

Q3 2020 Earnings Call

Company Participants

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

Other Participants

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

Presentation

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Financial Results of the Third Quarter 2020. 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 would like to turn the call over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead.

Oliver Schmidt {BIO 2473131 <GO>}

Thank you, Bettina. Yes, good afternoon and welcome to our conference call. There's nothing specific to be added from my side today, so I hand over directly to Giulio.

Giulio Terzariol {BIO 17125489 <GO>}

Thank you, Oliver, and good afternoon and good morning to everybody. And I'm pleased to present you the results of Allianz for the nine months. If we go to page three, we have started with the year-to-date view. Overall, we had an operating profit of EUR7.8 billion. As you see, this number is 14.6% lower compared to the prior period or in euro is EUR1.3 billion below the prior period. But as you see, the deviation is explained by the impact of

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COVID. And as you remember, the majority of the impact from COVID came from Q1 and Q2. So if you adjust the number for the impact from COVID, we will be at EUR9.1 billion of operating profit, which is in line with the prior period and also in line with our expectation of our outlook [ph] divided by pro rata for the period. When we look at the Property-Casualty segment, we have an operating profit of EUR3.5 billion, which is EUR700 million below the prior period. If you adjust for the COVID impact in reality, we would be even slightly better compared to last year. And when you look at the combined ratio with 96%, if you adjust for the COVID impact, combined ratio would be slightly below 94%, so better compared to the level of last year.

On the Life side, we have an operating profit of EUR3 billion. Again, here, we had an impact in, especially in Q1. We had a normalization in Q2. And as you're going to see in a second that Q3 results has been in line with our expectation. On top of that, the new business margin with 2.9% is a very strong new business margin in this environment. And then Asset Management with EUR2 billion of operating profit is ahead of last year, and on a year-to-date basis, we have a positive inflow. So overall, I would say a good set of results on a nine months basis.

And when we go to page five and we look at the quarter, I will say we see a very good quarter. As you see as the situation has at least for the third quarter stabilized, you can see how the underlying performance is kicking in. Overall, we have an operating profit of EUR2.9 billion. The impact from COVID was in the quarter only EUR100 million, this is coming from the Property-Casualty side. When we look at the combined ratio of 94.5%, if we adjust it for the COVID impact, we are below the 94% level. So again, an indication that we are running below 94%, and we are positioned to get to 93% combined ratio next year.

On the Life side, the operating profit, as I was saying before, is very good at EUR1.1 billion, so that's in line with our expectation. And the new business margin also in the quarter was strong despite very low interest rate at 2.9%. The Asset Management operating profit is slightly short of EUR700 million. So that's also a good result. If you remember, our outlook for the 12 months is EUR2.7 billion. So this number is basically totally in line with our outlook divided by four [ph].

And in the quarter, you see also very strong net inflows with EUR26 billion. The net income is over EUR2 billion. So that's a reflection of the solid operating profit and also we had some realized gains as a consequence of derisking at the beginning of the quarter and this has also supported the net income. So a strong set of results for the IFRS basis in the third quarter, which are underlying -- the good underlying -- the good performance on a underlying basis.

And with that, I would like to move to page seven on the solvency ratio capitalization. As you see, our solvency capital has increased by five percentage points from 187% to 192%. So that's a good development. I'm going to explain it in a few second. And when you look at the sensitivities, the sensitivities are basically unchanged, just slightly better compared to the sensitivities that we had at the end of June.

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If we move to page nine, you can see that the organic generation of capital was strong at six percentage points. If you remove the taxes and the dividend accrual for that profit generation, there will be about two percentage points. So in line with our expectation. The market impact has been positive. On a pre-tax basis, we had a six percentage point positive impact because of market. And here we had at the end of the day the benefit coming from the narrowing of the credit spreads and also the interest rate volatility has been lower, especially on the long duration. And so this has been a positive, including some also non-linear movement of the credit spreads. So that's the reason why we see a little bit of a better benefit even compared to what could have been expected.

Then one comment on the management action. Here you see basically a deduction from the own fund of EUR1.5 billion. This is the consequence of the dividend accrual and also we have completed the acquisition of SulAmerica. So which means if you remove the dividend accrual and the acquisition of SulAmerica, the impact on -- on the own fund would be EURO billion [ph], but on the same time, you see that the management action have a positive impact on reducing the SCR.

So if you run the math in reality, due to management action, derisking, we have created about three percentage point to four percentage point of solvency ratio. And this was the results of action that we put in place in order to sustain or even improve our solvency ratio. So all-in-all, this leads to a 192% solvency ratio. As you might know, we have decided to cancel the buyback. The buyback is still deducted from these numbers, which means on a pro forma basis, the solvency ratio of Allianz Group would be 194%. So overall, a strong capital position.

And with that, I would like to move to page 11, where as usual we'll go into the Property-Casualty segment, and we can speak about growth first. Clearly, what is I catch in this slide is the minus 4% on internal growth, but if you look down on the table and you look at the development of Allianz Partners and Euler Hermes, this explains basically why we have a minus 4% growth. If you adjust for those two entities, we would be basically at a 0% growth rate for the quarter.

On top of that, there are a couple of entities, where we are taking clearly, cleaning actions. So one is obviously, AGCS, where we also getting rid of portfolios, but also in the UK in the commercial business, we are definitely pushing also for better underwriting performance. Otherwise, I would say what's good -- what was very good is the performance in Germany.

And also what is good, if you look at the price momentum basically in all countries is positive or stable. And only exception would be Italy, where we have anyway very strong performance, and then clearly, something [ph] very helpful, the rate increases that we're getting at AGCS in our industrial business. So fundamentally from a price momentum, we still see an environment which is either neutral or positive.

Moving to page 13. The operating profit and the combined ratio in P&C are basically flat over the prior period. When we look at the combined ratio and maybe we focus first on the loss ratio, we see deterioration of 50 basis points, but this is explained by COVID. So if

you remove the COVID, the loss ratio would be basically flat over the prior period, then you can see that the run-off is 200 basis points lower compared to the prior period. But this has been offset by better NatCat load and also by a better underlying development of the loss ratio.

One comment on the run-off, because clearly, losses are pretty low. I would say that here we tend to be very prudent based on the situation which where we are. So from that point of view, I will read this in a positive way, because it's just a sign of prudence. And as you see, we are still booking overall very good results. One final comment on the expense ratio with 26.7%, so that's better compared to what we had last year. Also last quarter, we had an expense ratio, which was below 27%. So I would say there are some one-off or some effects, but I would definitely say that we are currently operating at an expense ratio level of about 20%, 27%.

Moving to page 15, you can also see here a good picture in my opinion, because if you just look at the combined ratio of the different entities, you can see that we have 89% combined ratio in Germany, 86% in Italy, 87% in Central and Eastern Europe, you can go down the list, you're going to see that there are a lot of companies delivering very healthy combined ratio. So this is a sign of strength across different entities.

On AGCS, the combined -- the combined ratio is 102.9% in the quarter. We didn't have a lot on NatCat, but we had a lot of weather-related events. So if you adjust some of the numbers and normalize a little bit for that, the combined ratio would be more or less at 100%. This was also the number that we quoted in Q2 as we run our analytics. This looks to be the level of combined ratio that we have now at AGCS when we normalize for COVID or we normalize for NatCat weather-related volatility.

With that, I would like to move to page 17 on the investment results. Overall, the investment results in Property-Casualty is stable. But we have to say also that if you look at the current yield or if you look at the current income, this is going down in the quarter. This has been offset by a better harvesting results and lower expenses, but there is some pressure on the investment results. So this is something that we need to keep in mind. And this is also the reason why we are even more determined to push the combined ratio to the 93% level to make sure that we get there. And then clearly, as we go into the following years, we need to think also how we might get the combined ratio even below that level, because there is no doubt that on the investment results we're going to see some different numbers in the future compared to what we saw in the past.

Now coming to page 19 on the Life side. Clearly, production is down, which is a reflection of the current situation. Also I would say, last year, production was pretty elevated, so we have also a little bit of a basis effect. But I believe what the good story is here is the level of new business margin is -- despite very low interest rates, we are capable to operate the new business margin of 2.9%. And as you know, we are taking product actions, they're coming now, they're going to come next year. So from that point of view, the fact that we have been able to achieve a 2.9% new business margin already now, it's a good indication of how we are positioned also as we go into 2021. And then a final comment on the mix. As you see, the mix is also moving in the right direction. This has also supported new

business margin. So from that point of view, I think we are taking all needed action to preserve the profitability of the new business.

Moving to page 21. The operating profit in Life, as I was saying before, is strong at EUR1.1 billion with a growth rate of over 3% compared to the prior period. And if you adjust for the deconsolidation of the joint venture with Banco Popular, the growth rate would be even slightly above 5%. So I would say also from this metric, you can see that our life insurance business where the situation is just stable. And I would still say that the VIX was not at the lowest level ever, let's put this way, we see that the results are basically in line with our expectation of EUR1.1 billion for the quarter.

If we move now to page 23. Clearly, the value of new business is down, but that's a reflection of the fact that we have lower production for the quarter. As I was saying before, the new business margin is healthy at 2.9%. And also if you go down the list or the OEs or the entities, you can see that all entities have either a good new business margin or at least a decent new business margin. So also from that point of view, I would say in all entities that we -- that we're taking the action that we need to take. On the operating profit, I would say there are no major development. You can see a lift in Asia-Pacific and also in the USA, but fundamentally, you see a lot of positive signs in the -- as I was saying before in Spain, the drop is due also to the deconsolidation of the joint venture with Banco Popular.

Moving now to page 25. On the investment margin, you can see that we have an increase of 4%, and that's the consequence of having an increasing asset basis, and on the same time, the margin is stable. If you take the expression in relative terms, if you take the investment margin of 19 basis points and you annualize that number, you get basically to 76 basis point, and this would be within the range that we were expecting for this year.

And with that, I'd like to move to Asset Management. Overall, we have EUR2.3 trillion of assets under management. And as you can see here, both the third-party assets and the proprietary assets have been growing this quarter. But I would just move very quickly to page 29, because that's more insightful and here we get the explanation of the movement in the assets under management. As you see, there was an increase for third-party. As you see there was an increase of EUR12 billion, and the main driver -- the main driver for this increase was the inflows with positive, very positive inflows at PIMCO, then you can see also that the impact from the market was favorable. On the other side, we had a strong negative deviation due to impact due to FX. And this is clearly driven by the depreciation of the US dollar.

But despite significant depreciation of the US dollar, we have been able to increase our assets under management. And clearly, we are very happy, especially with the flow situation at PIMCO. With that at page 31, the revenue in Asset Management, if you adjust the numbers for fixed effects are basically stable. We see a little bit of a plus. Clearly, this is due to the development at PIMCO. When you look at AGI, you see a significant deterioration of minus 8%, but this is mostly driven by the volatility around the performance fees. So if you adjust the numbers for the performance fees and you just look at the basis fee in reality, the growth rate was just slightly negative at minus 1%. So

from that point of view, there is more stability on the basis fees and then clearly, there can be some volatility around the performance fees.

Moving at -- to page 33, the operating profit is very good at EUR677 million. It's below the prior period level, but as you can see right away, the deviation is driven by the impact of fixed effects. And we look then at the entity, we can see that PIMCO had a good performance, indeed, even despite the FX effects, which are particularly positive in the Euro translation for PIMCO. PIMCO has been able to grow the operating profit, and then you can also see that the cost income ratio is very healthy at 58%. In the case of AGI, you see a significant drop in the operating profit, but this is explained by the performance fees, so the same effect that is explaining the revenue drop is also explaining most of the drop in investment in operating profit. Indeed, I would say when you look at the absolute amount of operating profit at EUR150 million, it's a very good operating profit. If you annualize that number, there will be basically north of EUR600 million for the year. So it's definitely a good result.

Now moving to page 35, on corporate, we see a deterioration compared to the last year, but there are always some effects that can go one year in one direction and the other year in the different direction. Overall, I would say the results are in line with our expectation. And then moving to page 37, on the non-operating items, as I was saying in the beginning of the presentation, the realized gains are a little bit higher compared to last year.

That's also driven by the fact that last year, we had a negative impact on realized gains due to the buyback of a bond, but also this year as I was saying before, we had realized gains on equity as a consequence of derisking that we undertook at the beginning of the quarter. Otherwise, impairments are lower compared to last year. And then as you see, the restructuring expenses are higher, and that's a reflection of all the things that we are doing, including IT decommissioning to push further productivity also for the future. So all-in-all, a net income of EUR2.1 billion, which is obviously a very good number.

And with that, I turn to page 39. So in summary, I would say, we had a very good quarter underling that when the situation is stable, you can see that the numbers are coming back to what is a more normal level. As always, we are focusing on the things we can control. And as you see, our expense ratio is going in the right direction, and the loss ratio is a little bit more difficult to read the numbers. But I can tell you that we are confident about what we see on the Life business. You see that the new business margin is 2.9%, despite rates which are very low. And also in Asset Management, I would say the numbers are pretty solid too with the operating profit of EUR700 million, almost EUR700 million for the quarter. So I think we're focusing on the things we can control and I believe we are successful on that.

And with that, I would like just to take your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question today comes from Jon Hocking of Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

Good afternoon, everybody. I've got three questions, please. Firstly, on AGCS. Have you now completed all the portfolio pruning that you want to do? This is the first question. Second question, just coming back to the run-off results. You sort of mentioned that you're sort of being conservative, but there -- were there any particular portfolios where you strengthened reserves at the third quarter stage? And then finally, I just wonder whether you could give any sort of comment as far as you're able to on the dividend, discussions you might have had in the past and in recent weeks? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. So thank you for the questions, Jon. On AGCS, I would say, the pruning in the sense of getting rid of some book of businesses. This is fairly completed, but we are clearly still taking a lot of rating actions to locate exposure [ph]. So from that point of view, we are still in the -- in a situation where we are driving margin profitability, and we are using the hard market to do that instead of maybe start thinking about growth. So that's still priority number one.

As we go into 2021, once we see that the combined ratio is going below the 100% level and also we want to see this below 100%, doesn't mean 99%, once we get there, once we have also comfort about elements like social inflation, all these kind of things, at that point, we might start thinking about growth. But for the time being, clearly, the priority is still making sure that we have an underwriting performance which is better compared also to the underwriting performance that we see right now. We should not forget that the combined ratio according to our analytics is 100%. We're not saying it's 93% or 94%. So from that point of view, we are going in the right direction, but there is still some work to do.

On your question about the run-off, no, there was nothing funny. So I just tell you that in general, we have taken a more conservative view across the board and this is just a reflection. There is uncertainty clearly, as you go into the fourth quarter and also as you go -- you prepare for 2021. So there is nothing specific in a entity that justify the lower number, just overall, conservative view on -- just to make sure that we're well prepared for anything that might happen as we move forward.

On the dividend, I would say the conversation that we have with our regulator are the same conversation that we had at the beginning of the year. So at the end of the day, their position has not changed, which means that as long a company has a gross solvency ratio and good capital management and liquidity, it is going to be the basis for the decision on dividend. So that's the status as of now and that's also the status based on the conversation that we had with our regulators. So no change on that position compared to what we saw in April last year -- this year.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Could I just come back on the run-off comments, you mentioned being more conservative. Is there anything particular you've seen in the environment of this maybe more conservative [ph], is it just COVID and economic effects or is there anything else that's driving that decision?

A - Giulio Terzariol {BIO 17125489 <GO>}

No, I think it's a normal reaction. There is not that we see anything the assumption that we are -- we say we need to change something. It's just a normal reflection to say, let's hold a little bit power dry in a situation where you don't know what might come in front of you. If you ask me what I'm referring to, we need to think that next year, the revenue might be lower. We might have also situation that revenue might be lower also and we discussed that already. Also because in Motor, for example, premium expansion of the frequency that you might have had in the current year.

So this is going to influence the premium for the next year, but we might see a spike in severity maybe in frequency next year. So it's a little bit being more conservative to prepare for developments that we have not seen before and -- as a result of this COVID situation, but there is nothing that we are seeing right now to being prudent.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay, thanks very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We will now take a question from Michael Huttner of Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic, thank you, and the lovely results. (technical difficulty) I have three questions. One is, when you began to approach the revenues, just wondered if you can expand a little bit on more on your thinking on revenue growth in 2021? The other is maybe an important question, what should be the solvency ex-UFR? And I think, understand you would say, well, it's a little bit unfair, because we invest in risky assets and, of course, Solvency II ignores risky assets, but just give a feel for it? And then the last one is, maybe you can say something what's left for COVID both 2020 and maybe more claims in future? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, I didn't get your second question. Can you repeat the second one.

Q - Michael Huttner {BIO 21454754 <GO>}

What should be solvency excluding the UFR?

A - Giulio Terzariol {BIO 17125489 <GO>}

Excluding (multiple speakers).

Q - Michael Huttner {BIO 21454754 <GO>}

Yes, yes.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So on solvency excluding UFR, I'd tell you that I don't have the number to run this calculation. I can tell you however what would be the impact in the case, the current proposal of EIOPA is implemented, that will be assuming, we do management action, there will be about between about 15 [ph] percentage points on the solvency ratio of the Group.

But this would assume that we clearly sit here, we do nothing. But I don't have now a number in the case the last week, point [ph] will be completely removed from the picture. So on the COVID, you know at the beginning of the year, we guided that we expect to have about EUR1 billion plus of COVID expenses -- COVID impact.

So as of Q3, we are at EUR900 million. So I would expect that in the last quarter, we're still going to see the impact coming from Euler Hermes because clearly, on that one we're still going to book a combined ratio about 100% [ph], then we have some -- at the end of the year we're going to decide whether we want to add some reserve for financial lines and D&O, just to be prudent, because one day, it might be that we're going to see some claims come in there. So I could expect that in Q4, we're going to see the remaining EUR100 million, EUR200 million that we have anticipated from the beginning of the COVID situations that could be my expectation for Q4. So about I would say couple of EUR100 million of impacts.

And then on the -- on the growth, yes, on the growth for next year, I just said, it depends, right. We appear to be still on a different trajectory of revenue for travel. So it might be that we are going to be the level where we are right now. It might be a little bit better depending on how the COVID situation develop, but fundamentally, clearly, that's a line of business with the revenue still going to be lower compared to a normal run rate, the same to a certain degree is going to apply to Euler Hermes. And then when we start looking at the other businesses like our operation in Italy, in Spain, Germany, I would say that on aggregate, I would expect growth to be flattish or maybe slightly positive, but fundamentally, we're not going to see next year the growth rate of 3% or 4% than we were used to see in prior period. So from that point of view, yes, we are thinking that growth is going to be relatively muted next year. So that's our expectation.

On the Life side, that's a little bit of a different story, because on the Life side you might also see fundamentally when -- if the situation stabilizes, say pickup in production. So it's very difficult to say on the Life side what will happen to revenue. On the Life side, it's also less, let's say, critical compared to Property-Casualty, because clearly, the dynamic of the financials on the Life side, some are different compared to the dynamic that you have on the Property-Casualty side.

But clearly, on the growth side, we are kind of cautious as we go into 2021, and that's also the reason why we are indeed focusing a lot on productivity. We know that we need to work hard on the expense side in order to preserve the margin. And then also that's one of the reason why we are putting a lot of emphasis also on making sure that we don't have a leakage on technical excellence because we will need also a good loss ratio. So that's very high on our priority list right now.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much.

Operator

We will now take a question from Peter Eliot of Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I have three questions as well, please, so the continuation of the topic of the growth outlook, but -- and in Life. I was just wondering if you could sort of specifically talk about the competitive situation as you steer away from guarantees, how the rest of the industry is moving or following and what the sort of customer perception is?

So just from the sort of competitive pressures, great, if you could talk about those a little bit? And secondly on the derisking actions you've taken, I was a little bit surprised that the solvency sensitivities didn't change very much, given that you have taken those actions. So I was just wondering if you could explain what's happening there? And then finally, COVID losses, you made it clear that overall, the losses for this year, your base cases, they shouldn't change very much. I'm just wondering, could you just highlight what you see as the main sort of downside risks from here? I mean, what's a worst-case scenario in terms of the environment, the development. and what that might mean for you or is there very little downside risk now that contract terms have been changed and renewed and so on? Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, yes, perfect. So starting from the first question about the competitive environment on the Life side, I would say the following that not concerned in Germany. I would say that move that we are doing is totally logical, and I'm pretty confident also that competitors are going to follow. And also from a customer point of view, I think everybody is going to understand that the new product offering is, first of all is still a good product offering because, yes, it's true that the guarantees are lower, let's put this way, there is more a sort of protection which is given. But you can still on the long run get a return, and the alternatives are either you go to a bank, you get zero [ph] or you can clearly invest in a high risk -- higher risk strategy, but then you need to pay to be also willing to bear the consequences.

So in Germany, I would say, I think also because of the branding, the strength that we have, I strongly believe that we're going to be successful. Also in France just to give an

idea, I see that's also the competition is moving. So from that point of view, I believe the entire industry is moving somehow in the same direction, that's very helpful.

In Italy, anyway we have already changed our mix to unit-linked. So in Italy we don't have even the need to make a lot of changes. And then we always go back to the United States, where I would say in the United States, sometimes we might be in the situation that we operate with different metrics compared to what the competition is doing. But I would say the majority of the competition is adjusting also because the rates are anyway also on a real world basis, you need to make changes in order to preserve the profitability. So that's not only the case if you're running a market consistent by the value kind of pricing. So I would say fundamentally, there is a change. And then as usual in the US, there is somebody who didn't get the email, so there are some companies that might stay a little bit more aggressive. But eventually, even the companies that stay a little bit more aggressive for maybe a couple of quarters eventually, they need to realize what reality is. So I would also -- I would even say that in the United States, when I speak to my former colleagues over there, there is a good degree of confidence that they can have a product offering, which is going to be competitive, is going to be accepted by the customers and we can get to a -- the premium level that we need to get in order to operate successful -- successfully.

Then you had a question about the sensitivities why they are not going down, although, we do derisking, I'd tell you, that's a good observation. The reason why they are not going down, even if we sell equity, if the rates, interest rates are going down, somehow you get to the same level of sensitivity, because every time the interest rates are going down, especially on these markets consistent by the value you have less distance for the guarantee.

And so automatically this is kind of -- everything has been -- everything has been equal, that would increase the sensitivity. So we need to derisk to a certain degree in order to keep this sensitivity stable in the case of lower interest rates. If we have a combination of derisk on the equity side and to increase interest rates, then you're going to see how the sensitivities are going to go down significantly, but that is actually what's -- what is happening right now. So we take action on the investment portfolio. This is going to decrease the sensitivity, but on the other side lower interest rates are going to put them back more or less to the level we were before.

And then on the credit losses, I understand you are referring to in general, the credit, how we view the -- COVID, sorry, I understood credit loss. On the COVID losses, okay, I would say fundamentally as we look into 2021, the situation is going to be such that our exposure to COVID losses coming on the business interruption is going to be way lower compared to what we had this year, is not going to be zero [ph], but it's going to be significantly lower.

So from that point of view I would say, there wouldn't be a concern. And then when we think about entertainment, in decades, we had done a calculation that assuming we have a lockdown, basically for -- again a situation where for 12 months, no events are going to take place, then we would have potentially a loss that could go up to EUR200 million. But that would be really a situation when nothing is happening basically for to -- for the entire

year. So from that point of view, I would say the situation as we look into 2021, if you ask me is manageable, and you have always to assume that in the famous situation where we might see that kind of impact on entertainment, most likely the frequency in Motor would be also a little bit better compared to historical average.

So as we look into 2021, on the underwriting side, I think the impact from COVID on the claims side would be limited. So it's more about thinking or what the implication going to be on revenue, on the sentiment in the market, on the capital market. But from a pure claim point of view, I would say this shouldn't be a major concern for 2021.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great. Thanks so much. Can I just quickly follow up on your comment on the sensitivities, Giulio.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes.

Q - Peter Eliot {BIO 7556214 <GO>}

I mean, given what you said, does that mean there's more work to be done? I mean, should we maybe expect you to still be working on that?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, we always tell you we work a lot on Solvency II and the sensitivity. So from that point of view, that's an ongoing effort. And part of the work that we do is also to do back-book transaction, because at the end of the day, there is a point where you need to think not only about how you change your assets, but also how you maybe change your perimeter. From that point of view, yes, there is no doubt that we have been working on our solvency ratio for basically throughout the year. We have also action that we will constantly put in place. This -- let me also tell you, we are at a very good combined solvency ratio. So the level is anyway very good and very comforting. But clearly, we take all opportunities and all actions that we can take in order to stabilize the solvency ratio even further and potentially to increase it.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thanks so much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Our next question comes from Andrew Ritchie of Autonomous. Please go ahead.

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Q - Andrew Ritchie {BIO 18731996 <GO>}

So, hi, there. A couple of questions. First of all, Giulio, just remind me or clarify what you said on the outlook for the Life spread, which is annualizing as you said at around 80 [ph]. I think it may have benefited this quarter from prepayments in the US. So I'm just wondering if that drops out, is it -- are you still anticipating it can be held around this level? Second question, is it -- I think in Q4, you review the assumptions -- DAC assumptions in the US, if you have any concerns on that? And I guess the only other two quick questions, has there been any new discoveries in terms of efficiencies, cost savings that you might build on as the year closes? And then particularly, is there enough material from learning from COVID to launch a new cost saving program? And then the final question was, you mentioned in your previous answer that you can obviously look at in-force management. There has been a lot of private equity interest in the last month or so, particularly in US blocks. Do you think your ability to offload problematic blocks has actually gone up?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, okay. Thank you, Andrew for the questions. So starting from the first one about prepayment, it's not something that we saw or not to the extent that, that was brought to our attention. So I would not say that there was a driver of what happened in Q3 on the spreads. And regarding your question, where do -- I think the spread is going to go.

But from my standpoint, the investment margin in relative terms, we know this number can just go down, it's not going to go up. This is going to be partially offset by the fact that the reserve basis is going to increase, and we should not forget that the capital intensity on that reserve basis is different compared to the capital intensity we had in the past. But then it's pretty clear that what we need to have is more earnings coming from loadings and also from the technical margin. But we are not going to, let's say, win the battle by lifting the investment margin. This is not going to happen in this kind of environment. So we need to think a little bit different about the composition of our profit on the Life side as we move forward.

On your question regarding DAC in the United States, no, I'm not concerned on the DAC in the United States. What we might see in Q4, on the one side, I believe that we are going to see potentially some loss recognition in long-term clear [ph], but on the other side, we're going to see most likely some positive effect on other lines of business where we see that we have a positive development or the assumption compared to what we have in our reserving.

So don't expect to see any surprise coming from the US in fourth quarter. But we're going to have some lines of business like LTC, where we're going to have a negative unlocking. We're going to have other line of business where we're going to have a positive unlocking. So overall, I would say the quality of the balance sheet in the US is strong. And this leads maybe to the last question, and I'm not going to speak now specifically about the United States, but -- and it is going to be more of a generic comments. What we see is that, and I said that already before, our book of businesses, they tend to -- maybe -- they don't tend maybe to have sometimes the best ROE, but the quality relative to other things

that are out there is pretty good, and that's just a consequence of the discipline that we put in place over many years.

So in our situation is really that I think we did the -- we took the right steps and decision clearly when rates are so low. I think the capital intensity of those businesses might be higher than anticipated. But this means that for us to find buyers might not be overly complicated. And this is a generic statement because the quality of the business that we had there, it's a little bit better, and so this is more easier if you want to potentially find an agreement with the buyer, but leave that as a very generic statement.

And to come back to your specific question, do I think that in general, the possibility to sell book today are higher compared to a few -- maybe a year ago. I would say in -- yes, maybe they are a little bit better compared to a year ago. Definitely, they are not worse, because my concern was, as we went into the COVID crisis that maybe capacity might dry up, but that's not the case. So there is definitely an interest for back-books. And if you have a back-book, which is not really bad of a back-book, the interest might be even slightly better.

And then on the efficiency, I just tell you out of COVID, I will say, yes, you can learn something also about efficiency, but I will not overplay that because a little bit less travel, yes, might have been expense ratio, but I wouldn't say this is the main driver. We're also looking at location clearly, potentially, one might say that less space is needed, you can do something there. But fundamentally, for me, the COVID is more the proof that we can move to a more digital world. So from that point of view, we can accelerate what our plan was anyway with the ACM Model, with the Allianz Customer Model. So it's more an acceleration of what we wanted to do or a proof that this can work. It's going to shape also the customer relationship potentially or the interaction with the distribution a little bit differently. But I wouldn't say that just because of COVID now suddenly, the expense ratio is going down one percentage point. I wouldn't see it that way, but clearly can -- COVID can support our agenda. From that point of view, that would be one of the positive out of the COVID situation.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thanks very much. Very comprehensive.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you.

Operator

We will now take a question from Farooq Hanif of Credit Suisse.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. Hi, everybody. First question on AGCS. The level of pricing that you're seeing on renewals is really quite high. And it seems to suggest that you're taking

advantage of liability and longer tail lines of businesses. If you could just talk about why that is particularly high, that would be helpful?

Secondly, if next year you find that you're, for whatever reason, not allowed to buy back capital, what -- would you still be looking to deploy the EUR2 billion to EUR3 billion that you have? And last question maybe on the UK. You've always had a very high level of reinsurance in the UK, so your kind of -- I think your net to gross is sort of 50% to 60%. Do you really need that now that you have a more diversified book? And are there any plans to adjust the reinsurance arrangements in the UK? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, maybe I start from the UK one. I believe what you see there is the consequence of the quota share that we do, which are capital management's quota share that we put in place in most of the entities, and we do that not only in the UK, we do also in other countries. In most of the entities, we -- when we talk to you guys, we show you the view basically before this quota share that we do.

In the case of the UK, we didn't do that so far, but next year we're going to flip also for the UK to use the same methodology. So in reality, it's, we're still retaining basically the risk and the profit. And that's just in the case of the UK, you saw this so far the numbers including the quota share to the group. Moving forward, you're going to see a picture, which is more similar to what you saw -- what you're seeing for the other countries. So that's on the UK.

So back to your question. No, we wouldn't need that kind of reinsurance. So you got the point right, and we're not doing that. On the buyback, I would say that -- assuming that in 2021, it's not -- it's not feasible because of the regulatory environment to do buyback. Clearly, we would look at the possibility to deploy capital and that's what we always do. But we will not compromise on the financial discipline, because there is no point to deploy capital at sub-optimal return of -- for buying sub-optimal assets, because at that point in time, I rather wait a year longer and do a buyback as opposed to regret for the next 10 years, why we bought something [ph] which has no quality or that has not the return that we want. I'm sitting in front of one of our investment guys, he would like to add the money to invest in more risky assets that's what he is telling me. But, yes, we're going to keep the discipline, that's what we're going to do. But clearly, if we cannot do buyback, we're going to look at alternative way to deploy capital.

And then on the rate increases in AGCS. I would say that we see rate increases basically across all lines of business. So it's not just in financial lines or in liability, we see even big rate increases in property. So that's a hardening which is basically across the board. And I would even say at this point in time across almost all geographies. So, yes, that's what we are currently seeing in the industrial business, and we are not the only one. So that's a market trend, which is pretty strong and we don't see that is coming to an end yet. So rate increases are still going through. But this also tells you that there is potentially still uncertainty around social inflation. This means that, that there is still a way to go before companies can claim that they are comfortable with the level of profitability. So otherwise you wouldn't see these kind of rate increases throughout the markets.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. Just if I may go back on the capital deployment, maybe I can ask in a different way. If you -- I mean, we know that you want financial discipline. You have obviously seen quite a lot of opportunities and you've deployed the capital. I mean, if you aren't able to, let's say, in 2021, deploy the capital in buybacks or find deals or you really don't want to derisk for whatever reason. I mean, is that buffer still there as a budget to be used or does it just get absorbed as surplus capital that stays in the business forever. So for example, would you think about doubling the buyback the year after, is that one way of putting it?

A - Giulio Terzariol {BIO 17125489 <GO>}

That could potentially be always a possibility. But I would say, let's go through 2021. Let's see what is happening in 2021, what kind of situation we're going to have and then we can speak about 2022, 2023 maybe in one year down the road.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Our next question comes from Vinit Malhotra of Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hello, yes, can you hear me?

A - Giulio Terzariol {BIO 17125489 <GO>}

Hi, yes, absolutely.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi. Giulio, a few quick clarifications, please, if you like. First one is the, I noticed the capital-efficient products in Life. We've got a very nice EUR300 million plus operating profit after a long time. And I also noticed that the reserves in that -- in the unit-linked area in that segment are doubled in the quarter despite new business value literally, like for 20%, 25% down, and even the premium is 20% down. Is there something going on in that segment that you would like to flag and we should know about? So that's the first question. And if you can assume EUR300 million now going to happen (technical difficulty).

Second question is just on the frequency benefit in P&C being quite a bit lower than the previous two quarters that EUR100 million now, EUR400 million run rate previously. Is that

part of the conservative approach or is that okay, things are more normalized and that's what we should have expected? So that is there.

Then, third quick one is that the Solvency II market impact of six points. Would you say that there was some surprise for you there in the spread or the volatility because obviously, consensus were surprises and so was I. So just any comment there? And very last quick follow-up or rather on this whole M&A thing is that there were news around a particular transaction in France. And then it seems to fit with your strategy, but are you able to comment a bit about that -- the particular view of France transaction at all? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So I go -- first, I'm not sure I got all the questions, but maybe you can repeat. On the capital-efficient product, the improvement in operating profit is driven once by Allianz Life. The situation in the recovery, the spread margin, if you want on a IFRS basis in Q3 this year has been good compared to some pressure that we had in last year. And the other one is Allianz Germany. Up to now we didn't see a lot of profit in that line of business coming from Allianz Germany, but now we see more profitability coming through. Just to give you an idea anyway of the development in Germany last year, the reserve associated with this business in Allianz Germany were EUR40 billion, and this year the reserve -- average reserve were EUR40 billion, and this year they are EUR64 billion.

So you see a big increase in volume there, and this clearly is also then leading to a different impact on the profit. So I think this is where you have the combination of more stable margin on the Allianz Life side and then you see also the profitability of Allianz Leben kicking in. Then I -- that's also the picture that you would expect. And we are not necessarily surprised by these developments, because I tell you, our expectation for the profit in that line of business for the year was well over EUR1 billion. So from that point of view, it might be a little bit more elevated, and also tell you the profitability in Allianz Life in FIA was a little bit better than usual this quarter. But fundamentally, the numbers are directionally correct. Then you had a question, I believe related to another line of business, I didn't get it.

Q - Vinit Malhotra {BIO 16184491 <GO>}

The frequency benefit in --

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, on the frequency in P&C. And the question was -- can you -- because I didn't really get your question.

Q - Vinit Malhotra {BIO 16184491 <GO>}

It's much lower -- I mean, it's much lower now in 3Q. Is it just the change in the economic environment or is it also your conservative approach that you mentioned about reserving and --

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So I -- okay, the only thing I can say about frequency in general is the frequency in Motor tends to be lower compared to what you historically see in Q3, anyway the frequency in Motor was higher compared to what we saw in Q2. So overall, there was a little bit of a benefit from frequency in Motor in Q3, but that wasn't overly significant. So I would say it was relatively minor. But that's what you're looking for on the figure.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, I just wanted to understand if you recognized it a lower number because of being conservative or --

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, sure -- okay, I got the question. I would say that that's also potentially part of the prudence. I believe for sure we had a conversation in Q2, the reduction in frequency was a little bit more compared to what we reflected. And I would also say that to a certain degree, we might have been a little bit conservative in Q3. But in Q3, the developments on frequency was anyway different compared to Q4. So I would say, there might be some entities, some level of conservatives, but I wouldn't for Q3 overplay that element on the frequency driver. I would say it's less of an item compared to the conversation we had in Q2.

Then you had an question on the Solvency II market impact. And, yes, the things that have driven this additional improvement, if you want, in the Solvency II capital was the interest rate volatility is lower, so that's also something that one has to keep an eye on, but clearly, we cannot put a possible driver there, but there was a reduction, especially on the interest rate volatility on the long end. And this is also the most relevant when you think about the fact that we have also long-tail liability. And then also when we do this sensitivity, we give you the sensitivity to rates or credit spreads. These are all, if you want, linear sensitivity, but you can add twisting of the curve, you can also add twisting of the credit spread curve, that was definitely an element that this quarter has been beneficial.

But then we go -- we go back to the conversation that we had also in the past, there is -- there is always some noise and sometimes the noise can be positive, sometimes the noise can be negative. I'll be concerned if I were you, if I see that the noise is always negative, then it means -- then I will start questioning whether we have a fundamental misunderstanding what is happening. As long as you see a couple of percentage point, sometimes it can be up, sometimes it can be down, I think that's totally understandable, when you have a calculation like Solvency II. And I'd like to repeat what this calculation is.

So first of all, you need to -- when we try to estimate solvency, the solvency ratio, when you try to do that based on our sensitivity, this calculation tells you first of all, you need to do a market consistent embedded value at the end of the day, a market consistent calculation of a lot of liabilities, okay, that's how you calculate the own fund, and then you need to ask yourself, how this own fund is going to look after you run 50,000 [ph] scenario and you look at what is happening in 99.5% higher level. So you can imagine that when you try to estimate what happen to that number, there might be, you just need to

be off by EUR400 million and you have a couple of percentage point of solvency ratio differential. So if you start thinking this way, you understand that two percentage point or three percentage point or more or less of solvency due to market movement is in reality, around the mistake. And the point is, you should not have a clear trending one direction. If it's always positive, these noise are always negative, there will be a concern as long it is up and down, I think that's part of the game and that's what we're seeing. And then you had another question, which was on -- on what -- M&A rumors in France, I never comment on M&A rumors. So from that point of view, I don't have much to say about M&A rumors.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you very much for (multiple speakers).

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you for the question. Yes, thank you.

Operator

We will now move to a question from William Hawkins of KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, Giulio, thank you very much. Two questions on the derisking in Solvency II you've been referring to. It may seem a stupid question, but can you just remind me why you've been doing this derisking in the first place? I mean, I'm not blind to the environment around us, but you might have thought that with all the Central Bank action going on and all the market movement could have already happened, and all the prudencies Allianz already has, derisking from things like equities and P&C and duration matching, would either been something you've already done or something which is not really necessary to do given all the Central Bank support for the capital markets. So if you just remind me why you've done this?

And then maybe easier to answer, I don't know. Could you also -- presumably there is a cost to the future capital generation of the derisking you've done this year, may not be a massive number. But could you just tell us how much in euro terms your future operating profits the Solvency II would be dragged by the derisking? And then the last question, please. Given everything that you've said about the lockdown challenges, the ongoing opportunities for efficiency measures and the rest of it, into 2021 and beyond, can Allianz still grow its operating profits at 4% a year?

I mean, it seems to me you're talking cautiously on the Life side of the business. Low yields are a big problem. So everything hinges on yet more and more efficiencies in the combined ratio. And presumably at some point that just becomes very hard to achieve given you've already been quite efficient. So how confident are you that 4% is a growth figure you can achieve in 2021 and beyond?

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay, maybe -- thank you, Bill, for your questions. So starting from the first question, why we do derisking under the circumstances, I would say, exports is always a little bit easier and to say maybe equity market when -- didn't go south and they stay relatively flat so far. But when you're in a situation where you see that there is a lot of people that can get very nervous around you, you want to be a little bit more prudent. By the way, I think that the position that we have right now is also the right position, but clearly, one can take also a different view. But I don't think that for our success, it's so critical to have a few billion more shares. And in this kind of environment, I think to be prudent on or extremely prudent, if you want on capital management, on preserving the solvency ratio, I think is the right move to do.

And coming to your question, what is the cost, if I understand what is the cost of derisking from a profit point of view. But I can tell you that on the Life side, the derisking was -- was about, I would say EUR3 billion plus of equity that we sold. So you can just -- and clearly, this kind of reinvest -- the equity that we sold, we have been reinvested in the normal fixed income strategic asset allocation. So from that point of view, you might say that everything has been equal, one can lose two percentage points to three percentage points of income.

But I would also tell you that will not be the kind of income where I would necessarily considering also the volatility that can come with that, where I would attach a high PE ratio. So from that point of view, yes, one can say the profit might be lower compared to keeping equity, but on the other side, there is really a benefit from a risk point of view. And in theory, having EUR3 billion of equity or EUR3 billion of some other assets, first doesn't make any difference, it's still EUR3 billion. Then one year later, you can see whether the EUR3 billion have been -- what kind of strategy has outperformed the other strategy.

So from that point of view, yes, there is a cost, if you want on a normalized basis. In a tail scenario, there is a benefit, and I will say this is not potentially the most critical element. And in this environment, we go for safety. On what we think about the future, I'm not going to speak now about 2021 specifically. And in 2021 i.e. there might be clearly a lot of moving pieces. We are still in the situation where we are -- we have lockdowns, as we speak. And we don't know what those lockdowns might hit in the capital markets, what kind of impact they might eventually have on the revenue basis for 2021. But I can tell you a little bit beyond 2021, how do I see Allianz on a normalized basis, I would say on a normalized basis, I believe that based on our footprint, we're going to be able some point in time to go back to our growth rate that you saw also in the recent past. There will be a growth rate where you have three percentage points to four percentage points of improvement in growth in premium.

And then if you combine that with action on the underwriting results because there is always something you can improve if you combine that with also improvement productivity or maybe if you're in a situation where you can go back to invest in equity, I believe that fundamentally the business should be set up to achieve a growth -- a growth rate similar to what you saw also in the last year. So now we're going to a -- through a specific phase. 2021, we will see how this is going to play out. But fundamentally, the

trajectory of Allianz five years down the road is not going to be any different, I would say because of what we're going through right now.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you, Giulio.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Our next question will now come from Nick Holmes of Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. Just quick couple of follow-ups. Firstly, with EIOPA, do you think there is a need to make some changes to avoid the confusion we've had over dividends this year? I mean, I'm thinking maybe restricting EIOPA's powers or giving more power to national regulations? And then secondly, just coming back on the derisking in German Life. Are you -- I know you touched on this earlier, but are you a bit worried that in the US, you're not really doing the same. I think you said US market is more competitive, but that is really a danger to you, it's much rather than an opportunity. Does it make sense to pull back in the US? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, thank you for your question. On the dividend and so the power of different regulators, that's really not my place to comment. I can just get into trouble if I get there. So coming to a more familiar topic, which is Allianz Life, I don't -- maybe I gave you a wrong impression. We are making changes in Allianz Life definitely. So, and the production is shifting more and more to these IVA products. Also we have introduced -- in FIA, we introduced a different structure, where we have basically a fee that we can also increase in the case there is a spike in defaults or there is a situation where there are downgrades. So we have definitely put even more flexibility and management levers into the product. So we are definitely making changes. And there is also by the way, apparently some regulatory change coming, that should support somehow the profitability of the business because they are going to lower basically, the minimum guarantee because there is a sort of minimum guarantee on these FIA products coming from the regulator. So from that point of view, we are taking actions, and we also believe that some of the regulatory changes would be beneficial.

And my point was that it looks like other competitors are also moving the same -- in the same direction, but indeed -- so that we don't see now this disconnect that we need to do more compared to others, so we are doing what we are supposed to do. And the competitors, most of the competitors are also moving, but unfortunately, there is always somebody who is not going to move and this might cause some -- something on the revenue side. But there is no doubt that our principle in the US has always been first, we

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make sure that we feel comfortable with the risk and with the profitability of the products and then we see how much revenue are we getting.

And I would say, if I look at the numbers as of now, the revenue that we get might be lower compared to what we had in the past, but they are sufficient for Allianz Life to operate. I was the CFO there. And we had a clear number in mind how much revenue we need to have in order to be able to comfortably cover our expenses. And I would say at this point in time, Allianz Life is definitely at the level of production where they can cover the expenses, and this means also they can get to the margin they need to get to. So, yes.

Q - Nick Holmes {BIO 3387435 <GO>}

That's correct. Yes, that's great.

A - Giulio Terzariol {BIO 17125489 <GO>}

I hope it's clear.

Q - Nick Holmes {BIO 3387435 <GO>}

No, yes, that's very clear. Just one very quick follow-up on US. Would you say therefore that the growth prospects in the US are not looking that great?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, I would say for the time being, their growth prospect might be more, yes, limited. And I don't have a problem with that to be perfectly blunt because I was there many years, and I as the CFO of Allianz Life, I've never had any issue if the growth was a little bit slower for some period. And I would not make any statement about what might happen three years or four years down the road. But to go through a phase of lower production that happened already also during my time, and I think that's the right way to do things. And fundamentally, there is still a growing book of business anyway, because the company is not in a situation where the outflows are more than the inflow -- more than the inflows if you think almost in a Asset Management logic. So even if we see a little bit less growth, I would say on the revenue side, I would say the assets under management, they are still not going to decrease, they're going to slightly increase over time.

Q - Nick Holmes {BIO 3387435 <GO>}

That's very helpful. Thank you, Giulio.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Our next question today comes from James Shuck of Citi.

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Q - James Shuck {BIO 3680082 <GO>}

Hi, good afternoon. Just a couple of things left from me. Giulio, the restructuring costs were quite high in the third quarter, we've had EUR400 million or EUR500 million in each of the last few years. I think previously, the indication was that the restructuring charges will start to come down, but the world is a different place now, and you're talking about acceleration of plan with ACM. So could you give us some indication about the outlook for the restructuring charges, please?

Secondly, I just wanted to return to M&A and just understand clear about what your appetite is for larger deals? I know you've taken a step back from that narrative recently, but there are certain assets around that becoming cheaper. There's a US P&C asset that could come on the horizon at some stage. Could you just talk about the potential capacity you have to do an M&A, a larger M&A deal, should the financials stack up, and how likely you might be to actually pull the trigger on that sort of thing? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So starting from your first question about the restructuring charges, I would say that moving forward, you should expect that we're going to have about EUR500 million of restructuring charges below the line, and the number might be a little bit higher or a little bit lower depending on the situation. But I think that you should work based on the assumption that you're going to see EUR500 million of restructuring below the line, which is by the way, a combination of three things.

One is what we define as pure restructuring costs, when you have -- yes, when you go through restructuring then to integration costs when we do M&A, which from one's point of view is also similar to our restructuring, then we have also all the IT decommissioning that we're pushing in order to get to the new IT platform and also to the new overall business platform that we want to build up -- up with the Allianz Customer Model. So from that point of view, you had three driver and so you should expect more or less to see EUR500 million of restructuring costs below the line as we move forward.

On your questions about M&A, I would say the following anyway. I -- I'm not so sure that prices are really so much lower because it's true the valuation has come down. But what happens is when you want to -- when you look at the companies that the premium might go up. So I believe there is a tendency from the seller point of view to normalize almost the valuation to what would be the level before there was this kind of situation with COVID that has been driving down the valuation on the insurance side that you saw just an example yesterday, with the rich premium over the current price. So from that point of view, I wouldn't say the valuations are coming down significantly, if you want to buy something.

And as far as we're concerned, I would not quote numbers, but clearly, our ability to do M&A, it's -- is significant. The point is we are not in the need to do M&A. We are not in a hurry to do M&A. So from that point of view, I think that's an option that we have, but that's not necessarily the thing which is keeping me busy right now on a daily basis, let's put this way.

Q - James Shuck {BIO 3680082 <GO>}

Okay, thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

We will now take a question from Michael Haid of Commerzbank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Two questions. First on the Life new business generation in the third quarter. When I compare the second quarter to the third quarter, I noticed a materially more -- a materially more pronounced decline in new business from recurring premiums in the third quarter, which more than halved year-over-year, that was not the case in the second quarter. Is this due to the basis effect you mentioned before, I think it was Italy or is it a broad-based observation? Second question, price increases in P&C. In the UK, prices in the first half increased 5.5% after nine months. This has reduced to 3.7%. So it appears there may have been some pressure in the third quarter, there was some decrease in the momentum. Is that the right interpretation or is that something seasonal going on?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, no, thank you for the questions. I'll start from the first one. I don't really know about the single premium versus recurring premium to be honest, but there is always, I believe also on a quarterly basis, you can -- you can see some volatility from premium level. To give you also an example, sometimes you might have a promotion in the United States, this is going to drive premium in the United States, and premium in the United States are largely single premium. So I wouldn't read much into that. I believe it's just the consequence of this volatility, I wouldn't call it seasonality, volatility that you might have between different quarters.

On your question about the UK, the point is what we are showing right now on the UK is -- the UK meant as Allianz UK and LV, while we were showing in Q2 was still just Allianz UK. And we -- what we see, so fundamentally, yes, the comparison is not on the same basis. What we see in the UK is that on the commercial lines, we have rate increases, which are, as you pointed out, very substantial. On the personal lines in LV, the rate increases are just still positive, but not as large as in commercial lines. So this explains why you see now a different number, because -- a lower number because that's weighted for the two entities, and in Q2, the numbers that we provided was just based on the UK or the Allianz UK perimeter.

And just any way to speak about the UK pricing momentum that we see in general, if you ask me, okay, give me now a view, Q3 over Q2 on a combined basis, we still see nice momentum in commercial lines, but there is a little bit more pressure on the -- on the personal lines side. So the rate increases that we could get at the beginning of the year in

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personal lines are not the same that we can get now. So the number would have come down anyway, but not to the level that you have seen because of this difference in basis of reporting.

Q - Michael Haid {BIO 1971310 <GO>}

Okay, fantastic. Thanks so much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, thank you.

Operator

(Operator Instructions) We will now take a follow-up question from Michael Huttner of Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. Thank you. Thank you, Giulio. And you must be looking for a chilled beer, sorry -- the -- or a cup of tea. I had two very, very light questions, What is the -- what you're seeing on net inflows in Q4 at PIMCO? And the other question is, is there any update on those lawsuits which you saw piled during Q3, like from MTA and others relating to the Structured Alpha funds? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay, thank you. I don't drink tea, but I like beer. Yes, yes.

Q - Michael Huttner {BIO 21454754 <GO>}

Okay. (multiple speakers)

A - Giulio Terzariol {BIO 17125489 <GO>}

So coming on your first question on the -- okay, coming from the -- on the net inflows, in October, the net inflows at PIMCO were positive, and they were about EUR7 [ph] billion. I don't remember whether US dollar or euro, but anyway a good number. So from that point of view as of October, the flows were still positive.

On the lawsuits regarding AGI, there are no news. So we think the -- clearly, the lawsuits are baseless from our standpoint. From that point of view, we're going to defend ourselves. I think the process is going to take a long time, just for you to know, it's not something that is going to be resolved in the next two months, not even in the next year. So here we are speaking of something that could take several, several years before there is a conclusion, but from our standpoint, we are strong about our position that the lawsuits are founded.

Q - Michael Huttner {BIO 21454754 <GO>}

Yes, thank you so much. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

So we have time for one last question, if there's any, Bettina, yes, sorry.

Operator

We currently have no questions in the queue.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay, perfect.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay, thank you very much. I hope that you have appreciated the quality of the results of Allianz this quarter. And again, I don't know what might happen in next quarter, so towards the end of the year with the volatility that is out there, but we feel confident about the underlying performance that we have. And so from that point of view, we think we're also well positioned as we go into 2021. We're focusing on the things that we can control. And I believe that when we look through this volatility, I think you can appreciate that we're taking the right measure, making sure that we're moving Allianz in the right direction. So thank you for your time. And I wish you, as Michael said a nice beer or a nice cup of tea. Thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

Yes, thanks, and goodbye from my side as well, and have a nice weekend. Bye-bye.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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