Q3 2019 Earnings Call

Company Participants

- Giulio Terzariol, Chief Financial Officer & Member of the Board of Management
- Oliver Bate, Chairman of the Board of Management & Chief Executive Officer
- Oliver Schmidt, Head of Investor Relations

Other Participants

- Andrew James Ritchie
- Ashik Musaddi
- Farooq Hanif
- Johnny Vo
- Michael Hermann Haid
- Niccolo Dalla Palma
- Nick Holmes
- Peter Eliot
- Vinit Malhotra
- William Hawkins

Presentation

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Financial Results of the Third Quarter 2019. For your information, this conference call is being streamed live on allianz.com and YouTube. A recording will be made available shortly after the call.

At this time, I'd 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. Good afternoon from my side as well, and welcome to our conference call. There's nothing specific to be added from my side for now, so I keep it brief and handover directly to Giulio.

Giulio Terzariol {BIO 17125489 <GO>}

Hi. Good morning -- good afternoon to everybody. I'm pleased to present the results for the third quarter. And before we go into the third quarter results That's Page three. You can see the exhibit with the key numbers for the nine months, as you see we had a very good first nine months in the year with revenue up. This is mostly driven by a Property-Casualty and Life/Health. When we look at the operating profit, we have also a nice increase of 4%, this is driven by Life/Health and Asset Management. In Property-Casualty, we have a small reduction on the operating profit, which is driven by lower investment income.

When we look at the combined ratio in Property-Casualty for the first nine months is stable, here we see that natural catastrophe had lesser impact compared to the prior-year. On the other side, the run-off results is lower and what was positive in the nine months, was the development of the expense ratio. So, the bottom line is better natural catastrophe results in the -- and improved cost ratio have offset for the lower run-off.

New business margin is stable and the value of new business is growing double-digit and in asset management we see that we had very good flows with almost 60 billion, which is double the volume we had last year. The net income is up 5% in when we run the earnings per share calculation, we see that the earnings per shares are up almost 8%. So overall, I will say a strong picture for the first nine-months, and now we can turn to Page five, where we show the revenue and operating profit net income for the quarter, again a good quarter with growth in revenue, this time not only coming from Property and Casualty and Life/Health, but also coming from asset management. The operating profit is stable. It's almost 3 billion, which is a very good number. Here we see that Property-Casualty is going down a little bit but this is offset by the development in the other segments.

And then we have the shareholder net income which is stable compared to the prior period, also at a good level of over EUR1.9 billion. So also in the third quarter, you can see the kind of good performance that we were able to record in the first six months of the year.

And now we can move to Page seven. Where we -- I'm going to focus on the solvency ratio, as you can see the solvency ratio has dropped about 10 percentage points, clearly the main driver for the drop is the development of the interest rates. I'm going to come back on these numbers in a second. Then, when you look at the sensitivities, the sensitivities are more or less unchanged compared to the sensitivities we had in the end of June. You might see that the sensitivities to interest rates are a little bit higher compared to what we had in June. In June, the number was minus 8%, the reason for the increase is, one, the convexity, when rates go down. We're going really to pick up more sensitivities and second, also we had some refinement to the way we calculate the sensitivity, but the primary effect is the convexity.

If we move to Page nine. Now, we can see the development of the solvency ratio. First of all, what is interesting when you look at the own funds, the own funds are not going down. In reality, the own funds are going up and this is after the deduction of the EUR 1 billion dividend that we will pay out, out of the profit for the quarter. So fundamentally, you can see the own funds are building up. On the other side what you see is that the solvency, the requirement is going up significantly and this is driven by -- primarily by the interest rate development.

When we look at the different buckets, the impact of the market after tax is about 11%, and this has been partially offset by the increase in operating earnings with -- which was 9% on a pretax and pre-dividend basis and about 3% plus on a after tax and after dividend basis. So all in all I will say, clearly reduction of our solvency ratio, which is also inline with our expectation. And the most important comment here is with the solvency ratio of 202%, we feel we're at the very comfortable level. And this is also the reason why in the past anyway, we were running the solvency ratio also at a high level because we know that there are times where the solvency ratio is going to drop. But again we are significantly above the level of 180%, which is the level that we had defined as the minimum comfort level.

So when we go to Page 11, we can go now into the segment on the P&C side, we saw, also in the quarter a good growth rate with almost 5%, half of the growth is coming from a price development and half of the growth is coming from volume. When you look at the single entities, you can see there is growth everywhere with the exception of Spain, where we have declined and this is because of the cleansing [ph] that we are operating right now in Spain.

On the price development, you can see the price development is stable or positive, and clearly we are looking very carefully at the price development in AGCS, you can see that in the -- in AGCS the price development is very strong with almost plus 8% of improvement. So from that point of view, I will say the picture from a price point of view looks benign as we look into the future.

Moving to page 13. Here we show the development of the operating profit for Property-Casualty, and clearly the operating profit reduction has been driven by the development of the combined ratio. Now you can see that the combined ratio has increased by about 120 basis points. What we are observing here, when we look first at the accident year results. We see that the natural catastrophe had a more benign impact compared to last year. So there was a benefit if you want of about 80 basis points.

But against that we had a higher amount of large losses and also of weather-related. So in reality, the positive impact from the natural catastrophe has been compensated by large losses and weather-related. When we look at the loss ratio adjusted also for this impact, in reality, we have even a tiny improvement compared to last year.

And then clearly, we see that the run-off is lower compared to the very high level that we had in 2018. So the 4.5% is definitely not the kind of level that we would expect on a normalized basis. 2.5% might be a little bit lower compared to what we usually see for the year, if you remember the slides I showed before we are at 2.8. So in the third quarter, there was a little bit of a lower run-off. I'm sure I'm going to get a few questions on there, so I leave for the questions. What is also nice to see is the reality is the improvement of the expense ratio again 70 basis points lower compared to last year. I was checking today the expense ratio that we had a couple of years ago, we were more at 28.5, so you can see, definitely there is a strong improvement over time in this kind of KPIs.

With that, if we move to Page 15, we can see the development of the combined ratio for the selected companies, I will say the development in Germany is pretty good. You might see deterioration compared to the prior period, but that's driven by the amount of natural catastrophe or weather-related losses, but fundamentally with a combined ratio of 92% and the German business is performing very nicely. The same applies to Italy, Eastern Europe, Australia and the United Kingdom. We have a couple of special effects, otherwise, the combined ratio will be about 96%.

In France we see a combined ratio 98.4% which is behind our expectation in this case, it's also driven by an amount of weather-related and large losses. When you look at the nine months, for France we are 97%. Which is a little bit behind what we would expect, but for the market, it's still a kind of reasonable combined ratio. And then going down the list, Spain, is not -- is not anything new, if you adjust the combined ratio of Spain for the run-off, which is currently negative. We get to an accident year combined ratio which is below 94, and I expect that next year we're going to see these kind of numbers moving forward.

And then clearly the AGCS has a combined ratio which is over 100%, it's 102.7%. In this case, you can see that there is a slight improvement compared to the last year, but this is clearly driven by the fact that we had much lower natural catastrophe, which means something is missing in the picture. The point is last year, we had a large positive run-off in the AGCS. And this year, in the case of AGCS, we have a slight negative run-off. This explains the reason why, in reality, we don't see a major improvement despite the lower natural catastrophe.

And then the last two companies as usual, are performing pretty nicely. So I will say, in total it's a good combined ratio, clearly we have a especially one company, AGCS where we need to do some homework. But we should not neglect that a lot of companies are performing very nicely.

Page 17. The operating investment results is pretty stable, I'd like to draw your attention then to the right hand side on the upper part, where you can see that the reinvestment yield is going down compared to the last quarter, last year's even 80 basis points. And clearly, this is the effect of the new interest rate environment, just for your point of reference 50 basis point or lower investment yield are equivalent to EUR 100 million lower operating profit and to make up for EUR 100 million of operating profit we need to improve our combined ratio by 20 basis points, which we think is possible.

So from that point of view, even if we see headwinds coming from investments for the development of the interest rates. We still believe that we can achieve our mid-term objectives that we discussed last year. So, there is no change in our expectation that we should be able to offset for the more challenging interest rate environment in the next years. But clearly, it has become a little bit more challenging but we are confident we can get there.

At page 19, we can switch to the life business. First, you see we had a good new business margin. We have are already anticipated in the call of August that we are going to be at about this level. So we can see that, if you take the big picture that despite having very low interest rates, we still have new business margin, which is very resilient. Clearly this is the new business margin calculated based on the beginning of the quarter. Assumption not on the end of the quarter assumption but still it is calculated a lower level of interest rate. And so now, I will say market conditions are very similar to the condition we had at the end of June.

The production is going up, this is driven by Germany. We see also good development in the USA, and then in Italy there is a sort of special effect adjusting for the kind of special effect, which is renegotiation of a contrast. The production level would have been flat. But again, I will say a resilient business margin and also an increase in production.

So if we move to Page 21. The operating profits development for the life business for the quarter is actually good with an increase in operating profit of about 3%, what is important to highlight here is the development of the loadings and fees as you see, they are going up significantly compared to what we had one year ago. And this is a trend that we have been seeing over the course of the year. So, this is definitely boding well also for the future performance of the life business.

Investment margin for the quarter is pretty resilient at least on a absolute level and then I will say the technical margin is stabilized to what our expectation will be in 2019, there was a sort of negative impact coming from the United States and we didn't have a repeat of this negative impact this year. So all-in-all with about 1.1 billion of operating profit, I would say our life business is performing according to our expectations, is not, even is slightly better than our expectation.

If we move to Page 23. Couple of comments here. First of all, we were able to achieve a value of new business of about EUR 500 million. So it's a good number they also growing compared to what we had one year ago and this despite the reduction of business margin. Coming back to the reduction of business margin of 50 basis points. 80 basis points of the reduction is driven by the movement of the interest rates. And on the other side, we had about 30 to 40 basis point of change in business mix or management action that have contributed to keep the new business margin above the 3% level.

When you look at the single entities, you can see that with the exception of a few or two companies or all other entities are, for the time being, still above the 2% level, so you can see there is not just a resilience on a total basis but also for a lot of companies we are still writing business at a level which is above two percent.

On the operating profit for the single entities, I will say there is, from my standpoint nothing major to highlights, if not the growth in Asia-Pacific, which is clearly a consequence of the growth that we see in the business over there. And then you can see the few big pluses, but this is more a normalization compared to the lower results we had last year. So, there is really nothing major, it's more a normalization.

So, again good numbers on the life side and on page 25, we have as usual the breakdown of the investment margin. What is important to highlight here is something that we have seen also in the past, that the current yield is going down. But the guarantees are going down as well. In this case the guarantees are going down even more than the development of the current yield. So from that point of view, we are capable to keep, if you want, the spread between guarantee and yield.

It's very important. And then clearly, we have also the impact of harvesting and of the profit sharing under IFRS.

And this then leads to an investment margin of 19 basis points, which is lower compared to the investment margin we had last year. But very consistent with the investment margin that we had in Q1 and Q2. And also something to consider is that the investment margin calculated in percentage going down. But the amount of policy reserve is going up. So, from that point of view, where you multiply the two things you get like you can see in this quarter to a sort of resilience of stickiness, also this indicator, but I want again to highlight that other source of profits are going to become more and more relevant as we move into the future.

So now, if we go to Page 27, in asset management we have achieved record third-party assets under management with almost EUR 1.7 trillion, so that's a very good news, especially because higher asset under management, means higher profit moving into the future. All factors have contributed to this development. If you see flows, when you put together AGI and PIMCO, are positive then we had also a positive impact due to the market development and on top of that, we got also a positive effect due to FX.

So all in all, all the things are leading to a very high or record level of third party assets under management. If you move to Page 29 clearly, this also translates in a higher revenue growth, even if the performance fees for the quarter are a little bit lower compared to what we had last year.

On the third-party assets under management margin, you can see there is a lot of stickiness in the case of AGI. In the case of PIMCO, we see a reduction, which is mostly explained by mix and also by an the acquisition of Gurtin that we did last year. But fundamentally, I will say, this decrease in the margin at PIMCO, if you look at Page 31, has not really affected the results as you see we are very, very pleased with the increase in operating profit at PIMCO, which is above 14% if you adjust for FX we are still speak of an increase, which is very -- almost 10%.

So, very good performance at PIMCO, and also in the case of a AGI, I will say you see a decrease in operating profit, but we are speaking of a very high level with about EUR 180 million of operating profit, I will say this is a good level of operating profit. And when you put together all the numbers we are ending up with EUR 700 million of operating profit for the segment, which is clearly very good results.

So with that we can move to Page 33, that's our corporate segment. And as you see in the corporate segments, we have improved our results by about 60 million, improvement is coming from Allainz technology and the other components that flows into the corporate statements are more or less stable.

So Page 35, here we had a user exhibit with the nonoperating items, I will say you can see some movements, some plus and minuses. But when you put all together, at the end of the day, it's more or less of a wash. So you can see that the net income is increasing with the same pace more or less, of the operating profit, so I will not go into details now, but I'm happy to get your questions on these slides later on.

And then we turn to the final slide, for the nine-months I will say we have very good results, very strong results on the Property-Casualty side, we have a combined ratio 94.1, which is a good combined ratio, we have a lot of companies performing very nicely. We have a company, where we have some work to do. But again, when you look at the segments teh performance is pretty strong. On the Life/Health side we see strong operating profit and also a nice resilience, so the -- new business and the new business margin.

In asset management we have record high assets under management, so that's also something that should be positive. As we move into the future and then when we put all this together we are revisiting upwards our outlook for the year, in June we were still working on the midpoint of the outlook and now we are working under the assumption that we are going to be in the upper half of the target range.

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

Questions And Answers

Operator

(Question And Answer)

Thank you (Operator Instructions) We will now take the first question first Mr.Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. And thank you, Giulio. And the first question was on Allianz Technology. I guess this is the third quarter in a row that we've seen it boost the corporate segment. So I'm just wondering whether we should start thinking of that as a sustainable profit contributor, and I'm wondering if you can maybe just update us on your view of the sort of the sustainable results from that segment.

And the second question was on interest rate sensitivity. I guess it just seems -- it seems solvency declined by about 12 percentage points from factors that were sort of either directly or indirectly linked to interest rate falls, which is a bit more than the sensitivities would suggest even allowing for the flattening of the curve and even on the new sensitivity. So I guess I'm just wondering, when we think about sensitivity, should we think about that as sort of including everything or should we maybe sort of also include something for the knock-on effects? I mean, maybe your modeling refinement has addressed that, but I was wondering if you could maybe just comment on that.

And a third question, I'll leave Spain to others. But I was just wondering if you could give us your view of what's happening to motor pricing in Italy. The reason I asked is, because your two major competitors have given slightly different assessments, so I'd just be interested in your view. Thank you very much.

A - Oliver Bate {BIO 19184930 <GO>}

Yeah. So, maybe I'll start with the corporate segment. I will say that definitely there is an improvement. And to a certain degree, this improvement is going to be sticky. So as we go into 2020, I will say that you are going to get a guidance for the corporate segment that should be better compared to the guidance of minus EUR900 million we gave for this year, and also this year we're going to be better. So I will say -- I will not take the quarter and now necessarily annualize the quarter. But I will say that the numbers for the corporate segments are going to look better moving forward compared to what we had in the past.

On the rate sensitivity, I will say that the model refinement can also help to get the sensitivity to be even more meaningful, but I will say our sensitivity are pretty good, if you ask me. And model refinement are going to improve them further but they are already in my opinion, pretty accurate.

One thing that we need to consider is, for example, let's take 2000 the quarter. So, in the quarter, first of all, I would always invite you to look at the 20 years swap movement. That's the point of reference that I would choose. And that this will operate the swap rate on the 20 years moved by about 50 basis point. And there would already be about 8% of sensitivity based on the disclosure we had in Q2. Then in theory if we really want to get very technical, you should also look at the twists if the curve. And if you look at the 10-year, the 10-year moved only 30 basis points, the 20 year moved 50 basis points. So in reality, the movement on the spot rate on the 20 is more than 50.

And so if you start also really going to the nitty-gritty kind of details, you would expect in a quarter like this that the movement because of interest rate is more than 8%. On top of that, we are not disclosing sensitivity, we are not necessarily calculating to the interest rate volatility. So I will say, if you consider for the twist, if you consider that there are other effects coming, I will say that the sensitivity we see in the quarter are very much expected and to be perfectly blunt, I was not surprised by the number.

So maybe last quarter or two quarters ago, though, remember, maybe there was 1 percentage point or 2 percentage points surprise also for me. I can tell you that this quarter, the surprise for me was zero. So, I was very precise in and we were very precise here internally, a lot of people are doing forecasting here in the solvency ratio. And somehow we landed very precisely on this number.

So the answer is, it's we give sensitivity, they are a good orientation in my opinion. But clearly, there are other effects that somebody should consider like twist and volatility and this can lead to additional positive or negative change depending on the situation.

On Italy, I'm also hearing noise that our competitors believe we are pretty we are kind of aggressive and they see the pricing that we do a little bit, like we might be on the aggressive side. We have intense conversation with our guys. And so from that point of view, we think that's and I said that already in the call, we have introduced a very sophisticated pricing model.

So, we feel pretty good about the situation in Italy and what our accident year loss ratio is, but clearly we will continue to take a close look at the numbers as when you are hearing noise is you want always to be extra cautious. But we are definitely looking into that and for the time being I can just say that we are comfortable with what we see.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you very much.

Operator

We will now take the next question from Andrew Ritchie from Autonomous Research. Please go ahead.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Hello, Hi, there. I'm afraid it was inevitable that someone asked about AGCS. I applaud you here that you gave a lot of color to journalists this morning. Maybe you could give us that color as well so to expected further reserve additions in Q4. I guess just in general, though, could you address the issue? The textbook for fixing these kind of operations is shrinking and focusing on profitability.

AGCS appears to be growing and growing more than pricing, and still trying to fix profitability, which inevitably raises worries about the quality of recent growth and whether you're trying to run a catch-up on reserves. So maybe if you could address some of those issues and where the problem areas are and how we get comfortable with the growth.

The only other topic is in the slide pack, it talks about further management actions to defend life new business profitability. What are those actions? Is this a whole suite of redesign particularly of the capital efficient products? Thanks.

A - Oliver Bate {BIO 19184930 <GO>}

Yeah. Maybe I'll start from the last one, which is the actions on the life side. Yes, it depends on the markets. You need more or less redesign, but definitely, I even forgot to say that as I was presenting. When we define our capital light products, maybe the definition what is a capital light product has changed, so we are also looking into that, clearly with a negative interest rate environment, things are changing.

And even if we see the resilience in the new business margin, we need to be prepared that the rates could go even lower, so we cannot even exclude that. So from that point of view, yes, it's about looking at the products that we have, in some markets, I think the changes they don't need to be extremely substantial, but we need to think about introducing, let's call it this way, negative guarantees that's something that is on the table.

In other markets, one could even question whether we need really to change also the products more towards unit-linked. In Italy, we already did that. So depending on the market, we are going to have different reaction and maybe even the speed of reaction might be slightly different, but there is no doubt that the products that we have right now, they might even be kind of sustainable in this environment, but we need always to be prepared even for an environment that might be even tougher.

And our idea anyway is that no matter what the environment is, we need to be capable to produce new business margin at the group level of 3%. It doesn't need to be in every single quarter obviously. But fundamentally, we need to have a business model that can operate at that level.

Just to give you an idea in fourth quarter based on the market condition of the end or the beginning of the quarter, our new business margin is going to be, you might have read in the comments, about 2.5%. As of now, we would already be back to 3%. But again, we cannot be in a situation where 20 basis point more or less are going to flip us from being in green to be in orange. So that's what we are doing on the life side. So, you're going to see definitely changes coming through as we go into 2020.

On AGCS, and your questions about growing. I will say when we speak about AGCS, first of all, we speak of a sector which is kind of challenging. So I would say when we do our benchmarking to our competitors for whatever that benchmarking might tell you, because honestly speaking every benchmark has to be taken with a grain of salt. When we do this benchmarking, AGCS is performing better than most of the competition. So we need to understand also that the market is per se challenging. It cannot defeat force of gravity.

When we then look into the so-called business cases, the area of growth that you are mentioning we call those areas of growth the business cases. We are not necessarily getting an indication that we have a particularly -- particular problem coming from there, indeed indication are that the numbers are fine, maybe we might have overestimated how good the numbers or the business cases were, but I couldn't say that the business cases are negative.

What we see, however, is and we see also this happening right now. We see there are more and more bad news and new information coming up. So from a certain degree, we are also getting general new information. So I would say the situation is, we have a sector which is definitely which will went through a soft market for a few years now. And then also it looks like in some lines of business, like in liability in the U.S. There is a buildup of severity and potentially of frequency.

Our book just to speak about the liability book in the U.S. is not big. We have about EUR400 million of liability book in the U.S. We also believe our book is slightly different from the book that other people have. We cannot assume that we are going to be completely immune to what happens in the broader market. So my answer is, I don't think we did something particularly wrong. I think the market is challenging and maybe we had not done everything right, that's the way I will would phrase the issue.

Expectation for the quarter --. Yeah. Go ahead.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

I was going to ask you, what was your, because you talked --

A - Oliver Bate {BIO 19184930 <GO>}

Yeah. I was coming.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Yeah.

A - Oliver Bate {BIO 19184930 <GO>}

I know this is the real question you're asking. So, this quarter, I said -- this morning, I said that the combined ratio for the quarter for Allianz AGCS is going to be definitely above 110. So, I can tell you, when we speak about the reserving that we might see coming fourth quarter, I will say we are speaking of EUR3 million digit number, and the first number is not going to be most likely one it's going to be something more than one. And that's all what I can tell you. So there's going to be some reserve strengthening that we need at do to AGCS and this is already included anyway in our expectation for year end.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Okay. Thank you very much.

Operator

We will now take the next question from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Good afternoon. Just two questions please. One is on the whole, the loss ratio and the expense ratio and then the target ultimately in 2021. If you see the loss ratio, the trend attritionally few quarters now has been flat to tiny improvement, as you just also mentioned, Giulio. So -- and then we also see the runoff is getting weaker. So, the expense ratio then, does it -- it should have to carry a lot more on its shoulders to deliver the results. Do you feel that you're a bit more confident or similarly confident about the 93%, as you were when this was launched about a year ago? So, that's the first question. And any comments on these dynamics would be helpful.

And second question is just on AGI. It's a bit interesting that there is all these outflows for now four quarters, but also the performance fee level has been quite high as well. So just as an example, the last quarter -- the last year 3Q was an inflow, but also performance fee this year we're having outflows, but also performance fee. If clients are getting the returns, then what is it that's going wrong and how should we -- di you think AGI is stabilizing? Or is there a plan or discussion regarding that? Thank you very much.

A - Oliver Bate {BIO 19184930 <GO>}

Yeah. So, thank you for the questions. On the 93% for 2021, my level of confidence is the same. So what I'm seeing is on the expense ratio, I think we are going to be better compared to the 27.5% that we discussed. And on the loss ratio, I think eventually we're going to get to the -- to also to the numbers that we have in mind. So also what might help in reality on the loss ratio is when rates go down, you need to have more discipline on the underwriting. But the point is also in reality, most likely we will need to be even slightly better than 93, so that we can get to our targets at least for the P&C side in reality. We might have a situation where we're going to benefit from lower interest rates in the asset management business for the next two year.

So, to answer your question, I would say, my level of confidence that we are going to get to the 93% is exactly the same as it was one year ago. And also like just to say, for example this quarter, we are 94.3% combined ratio and this includes AGCS, let's say, at 103%. I cannot really see how AGCS is going to be at 103% in 2021. So, that's -- everything can happen in life, but now it's not something that-- let's put it this way, that's not the target. Let's face this way.

So coming to AGI, first of all, one thing which is important is when you look at the performance fees, we have also in -- starting last year, we are including performance fees, which belong to a company, they go to a company which is managing assets, private equity alternative assets for our own insurance companies. So from that point of view, there are performance fees, but that's pretty much of a wash. So, you cannot take the performance fees and translate that into profit, so you should adjust the numbers for that and then you'll get a different picture.

So unfortunately for you, you cannot necessarily use those numbers to do too much analytics, but I can tell you what's going on AGI, I will say first of all, numbers are anyway pretty sticky. So when you look at the operating profit of AGI not only for the quarter, but also for the six months, we are pretty -- generally pretty good numbers. The only thing which is not really working right now is the -- you can see the flows have been negative for three quarters in a row, if not four, but let's say, this year have been negative. And the main issue we have is our performance, especially in equity and in the U.S. So at end of the day, most of the outflows are coming from, you can give a name, family name is equity U.S. institutional area.

As we fix that I will say, we have a nice platform. And also since you were asking about the -- how I feel about the 93 combined ratio in P&C, last year, we also said that we want to bring the cost to income ratio of AGI below 67 by 2021, and we feel very confident that we are going to be able to get the cost income ratio even well below 67.

So, a lot of things okay. At AGI, clearly, we need to get the performance up, and this is going to stabilize the flows which is clearly critical. On the long run, you cannot be successful if you have a constantly negative flows.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

Operator

We will now take the next question from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thank you very much. Good afternoon. Going back to a AGCS. If you are going to achieve the upper end of your target range with such a high reserve addition, what is going to offset it? So, do you have another massive pocket of reserve release that could offset it? So, can you just comment on that?

And then, secondly, could you just add up for us to make it easy, the net M&A spend, since you announced your sort of buyback this year? So, I want to get to a level of how much of the EUR 2 billion to EUR 3 billion budget for M&A/ capital return, you have probably already eaten into for next year? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. So I -- okay. First of all, we didn't say we are going to be at the upper end of the range. We said upper half. So, this makes clearly a little bit of a difference. It's exactly, by the way, the reason why we said upper half and not necessarily upper end, because we would like to digest some of the runoff from AGCS. And anyway, our intention is we like to keep the strength of our balance sheet, so we're not going to look necessarily for glory. So we could end up at the upper end if we really want to, yes, most likely yes, but that's not the idea. So, that's the reason why we are speaking of upper half.

The other point is on the M&A budget. I would say when you look at what we did last year by completing the transaction for LV. And also with South America, I would say of the EUR2.5 billion of free cash flow we have utilized less than EUR1 billion, I would say about EUR1 billion. So from that point of view, there is still available free cash flow coming from there, but that's also important. This is just a free cash flow that we generate on a single year. So, clearly, we have more availability of cash, let's say, in our inventory. Although the EUR2.5 billion of free cash flow that we generate in a year, yeah, we have utilized a little bit about EUR1 billion.

Q - Farooq Hanif {BIO 4780978 <GO>}

Just you follow up on that. So does that include the -- that obviously doesn't include yet the cash back from Italian, so it's our next Spanish JV. And presumably idoesn't include anything else that might be on Bloomberg about China, for example.

A - Giulio Terzariol {BIO 17125489 <GO>}

The China thing, the China thing is not -- we didn't fund it through our free cash flow or M&A buyback budget. This is a general account investment. So, this is coming an investment, which is covering some of the variability that we had. So has no impact on the free cash flow situation of the group.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay.

A - Giulio Terzariol {BIO 17125489 <GO>}

We see a pure financial investment. Yeah. Okay.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Great. Thank you.

Operator

The next question comes from Nick Holmes from Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Oh. Hi there. Thank you very much. Just coming back on low interest rates. Wondered are you modeling negative interest rates for Solvency II? And if so, could you give us a bit of color on that?

And what do you think of EIOPA's proposals to introduce negative interest rate modeling into the standard formula, obviously you're not using the standard formula, but just wondered what you think the effect on the German Mutual sector could be? Thank you.

A - Oliver Bate {BIO 19184930 <GO>}

So yes, we have negative interest rate. So when you have an internal of model, that's what you do. And that is also the reason why there is also the conversation about introducing the negative interest rates on -- in the standard model. In our case, what we do is we run the stochastic -- the short and the stochastic calculation, we have a floor anyway at 185 negative. So, interest rate cannot go below 185, which seems to be. But a few months ago, that seemed to be a very prudent assumption, now it still looks like a prudent assumption, but let's prove them, but I feel pretty good about the way we run our models and also the amount of negative rates that we allow in our model.

With regard to the proposals of EIOPA. And the fact that's a negative interest rates should be factored in, in the standard model. I think it's hard to disagree with that. Once you have negative interest rates and claiming that this cannot happen, it's very hard to object to this. So, from that point of view, I will say, we need always to be objective and technical. So from that point of view, I think that's the right proposal. Now, the consequence is they might not be so nice, but then okay clearly if I were a regulator, but I'm not as I change the rules of the game, I would always give time. So then I would say, okay, if you change from a model where you don't have negative interest rate to a model where you need to apply negative interest rate. Most likely, I would also say, maybe I'll give you some additional transitional period, so that the companies have a possibility to react to that. That's what I would do if I were a regulator, but I would definitely introduce the negative interest rates. Then I will think about other may be possibility to give some room to this company to react also to what the numbers are going to look like.

Q - Nick Holmes {BIO 3387435 <GO>}

So, you are not too worried about a crisis in the German Mutual Life Sector being triggered by EIOPA, because I mean that could be negative for yourselves, couldn't it? I mean you might have to intervene to help them.

A - Oliver Bate {BIO 19184930 <GO>}

I'm not worried about this. And yeah, I know there is always this issue that we should save people, if we had to save people, we are going to do this in economic terms right, there is not the idea to save other companies under uneconomic terms, but I think the regulators are going. If there is any stress coming in the system, first, they're going to find other venues to relieve the stress in the system. And I can tell you the more, if at the end of the day we are asked to help, usually people that are helping, they get at least in the long-term some benefit, because of that. So I wouldn't be concerned about that.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. That's great. Thank you very much.

A - Oliver Bate {BIO 19184930 <GO>}

Thank you.

Operator

We will now take the next question from Ashik Musaddi from JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. Hello. Good afternoon, Giulio. Just a couple of questions. First on low interest rates, I mean you mentioned that product mix shift cannot be ruled out and it would be a very important tool that you look in the Life business. Can you just give some color as to low interest rates, how much it will be adjusted by doing more asset de-risking. So more asset optimization? And into what particular asset class you want to do more, I mean, is it still the same illiquid assets or anything else?

Second thing is about the same EIOPA review. Sorry going back to the same thing. I mean, the UFR is a big debate as well. I mean, does the change in last liquid point is important relevant for

German Mutual industry alongside your business, and does that change any dynamic? Any thoughts where is the debate with the regulator with BaFin on that subject? What is BaFin proposing on last liquid point? Any thoughts on that would be great. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

So on the assets in the Life side, well, okay. First of all, what we need to do and what we are doing is to make sure that we have assets and liability, which are somehow in sync, we will never get to a duration which is exactly zero. But the idea is to have a matching which is as close as possible. And clearly as we see rates going down, because of the convexity of the liability, which is larger than the convexity of the asset, we have always the need somehow to catch up as rates go down. So, this is the first thing that in reality we are doing is look at our portfolio, understand the duration so that we don't have the increase in SCR. By the way that's also something to consider. It's -- we can always improve our Solvency ratio by going long or short on duration. Then clearly there are other effects that have to be considered, but the primary thing is working the regulation.

On the other kind of assets I would say, we are not necessarily changing the philosophy. From that point of view, clearly, we like illiquid assets, because they are fitting well into our liability profile. We might be a little bit more cautious right now in expanding our equity portfolio, but fundamentally we are not necessarily changing the way we are running our assets, allocation.

In the case of the BaFin, I think that they had a sort of proposal, if understand about introducing some crisis VA, which I think is off the table. Otherwise on the last liquid point, I believe the position BaFin most likely is to extend to 30 basis -- 30 years. We will see.

Q - Ashik Musaddi {BIO 15847584 <GO>}

And how does that impact or change anything for the industry and for Allianz, does it -- is it material? If I look at the Solvency ratios of the German Life industry, it's like 300%, 350%. So, it does it matter?

A - Oliver Bate {BIO 19184930 <GO>}

Yeah. The point is, let's say that, that's always important to, by the way my guys are telling me, BaFin is more about keeping the 20 years. I need to correct myself. Let's say that we move from 20 to 30, clearly, the implication if you do nothing would be that the Solvency ratio is going to go down. But the point is in reality, you can extend duration.

So at the end of the day, the extension of the UFR from 20 to 30, the impact that you have at least on the requirement that can be offset by extended duration, you might have an impact on the own fund, but that's a different story.

So, companies have the possibility to adjust the strategy in order to, if they need to, to improve the Solvency ratio, I also believe anyway that if the regulators are going to come with substantial changes moving forward, I believe they are going to give some room to the companies to react. It makes a big difference if you change the rules of the game and you say these are the new rules, and this is starting tomorrow or if you say to somebody, these are the new rules, but you have four or five years to get there, and this is where you can make changes.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. And sorry BaFin is saying 20 year or 30 year.

A - Oliver Bate {BIO 19184930 <GO>}

20.

Q - Ashik Musaddi {BIO 15847584 <GO>}

20. Okay. Thanks. That's very clear. Thank you.

Operator

We will now take the next question from Johnny Vo from Goldman Sachs. Please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Hey, good afternoon. Thanks. Just -- can you just comment on the sales increase in Life in Germany? I mean, is this a sales promotion and should this continue?

I guess the next question just comes back to one of the questions or one of the answers you gave before. Do zero-maturity guarantee products still make sense, as you said when rates are negative? And as a result, all the sales push, should we see margins decline, because I understand that you're using trailing assumptions on new business? So, can you talk about that?

And the third question, just in relation to obviously economic yields have dropped and we have obviously a higher UFR drag, and therefore generally lower Solvency II capital generation. Can this be offset by further asset optimization or illiquid assets, or is there other ways that you can offset this? And how should we think of this in terms of future capital returns going forward? Thanks.

A - Oliver Bate {BIO 19184930 <GO>}

So I understood your last question maybe it's whether we can improve our Solvency ratio by change our asset? Yes, that's correct?

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah.

A - Oliver Bate {BIO 19184930 <GO>}

Oh. Yes. Absolutely. We can change that, we can also change the volatility clearly of the Solvency ratio, so that's almost like double gearing, because we improve your Solvency ratio and you are less volatile, so the resilience is much higher. And clearly as you do that, you need always to look at what is the cost, right. Because then you need to look at other, keep your eyes like what happens to your operating profit, what happens to your net income. But definitely, there is room to improve the Solvency ratio. You can also improve the Solvency ratio substantially by using derivatives. But then derivatives depending on what you do might have a cost if you use option for example, if you use other instrument might not have the cost in the sense that if you want a tissue that you're going to have clearly exposure volatility in your P&L.

So from that point of view, yes. If you look in isolation Solvency II, and if the job would just be to get Solvency II to be as high as possible, that will be a simple job. Once you need to have a good Solvency II, you want to have good operating profit, good net income, you don't want to have extreme volatility in the net income, all these kinds of things. When you put it all together. This becomes a little bit more of a challenge, but definitely there is -- depending on where you are and the trade-off, which are more sensible to do, then you can decide maybe to sacrifice to put more volatility in the net income IFRS, but to stabilize the Solvency ratio, you can definitely do that. This all depends on how you feel about your level of Solvency ratio.

So, the notion that's very important that the Solvency ratio is something that we cannot control, that's wrong. We can definitely control the Solvency ratio, and the desire to control the solvency ratio is going to be stronger or less strong depending on the level where we are. When we are at 202%, I will say we are not in the pressing need to get too excited about what we need to do on the Solvency ratio. Clearly, we are going to do something that's normal. But we are not in a situation where we need to overreact at all. So, that's on this point.

On the guarantee, then what was the question whether there is some promotion going on in Germany. No, I would say that the growth in Germany is not driven by any specific sales promotion, so it's the growth that we've been seeing in general throughout the course of the year. One thing to consider, which is maybe extreme if you look at the Germany health, is less relevant for Germany Life, but that's also important. If you have a regular premium, and you apply a negative interest rates right now, you have new business with regular premium. This is going to create, according to the calculation that we do here, which is a present value of business premium, this is going to give you the impression that the production is even higher. You understand my point?

So if I were selling 100 of regular premiums six months ago, 100 of regular premium now as new business. The 100 six months ago was 600 million and is up, and now, there will be 1 billion. So you need also to consider for these effects. If we may say to sell product with zero guarantee rate environment below zero, I would say long-term. So in a steady state, if you continue to do this for the next 20, 30 years, this might not be a good idea, let's be very serious. And then the ability that you might have to sell still at a guarantee of zero in this environment right now, this depends on the amount of unrealized gains you have, how your book is working. So for the short term, yes, I would say, it's possible to sell business with a zero guarantee even if the rates are below zero, the swap rate is below zero, let's put it this way. In the long run, that something that's most likely will not work. So from that point of view clearly, there is the need to make changes, because we are supposed to be here for the long run.

Then there was another question. Which --

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah. Just in relation, because you use trailing assumptions? So if you use the current assumptions on your business, what would have been -- what would the margin be?

A - Oliver Bate {BIO 19184930 <GO>}

Yeah. Sure. So okay, what we yes, sure. So if you use the end of the quarter assumption, our new business margin will be slightly above 2.5%. Right now, the situation is a little bit better. So I would say, yes, most likely if they stay, yeah, stay where they are we might get something more from the United States, because in the United States we do a continuous true-up, right? So every two weeks in the United States, we are adjusting. But I would say the point of reference, I would expect something which is north of 2.5% maybe 2.7%. That could be the number that we are going to see at year end for the quarter.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) We'll now take the next question from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Just a quick follow-up. So going back to the last liquid point, let's say it did move to 30 years. And would you still be really, really well capitalized in Allianz Leben? Question one. Question two, quickly, just on the harvesting rate in the Life business, it was low again. Could you remind us what's going on there, given that yields went down in the quarter, just wondering whether there's some sort of derivative effect that's impacting that?

A - Oliver Bate {BIO 19184930 <GO>}

Can you repeat the last question? I didn't get the second one.

Q - Farooq Hanif {BIO 4780978 <GO>}

The harvesting in the Life business, it was low. Is that some sort of derivative effect? Or is it just low realized gains?

A - Oliver Bate {BIO 19184930 <GO>}

Yeah. Okay. So, on that one, I would say, so we are not necessarily realizing a lot of gains right now in the Life business. So from that -- and then there is also the impact of derivative, but fundamentally we are not taking any substantial realized gains on our Life business right now.

There's also something to highlight, if we want the investment margin to look a little bit better, we would have definitely the possibility to make this investment margin look a little bit stronger. So as you can imagine, right now, just to give you an idea, right now on a gross basis in total, we have EUR80 billion of annualized gains, EUR85 billion of annualized gains between bond and equity. So clearly, if we want to deploy these unrealized gains to improve our results also the Life business, that would definitely show even better results, but we are very happy with the amount of operating profit that we are doing right now, but there is definitely even the possibility to create more profit we really have to.

On the last liquid point, I would say if the last liquid point will go from 20 to 30 years, percent -- Solvency ratio of Allianz Leben will drop significantly, I don't tell you the number, because only to speak it will never happen, because we will never look at a change in the last liquid point of 20% to 30% and say we do nothing. We will definitely then, as I was saying before extended duration. So, that will be the implication of that. But you might ask me how much we need to extend the duration, I think we should extend the duration by quite a bit, but that will be definitely possible. So in that case, we would look at management action to offset the impact to the last liquid point.

Q - Farooq Hanif {BIO 4780978 <GO>}

That's your -- so the conclusion is you still think it will be lower, but you'll be okay. Is that your conclusion?

A - Oliver Bate {BIO 19184930 <GO>}

Yes. Absolutely. Yes. Absolutely. Yeah.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

The next question comes from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thank you very much. Giulio, there's always going to be specifics in your reserve developments like AGCS or Spain. But could you kind of summarize what you think is an acceptable level of volatility in aggregate for the reserve development in your non-Life combined ratio? I mean, around the 3.8% history that you've told us, we know very clearly that it could be 100 basis points either side. Is that how you'd like to think about the acceptable range over the future? Or could we see, I'm trying to get a feel for how low you would accept that number going. And equally, I suppose how high it would be? So, that's question one.

Could you update us a bit, secondly, on where Allianz is thinking is in terms of rating migration and default ris?. Obviously, all of the conversations topically are about low yields, but the background, there's a lot of credit risk building up as well. Could you kind of remind us any update work that you've done about your Solvency II sensitivity to rating migration? You talked a bit about that on the first quarter. I don't know if you've done any more work. And also how Allianz thinking about that risk? Because on the one hand both at the executive board and in PIMCO, you often flagged this as a risk. On the other hand, Allianz is still a net investor in credit.

And then if I may, thirdly, a very small question. But your non-economic variances seemed a huge positive for the Solvency II capital generation in the third quarter. Is there anything specific to flag on that and anything forward-looking? Or do we just sort of say, well that's good news, but we'll still plug in zeros for the future? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. Thank you for the questions. Maybe I'll start from the last one. Yeah. The non-economic variances, which are included in the new business in the organic profit generation have been about EUR400 million, EUR500 million in total. When you also look at the risk margin in P&C on a pre-tax basis. Now, this is more a one-off. And we do on the Life side, for example, we do a calibration and this calibration happens once a year. So, this is the time where we put the calibration into the model. In this case, it's a calibration regarding you know the risk margin for cost lapses, and what we do we have a 10-year view backwards.

And right now with this adjustment that we did now the 2008 year has dropped out of the 10-year all in that we do. And I can imagine that 2008 was especially year creating some noise, even if we speak on non market risk. So from that point of view, there's more to be seen as a one-off, sometimes they can be positive, sometimes they can be negative, but it's definitely a one-off.

On the rating migration, I would say, what we've been doing is we have a system in place, which is internally we calculate the so-called management ratio. So, we look at our Solvency ratio, we compare the Solvency ratio to what we think we need to have as a Solvency ratio considering stress and annualize the 2008 crisis and also assuming that we are going to have natural catastrophe. And in the past, we were not including the rating migration into this calculation. This year, we have introduced also the calculation for the rating migration. And this has changed the amount of additional solvency that we need to keep by about 5 percentage points. So, this is how I will quantify the impact of rating migration on our Solvency ratio.

The other question was on the runoff. When we talked last year, we said that moving forward, we expect our runoff to be more about 3%. And so I would say that as we move into 2020-2021, this is the number that I would generally expect to see. So there's nothing has changed on that kind of guidance, and clearly we can be a little bit high, a little bit lower, but I will say that 3% is the expectation that we have moving forward.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you. Just on the rating migration to come back. If I remember correctly, you said on the first quarter that you did a scenario analysis that said that a 2008 style scenario, which would be a one notch downgrade across your corporate portfolio, would hurt your Solvency II ratio about 10 percentage points. I don't want to inappropriately put words in your mouth, but is that a correct memory of what you said? And is that still the situation in terms of what you think will be a stress test for your Solvency ratio?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. That is. Yeah. Yeah. So when we did the analysis at that time, we had a 9% impact because of rating migration and then there was a 5% impact because of spread impact. And now as we went again to running the model, and including this into our management ratio, the impact on the management ratio has been determined to be 5%, a thing we were overestimating some parameters in the analysis, that we did. At the time, there was some sort of double counting between the rating migration and the spread impacts. But the latest information based on what we are putting now into our model is our management ratio is changing by 5 percentage points, because of running this additional stress.

Q - William Hawkins {BIO 1822411 <GO>}

Right. That's great. Thank you.

Operator

The next question comes from Niccolo Dalla Palma from Exane BNP. Please go ahead.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

Yes. Good afternoon. I have a couple of questions on the product side. So you mentioned about the future redesign of some of the products, you gave some examples. More specifically on the German Life side, could you remind us what has been done so far this year to the products structure? And what may be done in German Life specifically?

And secondly on the travel insurance side, there been a warning from EIOPA from a consumer protection perspective in terms of the value for money clients get. Do you think -- given you're a big player here. Do you think this is mainly a problem for many of the small players, not giving enough value for money and you're completely comfortable on your side, or what type of claims ratios that travel insurance business is running at specifically? Thank you.

A - Oliver Bate {BIO 19184930 <GO>}

Yeah. Coming from the Allianz Leben, we are thinking about products changes. I even don't know now what is probably but for example, we introduced that I think I can definitely share that. We introduced a new product, which is a sort of unit-linked, but the unit-linked product with somehow some sort of alternative assets underlying this unit-linked products. So that's for example a new product that we are introducing, as we go into 2020, 2021, we are going to look also at other actions that we can take there. So -- but for the time being, we are still in the phase where we are analyzing option as opposed to make changes. But I am pretty confident that as we go through 2020, 2021, we can announce to you also some changes.

But again Allianz Leben may be also one of the companies that has some room to maneuver. So, the need to change might be stronger in other entities as opposed to Allianz Leben. But clearly also Allianz Leben has to think about changes moving forward.

On the travel, I would say, yes, we have seen that and we are clearly aware that the commission level in travel might be higher compared to what you see in other products. What we do, and we've been doing this since years, we have a product review committee where we look not only the profitability, but we look also at what the value for the customer is. So that's the committee. We sit down and we have determined that if you are selling business with a high commission ratio and the loss ratio is below a certain level. This is not a product that we should be selling.

Now as usual, the regulator might have some different view about what is the level of acceptable loss ratio, but we had done our homework from our side. So, from that point of view, we put governance in place, so we feel that we have done what we can do from our side. And then we -- if we need to engage in any conversation, we're going to engage in the conversation we need to have. But I think we are definitely not on these streams. Indeed, I can tell you based on my personal recollection, we had let business go, because we found the -- or we are not accepting new contracts. Also in Asia, there was in Asia, because we didn't find that there was enough value for the customers.

Q - Niccolo Dalla Palma {BIO 16052945 <GO>}

That's helpful. Thanks.

Operator

The next question comes from Michael Haid from Commerzbank. Please go ahead.

Q - Michael Hermann Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Two questions. Also one on life and health, the loadings and fees, you mentioned are significantly up, because of -- you've taken some actions already. Can you elaborate a little bit on the actions which you have taken, where does it come from, what products are affected and what countries?

And the second an inevitable question, maybe it's a little nave to ask. But on your Chinese investment, you spent around $1 billion in this Chinese Life Insurance Company. This costs you to round about 2 percentage points in the Solvency ratio, and you defined it as a financial investment. Maybe as I said, it's a little nave, but at the moment, it is a financial investment, can it become a strategic investment or? And is it normal that such an investment costs you 2 percentage points in the Solvency ratio? I assume there is some negative diversification or lower diversification in place.

A - Giulio Terzariol {BIO 17125489 <GO>}

So, coming from the first question about the loadings and fees. I might have mispronounced that, but fundamentally, no, no, the loadings and fees are not going up, because of changes that we do with this specifically now to the products. This is just a change that we are seeing over time, because we have more unit-linked products, for example, in Italy, also the markets have been kind of benign. And then overall when we are growing also in the German business, you have more loadings because there are loadings in the German business. So, this is not related to the effects that we have been making changes now in this quarter, because of the market condition that just a trend that we've been seeing over the last quarters and this is coming from volume, which can be volume because we are selling more, or it can be volume because the assets under management if you want, are going up.

On the Chinese investment of the EUR800 million. I would say, that it's EUR800 million by the way to be specific. That's the financial investment which might become one day a strategic investment in the sense also finding cooperation with TaiKang. It's common to have a financial investment, which is a capital charge of I would say about 35%. I would say it's not uncommon. So we do this kind of investment. We do private equity, all these kinds of things.

The point is, in this case, it's a large one instead of being maybe three or four smaller investment with EUR150 million. But if you take a look from a total portfolio point of view, where we have also allocated budget for different kind of investment, you can consider this to be an alternative investment. If you want at the end of the day, this might be a little bit larger, but that's not unusual that we are deploying funding coming from our general accounting investment that, per se, can have a high risk charge. But always look at this within a portfolio.

So, we have right now our investments for the insurance are about not far from EUR800 billion. We are investing every year about EUR120 billion of cash into new investments. So when you take a look from that point of view, I would say, it's a large investment, but it might not be as large as it as it looks.

Q - Michael Hermann Haid {BIO 1971310 <GO>}

That's great. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We will now take our final question from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much for the follow-up. I guess we've discussed the M&A historically, and how much you spent. I'm just wondering looking forward what you'll view currently is of the opportunities available. And I'm just wondering, where you stand now versus where you stood a couple of years ago, whether you think there's sort of perhaps more opportunities, more or less opportunities to deploy capital looking forward. That was one question.

And maybe a small second one. Just wondering if I could ask for the usual update on asset management flows in Q4 to date. What you're seeing in the pipeline? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. So maybe starting from the second one on the asset management flows for the fourth quarter, they are positive. So, we see positive flows at PIMCO. And I would say based on what we see there are rates.If we continue to go this way in the quarter, they would have the same amount of flows that you saw in Q3, but clearly, we cannot speak about the future, but this gives you an idea that there are -- our rate is intact at PIMCO as we go into the fourth quarter.

In the case of AGI, we are seeing that the outflows have stopped at least for the month of November. So from a flows point of view at right now in November, we have a good picture, which is broadly consistent with what we saw in the third quarter or before.

On the M&A, I would say the situation is not so much different compared to what we had one year ago. So from that point of view, I think the opportunities are more or less the same, the situation is more or less not very much changed compared to what we had 12 months ago.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks a lot.

Operator

As there are no further question signals, I'll now turn the call back to your host for any additional or closing remarks.

A - Oliver Schmidt {BIO 2473131 <GO>}

Yeah. Thanks to everybody who joined the call today. We say goodbye to everybody, and we wish you a very pleasant weekend.

Operator

That will conclude today's call. Thank you for your participation. You may now disconnect.
