Q2 2021 Earnings Call

Company Participants

- Giulio Terzariol, Member of the Management Board for Finance, Controlling, Risk
- Oliver Baete, Chairman of the Management Board, Chief Executive Officer
- Oliver Schmidt, Head of Investor Relations

Other Participants

- Analyst
- Andrew Ritchie
- Ashik Musaddi
- Farooq Hanif
- Michael Huttner
- Peter Eliot
- Vinit Malhotra
- William Hawkins

Presentation

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Financial Results of the Second Quarter 2021. For your information, this conference call is being streamed live on the 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 of Investor Relations. Please go ahead, sir.

Oliver Schmidt {BIO 2473131 <GO>}

Thank you, Tracy. Yeah. Good afternoon from my side as well and welcome to our conference call. Today I'm joined by our CEO, Oliver Baete; and our CFO, Giulio Terzariol. As always Giulio will guide you through the details of the quarter, but before that Oliver's going to share some personal thoughts with you. Oliver, over to you.

Oliver Baete {BIO 15740270 <GO>}

Yeah, good morning, good afternoon, good evening, wherever you are. Thank you for joining us for this call. This has been an extraordinary quarter, actually an extraordinary week, and an extraordinary day today and I wanted to speak directly to you as our investors and our analysts and share a view on the health and the performance of our company as we stand today.

As you've seen, Allianz reported very strong results that really reflect the resilience and power in delivering our strategy. And I think it's very important to note that this is not a one-off that it is the outcome of continuous investment in resilience and earnings power that you are seeing and I'll talk about the drivers of that in the second.

Demand for our products that you have seen in services, growth income, profit flow, cash flow on the rise everywhere. And I think that's very very important to understand, as is customer and employee satisfaction very important. And as you may remember November 2018 we said we're not just targeting financial outcomes, they are the result of our unwavering focus on our customers and employees, their needs, and their ability to deliver.

Now the last 18 months have been incredibly tough period for our customers, you all, you're also customers, and our employees throughout we have tried to dedicate ourselves to your success and your well-being. And let me just give you a couple of examples. In the property-casualty insurance, we have been really, really, really hit as an industry with substantial natural catastrophes, less individual very large ones like we had them a few years ago, but now what we're seeing out of time and change the number and severity are increasing across the Board.

Second, the demand for our life and health product is extremely strong, dynamic, revenue growth is seen everywhere and the margins are great. If you'd asked me three years ago, can we really given the interest rate that we are operating at today, not the one we are envisioning in November of 2018, get the new business margin above 3%, that is coming out of really new products that are protection oriented and they have the right balance between what customers need and want and get as benefits and the returns for shareholders, I would have found that a tall order. Today's reality even in markets that are structurally challenged like, for example, France, we've been able to innovate and come up with products that are outstanding in demand and in margin.

Our asset management business sales continue to grow and reached again a new historic height not just in terms of assets under management, also in profitability. So we have momentum in all our business segments. And beyond that, our capital position remains strong, people focus a lot on Solvency II, and I think that's totally fine. By the way, we called the RTA 1 bond early in order to get flexibility, made a lot of money on doing that despite that we are 206 well above the 180 target and what we really need to operate.

And cash flow generation from the business es to the holding is extremely strong. So, that's why we've moved the outlook to the other half of our target range and that's why we've also been honoring our promise to do the second half our 1.5 billion share buyback program that because of COVID, we need to pause last year and we're delivering on our promise. And we will continue to deliver on our promises to you, our customers, and our employees.

Now Giulio, our CFO, would speak to you in detail about these outcomes, but before we move into the numerical discussion and I know you need to focus on all the number -- the numerics to think about what the valuation points are. I'd like to address three topics. The first one is customers. I want to address, for example, the storms and the floods in Europe and express our solidarity and support with the people that have been affected. This is not a cynical move on, now we're going to make more money, sell more flood cover at higher prices that really highlights the role our industry, and Allianz particularly play in helping to rebuild homes, helping to rebuild the lives of our customers, and keep on highlighting to policymakers that climate change is not a problem in terms of the warms of the air, it is actually affecting our lives in a very negative way.

Second, regarding the support of our employees, Allianz is doing a lot to continue to support our people in under COVID restrictions, remember Europe may be doing better, many parts of Asia are not yet out of the woods and are suffering, Africans are suffering and we need to continue to put our emphasis on also making vaccination efforts much more successful there. And we need to make sure that in Europe, we don't stop the vaccination if efforts -- Allianz is actually a part of a corporate participation and the federal vaccination campaign and we need to continue.

Last, of course, I would like to provide you with a brief update on the context and perspective related to the disclosure earlier this week regarding the reassessment of risk related to the AGI U.S structure. Alpha Funds, as mentioned in our release, these things are highly sensitive from a legal standpoint, so there's very limited things that we can say about this at this point in time. I'm sorry for that, but you all know how U.S. litigation works.

Now, I can spend a lot of time in terms of what we're doing for the flood victims in Europe. By the way, it's not just Germany, it's also in the Benelux countries. We've had storms earlier this year, particularly in June in all parts of Europe, for example, in France and in Eastern Europe. We're doing our best to support our client wherever we can not just by the way by paying money, but getting drying machines, organizing logistics, bringing things that really help people deal with it.

The second part, I've just mentioned the vaccinations, pretty pleased, I say that also in terms of you potentially being kind, make sure the only answer to COVID is not lockdowns, it's not policy, it is about getting vaccinated. And we need to convince the people that have doubts that this is the only way out. It is the only way out. At least, that's what we believe.

And think about it, in Allianz alone in Germany, we have been given more than 23,000 COVID charts in terms of first and second vaccinations to our people and that is including the relatives and we believe that is what has to be happening. If you think about the fact that we have about 45,000 people in Germany, that's a pretty encouraging rate of things that we have done.

Now, third and as you're probably waiting for this, I want to address the disclosure in terms of what we actively announced Sunday evening after a reassessment of risks related to the Structured Alpha Funds at AGI U.S. LLC.

Trust me. This was not an easy week for us, Before us and it was not an easy decision. We really really moved and spent hours in the Board of Management, we consulted with our supervisory board. But because of new information obtained on very short notice at the end of the week with respect of the pending regulatory proceedings, particularly the involvement of the U.S. DOJ and now reviews, we had to reassess the risk associated with the structure of our funds. In light of the investigation litigation, please do understand, I cannot go into details but rest assured that the underlying issues will be thoroughly reviewed and we would like to address them in due course.

And any conduct I individual employees, that was not in line with our FX or our standards will not be tolerated and would trigger consequences for those who potentially violated them. The three assessments of risk caused us to publish our ad hoc disclosure which you have seen on Sunday evening.

For the non-Germans, you need to understand and different to the U.S., we have to go out immediately whenever we hear something that may be material for a purchasing or a sale decision and we recognize that taking the step on a weekend had a considerable weak impact on our share price. But we have to be absolutely committed to being transparent with our shareholders and not just follow the rule of law by line, but also and it's hard and we made this disclosure therefore in accordance with the applicable laws.

Particularly here in Germany given what has always been happening the last few years, credible early communication is fully in line with our principle of transparency and our culture, it's not just a legal necessity. And our decision to inform the market immediately about important developments, therefore, was both legally driven but also reflective of what we would like to stand for.

Now, please recognize that it is in the interest of our shareholders and the company to respect the integrity of the reviews and the process of these authorities. We're not just fully cooperating, we have actively reached out and partnered with the authorities in charge of the Structured Alpha investigations, the DOJ, and the SEC. And with respect to our civil proceedings, which we disclosed early last year, we will continue to defend the interest of our shareholders with both discipline and vigor.

Now, it is important to put our most recent disclosure, however, into perspective, especially in the context of Allianz, very strong global operations, and our strong track record. First, we want to underscore that this outcome is not reflective of our ethics[ph], of our culture, and certainly, not of our performance.

As investors ourselves, as one of the largest in the world, we understand our clients' displeasure, what happened around the Structured Alpha investment, and for some that may have not met their expectations on performance. As a company that prizes integrity, we do not measure the impact of this outcome in terms of financial terms along. We are clear that confidence and trust are affected and the despair amount for us to restore that as quickly as possible.

In light of the pending investigation and litigation, again please understand that I cannot go into details, but be rest assured that the underlying issues will be thoroughly reviewed again in full cooperation with the authorities. And last but not least, I would like to say that we are above all a meritocratic organization that will take every opportunity to learn from every lesson that can be and improved further in terms of what we do.

Now, we also wanted to say that what has happened in the Structured Alpha sphere is no indication of the performance, the ethics, or anything that happens at Allianz Global investors. It's a very small part, very specialized part of what Allianz Global investors does. And they have made enormous program since the fall and winter of 2019 when we decided together with our Board here that we want to overhaul the structure, organization and leadership team of Allianz Global Investors. This success has been extremely strong and that starts with investment performance that is now so much better than it was -- what it was in prior years.

77% now outperform in terms of one year of use, 69% in three years 48% of the mutual funds are now in the top decile of the 3 year Morning Star peer ranking, numbers that we hadn't seen for a long time before. From that float[ph], much better net inflows, and from those we have seen very strong financial results. You see that -- saw that this quarter, and we believe it's going to continue into the future and we want to make sure that everybody understands Allianz Global investors is core to what we do our activities in the U.S. according to what we do.

And that then leads me to the last comment in this regard, asset management is a core pillar of what Allianz does, a core pillar of our business model, and a core part of our value proposition to customers. In fact, life insurance offerings and asset management offerings are integrated and are converging whether you today buy a product that is called life insurance or asset management product is often nomenclature. And we really believe we are uniquely positioned to get the best out of combining both. And we're probably that's only shop in our industry that is so strong both in life and asset management.

With that, I'm basically through with my comments, the numbers speak for themselves, I think. We have the confidence to move forward and when people say, well, are you not afraid about the potential financial impact? Yes, it will have -- leave a scar on our skin, but it will make us stronger. Just think about the numbers, the next three years at a minimum, we should be generating every about 9 billion-plus, growing 5% earnings will talk about that end of the year, but that's what the market says that gives us 27 billion of cash, lots of buffer, lots of ability to face not just the challenges from this one, but be able to invest in our future, to invest in our people, to invest in our clients and to invest in you.

And with that, I'll hand over to Giulio. Thank you.

Giulio Terzariol {BIO 17125489 <GO>}

Thank you, Oliver, and good afternoon to everybody. As Oliver said, the numbers are speaking for themselves, but we'll still go through the numbers and they explain the numbers. So, if we go to Page 3, as you can see the results for the six months have been very strong with a good revenue growth of 5%. Also, the operating profit is at EUR6.7 billion level, which is not only better than the last year, but also is significantly ahead of our outlook of EUR12.0 billion divided by 2. And that's also the reason why we are upgrading our guidance for the 2020 -- for 2021.

The shareholder net income is very strong at EUR4.8 billion. And then when you look at the contribution by segment, you can see that all segments did a good job of delivering operating profit and also delivering strong operational KPIs. The combined ratio in property-casualty is much improved compared to last year. And this is basically in line with our 193 targets. The new business margin is at the target level of 3% and the revenue business is EUR1.2 billion, very very good and then the cost-income ratio is below the 60% level with an inflow number of EUR60 billion -- about EUR65 billion for the six months. So, very strong operational KPIs, which support clearly the operating profit delivery.

If you go to Page 5, the second quarter is basically a representation what happened during the end of six months. As you remember, we had a very good first quarter. The second quarter has been basically the same level like the first quarter. Indeed in the second quarter, we can even see an improvement on the revenue side as you see our revenue grow by 12.6% and all segments have contributed to the growth of the revenue this applies to the Life Health business, to asset management but also to property casualty. If you remember, in the first quarter, the growth in property-casualty was slightly negative, but now you can see a good plus of 3.6%.

The operating profit stands at EUR3.3 billion so that's pretty much consistent with your operating profit that we had also in Q1. And then, as I think, EUR2.2 billion is a very solid number and also in the second quarter you can see that the operational KPIs are pretty strong, but I'm going to speak about those KPIs more in details in the rest of the presentation.

At Page 7, the solvency ratio is a solid 206%. We have a drop of about 4 percentage points compared to the level to the level of March, but there's also expected because we performed the purchase of a EUR1.6 [ph] billion of a hybrid otherwise as we're going to see in the second year operating capital generation is very strong and the sensitivities more or less in line with the sensitivity that we showed to you for the end -- at the end of March.

Now, if we go to Page 9 and there's the good news that the operating capital generation is coming pretty strong. As you remember, we had in first quarter with a capital generation of about 4% in the second quarter where you removed from the capital generation the dividend and the taxes we are at 3%, we see now little bit more growth coming in the property-casualty side compared to what we had in Q1. So, this is clearly taking down a little bit operating profit generation, capital generation. But overall, we are a 7% for the six months. And we have therefore also upgraded our guidance for the number, which is in excess of 10 percentage points of capital generation.

Otherwise, on the capital management and management actions, you can see the impact of the dividends of the normal regular across the dividend, and also, you can see the impact of having the purchased 1.6 billion of shareholding all this leads to a comfortable subject to solvency ratio of 206%.

Now, coming to the segment and starting from P&C, starting from the growth in P&C, we have achieved internal growth of 3.6%. You can see that we had a nice development in Germany, we had a nice development in Australia, obviously in Eastern Europe, and then clearly, you can see a strong recovery as Allianz partners. Obviously, Allianz partners was affected last year by the COVID situation, especially in travel. Now we see a recovery. We are not at the level of 2019 yet, but especially in the United States, we are seeing a recovery. So, we expect to see premium growth also in the remainder of the year.

In the entities, where we see a negative growth, this is driven either by the underwriting actions that we have undertaken the course of 2020. This applies to AGCS, so you can see the effect on the underwriting actions that have been taken throughout the course of 2020, also in the second part of 2020. And then in other cases like Spain or to a certain degree also the UK or France, we're really focused on keeping profitability. So, sometimes we see there is some tension on the rates, but we try to keep our profitability and preserve the margin.

All in all, it's a good picture. And then also, when you look at the price momentum is stable. So, for the time being, we also see that the prices that we are able to get in the markets are also consistent with the loss trend that we are experiencing. So, a good picture for our underwriting performance for to date.

At page 13, the operating profit is increased by about EUR200 million, and that's driven by the improvement in the combined ratio. Here, you can see there a lot of moving pieces. On the one side, the natural catastrophe load is significantly higher compared to last year. The expense ratio is also higher, but you might remember that last year we had a one-off pushing down positive or not pushing down the expense ratio for the quarter, but when you look at the 26.4% for the second quarter, it's definitely better compared to 27% that we had for the full year 2020. And then you can see that in the second quarter of this year there are no has been a little bit more elevated 4%. When you look at the six months view of the runoff we are at 2.5%, which is pretty much in line with what could be a normal expectation.

Last year, we had the COVID impact, this year the COVID impact is basically neutral. So when you put all together and when we run our analysis, we can say that the level of performance, underlying performance is pretty much consistent with the level that we had last year, and more importantly, is on target with the 93% of combined ratio, you can see these even easier if you look at the six months number.

Now at page 15, the combined ratio for the entities, clearly in Germany, the combined ratio is elevated and that's because of the significant amount of natural catastrophe. If you adjust for that, you can see that there is a very strong underlying performance in Germany. We had also a little bit of positive and also (inaudible) setting the load from the natural catastrophe. Then you can see a lot of strong performance, it's the OE listed below like, UK, Australia, France, Italy, especially Italy, Eastern Europe, and Spain. And then as always Latin America and Turkey, they tend to have higher combined ratio, but here we should keep in mind that the interest rate LIBOR is much higher. So, you can run at a combined ratio over 100% if (inaudible) generates value for the shareholder.

AGCS is 97%, which is in line with the 98% if we want to achieve by the end of the year. And then what is clearly a little bit of an outlier if you want is the combination of Euler Hermes, it's 63%. But I think you know by now that the development of claims in the credit insurance is extremely favorable. So from that point of view, we achieved the combined ratio, which is exceptionally good. We're also exiting the state schemes in most of the country. So, moving forward, we are very encouraged to see this kind of performance coming out of Euler Hermes. So overall, a good quarter, clearly with a significant amount of natural catastrophe. But despite that, we've been able to achieve a 93.9% combined ratio. And also while you look at the six months, we're at the level 93.4%, which is very close to our target of 93%.

At page 17, we're showing the investment results, which is up compared to the prior period. This might appear surprising because usually there is an expectation that the investment results is going to go down. But what happened this quarter, we had a stronger performance from dividend, from our -- also private equity funds, there was the opposite last year because of the COVID situation.

So, overall the dividend income is being very strong and it is supporting clearly our operating investment results. We're learning now when you look at the six months figures to EUR1.3 billion operating investment results. Our assumption for the plan was about EUR100 million to EUR150 million lower index. So, this is definitely a positive compared to the assumption that we have put in our outlook.

And now let's come to page 19, life business, I'm very pleased with the performance of our life operations and this is a strong performance across all KPIs, maybe we can start from the present value new business premium, which is up 70%. Here, we have a couple of effects, which I'm going to speak in a second. But even if you remove these effects, the growth rate or the present value of new business premiums is 36%. Now, you might say that's easy because last year we had the coffee situation, which was bringing down the production. But I can also tell you that the adjusting number is higher compared to the production that we had in 2019.

So, I know you're concern was always are you going to be able to do the product changes and still get the production in the system? And this is a proof that we have been able to do so. On top of it, we're managing very aggressively our in-force business. So, in Italy, we have been able to renegotiate a large contract of EUR2.6 billion with better condition. And also in France, we are offering to our customer, the new product -- we think the new product is more suitable to the current environment, so we are basically bringing in-force costumer into the new solution that's also a good event. When you look at the new business margin is for the quarter above our target of 3% and then all segments have contributed both to the growth of the production and also to the improvement of the margin. So, that's a pretty good performance across all business line within the life segment.

At Page 21, the operating profit is 30% above the prior period level. Here we have basically two main drivers. One is the increase of the loading and fees of 6% and this reflects the growth also in the unit-linked business. We've been able to grow reserves significantly in our unit-linked business. On top of it, the investment margin is over EUR1 billion. There is a part of stabilization compared to what we saw last year, but also we said this level of investment margin is even better than our expectations. That's because the markets are extremely favorable and benign at this point in time.

Also, you don't see this in the numbers because we are always including the commission in our space[ph] picture, but if you remove the commission from the expense line, in reality, we are managing expenses on a flat level. So, basically, we have a combination of increasing loading also better investment margin expenses are flat. So, this is definitely good for the operating profit development. And then on the right-hand side of the chart, you see that all lines of business have contributed to the growth in operating profit. So, a very good picture for the segment.

At Page 23, we are showing as always the numbers for the selected entities. Overall, the new business margins are increasing are stable, the majority of OEs with adjusted few exceptions. And then when you look at the operating profit, we see a nice strong spring in operating profits at Allianz life USA. This is not surprising last year, the volatility was higher, this year the volatility is very low. So, automatically you see a very strong performance in the United States.

Italy, it's a very good story, we're approaching the $100 million of operating profit per quarter, and that's because the unit-linked business is really doing very nicely in Italy. And then in Asia Pacific, as always, you see that there is fundamentally a growth trajectory, not only the products, or in the VMB[ph], but also in the operating profit.

So, overall the strong picture when you look at the delivery for the single entities. And now at Page 25, the investment margin is strong at 21 basis points. You know that our expectation was to have a new business and investment managing between 70, 75 basis points for the year. So, we want it definitely higher than that. You can see the current yield is very strong at 95 basis points here we have the same explanation like for the P&C business, the dividend that we're getting out of our equity investment is pretty strong compared to what we had last year. You can see that we are constantly reducing the guarantee level.

So overall this translates in a good investment margin, even if we didn't have any meaningful contribution coming from the net harvesting. You see the net harvesting is really low at 1 basis point. So, I think the number of 21 basis point is a good number. The quality of the number is even better because basically there is no support coming from net harvesting. So, overall very good performance on the -- in the life segment both with respect to the new business and also to the operating profit. And especially, I think we are getting confirmation that the actions that we put in place are paying off. And we see that (inaudible) forward.

At page 27, asset management also the underlying performance is strong. We had again a quarter with the record level of assets under management, but we decided not to use the headline again. What is more important is that all asset classes and regions are contributing to the growth of our third-party assets under management. So, that's a stronger picture that shows also that's all strategies are performing.

And when you go then to page 29, on the inflows, we had for the quarter EUR26 billion of inflows. This time you see very strong inflows at AGI and that's the highest level of inflows for a quarter at AGI. And AGI has been able over the last six months to record EUR30 billion of inflows. In the case of PIMCO, the inflows are EUR9 billion. They look relatively small compared to what we are used to, but here we need to recognize that we had an outflow of a large mandate of about EUR18 billion with very low fee. So fundamentally, there is no real impact on the revenues or on the profitability. And we have just basically the inflows of PIMCO for these outflows you are back basically to the EUR25 billion-plus of inflows that we are used to.

When you look at the composition, the inflows by asset class region, you see also that every class has contributed to the development and also you see that we are getting more inflows in the mutual fund, which is usually good from a performance point of view because we have a higher fee margin in the mutual funds business.

A final comment, over the last 12 months, I like to see sometimes things on a 12-month perspective, on a rolling perspective, we have been able to record EUR120 billion of inflows, which is a very strong number, and also if you look at the quarterly development in total was pretty much consistent quarter-per-quarter. So, a good trend for the asset management operation.

And now coming to Page 31. Clearly, assets under management and the inflows are doing well. You're going to see also increase in the revenue, which is 16% if you adjust for the fixed (inaudible) event over the 20% level and both PIMCO and AGI have contributed to the nice growth in revenue. One driver as said before is clearly the increase in assets under management, but the other driver also at least for the quarter, you see an improved fee margin, the improved fee margins across sequential better business mix.

And then at Page 33, as always when the revenue are growing, you get also extra and additional growth regarding the profit. You don't get adjusted growth because of the revenue increase, but also because of the operational leverage. So, all in all, we're getting to a very good growth rate of 29% for asset management. And if you remove the exchange rate, which is being kind of negative because of the U.S. dollar depreciation, we would have had even a 40% -- about 40% growth.

Both PIMCO and AGI are contributing to the growth in operating profit. The cost-income ratio for the segment is about 59% and one of the major drivers for the improvement is the big reduction in the cost-income ratio of AGI. In total, the segment is posting EUR1.6

billion of operating profit for the six months. If you remember, the outlook was EUR2.8 billion. So, at this point in time, if the markets are staying stable, we are going clearly to expect to see in the second part of the year, at least, a performance that we saw in the first part of the year because we're also starting from a higher asset basis. So, very good news regarding the underlying performance of our asset management operation.

And now moving to Page 53, it's enough to say on the copyrights operating profit that the numbers are better than prior period and they're also better compared to our expectation. And then at Page 37, as always, we are showing the non-operating items. There are no major development, maybe just a couple of comments. The impairments are very low. We are basically not seeing impairments in the system and the structural experiences more or less in line with the amount of the structural experiences we had last year. And then finally, the tax rate is 25% is in line with our expectations. So, the combination of the strong operating profits and also of a favorable below-the-line development is leading to a net income of EUR2.2 billion for the quarter.

So, all in all, at Page 39 I think we have really a stronger delivery for the six months. It's also nice to watch that the delivery is being consistent between Q1 and Q2. So, we're not jumping up and down so there is a consistency of delivery. That's basically something that if you go back and look at our performance last year, you are trying to adjust for the COVID noise was already developing about a year ago. So, that's definitely a reflection of the stronger action that we have been putting in place over the last years. And our strategy is clearly delivering also the operating profit performance that we would echo even better than what our expectation was at the beginning of the year.

We have upgraded our outlook as you know to the upper half of the range. You're going to ask me why not the upper end? We start with the upper half and then we see as we go where we are going to end up. And then also we have today announced buyback. This is something that we committed to do a few -- couple of -- two years ago, 2020 was last year. So we committed to do last year then because of the COVID situation, we had to clearly stop it. But there was always something that we wanted to return to you guys. It was a commitment and so today we are coming true to our commitment. We have the capital strength and also the underlying performance and so we are happy to stay true to our commitment.

And with that, I would like to open up to the questions you might have.

Questions And Answers

Operator

(Question And Answer)

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

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I guess the first question, Oliver, you were quoted on the wires this morning saying that you'll do everything to put this issue, the Structured Alpha Funds issue behind you as quickly as possible. I mean, I guess DOJ inquiries can typically take years. I'm just wondering, is it realistic to think that we can get clarity quickly? And maybe related to that, is there any idea -- can we have any idea of when you might be in a position to make a provision for it?

And secondly, just in terms of maybe providing some help on the numbers that we're dealing with. I mean, you've given us $13 billion figure for the value of the funds at their peak, and we know there are sort of $6 billion of claims. I'm just wondering, if there's anything else you can give us in terms of numbers to help, narrow down a little bit, what we're looking at. Maybe, what about the funds at the trough, for example, or anything else that you can give us there to help us?

And then, just provide some relief from the Structured Funds issue. I was very interested in the back-book or the in-force management, the two things that you've done. And, I was wondering if you could say, what impact if any they might have on capital P&L balance sheet, either within these results or going forward in the future? Thank you very much.

A - Oliver Baete {BIO 15740270 <GO>}

Yes. So, thank you very much. Let me answer it right away, and then I'll hand over for the details of back-books, I can make a general comment on that. So unfortunately, we are so strictly guarded by U.S. law that I'm not asked, but ordered not to comment on anything. And we are following the proceedings of the DOJ, we are not driving them, they drive it and it can take their time. But we are an active participant, we're not just following it, yes, we are in there and working with them very closely, so we'll do whatever it can be done to create clarity.

The second thing, we cannot make any comments on the numbers. It's just not possible, but remember there are two components to it, there's the civil litigation and there's the DOJ investigation and that may have different timelines, so if and when we have anything to say, we are going to do that as much as possible. We know how difficult your job is to be done at, but again I would like to put that into perspective and it sounds a bit odd. And I'm no more the CFO, so Giulio will forgive me for my a bit crude math.

Okay. Before this thing happened, Allianz was not in my opinion, fully value close to where it should be valued, right? So, any decent analysis shows that our PE has not expanded the last two or three years, even though, we've been outperforming operationally almost any peer. So, when you then look at sort of what the market has discounted in terms value, you may say that is correct or that is too much, but you have to say, what level it actually came down from and that was not a very high level, the first one.

And if you compare that to a number of the KPIs you see in the current six months result, we have a 13% ROE in life insurance, can you tell me any company with this book and this size? And so it has 13% ROE in life insurance? I don't know any. You have any other insurance company that has a world-leading asset management franchise, we're probably the number two active asset manager in the world now. They're not -- this is not reflected in our numbers. P&C still is subdued by natural catastrophes and still have the run of the commercial lines performance. This is the strongest fortress that exist in Europe. That's not in our share price.

So if you think about what's happening, and even what happened, the cash flow generation power is up to EUR30 billion in the next three years, whatever it is. So what the heck are we talking about? So I understand the nervousness and I know some investors can't invest as long as we have in an investigation, but if you think about the underlying value power, and we are starting a process where this industry will consolidate, and I'm absolutely convinced with the strategy that we are pursuing what you see the additive growth in the segments is very strong.

The second thing, I'd like to say, the concern that people have was the life insurance business, when interest rates went down last year, they're all another shock for life insurance, and these people will make no more money, the product will be horrific for clients. They will be horrific for shareholders because of the capital requirements. It's nonsense, it's true for the average temperature of the hospital. That's very true, the week competitors have a problem to meet the guarantees. They have a problem to produce good results, but ask some of your peers, Allianz is not just giving great margin. It is also offering in many markets the best value that you can get as a consumer, and that will make us win, sorry for being very confident. But that is what is required at this point in time.

So when you're filling your spreadsheet, remember we're not starting with a 15 PE that we're coming down from, yes, we are starting with a 12 PE, and that's why, I have a lot of optimism. And, I'm not ignoring the downside that such an investigation there, but I'm just trying to put it into perspective, sorry to say. And therefore the relief on the back-book is a specific question. We have said the number of years ago with the launch of the strategy that we are fundamentally changing the new business into products that are more capital efficient, but also better for consumers and you see this in this cycle, because we can offer higher upside and diversification into new asset classes would probably one of the leading investors in alternative assets that provide different sources of income than fixed income or buying I don't know what Tesla offers you on the short-term, right? So getting decent long-term sustainable returns. That's one thing.

We've also said that we are going to address the enormous capital consumption on the guaranteed business. Now you can say and go out and say, hey I'm selling a back-book huge run to somebody and we're getting rid of the problem now, small problem, you have clients in there that we promised too many years ago, that we would be their partner. So, we're not taking this lightly, number one. Number two, as we've just seen in Italy with the transaction, it takes much longer, but it's much more economically successful. If you renegotiate contract, not sell them at a loss and say, I just sold my loss, and this is what we've done in Italy. Taking a traditional product with the 1.5% guarantee, which is not high, by the way, by Italian standard but still far to high relative to what is economically sustainable, and move it to a zero guarantee, and these things generate hundreds of million of additional value and Giulio give you the number. So we are pursuing the strategy and we are committed to lift capital out of these back-books. But in a way, that makes sure, that all stakeholders, as much as possible are being dealt with in the fairway.

And with that, I hand over to Giulio.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you, Oliver. Your question specifically on what we did in the second quarter in Italy, it's a renegotiation of a EUR2.6 billion of the group business. Just to give an idea, we brought down the under guarantee for 1.5 to 0, so that's a big change. Clearly, there is always a trade-off, we allow now to put some new business for the next two or three years. But fundamentally, it's very, very positive transaction.

And when you look at Italy and France, we have basically offering to our post customers, the new products and the new product has more unit length component compared to the old products. It's a win-win situation, from our standpoint clearly, there is a less risk but also from a customer point of view, it's not necessarily good to be at the product with zero guarantee credit and basically very, very little. So, from that point of view, also the customers they like now solution, where they can get more exposure to unit-linked business.

When you look at the impacts on our numbers that I tell you that the present value of profit or I would say more correct to say the present value of the IVA, because every time we speak about VNB or some similar matter we are speaking our present value of IVA is about EUR100 million. And why I say IVA instead of profit, the profitability might not change significantly, but the risk is very different in them when you look at the CR release, we are speaking about EUR50 million with CR here release when you combine Italy and France. We are going to pursue similar initiative as we go into the future, so we are clearly looking for a similar negotiation in Italy, we are clearly this action in France is going to be performed also for the foreseeable -- for the future quarters. And then, in parallel we're still working on the more traditional back-books. But the message here is, when we speak about that book, it doesn't necessarily mean, that we need to sell a back-book that is also reworked, let's say where we call it that we can do in order to improve the performance or to mitigate the risk that we have in our in-force business.

This said, I'd like to stress again the point of Oliver Baete. We are making 13% ROE. So, again we have any way very good performing life business, clearly we want to make sure that this book of business is perform as much -- as best as possible. So, we want really to create as much sustainability as possible, but the fact is that it's our life business has generated double-digit ROE over the last years.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great. Thank you very much, Giulio and Oliver. Could I just very quickly ask, what the other side of the Italy deal? As I -- what you're giving away to get that guarantee reduction?

A - Giulio Terzariol {BIO 17125489 <GO>}

No. The only point is, we are allowing the counterparty to put new business for a few years.

A - Oliver Baete {BIO 15740270 <GO>}

But it has the CapEx per annum that is clearly captured of, they cannot put a huge amount of premiums in that. Now, the reason you will ask why is this possible? In the Italian pension law, there is an explicit provision that says in interest rates drop to a certain point in market conditions as you can renegotiate and you can even exit the contract. So this is a highly valuable client, a set of clients, but we wanted to make sure that we get to a more even distribution of upside and downside.

Now, the other point I'd like to mention is, that we'll discuss probably more intensively at the Capital Markets Day that with what we're doing, we're not just looking at increasing ROE or reducing risk capital. We're actually also trying to reduce the volatility and the potential volatility of the capital requirements, which is super important, because today investors are spooked by the life back-books for two reasons. One the value ROEs, which by the way, in our case is not the case, like many others. But because of the volatility in the Solvency II models that you constantly see out of these liabilities. They're often in my opinion a bit mathematical fake, but they are real because we show them. Not because they are there, but they are part of the model.

Now with that, we have the intention over the next years to systematically reduce the risk capital consumption and the volatility while growing earnings. That's been our vision for a while. And every time I thought we're turning the corner, interest rates dropped yet again. Wait for the end of the year, and this is where we are on route to really, totally decouple capital consumption from the growth of the underlying earnings and that is the objective we are pursuing, so this will become over time more protection business and more an asset management business rather than they strongly capital consumptive business that you're used to. This is the strategic objective and it has taken more time, because every time you improve, you get another hit on rates, but that's it. Yes, this year we'll show you the turning point.

Now with that let's go if it's okay to the next question.

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Oh, hi, there. Also appreciate you restricted what you can say, you did make comments at the press conference this morning just about the process of investigation on the Structured Alpha. Could you just clarify comments this morning and in the footnote of the report that an investigation has been ongoing since July or the footnote implies you've just started a new investigation, internally post the DOJ intervention. I just try to understand how long -- to give us a sense of timing, how long you have been internally investigating this topic? That's my only question on that topic.

Second question, I'm just trying to interpret the buyback being switched back on. You talk about it in terms of filling a promise which essentially was related to the 2019 financial year. But, should we assume that we are back onto, I guess bolt-on plus buyback as the kind of ongoing capital deployment strategy? Or is that over-interpreting that the message? And just the final topic is Giulio, you just give us an update on frequency and severity trends in non-life in your core markets? Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. So maybe I start from the first one, which was the question about our investigation review. We started a review already last year. So, basically we set up a cross functional team last year, also with the support of external legal and economic advisor to look into the product performance, or the reviews have been ongoing. But recently we have started also a forensic review, but clearly we've been looking to this issue now, for a long time and now we are doing a forensic review. So we'll not be sitting here just watching where it ends and check the status of what we've been doing, and we're going to continue clearly to do the review forensic review, and then clearly we are cooperating also with the DOJ with the SEC. So, that's about what we're doing from our side.

And on the buyback, I can tell you, at the end of the day, not this change in the sense of not going to make forward-looking statements about what -- when the next buyback might be. But as always we look at our underlying performance, we look at the capital position that we have and the capital position is financially a underlying performance, market development, we might have also clearly to digest some impact coming from the issue we are talking about, but based on where we are going to be, we're going to clearly decide our capital deployment. So there is no change in our philosophy moving forward.

I think the positive is, we are generating strong capital, right? We have a capital generation per annum of, I would say, 10 percentage point. So from that point of view, I think this is clearly something that give us flexibility. Also, as Oliver said before, we have been calling some hybrid, which means now we have also flexibility on the financial hybrid point of view. So there are a lot of things we can deploy clearly from a capital point of view and also from a liquidity point of view. So again, nothing is changing and we are going to evaluate the situation as we go through the next quarter, we go through next year.

On the frequency severity, I can tell you motto is always a little bit complicated to look at the statistics. In the sense of last year, what we saw was basically that as the frequency was coming down, the severity was coming and going up. And now you see a little bit of a reverse as the frequency clearly is going up. Because we see higher frequency, you can see the severity coming down. If you ask me for a forward-looking statement of frequency severity, the overall expectation will be once COVID is behind us, right? That's -- you're going to see a reality lower frequency in general, because there are a lot of things pushing frequency down, improvements in the driving assistance system.

And on the other side, the severity is going to go up, because clearly cars are becoming more expensive. But as on now, I would say, you basically almost see that as frequency is going up again the severity is coming down. When I look at the property and I know business, I tell you that I was looking at the statistics in Italy, France and the -- and also U.K., I couldn't see a lot of increasing severity. When country, where we see some increase in severity is in Germany and that's related to the fact that overall the value of the house is going up and also right now there is the cost of wood or even the cost of getting a repair is going up. So, we see a little bit of severity going up in Germany that's something that we are watching.

You need to keep in mind that there is automatic system of adjust inflation in the price, clearly, you might have a basis risk effect, but fundamentally the price of the property policy knows this kind of automatic adjustment if inflation going up. So, all-in-all, when I look at frequency severity, I will say that it's rare to see a situation where both frequency severity are going up at the same time cause a problem. So most of the time you might see a setting situation and I will say, there is at this point in time not significant pressure coming from the loss trends in our different stories.

A - Oliver Baete {BIO 15740270 <GO>}

If the question probably answered on the investigation, because that's very important for you to understand, Andrew.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Yes. I think so. I'm still a bit confused as to why -- as to there was an ongoing investigation. But clearly if you (Multiple Speakers) --

A - Oliver Baete {BIO 15740270 <GO>}

Yes. Let me repeat. Let me repeat. No, no, no. It's -- yes, yes. Well, that's why important that I follow-up on your question. So when the lawsuit came in, we immediately started an investigation because the lawsuit assumes, yes, there or pretends to say that the fund underperformed relative to expectations, because it was not clear, it was as risky as it turned out to be, so we hired experts into the economic assessment, but also the legal assessment from the very day and in very quickly the SEC came in, and we have been working side by side not in addition with the SEC on all of these things.

And then as of May, the DOJ came in and looked at some additional items and we've also been working with them side-by-side voluntarily on these items side-by-side is also important. And based on that and also that these items we have additionally launched internal forensic review and a number of additional methods that go beyond the economic performance and I think that's why. So we have neither been complacent nor late no other, it's just that the matter and the viewpoints have changed and we have done additional items on top of the additional work. I'm looking at my Chief Legal Counsel who's sitting next to me and I'm looking and he says, yes, but now shut up.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. That's great. Thanks. Giulio, can I just follow-up. Are you formally changing the guidance on capital generation from 8% to 10% plus --

A - Giulio Terzariol {BIO 17125489 <GO>}

No.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Or is that just for this year?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, okay. I will say that there is a high likelihood that we're going to change the guidance also for next year, because this year we're going to be about 10%. And, I will say next year assuming that we're going to see higher growth in the property casualty compared to what we saw this year, I would not go about 10%, but I think there is a high likelihood that we're going to lend to a 10% capital generation. I can also tell you that on the life business, basically there is zero capital increase because they even put a lot of new business, this is very low capital intensive. And, that's the capital intensive is completely offset. Just talk to you this year, let's forget about the VNB, which is definitely then helping take up the generation. Do just speak on SCR, because of new business is completely offset by the release of the in-force.

A - Oliver Baete {BIO 15740270 <GO>}

And this is a very important point, Andrew. What our objective is for the next few years, is really to make Solvency II over time less and less, and less of a relevant issue for us to really guide. It will always be important as a regulatory standpoint in terms of capital distribution, the objective is to come less and less dependent on the number, and the volatility of it. That is has been the objective now. That plumbing [ph] rate and COVID hasn't really helped to achieve that objective faster, but it's a very important objective for us. Now because we really believe it's a key part for the valuation of this company.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

A - Oliver Baete {BIO 15740270 <GO>}

All right. Very good.

Operator

We will now take our next question from Michael Huttner from Bernberg. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. I stay away from you of this. So on cash, you gave some really interesting kind of numbers I think EUR9 billion a year or EUR10 billion a year and last figures we've seen I think was EUR10.3 billion or EUR10.3 billion average. So just wondering, if you can say what -- where this increase coming from? And then the second question is on the asset flows. So, we have two one-offs, one negative, I think in PIMCO and one positive energy in AGI. I wonder if you can give a little bit more detail about the AGI positive. What is the NATO, the profitability or I know you can't say the client but anything which would help here?

And the last point, I know you've been -- you've said severity and property but net caps are a lot higher and I know you don't include a kind of budget figure you just say, well, historically has been around that level. But are you going to be raising pricing, because I imagine you'll be paying your reinsurers more. For example, in the EUR400 million figure for the funds you've got, a EUR100 million reinstatement premium? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So maybe starting from the first point, I think Oliver was referring to net income on EUR9 billion from a cash point of view, you know our numbers and usually you can use the sort of process that 80% of our net income is going to translate into cash, so that this would be the relationship that you can hold if you want to use it all the time.

As we come into the second question, which was the flows at AGI, I can tell you, its pretty widespread. So we see, for example, good flows coming, fixed income, inequity and also multi-assets, so from that point of view, when you look at the different asset classes all are contributing. Of course, when you look at the regional contribution, you see good contribution coming from Europe, but also from the U.S. and Asia Pacific and we see also -- because sometimes you can look at flows from a production point of view, where the strategies are developed, and then you can see look at flows, where the distribution is taking place. So we see also from a distribution point of view good growth in Asia. And regarding the profitability, cannot give you the number, but it's overall very profitable flows, we had maybe a larger mandate, where they clearly the fee is going to be over, but fundamentally when we are looking at the profitability of the flows, I would say it's really good.

And then your third question about increasing premium because of natural catastrophe that might happen, then as always is a matter of what the competitive environments might be, but, I will say from a technical point of view, one might argue that's definitely something that we're going to look to do to a certain degree. But, at the end of the day as always price increases are also a function words in general, the market is going to do.

Q - Michael Huttner {BIO 1556863 <GO>}

And just on -- thank you so much. On the -- this net inflow at HEI. So, that's what I'm really saying is, what's the number, I can model or but it's not the way. What is the figure now as of kind of almost made to Q3?

A - Giulio Terzariol {BIO 17125489 <GO>}

Well, I can tell you that in the first -- in the month of July was about -- for AGI was about $2 billion, the flows for AGI.

Q - Michael Huttner {BIO 1556863 <GO>}

(inaudible). I hear silence, I'd better leave it then. Thank you.

A - Oliver Baete {BIO 15740270 <GO>}

Yes. Okay. Michael, are you fine with the answers or anything else.

Q - Michael Huttner {BIO 1556863 <GO>}

I didn't hear the PIMCO figures, if there is question.

A - Giulio Terzariol {BIO 17125489 <GO>}

Sorry, what is the question?

Q - Michael Huttner {BIO 1556863 <GO>}

The question, the net inflows in PIMPCO in July?

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. That's about, okay, there was as of -- a little bit before the end of July, there was about EUR5 billion.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay.

A - Giulio Terzariol {BIO 17125489 <GO>}

Basically, you can almost say, when you add up AGI and PIMPCO, you can almost say, is about a EUR1 billion.

Q - Michael Huttner {BIO 1556863 <GO>}

EUR1 billion. That's fantastic. Super. Thank you very, very much.

Operator

We will now take our next question from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 17918548 <GO>}

Hi. Thank you very much. First of all, Oliver and Giulio, the SCR in your asset management business is about a EUR1 billion and particularly, in light of what's going on there, feels like an extremely low number against EUR1.8 trillion of funds under management. And you seem to be allocating all to operational risk, not much for market risk, clearly, for a fund manager, there's going to be a gray area between market risk and operational risk. But, I'm just wondering, can you remind us how you get to the EUR1 billion figure? And do you think that maybe a number that you need to review, in particularly, in the context of the current experience?

And then, secondly please. You highlighted in your life business, this is another quarter of an incredibly strong investment margin. I think you still officially were talking about sort of 70 basis points to 75 basis points. I think it was the last thing you said and you'll still at sort of, mid-80s you're significantly above that. Again, you said something in the call, but can you just, remind us are we at this more elevated level structurally? Or is it going to normalize down to that 70 basis points to 75 basis points this year or next year and if it dose normalize down, what's the driver of that?

And then lastly please, you flagged in the presentation, the 9 percentage points impact on the Solvency II ratio from the various transactions you've been doing. Could you just remind us how much of that comes from the SCR going up and how much from the eligible own funds going down? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. So maybe starting from the first question, first of all, the way we do the calculation of the ACR, for the group, we are using the Solvency II -- according to the Solvency II by the way, principle is for the sectoral on funding this year, so which means basically what is non-insurance, we use whatever regulation you have applied to those sectors. So for the banking, we are going to use basically what is a revelation for banking and in the case of asset management, we are using whatever regulation is for asset management, which is this year is a percentage of the expensive. So it's not that we are coming up with any kind of special model, we have any kind of Allianz way to calculate ACR for asset management and this is coming from the framework Solvency II the test you includes the asset managers with whatever regulation you have for asset management. So that's the way it works. And then clearly we are going to hold a reality more capital compared to what the requirements is. But again it's not something that is up for deliberation or matches here, you are going to include in your Solvency II model.

The second question was on the investment management on the life side. I would say that we have been running now for a couple of quarters at performance, which is higher compared to our original expectations 70 basis points to 75 basis points. We need anywhere to consider also the volatility in the United States is pretty low. So, they might have a little bit of a lift that I will not necessarily always consider in that KPI. But, I would tell you that at least I would say that it's realistic to expect that, we'll be at the upper end of the range of 70 basis point to 75 basis point as we move forward. So, that's something that I would feel comfortable to say today, whether we are now at a 80 basis point, I think that's a -- I would like to see more evidence, as we go through more quarters to make a statement like that, but they have 75 basis point, the (inaudible) might be more indicative of what the range might be.

And then, when you think about the impacts on the 9% coming from the acquisition that we do, the majority is coming reality from their own funds. There is not a lot of SCR that we are going to add there. But if I should have a short area with respect to be like two-thirds coming from their own-funds, and one-third is even less may be coming from the ACR increase.

Q - William Hawkins {BIO 17918548 <GO>}

Right. Thank you. If I could come back to, Giulio, I appreciate what you said about the SCR for asset management being largely a regulatory figure. Correct me if I'm wrong, the eligible own funds and correct me if I'm wrong, I think they're still only about EUR2 billion. So it's not as if you have disproportionate coverage to allow for a risk that isn't taken in the regulatory model. So I'm wondering, have I correctly understood that EUR2 billion of eligible own funds. And if I have, is that a reflection of the capital and the cash position of your asset management business? Or is there sort of somehow bigger capital or cash position in your asset management entities?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, I would day, with the EUR2 billion is relatively, no, so EUR2 billion, you are correct. I would like to say that's also what you need to keep for S&P to have a AA rating. So, you can debate whether it is only EUR2 billion and just it is twice the ACR. And that's also what basically gives you an AA rating on the S&P.

Q - William Hawkins {BIO 17918548 <GO>}

Got it. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody and congratulations on the (inaudible) play. Just going to your Investor Capital Markets Day, how are you going to frame targets in this day. Have you decided whether it's going to be some of IFRS cash or Solvency II. And I only asked because on the comments that you made about how you believe you're undervalued, I mean should we be really sharpening our focus on Solvency II numbers here to try and understand that? Secondly, going to your debt headroom, can you just give us an update of the -- if you needed it for whatever reason, what the headroom would be? And lastly going back to AGCS and the very strong volume decline which is over 20% obviously, is this still just pulling out of liability lines? Or is it something else and when does it end? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. So your first question about the Capital Market Day, clearly we are still going to be focused on IFRS number, because at the end of the day, these are the numbers that we discuss every quarter, so clearly there is a little bit of a challenge because of the IFRS 9 and 17 implementation. Within that we are not going to see major changes because of that. So, IFRS is going still to be a way how we communicate our targets. We're going anyways, also to put focus on cash generation at the end of the day, the doubtful accounts, how much cash are you able to generate or capital that you can generate, and deploy it and buybacks on M&A. So, fundamentally, we're going to have definitely a session related to capital and cash generation. And, especially, on the life side, we want to show also like, for example, the Allianz's Lebanese is capable to produce very stable cash flow, cash flow generation and also growing cash flow generation. So, this is going to be something that we're going to talk about in the Capital Market Day.

Then the other question was on -- oh, the debt capacity. I would say, we have definitely significant debt capacity. So as of now, as of today, I think our leverage ratio is about 22% and clearly you can go easily to 25%, 26%. We have been just a few years at 27%, 28% leverage ratio. So from that point of view, the financial flexibility that we have on the financial leverage is pretty high. We also like to preserve it. But in the case, we need to use it. We are going to use it.

And then on AGCS, I think your question was specifically on liability but I can give you a little bit more color in general on AGCA -- on AGCS. I would say, as on now, in a liability, we are not really growing, but that's an area where clearly cautiously we're going to look at growth again. Also, I would say an area where we see less growth, but that's because of the strong, the underwriting that we did last year is in Marine and (inaudible), where we see growth and we are very encouraged by what we are seeing is in financial eyes and also in property and just to give you an idea in this lines of business in the six months, we have been able to post combined ratio below -- even below 90%, 90% on the property side is also because the neck head is low, there's been pretty be nice.

So overall, we see some growth in some area, but clearly there are other areas where with the underwriting was extremely strong. As we move forward we are definitely going to look also at potential for additional growth. At this point in time, we believe rates are pretty good, then you need to be always selective, clearly you need to have always strong underwriting. But fundamentally, we are at a point, where we believe that our -- the underwriting action and our cleansing has been successful. The management team is getting more and more confidence as the numbers are flowing through. So I would say that as we move forward, as we go into 2022, we are going definitely also to have a growth agenda and that's also consistent with what we always said. We always said, look, before we start growing, we want to have a good degree of confidence that the level of profitability is going -- is go in the right direction.

A - Oliver Baete {BIO 15740270 <GO>}

Yes. Let me reiterate what Giulio just said. It is more about -- not about numbers it also about confidence. So I -- we are very pleased with the progress that we've seen in AGCS, and that's a bit math by two factors. We had some follow-on on COVID from last year and some policies that are only tapering off in the first half of the year, sort of entertainment, for example. And the other part is, they also have some effects this year from natural catastrophe. So, some of the flood exposures, they will also get hit by. I'm still confident that they will make their 98% target unless we have a sort of brutal second half of the year, which is no small achievement given what we've seen. And just to reiterate, what Giulio said, we now need to change the tag and make sure, after we've cleaned the portfolio that we take advantage of one of the hardest markets that we've seen probably in a decade and we don't miss, but we wanted to make sure that before we write something, we know exactly what to write and how to write it, but they're making a very, very good progress.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thanks. If I just quickly can return on your comment on the CMD targets. You said that IFRS 17 won't make a big difference. Do you mean philosophically or numerically?

A - Giulio Terzariol {BIO 17125489 <GO>}

I don't think it's going to make a big difference. So we are already doing runs based on IFRS 17. So we don't see a significant difference. But I was -- I want to just to say, fundamentally, the IFRS 9 and 17 might represent a complication, because you need to think on a different accounting standard. But based on what we have seen so far, we will not expect in our case to have a significant difference. But, you're learning every day something, something, that's the reason why, I would tend to be cautious and always say, there is a new standard coming up. So that's clearly creating some complexity, but fundamentally, I think that should be manageable.

Q - Farooq Hanif {BIO 4780978 <GO>}

Good luck with that. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Thank you very much for the questions. Just -- sir, the two questions I would raise is, one is, just on this topic of growth and confidence. We are hearing these are very positive, we assume that in life and health resurgence in growth and in P&C, the resurgence in growth in 2Q, I can see where that coming from. But I mean last year, I think the messaging was that growth will be a bit subdued this year. And, I think it's coming back a bit more, we've seen it in other insurance supporting in the U.S. as well, the economy as such. So I mean, of course, you talked about AGCS just now but generally, should we be feeling more bullish about P&C growth as such this year maybe even a bit more next year, so, I'm just curious to hear your thoughts on P&C growth?

Second thing is, you reiterated the AGC&S target, but also Germany had fantastic combined ratio supported by a runoff in 2Q. Could you comment a bit about that as well, I'm sure there are other things as well positive in Germany. But if it is -- where these runoffs coming from? And get a more buffer there, so even the 3Q flooding, for example, so just in any idea on the buffer there?

And last to give more follow-up and apologize for not being attentive enough. Where Oliver, did you just say that the DOJ investigation or request or warranty request for documents both received in May, whereas I think from the press releases that read last Sunday, we thought or I thought it just came in. So I'm just curious just as a follow-up from the timing of these events, please? Thank you.

A - Oliver Baete {BIO 15740270 <GO>}

Yes. And thank you for the question. As I said earlier I have a really, really strong and really, really, really, really strict Chief Legal Accounts who next to me and he said whatever we said earlier is the only thing we can say. I do apologize. Yes, but there is no delay on nothing, we are just following it through. All right?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. For your question, maybe start from the growth rate, the first of all, sure we're going to see more, more, more growth also coming from Allianz partners to a certain degree may be more on the NPE basis and so much on the gross basis also from (inaudible). And when we are looking at the geography, I will say, that yes, as the situation is further stabilizing, we might see also more growth in other geography.

When we speak about growth in property casualty, I'm always anyway very cautious, very easy to grow and then you can regulate one day. So it's all a matter of whether you have quality growth or not. And quality growth is always going to be a function of the pricing environment. So from that point of view, I would say, the trends, I would expect that we're going to go back to the growth that we had before COVID. If you remember, we were running at a 3% to 4% growth. I believe that's our natural growth capacity or capabilities. But again, at the end of the day growth for me is, always a function of the other pricing environments.

Coming then back to your question on Germany. Yes, I tell you Germany has a very strong balance sheet and it's also consequence that we have been kind of cautious, so always told you also last year and that we are being very cautious in booking our reserves. You remember last year, we didn't release a significant amount of runoff, was also very low. So fundamentally, there is a strong balance sheet and Germany is definitely one of the company, where we have a lot of quality in the balance sheet, but even more important, Germany is being one of the -- of our subsidiary having the one of the strongest developments on the underline over the last year. So I'm very -- always very pleased when I have meetings with our German team, because we are very structured and very focused on driving our strategy, our agenda they have embraced that strategy.

You can see that the combined ratio there, target is much better compared to the combined ratio that we had a few years ago. I can also tell your, Oliver has also explained, always a lot of quality time with Germany likes to play with them and spend time with them. So, I had to say, it's a nice development that's important for us because the Allianz

Germany, at the end of the day is almost 20% of our NPE on the property casualty size. So, having strong German business is clearly very good starting point for the profitability of our property casualty segments.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you very much.

Operator

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

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, thank you and good afternoon, Giulio. Good afternoon, all the way. Just a couple of questions I have, if I may. First of all this EUR750 million buyback, I mean, how do we think about this? Was it just coming as a regular capital management exercise? Or was it done to showcase your confidence from the capital regulators confidence on the capital? So that could be one.

The second thing is, I mean, Giulio, you mentioned that we are going to ask you, why not towards the EUR13 billion, why EUR12 billion to EUR13 billion? I mean, clearly you are running, the current run rate is giving you EUR13.5 billion. So what are the elements that will take it down from EUR13.5 billion. I mean one is clearly flood losses. But is there any other things that you would flag that was very supportive in first half, may not happen in the second half?

And second -- and the third one is, the 93% combined ratio guidance you have for P&C versus 93.5%, you are running at first half and then you have the European flood losses. So I mean would you say that 93% is still achievable? Or would you say that might be on the opportunistic side? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So first of all on the buyback of the $750 million, if you remember, we talked about also the buyback in the first -- in the call for the first quarter, indeed one of your event put headline the buyback is back, so from that point of view, you can see this is not something that we have been thinking between Sunday evening and Thursday night, so that's something that was basically in our thought process for a while. And as I said before, there was part of the EUR1.5 billion that we committed. So that there was not any sort of spontaneous decision a couple of days ago.

On your question about the projection for the remainder of the year, fundamentally, on the P&C side is a little bit of all the amount of natural catastrophes that we're going to see. So -- and also, I would say, so we need to clearly having started the second quarter with the event of burns, we are little bit cautious, because we still have the hurricane season in front of us. And then also, we'll say that the investment income is going to be higher than planned, but in the second part of the year, we don't respect to that with the same level of investment think and that we had in the first part of the year. So fundamentally, I will not necessarily take the EUR2.9 billion of the first quarter -- for the first half and 2x two for the property casualty side and we're going to see clearly what happens, but they will be cautious in doing that.

On the light side, we have been run a EUR2.5 billion of operating profit. Now you can do this time two, if you believe that the markets are going to be always able, we need to be a little bit cautious, and thinking that we might get some point in time. Some volatility source from that one, we'll not necessarily do times two. And, in SMAs may reality is a very good reason to do times two. I still wouldn't do that, just because of being a little bit pro then, but at the end of the day I would say, yes, definitely, there is a possibility, markers are very stable. If natural catastrophe are very, very -- they are pretty much frightening.

As we move forward there is a possibility that we're going to end up with a second part of the year, which is going to the first part of the year. But, you need to make the assumption that we're going to have another six months of very stable markets, and based on my experience at some point in time you get a little bit of volatility. And this can take away EUR00 million of profit from our Life segment, this can dampen a little bit, the development in the SMAs I mean. So, from that point of view, I would say, we had a very good first half, you can look at the numbers, you can definitely say there is strength in underlying and then at the end of the year, we see where we are, but it looks like we are heading for a good operating performance in 2021.

On the 93.4% combined ratio versus 93%, first of all, my comment will be, if you just look at the natural catastrophe at 3.1% for the six months, you just normalize that to the normal level of tool, you can see that we are better than the 93%. So, from an underlying point of view, I feel very confident about our ability to achieve the 93% and then the amount of natural catastrophe, clearly can create a little bit of noise up and down. This doesn't change for me. The fundamental fact that on the underlying basis, we are in 93% for sure. And then if you're going to add a few more basis point, because of the natural catastrophe in my opinion, this doesn't make any difference.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Very good. Thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. Before we continue its half past, we have time for one last question and then we have to close the call. Tracy, one last question, please.

Operator

We will now take the last question from (inaudible) Leon from Morgan Stanley. Please go ahead.

Q - Analyst

Thank you. I'm lucky. I got the last one. Sorry, I got only three very quick questions. The first one is your U.S. life business, obviously, new business growth very, very strongly. Just wonder is that -- are you so actually taking shares in the market and more specifically actually you do if you are a kind of increasing your shares there? And then secondly is just very quickly, we know that you wanted to actually expand your footprint in the U.S. especially in the P&C side, but will the whole kind of DOJ thing affect or change your views or change your risk assessment on the U.S. market in general?

And then the last one is the Solvency II market movement was zero actually year-to-date for the first half, which means the movement in the second half was negatively kind of wipe out the whole kind of movement, positive movement in the first quarter. I actually -- but if I look at the interest rate is better than the beginning of the year, the equity market is better than the beginning of the beginning of the year, and then the credit spread is also kind of very stable. I just wonder actually, why we shouldn't see a positive year-to-date kind of markets impact and what actually have I missed in those market movement? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Maybe, starting from the last question, when you look at what's happening in the second quarter, in reality, the market movement is just slightly negative. So, if you look at the slides at Page 9, we have minus zero. If you run the calculation that you can access on the own funds, that would be a negative impact of about 50 basis points. And the point is, yes, rates have been kind of stable, and also the equity market has been okay. But, we have also sensitivity to credit spread. In reality, there was a slight widening on the credit spreads, on the government bonds and there was a little bit of a narrowing on the credit spread on the corporate bonds, and we are exposed to negative -- to positive spread widening in the corporate bonds, but we are really speaking of the very minor amount. So basically, almost is also slightly negative, and if you are looking for the explanation, why it's not being that completely neutral is because of the credit spreads development.

On your question about appetite in the United States for acquisition? I don't think there is any change fundamentally to our strategy. I think we need to separate our strategy, our underlying performance of (Technical Difficulty) to the situation that we have discussed, but I wouldn't say that because of the action we are going to Y and Z.

And then to your first question is about the market share in the United States. In order to see whether we are growing or not in the United States, we need to wait to get the statistics for the second quarter, which are not available yet. Maya, tell you, anyway about what happened in the prior quarter, we are not necessarily growing market share and fixing this annuity. That's also line of business where we continue to be strong, but that's not what we are putting the primary emphasis, we are emphasizing the IVA business or which basically these hybrid VA, or register index annuity. And in that line of business, I would expect and we have seen definitely good progress. And as we are putting the more focus, I would expect that we are going to be one of the key players, we have also launched a product for the advisory channel. So, I'm pretty confident that we're going to see a good growth trajectory in our life business in the United States. But, with respect to your specific question whether we are gaining market share and now we need to wait for the statistics or the market.

Q - Analyst

Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

You're welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. This concludes our call. Thanks to all of those who have joined. We wish you a very nice remaining day and a nice weekend.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you guys.

A - Oliver Baete {BIO 15740270 <GO>}

Thank you very much. Have a nice weekend. Thank you. And bye-bye.

Operator

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