capital level for -- at the end of June is 187% which is 3 percentage point lower compared to what we had in March, so it's a light movement downwards; the solvency ratio remains at a good a comfortable level. When we look at the sensitivities, we are pretty much unchanged compared to the sensitivities that we had in Q1. And then, I just want to draw your attention -- you can see a comment at Page 8 that as we already discussed in the past that we had applied for transition of Allianz Lebensversicherung and also for AP Krankenversicherung [ph]. And these would lead into a solvency ratio for the Group including transitional of 217%, but as also said before we are going to continue to be focused on managing clearly the solvency ratio for the Group without the inclusion of the transitional measures for Allianz Lebensversicherung and AP Krankenversicherung.

If you go to Page 9, this can give a little bit of color on the drivers of our solvency ratio in Q2. You can see that organic capital generation has been healthy on a pretax basis and pre-dividend basis with plus 5%, but then you can see that the pretax market impact was minus 10% and the reason for that is basically credit spreads narrowing on the corporate bond side, which is a negative for us. And also in other element and we can discuss later in the call is that our portfolio has more quality compared to the reference portfolio and what we saw in the second quarter was a narrowing of the spreads, especially on the lower quality corporate bonds or on the financials when we underweight the financials, clearly being an insurance Company. We don't want to double down and this leads also to a sort of basis risk, which can impact our solvency ratio. But again, the ratio is pretty stable compared to what we had at the end of Q1. So no major developments there.

Now if we go to Page 11. As usual, we are showing the growth in Property-Casualty for the selected entities. First of all, when you look at the growth in the first quarter for the segment, you can see that the growth is slightly negative that's also a consequence of the lockdown measures; there are a couple of maybe highlights here on the numbers that might be a little bit interesting. I will focus right now just on the AGCS side, because it's plus 25%, this has to do with the front-end business. If we remove the front-end business from the numbers, the growth rate at AGCS will be 5%, and as you can see this growth rate is driven by rate changes. So that's a good growth rate because it's not driven by chasing volume but is driven by hardening of the market and also us taking action on the pricing side.

Overall when you look at the Group, you can see that there is an acceleration of rate changes on renewal in Q1, the rate changes were 3.90%, as you look at the second quarter they are 4.5% and I would also say that the acceleration is mostly driven by AGCS.

Now if we go to Page 13, we can see that the operating profit for the segment has decreased by about EUR240 million and EUR140 million of the decrease is due to the underwriting results and EUR100 million is due to the investment results. When we look at the underwriting results and the combined ratio, clearly, we have the impact due to COVID. For the second quarter, the impact due to COVID was 3.1%. Then on the other side, we have been if you want a little bit lucky on the NatCat side because the NatCat load was only 90 basis points. Usually, we would expect the NatCat load to be more like 200 -- 2.1% for the second quarter.

Then you can also see a very good expense ratio of 25.7%; here we had a few one-offs that have to be adjusted. Adjusted for the one-off, the expense ratio would be still very good at 27% and then you can see that the runoff is only 80 basis point and here, we have been deliberately on the conservative side because clearly there is always some uncertainty about what might happen in the future. The point is, when you start adjusting the numbers for the COVID or the higher -- for the lower NatCat or you normalize the runoff and we adjust the expense ratio for the one-off. When we do all these adjustments, we end up

For the second quarter with a combined ratio, which is definitely below the 94% level. So that's again a sign that the underlying performance is healthy.

When we move to Page 15. Here clearly we see that the COVID impact had diverging effects on our entities maybe just a couple of comments one is on the AGCS where you see a combined ratio of 117%, they are up [ph] 18 percentage point is due to COVID. So if you adjust AGCS numbers for COVID, you get to a 99% combined ratio, and that would be in line with our expectation. You can see clearly that Euler Hermes the combined ratio is over 100% or 101% which is according to the expectation that we have in this environment. And then, otherwise, you can see a lot also very a good combined ratio, which is a reflection of the underlying performance, which is good, plus in some cases, we might have benefited also from lower frequency.

In the United Kingdom, there you see EUR200 million of operating profit, which is a consequence of a one-off of about EUR100 million, that's also the one-off which is impacting the expense ratio for the segment.

Now moving to Page 17. The investment income is about EUR100 million lower compared to what we had last year. Here there are basically two drivers on the -- I would say almost say three, but let's say two, one is the lower interest rate level, but this has to do also with lower interest rate level for example in Turkey. So this is also something that we need to consider which doesn't -- which means source [ph] is not necessarily one to one in operating profit impact because on the other side also, the reality there is lower inflation, lower interest income but also lower a lower combined ratio, partially is also due to the conversion from emerging market currencies into the euro, when we do clearly the consolidation. So these are some effects driving down the operating investment income. But in second quarter, we had also clearly lower dividend, which is a reflection of two factors, on the one side, we reduced our equity exposure and then there is also that companies are paying less dividends, which is the other driver for the development of our operating investment results, which is actually not so far from our expectation.

We have always taken a conservative view of what might happen to the investment result, so from that point of view, the drop that you see in the numbers is not necessarily a significant drop compared to the outlook that we had for the investment income for 2020.

Now moving to Page 19, on the Life side, as I was saying before, clearly production is down, that's a consequence of the lockdown measures. Production was significantly down in April and May, but when you look at June, you can clearly see a recovery. So from that point of view, this is just a temporary issue that's eventually is going to go away, once the COVID situation is going to one day resolve. What is good is the development of the -- the level if you want to the new business margin, which is 3.1%, that's a very good level, considering where the insurance rates are right now, and this is also clearly the results of all the actions that we are undertaking to sustain our new business margin in a low interest rate environment. So we are very happy with the work that we are putting on try to keep this KPI at the best possible level under these circumstances.

Now if we move to Page 21, on the operating profit for the Life segment. Overall, we have about EUR1 billion of operating profit, which is a good result, it's clearly down compared to what we had last year, but you should remember that last year, we had a positive one-off from the DAC in the United States. And also last year, we were still consolidating Banco Popular. And so from that point of view, I would say that EUR1 billion is very close to the level last year, it's a little bit lower compared to our plan divided by 4 and that's about EUR100 million which we quantified that's also being COVID related. And this is the consequence at the end of the day, the volatility that we still see, especially in the United States, the mix has been little bit more elevated compared to a normal expectation. And this as you know, an impact on our VA numbers in the US, but overall with EUR1 billion of operating profit, good quarter. If you remember in Q1, the operating profit was about EUR800 million. So you can see how we are getting a pickup in operating profit very quickly when the situation is just stabilizing a little bit more.

At Page 23, I would say the very good notes if you want a picture is that when you look at the new business margin, basically all companies are showing new business margin above 2%. So that's a reflection of the efforts that we are putting across the board to make sure that the new business margin profitability is resilient and when you look at the operating profit, the only real shocking [ph] thing is the development, maybe in the US, but again is a reflection of the one-off last year and plus the elevated volatility this year, otherwise, generally, you see a lot of stability in the numbers of the OEs and Spain, as I was saying before is a reflection of the consolidation of Banco -- mainly a reflection of the consolidation of Banco Popular.

Moving to Page 25 on the investment margin. You can see that the investment margin expressed in absolute terms, also in relative terms is stable, but clearly, when you look at the current yields, you see that the current yields went down significantly in the quarter compared to a year ago. And then on the other side, the harvesting has been higher on the current yield, the main factor for the drop is that we receive less dividends in Q2, because clearly dividends are kind of going [ph] up due to the COVID situation. So if you adjust for the dividends and you go back to a normal level of dividend, the current year will be more like 96 basis points to 97 basis points. So we have a little bit of a July, because of the dividend, but overall when you look at the investment margin is relatively stable and also broadly in line with our expectation.

So on the Life side, I would say new business margin holding the operating performance has been good at EUR1 billion. So you can see in normal market conditions, we can operate successfully on the Life side.

Moving now to Asset Management to Page 27. Overall, our assets under management have increased by 5%, and you can see there was an increase both at PIMCO and AGI, but then I will go straight to Page 29, because here, we are focusing, especially on the assets under management. The third-party assets under management overall, they went up EUR100 billion in the quarter. This is mostly driven by the market development, clearly, the markets have recovered. So that was helpful, exchange rate have been negative for us, because of the US dollar depreciation, but at the end of the year, positive notes is that we see positive flows both at AGI and also at PIMCO. And again beside the month of March, which was very tough from a flows point of view, we had positive flows in January and February and also in the second quarter. And we also see positive flows at PIMCO right now.

So at the end of the day, there was really a situation in a couple of weeks. But the strength of the franchise is again very, very strong and the numbers in second quarter are showing that.

At Page 31 on the revenue side, for asset management, we see a decline of about 3% on the internal basis, this is a consequence of the one side of lower performance fees. And then also we have for the quarter, a lower fee margin, it's about almost 2 basis point of fee margin, clearly here as usual, we need to be cautious when we look at numbers on a quarterly basis, when we take the six months view, the revenue up 3% on an adjusted basis and the fee margin down only 0.5 basis points. So I would say that the six months view gives a better picture of the performance that we have on the -- in asset management.

Coming to Page 33. The operating profit is good at EUR640 million, there is a decline compared to the prior period. This is due to the lower performance fees and to a certain degree also to a higher expense ratio. I would differentiate between PIMCO and AGI. In the case of PIMCO, that's just some volatility clear in the quarterly basis. If you look at the 58.6%, the cost income ratio for PIMCO is indeed, what we would generally expect. In the case of AGI, there is also some volatility, but I would also submit that 72.3% is definitely not the number that we are looking for and that's also the reason why as you already know, we are taking cost measures at AGI.

Overall, results are good. When you look at the six months view for asset management, the operating profit is up 5% compared to what we had last year. So a very good first half of the year for our asset management operation regarding the operating profit.

Page 35, corporate, you can see a lower investment income -- operating profit compared to last year, this is driven basically by the investment income, also here, we see the effect of lower dividend, here we expect this to be temporary, eventually dividends are going to flow back into the system, but for the second quarter clearly, we saw a little bit of a July coming -- basically from lower dividend income and also little bit from lower interest income.

And then at Page 37, as usual, we are showing the non-operating items. Overall, I would say there is really nothing eye-catching here. The only thing that might be the tax rate, which is a little bit higher or significantly higher compared to last year. Again, here is we have some volatility between quarters, you might have on the tax side some positive or negative true-up, also smaller true-up but it -- when they go in one direction one quarter and they go in the other direction the other quarter the other year, they can make a little bit of a wider gap, when you look at the six months view, the tax rate is 24.8%, which is just 1 percentage point higher compared to what we had last year. So indeed, a very normal level of tax rate.

So coming to Page 39, overall, I would say we have a robust performance clearly that's a different situation. We have an impact coming from COVID, the impact coming from COVID is also according to what we have anticipated, what we do clearly in this environment, we are focusing even more on the things that we can control, and when we run our analytics and we are looking at underlying combined ratio, we see that the underlying combined ratio is developing in the right direction. When we look at expense ratio adjusted for the positive one-off, we still have an expense ratio, which is just slightly north of 27%, a couple of years ago or two, three years ago, we were closer to 29% and also as you see, we are doing -- putting [ph] a lot of effort on the new business margin, to make sure that we are adjusting the products and also the mix to the reality of a very low interest rate environment. So from that point of view, I would say that our performance is again robust in what we can define is a challenging environment, but despite the challenging environment, we are providing solid numbers.

And with this, I would like to open up to your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions). We'll take our first question from Peter Eliot with (Inaudible).

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. And I guess, the first and main question Giulio. So I was wondering if you could just sort of tell us where you see the remaining sort of uncertainties from here. I think I'm right that you're sort of EUR0.8 billion to EUR1.2 billion sort of estimate of the claims impact still stands. But I was just wondering if you could sort of update us on the moving parts. And in particular I guess you are sort of sounding a little bit cautious on sort of the motor experience in the aftermath. I'm wondering if that's sort of still the case and related to that, you've decided not to give an outlook at this point, no reason you should have done that, but I sort of understood from interviews with Oliver Bate a few weeks ago that you might have been considering that and I'm just wondering where the major uncertainties are that cause you not to do that at this stage. And then if I can add a small one, on asset management. I appreciate you sort of said, looking at the six months view is probably the better one. But if I do just looked at Q2, it looked like volume mix was a little bit responsible for the lower margins. So I'm just wondering if that's sustainable or whether we can expect that to recover quickly? Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. No. Thank you, Peter. So maybe let's start from the uncertainty. The uncertainty is not related to what we have seen but what might happen in the future. So if you think about that, we are still in a situation where Melbourne is going on a lockdown, we see there are outbreaks here and there, happening in Europe, the situation in the US is kind of unstable. So the uncertainty that we are referring to is more about what might happen in the future. When we look at what happens, in reality, things are coming along the way we basically expected. So from that point of view, we had so far EUR800 million of impact in our numbers in P&C. We know that we are going still [ph]to see a negative get to plan in Euler Hermes and to a certain degree also in travel.

So when we run the numbers based on what we have seen so far, what we know so far, we would say that the impact due to COVID and our underwriting results should be by the end of the year EUR1 billion-plus. So we're still there. On the Motor side, we saw basically the numbers that we were expecting to see. So there is nothing, there is clearly some uncertainty potentially of what might happen in the UK or in Australia about business interruption. But from that point of view, I would say that we think, we take -- we took overall reasonable conservative stands. It doesn't mean that we might not see some deviation, but there should be manageable. So the uncertainly we are referring to has not so much to do with or it's nothing to do with what we saw, it's more really about the fact that we are in August and when we go through the corridor, see the whole scenario and we see people with masks, right. So we just need to understand that we are not out of COVID.

There is speculation whether we are going to have COVID 2 or not. So from that point of view, we felt that given the uncertainty about what might happen maybe is not really absolutely necessary to come up now with a new outlook because the uncertainty about the futures as well but that said, so I not read anything more than this.

On the asset management side, yes, as you pointed out, there is a little bit of a mix effect, and the point is that this year mutual fund came down a little bit compared to the institutional side. This has not so much to do with the inflows. This has to do also with the market movement that we saw on the different asset classes. So I would say this -- clearly, this can move over time, but my expectation for the fee margin is that is broadly going to stay at this level as we move forward. But again, these are just movements that you can see time by time. But there is not necessarily a pressure because that will be different. If you see really pressure coming on the fee margin because of competitive reasons, there would be (Technical Difficulty) this more than we saw in the past.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Makes perfect sense. Thanks a lot.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you, Peter.

Operator

(Operator Instructions). We will take our next question from Andrew Ritchie with Autonomous.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So hi there. Some quick questions I think. First of all, just a simple one, why get the transitional approval? I mean I appreciate your next door neighbor in Munich has always had that in their pocket as it were. But what are the circumstances you would think is relevant to start sort of shifting to that measure because I think you've stressed for now capital management excludes it still. So why feel the need to do it.

Second question, it's really a broader one, Giulio, I mean, obviously, you managed the US Life business to sometime, the level of interest rates in the US, there has been a dramatic change year-to-date. Just clarify what products, what kind of products actually work at this level of interest rates? And also does the interest rate effect on the US Life business solvency position. I presume that's very delayed given the RBC system, it doesn't really mark to market. And do you think that the low interest rate pressures are already captured I guess in the Group sort of Solvency II for the US Life business in particular?

And the final very quick question, I assume your guidance on P&C COVID claims, so EUR1 billion to EUR1.2 billion for the year does not assume an adverse outcome from the various court cases that Allianz is involved with on BI? Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So maybe to start with transitional, on transitional, we had this trigger point for our decision has been based on the long-term review of Europe, there was also a consideration that transitional might not be allowed in the future, so you cannot ask for transition in the future. And so there was the point where we said okay, we don't -- we don't want to be in a situation that one day, we might not be able to apply for a transitional because there's always going to have this kind of option. So there was the trigger point, so in reality, we talked about that already at the end of last year and that's where we also basically decided to go down this route. So that's a reaction to if you want to that potential manager that may come with the long-term guarantee review.

On the USA side, maybe starting from the RBC. Yes. The RBC would not necessarily capture consequences from a lower interest rate. But in the USA, you still need to do cash flow testing kinds of things. So from that point of view, if you see a problem and that will be reflected there. So clearly, the RBC measures as you said, it's a little bit less market-oriented. So you're not going to capture few things right away like Solvency II might do. But on the other side, you still need to do some stress tests, cash flow testing. So from that point of view, if there is any issue that will be captured by doing that testing.

On the USA business, you are right, I mean, USA for the long time and I had to say that I never saw something like what we are seeing now. So the beauty is that a couple of years ago, we have introduced the IVA products, which is basically is a fixed index annuity product from an economic point of view, but I think in IVA tests, which basically allow that you can expose the customer also to downside and once you can create structure that can also as oppose the customer to a downside, then you can create structure that's from a hedging point of view, more economical cheaper, and this allow you some how to eventually have lower interest to clearly creates optionality that you can hedge in a -- with a lower budget. And you clearly depending on how you cut the risk profile for the policy other than -- that is where you create a value proposition. So that's number one.

And as you see the IVA production is already going up, the second point, I just tell you that there is also a lobbying effort in the US in order to lower some of the minimum guarantees in the fixed index annuity side. So that's also something that it discuss now and there is a lobbying effort, so lowering the guarantee also in the fixing index annuity side, from the level where they are now from a regulatory point of view, that might also be helpful. And then sure, the point is also -- and this is not just barely for the United States, this applies also to the other countries, at the end of the day, we will have to think about introducing riders, also having little bit more of a loadings into the product. So we need clearly to think about the value proposition in a different way. When I talked to my US colleagues, they are confident that despite the low level of interest rates, they can come up with a solution, which are good from a customer point of view, there is a value proposition for the customer and also that we can have a good new business margin.

On a new business margin, I want to tell you something anyway, I am not going to lose my sleep if eventually, we are not going to have a 3% new business margin, but we need to settle to a something which is lower than that, that will still be in my opinion a good level of performance. So from that point of view, yes. I would also say that it's 3 percentage point in new business margin is a good number. But it is also a little bit of an arbitrary number but if you want. And also operating a little bit at a level less than that, that will be absolutely acceptable if you had to go there. Clearly, we're going to try to keep the 3% level, but it's not absolutely necessary.

And that was a final question. On the court case, if you know at the end of day, we are not assuming the worst case, the point is you have to think about our reserving like you have -- first of all, let me say that most of the reserve we are now is IBNR, then we put together, we look at the best case and worst case, the situation there, we are not necessarily picking the worst case for all situation, because usually, you had diversification. So from that point of view, I would say we don't have a worst case in our reserving. But overall, I would say we have a -- we tend to go conservative, but clearly in a situation like COVID, you might not, you cannot disclose that potentially we might see some number, which is higher than what we have reserved for. But I think as usual, we have been taking a conservative stance.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Got it. Thank you. Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you.

Operator

We'll take our next question from Jon Hocking with Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

Good afternoon, everybody. I've got three questions please. Just to come back on, Andrew's question about the transitionals, just to clarify, are you going to be reporting the solvency ratio going forward both including and excluding the transitionals? This is the first question. Second question, just looking at the sort of resumption of lockdowns in various parts of Europe, et cetera. Can you talk through a little bit about the risk care from a sort of one event, two event situational P&C and how that might play out in reinsurance? And then finally on the buyback, the second half of the buyback is I think officially suspended. Is there any realistic chance of the buyback coming back or should we view that has been canceled? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. Starting from transitional, we are going to basically disclose the numbers, so put the focus of the number without transitional. So we are going to see our presentation and moving forward you're still going to see the same presentation the way you are seeing right now.

Then on the buyback, I would say it's still deducted from our Solvency II calculation. We are going to take the decision as we go into the second -- after the summer break. If you look at the sentiment out there also from a regulatory point of view, I would say the sentiment is not conducive, let's put this way to a buyback there are even sometimes conversation about dividend payment.

So from that point of view, I would say it's more likely than not that we will now go ahead with the buybacks considering the situation, but we have not taken the final decision yet. And then you had a question on the lockdown, but it was not equivalent. I understand the question one is...

Q - Jon Hocking {BIO 2163183 <GO>}

So I was just thinking Giulio whether did you come back into some lockdowns in some countries. Is that going to cut two events reinsurance and did you think that (multiple speakers)

A - Giulio Terzariol {BIO 17125489 <GO>}

Oh absolutely. So I would tell you right away, I'm not in reinsurance expert. But I would say that if we have a second wave, there will be definitely my opinion consider and other events. And in light of the conversation with the reinsurance company are going to be about how you interpret also the first kind of wave. How you aggregate losses from -- aggregate the losses, but the second wave, there will be -- I would say most likely interpreted or classified as a new event that I would say the most likely interpretation.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We will take our next question from Michael Huttner with Berenberg.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. And I had on the solvency. And if you don't have the buyback, is it right that to be around 190%, that is my first question. And then on the claims, you kind of implied that most of the claims at the moment the estimates that you're actually haven't seen any reported. And the question I have here is, why is your ratio so much higher than -- I know you can't comment on peers, but when they reported I think 88% you're reporting 101%. It seems a huge gap in that. I just wondered what is the extra conservatism that you're building in? And then the final point is also on the, just on the UK, if I adjust the UK for the one-off in the pensions at the 16 points.

I have a ratio of 89%, which is fantastic and I'm just wondering, whether it's sustainable of any kind of extra positives that's bit one-off in character in that. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. No. Thank you. So on the solvency ratio, if we strip out the buybacks on the numbers is solvency ratio will be about 2 percentage points higher than all your questions about the claims. If I understood your question properly, you are saying that our number seems higher compared to competitors. It might be that we are more conservative, speak about that. I think it depends also on the business profile right because this makes a big difference.

You should consider that, for example, in our case, if you add up Q1 and Q2, I would say that above of EUR100 million losses are coming from the AGCS business. And clearly, if you're maybe a competitor and not having the same kind of exposure to the industrial business, you might see less losses on the other side, you might see competitors with even I saw even bigger numbers in some cases. So on the COVID numbers because I am also looking at what is happening.

I would say you can see significant numbers larger than ours and you can see also numbers smaller than ours, and I tell you the answer is always look just at the business profile and this is going to help you a little bit to understand why Company might have higher numbers and other company might have lower numbers.

On the UK, yes you are right. If you adjust for the one-off, the combined ratio will be above 90%. I would like to tell you this is the new target, but that's not the case. I would say there is also a little bit of improvement due to lower frequency in more in the UK. So when you adjust the numbers, I would say that you are very close to the 95% combined ratio. that will be also the expectation for the year for the UK.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. Thank you, Giulio.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We'll take our next question from Nick Holmes with Societe Generale.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thanks very much. Two questions please. First, can you explain more about how the cost effects work. And in particular, how much are they linked to the policyholder capital? I'm thinking the RSP in Germany, is that a bit that's difficult to model.

And then secondly, coming back to the transitional benefits again. So the similar question, is there a link here to the cross effects? And is that why you're drawing our attention to it. I mean if you did implement transitional would that reduce the cost effects. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. Maybe let's start for the transition. I draw your attention to transition I just because we apply for that. And that's, in theory, also our official solvency ratio, but there is no other reason for that. And coming to the cross effects. Okay. The first question was, if what is driving the cost effect Clearly, there's a difference when you just dress the interest rate and when all these things are going down at the same time it's. I would say to a certain degree, intuitive that you are going to get a little bit more of an impact is like if you have an option, you move, at the same time, the interest rate of volatility. So on the addition is always going to be that put into data or the elements is going to give you a little bit more of an impact positive or negative depending on that trajectory.

You touched a good point anyway with the policyholder participation. I would say that overall the sensitivity, if you want to the solvency ratio not only the cross effect, but also the sensitivities across the solvency ratio is a function of, if you want -- also the level of buffer that you might have now the RfB has not changed. So this is not a driver for a different level of volatility about potentially. Yes. If you have a lower level of RfB, which is not the case, you would also have more sensitivity. The same applies to if you have annualized gains or the higher the annualized gains you have in the local accounting in the more resilient is going to be the solvency ratio in our case, we have substantial annualized gains.

If you have less annual realized gains, you're going to see more volatility. One thing which is created going anyway to understand the volatility of the solvency ratio, don't forget, that's a risk-neutral calculation. So which means you're basically do a projection as -- right now interest rates, which are basically close to zero. And every time clearly, you do a risk neutral calculation, which is a little bit, if you want, far away from what the real-world calculation will be, even if interest rates are low, still risk neutral calculation is a different anymore. So every time you got a projection with basically non-interest rates. Clearly, in the situation, you're going to have some pressure on the solvency ratio, especially when you do a stress test. You're calculating your fund assuming that there is basically no return on your assets. That's the first thing that you do. And then when you do the ACR calculation going to say, now I'm even testing that things are going to get even much worse. So it is the level of interest rates, which is predominantly driving -- if you won the volatility of the solvency ratio. We can debate if reason you to calculation is the right approach to the way Solvency II calculation but that's -- solvency calculation, but that's where we are right. And so from that point of view, it's our job to manage also the solvency ratio, the best way we can. It has been helpful?

Q - Nick Holmes {BIO 3387435 <GO>}

All right. Yeah. No. That is very helpful. Can I just to follow-up very quickly? Is it possible to say sort of what proportion of the cross effects are linked to the RSP and the policyholder capital? And then secondly, sorry, just to ask, if transitionals were actually implemented, would that remove most of the cross effects. So it's just where that you have such cross effects versus peers that have much, much less, and they obviously have less RSP. Hence my question.

A - Giulio Terzariol {BIO 17125489 <GO>}

I would say that you cannot decompose the cross effect and what is RSP or not. I would say the level of RFP that you have is going to determine what is the volatility of your solvency ratio and also at the end of the day is going to determine what is the volatility coming from RFP, here from the cross effects. But you cannot say the cross effects 3 percentage points is due RFP 4 percentage point is due to non-RFP. So the more RFP you have the less sensitive you are going to basically be when you do the ACR calculation. The sensitivity is going to -- this lower sensitivity is going to apply to everything to your interest rates sensitivity, to your equity sensitivity and eventually is going to be also diminishing if you on the cross effect sensitivity. So that's one.

On the other one transition is doing is not change in reality the ACR calculation, which is where you see the impact coming from the cross effect. This is just giving you more on funds. So from their point of view transition is not going to change that, because it's just to recognize more on fund compared to what you do in the calculation without transition.

Q - Nick Holmes {BIO 3387435 <GO>}

That's very, very useful. Sorry, just one very quick final question are you going to give us more explicit guidance on the cross FX?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. We put the comments because we said that we are going to do this. So if you go to page -- let me see, it's page 10 -- page 8. The Page 8 you are going to see a comment about the cross effects, yeah, 7 percentage point.

Q - Nick Holmes {BIO 3387435 <GO>}

Yeah. Yes -- yes. Yes. But are you going to the line that to market movements or leave it to us to infer --

A - Oliver Schmidt {BIO 2473131 <GO>}

No. We are going to give you an update every quarter, so the cross effect there means that when you do a 50 basis point drop in the interest rates 30 percentage -- 30% movement in the equity. And then also you have a 50 basis point wide in your corporate spreads. When you take all these combined compared to the sensitivity, you see a Page 7, you need to add 7 percentage points. So you can go to Brazil, you add up all the sensitivity in then you add up 7 and then you'll get the number and we are going to provide you this because -- this is not making change over time obviously. We are going to provide you on a quarterly basis with the numbers. So that -- this can help you a little bit to especially if there are significant dislocations in the market, this might help you to do your estimates.

Q - Nick Holmes {BIO 3387435 <GO>}

That's very clear. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Our your next question comes from Farooq Hanif with Credit Suisse.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks very much. Hope you can hear me. Going back to the subject to reinsurance. So my understanding is in the EUR0.8 billion to -- sort of roughly EUR1 billion guidance you've given on COVID, you haven't made any material assumption about recoveries. At what point, could you stop having to go to reinsurers when you have reported claims? And what kind of estimate could you give us on the level of recoveries that you could make under a NatCat policy. for COVID. That's sort of question.

Question two on the Life Investment margin you historically had sort of 80 to 85 bp guidance, things have changed. I think you said you would be close to 80 bps or less. Can you give an update given current conditions, assuming that they will be remain similar interest rates going forward. What that might do to Life Investment margin range.

And last point is again on the transitionals, I know you applied for these basically because EIOPA, does it change the quality of your conversation with BaFin though. Does it make that a little bit different? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. So on starting from reinsurance, as you say, we didn't take any material number yet in our financials. So I would say we have a little bit of a recovery, but it's not overly material. We have already talking by the way to the reinsurance companies, but this is going to be a long process eventually, we could clearly think of recoveries, which cost in a few hundred millions, but again, I would say I'm pretty confident that reinsurance companies are going to have a different idea and we'll have a business conversation between business partners. And then we will see what the outcome is going to be.

On the point of the investment margin, I think the last guidance was more 75 basis point and we also know that the number progressively is going to go down.

On the other side, you have also higher asset base. So the investment margin in absolute terms may stay relatively stable, but the margin expressed in relative terms is going to go down, but as we discussed also in the past, that is also what we expect that other profit sources are going to provide some support like loading fees, you didn't see this quarter clearly, because of the COVID, but if you look a little bit the trend over the last few years, you can see the loadings and fees are going up. So the situation is going to be the following, other profit sources are going to go up on the investment margin in relative terms, we are going to see clearly in investment margin which will go down also to 70 basis points. The amount of reserves should still increase and these might keep the investment margin more or less stable in absolutes level. So that's more or less the picture that you should expect moving forward. And then you had a question about the quality of our conversation with BaFin, quite a long conversation with Bafin, it's going to change be because of transitional, again, that's a measure that is a precautionary measure because of the Fed that's eventually that could not be a possibility to apply for transitional, as you know by the way in the German market, it's very standard to have a transitional. So I would explain that the quality of our conversations with Bafin, which is very good. By the way, it's going to be the same. with our without transition. So I don't expect major implication both positive or negative, it's a pure precautionary measure. If you ask me clearly eventually. It's like positive clearly is always good to have that in your pocket. But fundamentally, it's not going to change the way we are managing the companies that are applying for transitional. So the management of those companies going to remain the same. I would say yes, it might be a slight positive fundamentally. I would say it's business as usual.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, that's really clear. Thank you very much.

Operator

Thank you very much. Your next question comes from Vinit Malhotra with Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi, good afternoon. So my 2 questions, first one would be just looking a bit more clarity on the P&C investment income, please. So the reinvestment yield being sort of stable year-on-year, but the collapse in the similar income, you did mention obviously dividend, but could you help us understand that as well.

Whether there was anything, whether all of it was dividends or -- and just trying to understand a bit on how to think of it in the future. Also in the similar context, I was thinking that the alternative assets will be helping offset some of this, if -- could you comment on whether they did help or could help? That's the first topic, please. Second is on asset management fee rate, we've talked about product change, but could you just explain that a bit more, because when I see the Slide 29, I see mutual funds were sizable part of this inflow in the third quarter? So maybe if you could just comment on which kind of products are these which are the lower fee rate and whether that's the projections we should think of? Thank very much. Hello?

A - Giulio Terzariol {BIO 17125489 <GO>}

And the point has to do in reality with the institutional side of the house the performance has been, if you want, stronger not in the sense of the relative performance to a benchmark, but just there might be longer duration. So there was a little bit of the better of a more increase in assets under managements in those strategy compared to the mutual funds.

So it's not a change in product mix that we have initiated or different charges that we are charging on the different asset classes. It just a mechanical effect of how the market value of the different asset classes have been reacting over time and you need also to consider that we are comparing now Q2 basically to the situation of Q2. One year ago. And maybe just to be clear, mutual funds have higher fees compared to institutional funds. So that's, once you have a change in mix because of market movement or whatever you're going to have automatically lower fee margin, but there is nothing to do with us changing strategy, let's put this way, without changing fees. It's just a mechanical effect or the change in market value of the mutual fund versus the market value of the institutional funds.

With respect to your question about alternative assets. Yes, the alternative asset might help, but they help in the sense that otherwise overall level will be lowest when you have less dividend on public equity or you have a drop in the interest rates.

Clearly you're going to see the investment is us is going to go down. So definitely alternative assets are helping our investment performance, but eventually, they cannot clearly remove the direction that you might have when dividends are paid with regard to the expectation.

Moving forward, I would say that, if you take the second quarter numbers, so EUR640 million. I would say that's what you should basically expect moving forward, maybe I would put a caveat. On the one side, usually the harvesting, you see slightly positive. So you should say then number, if you normalize over time is more slightly negative.

So you might even discount this the EUR640 million a little bit. On the other side, I will say one-- maybe we're going to see a little bit more, more dividend one day, but for the time being, we are taking on the P&C side conservative asset position. So from that point of view, we are not holding a lot of equity anymore.

So for, I would say at least the next 12, 18 months. I will start from a number, which is slightly below the EUR640 and annualized the number to have an idea what the investment income -- might be moving moving forward.

So I can translate for you in -- I can do the math for you right away. I would say that an investment income annualized or EUR2.5 billion. There might be an indication of what you might see more moving forward. I cannot predict the future, either, right. So we will see what happens. But I think with EUR2.5 you shouldn't be hopefully off. We are doing. okay. Do you have another question?

Operator

We will take our next question from Ashik Musaddi with JPMorgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Hi. Thank you, and good afternoon, Giulio. Just one question I have is on solvency capital. I mean your solvency ratio is about 187% at the moment and you mentioned that because of some M&A I guess it will be 3 percentage point lower. And if you look at this quarter so far. I mean, interest rates have come down further then spreads have tightened further which could be again negative for your solvency ratio.

So if we ignore the transitional concept, I mean you are kind of reaching the low level of the solvency that you have always targeted, so how comfortable you are with that, I mean, how you are thinking about that solvency ratio, should we be expecting that you will do -- you will take some management actions to get an uplift on the solvency ratio.

And just one last question on this again related to solvency is, I mean, is solvency ratio any trigger for you to do that remaining buyback or is it just you're waiting for certainty around macro or I mean, do you need to be at around 200% then only you will release that buyback of EUR750 million that is remaining? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. Maybe starting from the buyback, the announced buyback is more deciding whether we are going to execute on that or not, it's more a consequence of the regulatory sentiment because once we announced a buyback. Clearly our inclination will be to treat it similarly to the way you might the dividend but ther buyback is clearly different. So from that point of view, the buyback decision is going to be driven mostly by the regulatory environment.

So this is going to be the critical point. And as I was saying before, right now it doesn't look like the regulatory environment is conducive to buyback. On the solvency ratio, 187. First of all, I would say the 180 as you said is the low level of our target, in reality is our target. So we don't tell necessarily or high or low level clearly know we like to not to drop significantly, let's put the way below the 180 from that point of view, clearly we are going to take management action

So we have been taken management actions already, we took management station also in Q1. We are disposing in July of some equity on the P&C side. With this, we are going to low cost. So it's maybe putting some additional hedge on the credit spreads. And then clearly the other things that we can do in order to try to create some additional solvency ratio, so that buybacks that we are looking to that that might be helpful. And then we have always organic capital generation. So from that point of view, we feel comfortable about the level that we are -- we have actions that we put in place in order to sustain the solvency ratio, we need also anyway to know that, if there is a significant market dislocation the solvency ratio came drop. But at the point in time, we need to understand the source of the nature of the solvency ratio, once -- after it drops usually, there is a recovery cash back up. So from that point of view, we shouldn't be overly scared by some volatility in -- in the ratio, this clearly we are putting action in place in order to make the solvency ratio as resilient as we might be we can.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Yeah. That's very clear. Yeah. Thank you for this.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We will take our next question from James Shuck with Citi.

Q - James Shuck {BIO 3680082 <GO>}

Hi, good afternoon. Giulio and everyone. So a few questions from me. So just like to get a feel for the volume outlook in P&C. I think normally you guide towards around 3% to 4% of GWP growth in a normal year, your book of business is probably a bit more biased towards SMEs than others and obviously SMEs is seeing a lot of pressure, so just keen to understand how you see that evolving, not so much this year, which is really difficult year to predict, but maybe next year. That's my first question.

Secondly, I noticed the number you haven't normally given or like to give, that I would be keen to understand what your essential liquidity level is, please. And if you could comment on remittances year-to-date and the outlook for remittances next year given local level of solvency. That's very helpful. My understanding is that local regulators are looking at a little bit more closely at local liquidity over and above the Solvency II ratio. So could you just confirm whether that was indeed the case that would be helpful. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. Maybe starting from the liquidity. Clearly, I'm not going to give you the number, but clearly what we have been focusing here has been to secure as much as liquidity as possible in the Group, and from that point of view, we have been also I would say successful. So we have received the majority of the dividend from our subsidiary. And this has been really one of the main focus once you -- when you get into a situation like the COVID one. Yes, it's clearly you (technical difficulty) attention on the (inaudible). So for that point of view, I will say, the situation that we have right now is comfortable. I think (inaudible) as you look at what regulators might be doing locally, this depends on legislation by legislation. And but again, as I said before, we've been very proactive in repatriating dividend, and we need to see clearly what the position of the local regulators is going to be next year. But that's the reason why we have works and the assumption that we need to get as much cash in muni as possible soon because you never know what might be, what might happen last year. So from that point of view in Italy, you say when you are like a name [ph]. The answer story, a lot of things to prepare for may be tougher time.

So from their point of view, if we feel comfortable about the liquidity position, we have a group as we think clearly about 2021 and also 2022. On the other question -- or there was about the SME. Yeah, moving forward, yeah, we are going to see some pressure on the revenue. There is no -- on the P&C side, there is no doubt because the premium is on line of business, a function of the turnover.

So from their point of view, we know that revenue in some lines of business can come under pressure and that's the reason why, then we need to work very diligently also on other drivers, one is productivity, is always a driver that we are active in, we can activate even more and then there is always the technical excellence.

So there are things that we can do, clearly to offset some headwinds, that we are going to see, to see for sure. So as on now, as we are thinking about 2021 and as we look at our underlying performance and we try to supply what might happen. We are still committed to get to our 93% combined ratio next year and this is despite potentially lower revenue. So for the time being, we are still working towards that next year, and this, despite potentially lower revenues. For the time being, we are still working towards that goal.

Q - James Shuck {BIO 3680082 <GO>}

Why -- if I -- just very quickly, why the reluctance not to give the liquidity number, Giulio, because it could be a strong differentiating factor for you. You've got a good group structure. You've got an Asset Management businesses that's very fee-based orientated. And I'm just keen to understand why you wouldn't give that number, when it may show you in good light.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. That's something that's traditionally we've never been giving up. So from that point of view, the tradition has been serving us well of over many years. And I'm not going to be the one breaking that tradition.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We'll take our next question from William Hawkins with KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, thank you very much. Giulio, could you elaborate a little bit what you've been saying about the regulatory environment, because you seem to me on (Technical Difficulty) you said a couple of times that is not conducive to a buyback. And you said earlier that even conversations about dividend payments are happening. I mean, now it seems to me -- we have EIOPA panic in (inaudible) but actually BaFin stood by companies such as you. And since then we've seen at least one Dutch company restarted its buyback and we've seen a number of other countries, we've seen a number of (technical difficulty) restart their dividend payments as well.

So I'm just a little bit confused, you seem to be implying that the regulatory environment is still a point to stress when the facts that I'm saying from the wider market seem to be pointing toward less stress unless regulatory pressure than there was say, three months ago. So I wonder if you could just help me reconcile that it seems to me in consistency.

And then second is -- it seems like you have EUR500 million frequency benefits in the first half of this year. Could you kind of give us any kind of guide about how conservative you've been with regard I think frequency. I mean have you just done it efficiently. And so that's the number or have you held back a lot because you know what the second half is going to look like. I'm assuming you're being conservative, but I'm just trying to work out how conservative you're being?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. Maybe starting from the regulatory side, okay, now we saw as you said the Dutch regulator going one-way but you saw at the same time, Italy has affirmed just a couple of days ago looked at companies had to be very semi prudent with dividend, so the recommendation was not to pay dividend, that is a recommendation same as (technical difficulty) in France.

Now when we speak about in Bafin, Bafin is a different view. But the point is the point is more that if from EIOPA and from other regulators that is let's put this way a strong recommendation encouraged not to pay dividend and that's what they say, which is also understandable, to say the negative from the standpoint. This has some implication clearly for buybacks because buybacks are considered to be even a little bit more of an issue. So that's what I'm saying.

So you see some of the -- majority I will say the regulators are clearly indicating that they are not really supporting dividend, there are few exceptions, but there are exception and this has implications for somehow for a buyback because I just had buyback as seen rightly or wrongly, doesn't matter different from a -- from a dividend payment. So that's what we were saying. Then on the frequency...

Q - William Hawkins {BIO 1822411 <GO>}

But I'm sorry to come back on that, but it seems to me in two major markets, the Netherlands, and the UK you've actually seen the resumption of dividends. So (multiple speakers)

A - Giulio Terzariol {BIO 17125489 <GO>}

For the French, we are not a major market. You know (inaudible) is not a major market and that's for sure. Maybe Italy might have a different view. And EIOPA is clearly you know very relevant still in the conversation. So I will say that it's fair to say that a majority of the regulators and EIOPA definitely encouraging.

In certain direction, we had also the ESRB you know coming out with than. Then everybody is always looking at what is happening on the banking side. So I will say that when you look at the environment, it's definitely clearly more indicating that there is not necessarily an encouragement, let's put this way to pay dividend. And when you have a discussion on dividend, this is what I'm saying, outside Germany, because in Germany is a little bit of different story. This has anyway sort of influence on the decision making on the buyback.

But I'll definitely tell you, there is -- look also the EIOPA position now changing (Technical Difficulty) come out and when you see also some indication was we are going to think about dividends maybe after the summer break, and now they are indicating our dividends until January 1st. And honestly speaking, January 1st, as I mean January 1st, because nobody is going to pay a dividend on January 1st. Right. Everybody is going to say, let's see the numbers of the year.

So that the environment is definitely little bit -- still not changed in my opinion. With the exception, as you said, the Dutch regulator, I will say the position is still the same. And I would even say in some cases the confirmation about the recommendation from regulator not to pay dividend in a few legislation, also the extension of the period to January, it tells you that overall I would say is the same situation, if not slightly worse, compared to April.

On your question about the frequency, yeah, the frequency that we have observed is a little bit higher, the reduction compared to what we have been reflecting in our numbers. So from that point of view, we have been a little bit on the conservative side, but we need to say that there is also overall uncertainty about what might happen to severity as we go into the second part of the year. That could be also the thinking what might happen also for next year. So you want to put to keep some powder dry. There might be also that you those coming back. So from that point of view, yes, we've been on the -- on the conservative side, but I believe that being on the conservative side in this kind of environment is also the right approach and then we will see what, what will happen in the second part of 2020 and also as we go into 2021.

Q - James Shuck {BIO 3680082 <GO>}

Fantastic. Thank you, Giulio.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you.

Operator

We'll take our next question from Michael Haid with Commerzbank.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Two questions, one on Life and Health and one on Motor. The operating profit in Life and Health has been very resilient. While the new business generation is down, I understand that the IFRS operating profit comes almost exclusively from the in-force and not from the new business under IFRS bank accounting, not all costs are fully spread evenly over the lifetime of the policies. So the new business generate some upfront burden, more so of course, in local GAAP, but also on the IFRS. So the lower new business may have led to a positive impact on new IFRS operating profit in the second quarter. Is that so and can you quantify the impact of that?

The second question on Motor as you just mentioned, you have seen a reduced frequency in Motor, but also in other lines of business. These benefits will likely lead to some premium rebates and adjustments for 2020 but also lead to people moving to cheaper tariff levels in an environment where normal driving activity takes place. This may lead to premiums, which are not risk adequate any longer, how do you look at this problem and what are your expectations for 2021?

A - Giulio Terzariol {BIO 17125489 <GO>}

So let me comment from the second question. Yeah, definitely, we can see that premium might come under the pressure on the -- on the motor side. And that's also because in some -- you have Bonus Malus system, you might have mileage dependence premium and here. That's where we also have to consider toward this thing, we want to potentially -- and this is a conversation, which is different country by country to have some rate increases in order to consider for what might be higher severity next year, so that's a consideration that we had.

And also that's a little bit one of the reason why we tend to be also and by conservative in recognizing the full benefit of -- of the frequency right now. Because we know that the future might -- might be a little bit more challenging. So it's a little bit of being conservative a little bit on the financial side that can help, but then on the other side also, we are going to take a clear look, it's the expectation for severity as we move in 2021. We are clearly analyzing what's the impact on the price might be just because of the Bonus Mallus and mileages and then we are going to we run the math and we need to go for some rate increases, then we are going to clearly to see how we can put that in a smart way into -- into the system. So that's clearly something which we are considering, and I would say country by country, we might have a different answer.

On the Life side, I'll just tell you, first of all for the biggest book that we have, which is Germany in reality, it doesn't really makes a difference from a debt point of view, whether we do more or less production, it would even tell you that in the case of Allianz Germany, on the IFRS basis less production means a little bit less profit but it's is not really that's material. When you look at the totality of the book. In other countries, it might be that you have a little bit less of a little bit COVID impact. But usually, I would say, that we have lower production the other acquisition costs, they stay stable, so I wouldn't necessarily say that lower production is helping the profitability because in reality what you do you defer more the variable cost by what the fixed costs maybe IT, they don't get really defer. So you should rather get on the IFRS accounting a slight negative impact due to lower production not a positive impact.

But we are speaking of very -- if you ask me, it's not significant. So the impact one way or the other.

Q - Michael Haid {BIO 1971310 <GO>}

Perfect. Thank you very much.

Operator

We'll take our next question from Michael Huttner with Berenberg.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much.I had 2 questions -- additional questions and thank you very much for this, Giulio. You mentioned many times that 94% is your combined ratio, once you adjust it for everything, is below 94%. And my question is how much below? And maybe you should think about the ounce on a six-month basis, you can -- it doesn't have to be so positive maybe. And then the other way of looking at it, what I'm trying to do is find out the answer to how conservative you've been. If I look at the solvency capital generation, the 5% ratio and when Generale, and I know you don't look at it, but when they reported that, they said, yes, look at that number, it was so strong because we were more prudent on reserves, and reserves are our best estimate under Solvency II. But I can't -- I'm not sure I could see the same impact in your Solvency II.

In other words, what I'm trying to say is the only impact I'm seeing that I'd like some indication, is that the -- you have less reserve releases?

A - Giulio Terzariol {BIO 17125489 <GO>}

I cannot speak about Generale so from their point of view it's -- yeah, yeah, I can't speak to them. I just -- the difference between us and Generale engine early might be that we had the same reserve basis between the Solvency II and IFRS where it might be that Generale doesn't had the same reserve basis. So that's might be the difference. So we don't differentiate between IFRS and Solvency II best estimate reserves. But I cannot speak to Generale so you need to confirm with them how they -- how they do the Solvency II versus the IFRS basis.

On the cost combined ratio, I would say the number is let's put this way, it's 93.9% otherwise I wouldn't tell you that the number is below 94% obviously, but also on the other side, it's not 93.1%. Otherwise, I would tell you the number 93%. So from that point of view, I would say it's -- let's say it's below 94% by more than a few basis point and from that point of view also we see definitely that there is in the right direction. In terms of cost, that the to the 93% clearly we need to see how this COVID is going to play out of over time, but from what we see the underlying performance is okay.

Q - Michael Huttner {BIO 21454754 <GO>}

And just on the reinsurance, there was a question where you said or you might get some recoveries, but a couple of hundred million or maybe more. And but just to confirm, you haven't booked any of this. So if you do get a recovery, it would be a positive to the IFRS number.

A - Giulio Terzariol {BIO 17125489 <GO>}

We have both some amounts. So it's not that we didn't book and it is not a material amount. But we -- if we get zero recovery, we would have a little bit of a shortfall. And if we go for a few hundred millions of recovery we would have, definitely an uplift compared to the number that we book for the time being, but it's not that we didn't book, we book 0, so we booked an amount, but it's not really, really significant. Also the way we book it. In reality, what we do is we look at the gross impact that we might have across the different legislation. So as I was saying before, we look at what could be the different worst case, then we look at what the recovery might be. And then we apply some sort of diversification to all these numbers and then we derive sort of net results, that we are booking. But as we did this kind of consideration, we also consider somehow that we might have some -- we think we're going to have some recovery.

Q - Michael Huttner {BIO 21454754 <GO>}

May I just as a follow-up question (inaudible). Ashik asked a couple question on solvency, and you basically said you're actually quite comfortable. But I imagine that you're comfortable because what you know today versus what's in the slide pack, what is the solvency today?

A - Giulio Terzariol {BIO 17125489 <GO>}

The solvency today? I was -- solvency -- no, but I was solvency today. I would say -- I don't check every single day. I was just looking the end of the month. I will say, rates went down a little bit. Equity market as of July were up slightly, credit spreads were, there was a little bit away narrowing on the government bonds, a little bit also on the corporate bond. You asked me, wouldn't be so much different from the level that we have, -- we announced. I would say, you can say the level that we are now and the different effects have been a more or less pushing out. There was one week ago.

Q - Michael Huttner {BIO 21454754 <GO>}

But you'll see some management actions in July?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, you could. Yeah, we had some management action on the P&C side, but this is, this might be, might do 1% of our solvency ratio. So that's, what the management actions that we did in July, might be doing.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you so much. Thank you for being so helpful. Thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. We have a couple of minutes left. So I would say we take one last question, if there is any.

Operator

(Operator Instructions). We have no further questions at this time, I would like to turn the conference back to your hosts for any additional or closing remarks.

A - Oliver Schmidt {BIO 2473131 <GO>}

Thanks, Casey. Right then we say thanks to everybody for joining the call. We say goodbye. Wish you all a very nice remaining afternoon. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Bye guys, stay safe.

Operator

That concludes today's presentation. Thank you for your participation, you may now disconnect.
