Q3 2014 Earnings Call

Company Participants

- Dieter Wemmer, Chief Financial Officer & Member-Management Board, Finance, Controlling, Risk
- Oliver Schmidt, Head-Investor Relations

Other Participants

- Andy D. Broadfield, Analyst
- Atanasio Pantarrotas, Analyst
- Farooq Hanif, Analyst
- Jon M. Hocking, Analyst
- Michael I. Huttner, Analyst
- Michael van Wegen, Analyst
- Nick Holmes, Analyst
- Peter D. Eliot, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst
- William S. Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Financial Results for the Third Quarter 2014. For your information, this conference is being recorded.

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>}

Yeah. Thank you, Susanna. Yeah, good afternoon from my side as well, and welcome to our conference call. I think we have no shortage of interesting topics today.

So, as always, I will keep it brief and hand over directly to Dieter.

Dieter Wemmer {BIO 4755450 <GO>}

Yes. Thank you much, Oliver, and good afternoon or good morning to all of you on the call. I think I have, first, to apologize that we surprised everybody with going out with the information last night already and not this morning. But that is just due to the very strict ad hoc rules in Germany. So then the Supervisory Board took to decision on the dividend policy. We had to mail it out immediately straightforward, and that is what we did last night. And, therefore, we were 12 hours earlier than – or roughly 12 hours earlier than normally.

So with this, let me start into an interesting and good quarter. As usual, page 3, business highlights from the third quarter. I think the business highlights are reflecting very much the change and the direction of our strategy in all areas.

In P&C, the focus is on non-motor retail packages. In Life and Health, it is the shift to hybrid products and unit-linked. And in asset management, it's the transition in the leadership – or in investment leadership at PIMCO from the founder generation to the new team. And I think our investments show you that we continue to focus on infrastructure and digitalization as in various categories very high on our list. And our Anglo-Saxon businesses have collected very nice support, just reconfirming what we demonstrated to you on the Capital Market Day in July.

So let's start to dive into our numbers. €2.65 billion operating profit, €150 million above the €2.5 billion which would be exactly a quarter of our €10 billion midpoint target. So I think that very well contributing also to the upper end of the target. The big additional contribution from property/casualty, but I think also all the other businesses delivered quite nicely. I think what is really interesting to note is that despite the large volume we are already writing, that we have 14.5% growth strongly driven from the Life segment, but also P&C had a really good quarter.

Net income in a consequence had €1.6 billion. That is a good average number for the year. Is there any real one-offs in the business? I don't think so, and I will come to the details of this during the rest of my presentation, but it is actually a very much operational business, proven results without any particular one-offs.

Page 7 (sic) [4] (04:03), shareholders' equity. Not surprisingly, substantially up. What drives shareholders' equity? Net income, obviously positive FX. Actually, the FX impact on the balance sheet is stronger than on the P&L, because a lot of the dollar strengthening happened end of September. So you see it at the point calculation September 30th. That average P&L and our operating profit is almost free of FX impact. I think it's €1 million movement by FX. So that is really nothing.

Our economic solvency and conglomerate solvency is still very strong. But we have already corrected here the numbers for a more normalized leverage ratio of our hybrid when I would take the numbers at face value, it would be 5 points higher for both ratios. But we have already said, well, the new hybrids we issued in the last quarter, there might be a (05:18) to potentially call the bonds beginning of next year.

So let's dive into our P&C numbers. Internal growth 4.7%, added by 1% growth. Now the Unipol transaction starts to renew in our Italian book. So that adds 1% growth to the global premium. And obviously the 9.4% growth in Italy is all coming from the acquisition. The market itself continues to shrink, and even our minus 0.6% still translates into a growing market share. The real positive contributor in the quarter were our global lines, AGCS and Euler Hermes, the credit insurance. But our star in organic growth was our UK business with good growth in motor, but also in commercial liability and in pet plan.

So when we move to the results in the P&C sector, well, you could call this a one-off that actually we were almost free of natural catastrophes in the quarter. That is certainly very unusual results that you have only €7 million of cat impact for such a large book in the quarter. So that's improved compared to last year. It's a cat loss ratio by 4.2 percentage points, of which almost half got then reinvested into increases of Fireman's Fund reserves.

What you then can see in the run-off ratio, our run-off at 2.6% is actually translating into 4.2% positive run-off from across the world. So almost at the same level as last year, but 1.6% got used up for strengthening the commercial reserves at Fireman's Fund.

A little additional increase in profitability from investments, and I will come to this point later. So let me now turn to the geographical mix who has contributed to the strong profitability. As we have already seen in the last quarters, Germany is really running well ahead of their 95% target. So even when we would correct for the good weather and natural catastrophe situation; at a normalized level, Germany would still show a 91% combined ratio. So I think that is a very strong number for the year. And also in the expense ratio, with 25.7%, we are ahead of the 26% target for 2014.

France, first time substantially below 95%; strong contribution. And Italy continues to perform at a high level, even when the profitability is year-over-year weaker. But on the 78% combined ratio, it's hard to complain about it.

The other contributors you can see as well, the negative number comes from Fireman's Fund, and I show you the details on this on the next page, page 15 (sic) [9] (09:15). Please watch out. This is the only page in the presentation which shows nine-month figures and not third quarter figures, because to reflect what we are doing on our portfolio activities, I think, the year-to-date figures gives you a better impression than just the quarter stand-alone.

So let me start with the left column. 69% of the portfolios are now in the category below 95%. Actually, the average combined ratio of this category is at the moment 89%, so well better than the 95%. And the three largest contributors, Germany, Italy, France. With average growth of 3%, that is certainly the category where profit margin comes before growth.

Then we have the middle category which makes 22% of the portfolio, 7% growth, UK, Australia, AWP and also AGCS. And this category is really contributing strongly to the growth. And then we have the category of the combined ratios, which we don't like at all. That is 9% of the portfolio and it is made up by Fireman's Fund to Russia and Brazil. The specific activities are Fireman's Funds. The commercial business is going to be integrated and the U.S. arm of AGCS starting January 1.

On the personal lines business, we are still evaluating for various strategic options, and we will update you probably at the year-end results. Russia, we are really well under way to close down branch offices to reduce volume substantially. I think that project is being executed as planned. And Brazil, we have identified all the corrections which have to be done to the IT platform, and the work is ongoing. It is a bit more complex than we thought. So we hope that we have finished the IT topics by year-end, which then allows a proper steering of the business and also the customer services, which are at the moment still a little bit handicapped.

How did the investment income do in P&C? It's actually holding up well. The interest income is flat in absolute terms because we have, based on higher cash flow, a bit more assets under management. And then the negative trading results we had last year were not repeated. So that contributes then to the €50 million better total investment income than a year ago, and actually adds then also the €50 million to our operating profit improvement over the year.

Duration, very much unchanged. Reinvestment yield, as you would expect, getting a little bit lighter, but only a bit. I'm sure that this trend continues, in particular when Draghi starts his ABS purchase program.

Now let's turn to the Life business. 25% growth year-over-year is really a great achievement. We continue to see high-volume growth in the U.S. and Italy. Germany looks, with 4%, actually almost modest in this line of high-relative numbers. When you look at our market share, I think in the new business market share in the German market, we are now above 30%, probably closer to 34%. That compares with the market share of, let's say, 17%, 18% some five years ago. So our German business is really excellently positioned in a market, which is slightly shrinking; and our special product, Perspektive, continues to be the big success story.

So let's move to the portfolio view, and we have added here a page to show you how we did over the last two years. Actually it shows you a present value of new business premium, how we close the new business. We have added the three measurements how we look at our business.

So new business margin, we manage for new business margin, which is up. We check how, on a cash flow basis, is the IRR of the business. And for the businesses, which are providing guarantees, it is important what is the capital consumption and what is return on risk capital. And in all categories, our new business is satisfying our hurdles; and that translates then into the nice inflows you see on the right-hand side.

In the first nine months, our AUM inflow, so to speak, in the Life business was €13.3 billion. That shows you that actually we see here also how actually savings for old age are being managed, partially within the Life segment and partially within the Asset Management segment and that we play on both cylinders quite well.

How is the operating process in Life doing? It is only a small increase over last year, and it is a substantial reduction compared to Q2. Why is that? Because the Life accounting has always some inherent volatilities, which are based on the technique how DAC have to be amortized, and also the investment result. Whereas the investment result is up compared to last year, because last year we had in the third quarter trading losses on foreign currency denominated investment in our Life balance sheet. So the investment margin is nicely up.

That expense is much higher than a year ago as a natural consequence of the higher new business sales. Actually, out of the €228 million additional expenses, €215 million is additional acquisition costs. Would you then expect that they're being counterbalanced in this line item impact of change in DAC. But as we have higher amortization on all DAC books depending on the investment (16:49) and how the formulas work, we actually don't see this counterbalancing effect. That is, then, the missing part in additional operating profit.

When you ask me what is the impact of the new business; actually, the new business trend included in the quarter is €119 million. So quite a bit.

So let's look at who is contributing based on value of new business from the various categories and also operating profit by country. Our largest contribution in value of new business is now coming from the U.S. Substantial volume growth, and also at a good new business margin of 3.2%. And operating profit, Germany is still the highest contributor, but also U.S. and France are actually adding to the overall positive picture.

Last, view on the Life segment as investment margin. Here, we are only looking at yield achieved, compare it with guarantees and see what is left for the shareholder. The running yield is 9 basis points down compared to a year ago. I think that is a normal reflection of the interest environment we are living in. Harvesting was positive compared to a year ago because year-ago the net harvesting always includes the trading results, and that was mainly driven by the foreign currency losses I have already mentioned two pages earlier.

The average guarantee did shrink by 3 basis points. So that is really a long-term game to reduce the guarantee. And the shareholder profit is as the harvesting was better, and the guarantees are slightly shrinking; actually now 19 basis points compared to 15 basis points a year ago. And you can see that we are earning on a substantially higher volume of policy reserves and also assets. We have very little to cover these policyholder results.

Asset management, first glance you're probably surprised that assets under management are growing compared to the summer. So we are almost €60 billion higher than at the half year. The outflows at PIMCO of €49 billion got overcompensated by the change in U.S. dollar-euro exchange rates, which added €88 billion and also Allianz Global Investors had a very good quarter. The market impact is a fairly small number for the quarter movement and does not change a lot.

So €49 billion outflows at PIMCO, so how does it split between a normal quarter and then the day when Bill Gross decided to leave the company? So out of the €49 billion, almost €30 billion just happened the last few days after Bill announced his departure. So we had around €19 billion, €20 billion in the almost three months before.

So how does this impact the revenues? The revenues, we compare to a year ago. Actually, we have at PIMCO one base point less margin, and that is mainly as we have seen over the whole year a reduction of retail clients. So the shift to institutional is a bit more pronounced, and that has to do that the total return fund has already lost customers over the whole year and not only after the day when we had the change with the Chief Investment Officer, and that drives the reduction in revenues.

Allianz Global Investors had a really great quarter in the third quarter and compared to a year ago, we had 10% up; and this 10% up then also translates into on page 33 (sic) [18] (21:46) into a great operating profit. Allianz Global Investors contribute €110 million for the quarter. That is the first quarter above €100 million, which is really nice to see. PIMCO with almost €600 million, with a fairly small impact from performance fees, is actually still contributing substantially.

And first cost-income ratio is actually, this quarter, in total slightly better than the earlier quarters. We had a cost-income ratio of 57.4% in Q1, 57.9% in Q2. And with 57.1%, I think we have actually a very good quarter. So even going forward I think that is a good starting point into the transition period.

Also, as I said, the dollar has quite some impact on the measurement of the assets under management at the end of the quarter. When you look here, at 12-month comparison. The higher dollar has on average not yet earned in. So the dollar impact on the earnings is more going forward earning in. So that is, therefore, I think from a timing that we are going through the transition at PIMCO, it is actually a very helpful development.

Also, I should add here that we have implemented a new deferred cash compensation plan at PIMCO. That will cost us, on average, €33 million per quarter for the next year; and that is set in place for everybody who is not participating in the cash pool. So that is more for the senior level of – or the level below the managing director is probably the easiest way to describe it. And that should help us to create actually the service teams we need for our customers and driving all to the performance of our funds.

The three-year performance in the third quarter went up to 93%. We reported 89% three months ago. And on staff movement, we have not a single senior person or portfolio manager who has left PIMCO since Bill Gross left. Actually, we have rehired, as you might have seen in the media, some key people who have left in earlier times and now really eager to return to PIMCO, which we believe and they believe will continue to be a household name for U.S. customers.

Let's summarize the results with the Corporate segment, actually not a lot of relevant movement to report. It is a bit weaker than a year ago, but last year was contributed by a release of unused restructuring provision that is certainly a positive one-off we had last year, which has not been repeated this year. So, therefore, the €248 million negative result is pretty eventless.

And that brings us already to the last page. Operating profit, €2.65 billion; non-operating items of €331 million, and hence up with a little bit better income before tax, but less growth than the operating profit increase and then lower income tax. So do we have a one-off of the income tax line? It looks like. Unfortunately, that is a very complicated technical item.

So what has happened? We have realized losses from the year 2003, which we claimed tax deductible for our German Life business in the year 2003. The German tax authorities did not accept this. We went to court, and we did win after a series of escalation processes at the Supreme Court, which allowed us now to take the €158 million, which you see here as reclassification of tax benefits, in our favor.

However, this money goes completely to the German Life policyholder. So they get the full €158 million. And to book it and present it properly in our group accounts, we book it 4 times into P&L; 2 times positive, 2 times negative. So it has in total for the shareholder zero impact. But it is a movement between tax line non-operating and then ends up in the policyholder provision.

So our income tax is actually not better than a year ago. So our effective tax rate, I consider it as 32% and not the 27%. That is only being forced by IFRS rules. I personally would have never looked at it like this, because I only look what is in it for the shareholder. And for the shareholder, it is still the 32%, whether we like it or not. But for our policyholder, it's great because €158 million means that we have additional money to cover guarantees in the future of the Life business.

So now let's summarize the situation. Revenue, up double-digits; operating profit €150 million, above our pro rata operating midpoint target; shareholders' net income actually double-digit up for the quarter, for the whole year also; 5.5% for the nine months up. Balance sheet actually still continue to be very strong. Actually, our unrealized gains, and if I only look at securities, we have €52 billion of unrealized gains now in our books. Including real estate and other stuff, it's getting close to €60 billion. So a very strong balance sheet, something where we think we can be confident.

Also, with all the changes and volatility around PIMCO, we feel we are confident enough to change our dividend policy. We promised to you we would do it before year-end. In the end, we took the pragmatic decision here to just add it to the third quarter result before we all invite you to a Christmas Capital Markets Day, and that is now the new policy.

We increased the payout from 40% to 50% payout. The dividends will be continued in a way that means when we have achieved a dividend level, we at least won't in the next year achieve previous year level. So that means in case that the net income is falling, then you have even to pay out more than 50% in this year; otherwise the ratchet would not work.

The additional discipline we added to the dividend policy is that we – you remember, we are using 20% of our net income for bolt-on or add-on acquisitions. And we said, well, actually in case that we are not using it up in a year, we would accumulate it over three years because the M&A deals are usually not following calendar years and it would be a bit difficult to calculate it year-over-year.

So let's every three years look at how much of the M&A budget has been used, and the excess would be given back to the markets. It could a share buyback, it could be extra dividend. We are not yet defining it.

But also discipline means that we have to be careful with our solvency ratio, as we are not running the company at a BBB level. We are a AA company and going to stay as a AA. So our minimum Solvency II ratio, we need to keep at 160%. As you have seen, we are currently starting slightly above 200%, so we have a substantial cushion over the 160%.

And now you will say, well, what are you doing with the cushion? I have to say, this is a dividend policy that is not yet a full capital management policy. So that here only explains the flow and not the stock; and the stock is still dependent on how regulatory development continues.

We are pretty sure that we stay at a very good level, but we have also to see how the whole discussion around systemic important continues; also the last fine-tuning of Solvency II has not been done. So we keep this discussion for a later period.

At the moment, we are only discussing the flow and we have balanced the number in a way that with a normal internal growth of, let's say, 3% to 4% in P&C and also 3% to 4% growth in risk consumption in Life year-over-year, our solvency ratio would stay stable assuming financial markets are not moving.

So, therefore, the flow is now being set in a way that actually our solvency ratio, over the next couple of years, should stay stable. And then the stock debate we will have at a later moment.

And with this one here, I would stop. And I'm now really looking forward to the Q&A.

Q&A

Operator

One moment, please, for the first question. The first question comes from Jon Hocking from Morgan Stanley. Please go ahead, sir.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Afternoon, everybody. I've got three questions, please. Two on the dividend; and one on a different topic. In the dividend policy, when you're talking about the sustainable Solvency

II ratio of 160%, is that off a shock event? So I'm presuming you're not going to get down to 160%. So maybe you could talk a little bit about what you mean by sustainable in that context, please?

The second question, on slide 40 you're showing the budget for the re-risking of the balance sheet in terms of investment risk is being, sort of, reduced at the expense of a high dividend. Is it still the intention to re-risk the balance sheet? And maybe you could talk a little bit about the earnings consequence of potentially not re-risking in the way that you were doing previously?

And then the final question just on the U.S. Life business, you're growing very, very quickly. I was wondering if you could talk about the risk appetite there in terms of how much you're prepared to write and what you're seeing in terms of share in that specific product line? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. Thanks so much, Jon. Well, sustainable Solvency II ratio just means that when you see that the financial market at the time when you announce the dividend is really tanking in a direction that you are already at 162% that we would certainly take this into account.

But at the moment, I see it much more. We start at 200%. That means we have a full financial market as a cushion of probably a mid-sized financial market spreads or, let's say, equity markets tanking by 30%, some movement in interest rates and credit spread would probably cost us some 30 points. So we would be still above 160%. That is the way how I see it from the current positioning.

The budget for re-risking, well, we are continuing to invest in real assets. But I think we have with our product mix, I think we have the chances to free up capital which is currently being consumed in asset/liability, duration mismatch and others. So it has actually – the move within the asset allocation has to be from a risk perspective be refinanced within the risk categories. I don't think that we need more budget for it. And actually, as we have a budget for internal growth, we can still grow. Also, the Life was taking 3% to 4% a year. So that allows with the volumes we have bought together, actually gives us some room also for investing in risky assets.

U.S. Life, actually from a risk perspective, we are absolutely fine with the product. I think we have to look how the dynamic hedging works. Therefore, there is a physical limit to the products based on how many hedges can you actually manage in the market, but I think that we are far away from this limit. So there is I think quite a number of quarters to go before we get close to this level.

Q - Jon M. Hocking {BIO 2163183 <GO>}

So just to come back on the answer to the first question. So you were 200% economic solvency at the moment, you think a reasonable size market stress would be 30 points? So it doesn't seem like you have much excess capital at the moment over and above what would allow you to maintain the new dividend policy? Is that fair or am I sort of reading too much into what you've just said?

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, I think that depends on the final formula and sensitivities. I think we should currently enjoy the dividend policy. As I've said, we are talking about the flow today, and the stock discussion we would keep for later moment.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay. Thank you.

Operator

Thank you. The next question comes from Vinit Malhotra from Goldman Sachs. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi. This is Vinit from Goldman Sachs. Dieter, can I just focus the attention on the P&C growth, which is in my memory probably the highest internal growth in at least four years or five years or maybe even more on a quarterly level. And it seems to be coming from also – well, you mentioned UK. But given the AGCS where we keep hearing really bad things in the market from the media, et cetera, and I saw that it's engineering and liability. But could you please comment on just this P&C growth and what do you think about that? That's the first question.

The second thing is on the slide 40, I probably missed the comment you might have made about this buffer because you already have a buffer now in this – and this whole 30 point discussion we just heard about. So could you comment on the uses of the buffer.

And lastly, just a very quick one on PIMCO, and you did mention the systematically important topic from the insurance and group perspective. But is this Bill Gross event accentuating a risk at the asset management level for PIMCO? And is that part of your plans, or perhaps is that part of your scenario for the future? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah, very good question. I think the P&C growth – I agree with you. Since I'm at Allianz, the P&C growth was never at this level. And I had also to look at my colleagues, they also couldn't remember when we had such a really good P&C growth. I think AGCS is really doing well in engineering and liability. We have actually a very good growth in our Life in our German business. So not only on the Life side, actually also on the P&C side. And then UK had a good combination between motor, pet insurance and some rate increases in industrial lines. So it is actually supported by a broad basis, and I have forgotten to mention our credit insurance business here. It is the geographical expansion, mainly to Asia Pacific.

The buffer of 10%, actually, that was a mistake that I did not mention it, Vinit. Because when you do a ratchet on your dividend that you say I don't want to fall below previous year level, that is actually a commitment to higher payout level than 50% when you would calculate a five-year or 10-year average. Because even in a well-managed company, you cannot assume that net income will go every year up.

We are exposed to financial markets. The impairment write-downs could always impact our net income. So, therefore, the buffer is actually when you accumulated over 10 years that is already (41:25) translated in this additional payout ratio for the years where you don't make it. And then we can now all speculate is this worthwhile, another five points in payout ratio or is it seven points. I think that would be a pure speculation. We always try to manage the company in a way that it is not needed because we make our net income development, but you never know.

The PIMCO question and relation to systemic importance is a very interesting one. And I think with the service our colleagues at PIMCO have given to our customers was absolutely flawless, the way how all redemption have been handled. We have actually proven that asset management, even the largest fixed income fund in the world, is not of systemic importance.

And I think all the regulators were really impressed how PIMCO has handled all demands for liquidity; and that was an outstanding service of the team. And I hope that actually the customers, when they now bring the money to other asset managers, that these asset managers are able to deliver a similar service.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you, Dieter. Thank you very much.

Operator

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

Q - William S. Hawkins {BIO 1822411 <GO>}

Hi, Dieter. Thank you. On the dividend, again, you've been talking about the flow. Just back on this buffer of 10%. Given that this has been a great year for you, how confident are you that the likely level of IFRS earnings for this year is sustainable, given some of the obvious headwinds that you're going to be facing. Is it not inevitable that, that 50% is going to creep up?

And then related to that, if you could just talk briefly, it's obviously good that you give us these ratios on an IFRS basis because it makes life quite simple, but in reality, presumably, your dividend is coming from the cash generation of the group. And I'm just wondering about the relationship between cash generation and IFRS earnings over the next few years. Presumably, whatever is happening to the IFRS payout ratio, you'll actually see a greater challenge from a cash point of view, again, given some of the obvious headwinds you may be facing like in asset management?

And then secondly, for the operations of the businesses, you haven't repeated it this quarter, but I'm assuming you still think the Life investment margin could be about 80 basis points this year. If the capital market environment remains where it is, where do you think that 80 basis points would be sort of next year and then, if you like, by 2020?

A - Dieter Wemmer {BIO 4755450 <GO>}

As usual, William, very challenging question. But the answer is actually quite simple. Of course, there is not 100% link between IFRS results and cash generation. It is straightforward in asset management. It is also very linked in P&C on the Life segment, that is more complicated, as you know very well.

So, actually, when you announce a dividend policy which is holding up for a couple of years, you better test under the various systems whether you can send it through over a number of years. And, therefore, we have done stress testing as you would not expect differently from Allianz. And we are still confident that we could announce the dividend policy yesterday night.

Does this mean that we have a peaking net income in 2014? Well, I think for this question, you have to wait for our February announcement, look at our operating outlook for 2015, and then maybe we can re-discuss this question.

The margin trend in Life. Sure that investment income will continue to shrink. I said this already in the last year and with the recent action of the (45:56) that, that is certainly not changing. It will continue to shrink more. The impact on the margin is, of course, less than the shrinking cost investment income. And where we stand 2020? I think we have probably then to work on all levels of the business to keep profitability where it is, so that we can rely on investment income only is probably not good enough going forward.

Q - William S. Hawkins {BIO 1822411 <GO>}

Thanks, Dieter.

Operator

Thank you. The next question comes from Farooq Hanif from Citigroup. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thank you so much for taking my questions. Firstly, I remember you talked about a €3 billion of special items in your July Investor Day, which were going to come out regularly over time and be upstream to the holding company. Can you update us on that, what you're doing? And does that fall in part of the flow or part of the stock?

Second question, going back to kind of trying to forecast the Life business. You've had very, very strong net inflows because of your product mix change. On the ground, what do you see is continuing? Do you think that you've just had a one-off uplift because you're offering products and consumers have picked them up, or do you think actually there's a real chance here to build up more share of the market in these kind of new type of contracts, so the U.S., but also in Europe? So can we expect that kind of the reserve growth to be at the sort of 4% to 5% level that we've seen very recently?

And the last question, very simple one is if in your three buckets of combined ratio profitability, if the third unprofitable bucket became 100% combined ratio and, therefore, broke even on an underwriting basis, what would that, roughly speaking, do to your combined ratio? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. Thank you very much. Well, what we said, the excess capital we will stream up until 2016 to €3 billion. I think that statement is still valid, because these are actually projects which are in work and some of them require some longer preparation. So, therefore, it is unchanged.

But the Life results, I think in our main markets, I would assume that the trends are staying unchanged. It is the brand. I think it is also the different Life products. I think fixed indexed annuity in the U.S. was a niche product until recently. And when you look around now, more and more of the big players suddenly are starting to recognize that fixed indexed annuity might be something more interesting than selling VAs. So, therefore I – actually this trend to annuity products and old-age provision, I think, stays pretty much.

So your last question on P&C, that is a simple calculation. We have 9% in the category above 100% combined ratio. The average of this is 119%. When you multiply 19%, which is missing to 100% times 9% premium volume, you end up with roughly 2% weighted average. So when we bring all three to 100%, then we end up with a 2% improvement for the whole portfolio.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thanks. May I just come back on the first point. On the €3 billion, what I was trying to get at was is this part of the flow calculation when you come to 2016 or is this part of the stock?

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, it has actually nothing to do with it because that is cash. And whether the cash sits in a subsidiary or in the holding, it is not changing our solvency ratio. Therefore, the stock is the same as before. But it makes the capital more fungible and gives us more flexibility to do something with it. So could it be used for – when we come to a stock discussion? Yes. Does it need to be for the flow? Well, I hope not. So let's see how the growth is developing. But certainly, I think we are not announcing here a distribution of the €3 billion. That's the fourth question.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. I tried very hard. Thank you very much.

Operator

Thank you. The next question comes from Andy Broadfield from Barclays. Please go ahead.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Hi there. I have a few questions, please. The first is, I noticed in the UK that there was a bit of a charge on investment in IT. And I'm just trying to link two things together. Is this – you also went – have to sometime the sort of centralized digitization strategy where you've taken quite a lot of the cost outside of the divisions.

Now I guess there's a process at some point of pushing that back into the divisions as they adopt that technology or some of those skills you've developed. Should we expect a period over the next few years where we start to see some of those costs being taken by the divisions as they start to embed some of those centrally developed digitalization strategies? That's question one, if that's not too long.

Second one, on the Fireman's Fund, it's obviously dragging, it's obviously frustrating for you. Is it fair to say – I mean, you sent the head of the UK or the ex-head of the UK Andrew Torrance out there. Is it fair to say that's a similar strategy you're adopting out there as you adopted it in the UK in the late 1990s, or mid-2000s?

And just finally, I was expecting a little bit more news on the sovereign debt charges through the autumn. I thought you're having discussions with BaFin about that, and we were expecting some news on that, updates on that. Can you give any – it sounds like you haven't achieved any further insight to that?

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. Very good. Very specific question. Okay. The UK IT charges are actually investments in the motor direct platform locally, and that is not a global application. So, therefore, the division has – or the OE has to pay it itself. I think we will not see a lot of additional IT charges in the subsidiaries coming from the global platforms, because in the end it will replace old platforms.

And the idea is that the reuse of global platform should on average reduce IT cost at least in the long run after the transition. So that should play out over time. And in Fireman's Fund, I hope I mentioned it that from January 1 on AGCS U.S. will run the overall commercial business in the U.S. Art Moossmann is our CEO for our U.S. business at AGCS. And he has then the responsibility on integrating also the commercial business of Fireman's Fund. That is what I can say so far, and then we will give more details I think in February.

On the sovereign risk, there are two messages. Actually, in the calculations presented here, we have not changed anything on the calculation. So it includes already the full charge for sovereign risk. However, in the meantime, but too late to change the calculation or to adjust the calculation, we have achieved a way forward with the European regulators – or our supervisory colleagues responsible for Allianz from a regulatory perspective on loading, which will reduce the sovereign risks charge going forward.

I think it is a fair conclusion between still having some sovereign risk charge, but not at the same level as a corporate bond. And I think we all agree that we can live with it. And I'm glad that the German regulator, but also the French and Belgium regulator were really in the driving seat to find this European compromise.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

So just can I come back to the Fireman's Fund thing? I misunderstood slightly. I thought there was only part of the specialty stuff that had gone into AGCS. What you're saying is the whole of the commercial business and you separately got – disclosed that you're looking for other (55:44) commerce solutions for the retail business. So does that – I mean what I'm reading is that there is potentially another Fireman's Fund post the retail solution, whatever that might be?

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, let's wait what retail solution is. I think in the commercial business, we will act only under the single brand Allianz. And actually when you look at what we do in the commercial business globally, it is all Allianz branded. Fireman's Fund was the exception from the rule. And that we also in the U.S market use our – one Allianz branding strategy is actually quite normal, and I think gives us also an easier communication with the brokers. And when you look in the other Anglo-Saxon market, actually our broker channels are very successful everywhere. So it would be a real pity not to achieve the same also in the U.S. market.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Okay. Very clear. Thank you.

Operator

Thank you. The next question comes from Michael Huttner from JPMorgan. Please go ahead, sir.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much. On the PIMCO and asset management, can you just give us a feel for where you see the assets under management settling eventually? You, obviously, have more insight than we do in terms of the profile of the net outflows?

A - Dieter Wemmer {BIO 4755450 <GO>}

Sorry, Michael. Can you repeat your question. There was some (57:23).

Q - Michael I. Huttner {BIO 1556863 <GO>}

Sure. Of course. I know it is – I promise I am on the handset, but my phone is a bit funny. Anyway. So here goes. What do you think the assets under management will eventually settle at? We're at €1.4 trillion, an amazing number still. You've got the best feel for the profile of the net outflows. My guess is, we'll settle somewhere around €1.1 trillion, €1.2 trillion. Anything better than that, I think would be nice, but whatever you have a feel for?

And then the other thing, and this is a very geeky question. So 119% for the 9% bucket, so that's roughly Brazil Fireman's Fund. I'm assuming Q4 will stay at this level. I can't think why it should be at all better. If I were taking over the Fireman's Fund portfolio, I would want to absolutely reserve it as strong as I could. So I'd use every opportunity. Is that a fair assumption there that everything then turns quite nicely positive or breakeven from January 1?

And then the last one, on the credit. I'm still surprised. From memory I think Euler reported 2% growth. You're reporting 7.9% and you're saying it's Asia. So is Allianz now writing credit separately from Euler? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

No. Allianz is not writing credit separate from Euler. So I think the number should be the same.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay. I'll check, it's probably my mistake.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yeah. I'm pretty sure about it. So let's go your question backwards. Certainly, it will take some time to correct the portfolios. I think Russia is just shrinking relatively quickly. That is not a business with a long run-off 12 months policies. So we should get the volume here month-by-month substantially down. So, therefore, the rate of the 9% in next year's portfolio is already shrinking.

Secondly, I would be rather disappointed with the actuarial process when we would have the same reserve increase three months later after we just booked this reserve increase. So, therefore, that part should not repeat also in the fourth quarter. So you can call this an improvement of the Fireman's portfolio. I would call it a non-repetition of the run-off.

And in the next year, I think the portfolio has, certainly after the transition, a chance to go to 100%. And Brazil will go organically into the 100% category, but you are right, that will not happen overnight at the year-end. The assets under management for PIMCO, well, for the 2015 forecast on what we expect from the Asset Management segment, I have to disappoint you, you have to wait for February.

But certainly, the assets under management are driven by various sectors. First, we look at the euro portfolio, so it's the euro-dollar exchange rate is an important driver. Market interest rate moves the portfolio, and then inflows and outflows moves the portfolio. So there are quite some parameters to consider.

And I think from - and you were mainly referring to the outflows. Yes, we go through a unsettled period. But the current movements are pretty much in line of what we had expected when such an event as the succession is happening. And we probably will then have somewhere next spring have a clear picture in which direction we go.

I think you have to remember two things. Yes, we are owning the two very large asset manager - a actually with PIMCO one of the largest asset managers in the world, but we are in the business for the long run. We come out of the insurance industry. For us, we are really long-term investors in everything. And I think PIMCO is a brand and a household name which has in the long run a great position in the market; and saving for old age is the number one challenge of the Western world.

And there will be more money built going forward everywhere. U.S. economy, U.S. consumer is actually at the moment feeling every day in their wallet that it is going better. They pay less for their fuel. They pay less for their mortgages. So they have - and their unemployment is going down. Maybe also salaries might go up soon in some areas because there is not enough labor available for the employers.

So actually the U.S. consumer will have more cash, and that will also end up in savings account. So, therefore, I think that having a large asset manager in the U.S., that is a great position going forward.

Q - Michael I. Huttner {BIO 1556863 <GO>}

May I just ask - and I'm really sorry. On Russia, you know there's always the - I always worry about the goodwill. Is there any risk to that because now with your dividend policy, obviously this could affect the dividend?

A - Dieter Wemmer {BIO 4755450 <GO>}

A goodwill write-down, that would be already a desperate situation.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay. Brilliant. Thank you. Thanks so much.

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, I think we are far away from this.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay. Lovely. Thanks a lot. Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

And there are some other players in the asset management space who have problems with their goodwill.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Okay. Okay. Thank you.

Operator

Thank you. The next question comes from Michael van Wegen from Bank of America. Please go ahead, sir.

Q - Michael van Wegen {BIO 6435238 <GO>}

Yeah. Hi. Good afternoon. Michael van Wegen from Bank of America Merrill Lynch. Two questions on PIMCO, please. First of all, you confirmed this morning the net flow number for October for the total return fund. Could you talk a little bit broader about the net flow development for PIMCO in October? That's question number one.

Secondly, for those clients that decide to stay with PIMCO despite the departure of Mr. Gross, are you seeing any sort of attempt from institutional clients to perhaps reduce the fees a little bit? Because, if I'm not mistaken, PIMCO's fees generally tend to be a little bit higher than what perhaps competitors are charging? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

I think PIMCO's fee schedule is in return for the performance they are delivering. As long as their performance is at today's level, I think that is less of a question. On October flows, I can maybe put some color around it. We had €29 billion or a little bit less than $29 billion of outflows from the total return from U.S. So, let's say, in euros, €21.5 billion.

The other mutual funds of PIMCO had an outflow which was a bit less than the outflow from the total return fund. And 80% of all outflows are coming from U.S. investors. That compares to a 70% portfolio share we have in the U.S.; 30% is actually Europe and Asia. And the reaction of the European and Asian investors is maybe more rational. And the outflows in the U.S. are certainly more pronounced on the retail side, which is then also being measured at roughly 70% of all outflows were from funds previously managed by Bill Gross. So did I cover your question, Michael, or...?

Q - Michael van Wegen {BIO 6435238 <GO>}

Yes. I guess that on the fee structure you're essentially saying, look, we're not seeing it, given the performance for most of the funds is okay. But if that were to change, then, I guess there could be that pressure.

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, I think in asset management it's mainly about performance. I think then, it's probably, if the performance is not working, then institutional investors are moving. I don't think that it is a fee discussion.

Q - Michael van Wegen {BIO 6435238 <GO>}

Okay. Thank you.

Operator

Thank you. The next question comes from Mr. Peter Eliot from Berenberg. Please go ahead. Your line is now open.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. And for first one, I just want to perhaps concentrate on the one bucket on the dividend slide that we haven't discussed in great detail, the internal growth. I guess, when I've sort of tried to look at that before, I've struggled to prove to myself that you've used the full 20% budget. And especially outside Life, I've seen relatively little demand. So I'm just wondering how you think that going forward, whether you're sort of confident that you might use the whole 20%; and if you don't, would that bucket possibly also fall into somewhere you could evaluate any unused budgets?

Second question, I just want a quick clarification. For the tax impact that you described, am I right in thinking that if it had not been for that tax impact, the Life operating profit might have been a little bit higher than you've shown?

And then the third area, I just want to touch quickly on two non-Life divisions. In Italy, I guess the industry body has sort of said that frequencies decline is sort of slowing, but premium decline is continuing. One of your major competitors yesterday seemed to be quite positive on further frequency declines and therefore maintaining profitability. And I'm wondering what your view is there?

And in Brazil, I noticed that you attribute a lot of the weak performance to operational issues, but it seems quite a few other players are having, let's say, similar combined ratios. So I'm just - it seems to be a bit more of an industry thing and I'm just - in light of that, I'm wondering what the scope to improve your combined ratio is? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. Really a long list of questions.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Sorry.

A - Dieter Wemmer {BIO 4755450 <GO>}

I think that the dividend, as I've said, the internal growth assumption assumes that we are growing on average some 3%, 4%. In some years, there will be more consumption by Life; in other years, it will be more by P&C. I'm not this precise that I'm saying exactly how much we need for what, but that is actually - and even if in a year we are only consuming, let's say, €1 billion instead of €1.2 billion, that is a fairly small amount. And sometimes, Peter, I have the feeling you guys are only stopping when we go to 100% payout. So you are really working quite hard on me today. And nobody said any thank you to the 50%, so (01:09:30).

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much indeed.

A - Dieter Wemmer {BIO 4755450 <GO>}

So really tough today. So the tax impact, as I said, it has zero impact. It is really a tax credit we are getting. It moves directly to the policyholder. There is no movement on Life operating profit. And Italy, yes, it is true, the premium decline is partly compensated by frequency reduction. So, therefore, the impact on the accident year loss ratio is not this strong. However, in our movement, it's also included that actually the agent channel is slightly shrinking as you can see from the number or even shrinking more than the 0.6% you see. The high costs we have in the direct channel.

And, of course, therefore, there is a shift of the basic average between the accident year loss ratio of the direct channel versus the agent channel. And that is independent now of the market and the price movement. We are running the largest direct writer in Italy, and our growth continues. And, actually, I think going forward I see really a lot of growth opportunities for our direct business, which is really establishing itself as a undisputed market leader in this space.

Brazil. Our main problem area is the group health business, and it is certainly not a business where it is easy to achieve an underwriting profit, but still we have at the moment operational issues which make it more difficult. I don't think that our combined ratio will stay significant above 100%. I think we can achieve the 100% combined ratio in a couple of quarters. As Michael already pointed out, it will not happen overnight, but I think we can improve it quarter-over-quarter.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much, Dieter. And the stock market said a big thank you today as well.

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. That is cool. They are nicer to me than you guys. Yeah, I noticed that.

Operator

Thank you. The next question comes from Mr. Pantarrotas from Kepler Cheuvreux. Please go ahead.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

Yes. Good afternoon. I have only two questions left. One is on loss ratio. Your accident year loss ratio showed a upward trend compared to the very good level of the past two years. And I wonder if you can provide some color. So it's a matter of some pressure in the business, or it's a simply due to some specific area like U.S. However, I think that U.S. was mainly an issue with the reservation in the third quarter rather than on accident year?

The second question is on your capital model. You put in the past quarters a potential charge on European sovereign debt, which is likely an even too cautious assumption. But at the same time, your capital available increased materially by roughly €10 million due to transferability of funds. And I would like to have some color on this, if you can provide us some color on why there was this increase? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay, Atanasio. Accident year loss ratio there is 0.5% compared to last year impact due to higher large losses; and the rest is coming from Brazil, Russia, and Fireman's Fund. Even as most of the issues at Fireman's Fund are prior year, we are also seeing actually a worsening of the accident year loss ratio as compared to the 100% level.

So Fireman's Fund is a double topic, and we have – although I said that cat was in the third quarter not really our issue, we had one or two large personal lines losses at Fireman's Fund that is just normal fire. So nothing of a systemic nature, but it costs money. So that are actually the accident year loss ratio deterioration. I think when we correct Brazil, Russia, and also Fireman's Fund into different level, then I think we should be pretty much back to last year's level.

Of course, volatility from large losses will always stay. The capital model and the higher level of fungibility, that is a complex topic. So I hope you're all sitting well, because now I have to start with a longer story.

We have a higher risk capital consumption at our German Life business due to some model changes. Therefore, the weight of the German Life business in the overall pie of risk capital is increasing. With the increasing share in the pie, you can, so to speak, use more from the non-fungible capital, because in the calculation it is always used up to the group average.

It means in absolute terms you cannot use the fungible capital to move it from one entity to the other, but you can use it for the risk consumed by the German Life business itself. So it is in the end a mechanical average effect, which might sound a bit strange and maybe it would be easier to explain it on a chart. I hope I expressed it well enough, otherwise Tom Wilson, our Chief Risk Officer has to try it again.

Q - Atanasio Pantarrotas {BIO 5933123 <GO>}

No. It was clear. Thank you.

Operator

The next question comes from Thomas Seidl from Sanford Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Hello. Good afternoon. First question is on the P&C. By taking a portfolio view, I was quite surprised about the slowing down in pricing. It was 1.1% at H1, it's now 0.8%, suggesting that in the quarter prices were up just around 30 basis points, clearly below inflation, leave alone compensating lower investment income. My question here is, does this not suggest that we have seen (1:16:59) the peak in the performance of the P&C segment and we should expect lower performance in margin terms going forward?

And secondly, a more positive thing, of course, Life, the strong growth. When and how much does this influence the future operating profit on the Life side? So should we expect a much higher operating income and how quickly will this come through?

And thirdly, I think I understood when Michael Diekmann was here in London in March that you are about to complete a full assessment of the capital situation of Allianz, and you were going to disclose this in the fourth quarter. So not only a flow, but also a stock discussion in Q4. Solvency II is now in the box. The G-SII capital standards, a brief check tell us they are not harmful at all. So what keeps you from disclosing the real capital buffer of Allianz?

A - Dieter Wemmer {BIO 4755450 <GO>}

Okay. Let me start with the last question first. First, EIOPA has still not finalized the formulas how to calculate Solvency II. They are even still working on defining the risk-free yield curve which is, as you can imagine, an essential part of the whole calculation. And they have now promised to deliver this to us end of January for the filing in March.

So that is a delay which I think you can call in Frankfurt. And if you get them accelerated, I'm happy to take it earlier.

The other point is IIF tried to implement and define for the SIFIs, so the G-SIIs, the HLA. That is additional capital required over normal for the systemic risks. And they have missed on their proposal and said they would come back next summer. So that is a very simple point. And both, that's the Solvency II rules were ready and also the G-SIFI standards, that was all promised for fourth quarter.

And I cannot influence the regulators. I think we have taken with our presentation of the flow, I think a pretty bold step that we are assuming that all the outstanding capital definition are manageable and that we have not to regret what we are doing today. That shows that we are really not here conservative. I think we have found a solution which should actually address both sides, the needs of the capital markets and also still having the final debate on the stock definition.

Q - Thomas Seidl {BIO 17755912 <GO>}

So that means basically, before, let's say, Q3, Q4 next year, you're not going to address again the capital stock question?

A - Dieter Wemmer {BIO 4755450 <GO>}

Yes. I even tried to say that we will come back on the stock question at a later time, without specifying it.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - Dieter Wemmer {BIO 4755450 <GO>}

And in the end, when it is ready, it is ready. So it's not that it's an Allianz decision to delay the time schedules. Operating profit in Life, despite William's question on how fast is investment margin falling, I think the investment margin is probably still holding up some time, and particular, net investment margin for the shareholder. So, therefore, the operating profit should benefit from the higher reserve levels overall. And that would be at the moment also my normalized growth assumption for the profit.

P&C portfolio view. I think when we discussed where I would see the improvement of the loss ratio coming from next year, I was mainly focusing on the three entities which are currently under-delivering. So I put not price increases on the list. And that gives you already an indication that price increases, overall, probably might support still our loss ratio a little bit, as also frequency is coming down, and inflation in Europe is probably non-existing. So, therefore, I think that we have still some room for improvement, but it has mainly to come from hard internal work and it will not be a gift by the market.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. On the Life, just to follow up here, this means despite falling investment margin, the larger base, you expect significant destroying (01:22:29) operating income in Life, isn't it?

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, in our new business profit, as I've said, when we went through the slides, we have €119 million strain from the new business in the quarter. So actually to improve the operating profit would be to reduce the cost.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - Dieter Wemmer {BIO 4755450 <GO>}

That is definitely how IFRS works, whether it will in the long run create value is a different question.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. We agree. Thanks a lot, Dieter.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. We have five minutes left. So there's time for one last question, please, if any.

Operator

Okay. The last question comes from Mr. Nick Holmes from SocGen. Please go ahead, sir.

Q - Nick Holmes {BIO 3387435 <GO>}

Sorry. I think I missed that. Hello?

A - Oliver Schmidt {BIO 2473131 <GO>}

Yeah. Nick, we hear you.

Q - Nick Holmes {BIO 3387435 <GO>}

Yeah. That's great. Thank you very much. Just one question. I just wanted to come back to your very strong U.S. Life sales. I wondered mis-selling, I mean, this was an issue 10 years ago. It was a very serious issue. Dieter, this is all before your time. But there was a lot of mis-selling litigation 10 years ago. And having a look at your product, it does seem to be extremely complicated. And I just wanted to ask, what sort of safeguards are you taking against mis-selling? I mean, things like are all the agents SEC registered. Can you take us through the sort of precautions that you are making on those sales? Thank you.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thank you, Nick. I think that is a great question to complete the call. We have since the mis-selling efforts set up very special procedures. We are really doing, of a high percentage of the customers, call back and interview them about the sales process and asked them questions how they have understood the product; and if there are missing points, we explain it. You are right. There were many years ago, before my time, quite a number of mis-selling situation, and I think that Allianz Life in Minneapolis has really changed its procedures in a way that we can really interview the customers.

Some customers are puzzled when they are being interviewed. But in the end, the feedback also showing from our NPS scoring, customers really like it. We had some trouble with some of our sales agents which are independent agents which thought that was a statement of mistrust. But now, in the meantime, also the sales agents are accepting this because that gives them also more protection in case that a customer is protesting later on, which is actually very much reducing due to the process.

Q - Nick Holmes {BIO 3387435 <GO>}

Right. So just to clarify, is it an SEC registered product? So do you have – because I think the last time, 10 years ago, you had a lot of kind of lower quality agents because the indexed annuity at that time was not SEC registered?

A - Dieter Wemmer {BIO 4755450 <GO>}

Fixed indexed annuity as such, as far as I know, is not an SEC registered product because most of our competitors selling it through standard Life agents. I think our new product, because it has more financial market features, is actually a product which is being picked up by SEC registered agents. They offer to sell it over the even more complex VA product because it is a much simpler product compared to VA product; and, for them, also easier to explain. And it has, therefore for the sales agent and the customer, quite some advantages.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. So just one final question on that. What is the number of agents that you've got? Because I think 10 years ago you had literally tens of thousands of agents. Is it a more select group of agents that you're using?

A - Dieter Wemmer {BIO 4755450 <GO>}

Well, I don't think so because that's actually – the very well-known large broker/dealer networks in the U.S. are all selling this product. So there is a vast number of agents who are selling the product through their dealer networks, and I don't want to use now the brand name of this dealer networks, but this is the one everybody knows.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you very much.

A - Dieter Wemmer {BIO 4755450 <GO>}

Thank you, Nick.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. I guess we're done for today. So thanks for joining the call, thanks for listening. And we wish everybody a very nice remaining Friday afternoon, and a nice weekend.

A - Dieter Wemmer {BIO 4755450 <GO>}

Enjoy the weekend. Bye.

Operator

Ladies and gentlemen, thank you for your attendance. This call is being concluded, you may now disconnect.