Allianz SE Capital Markets Day

Company Participants

- Andreas Wimmer, Head of the Corporate Customer Department & Member of the Management Board
- Giulio Terzariol, CFO & Member of the Board of Management
- Ivan de la Sota, Chief Business Transformation Officer & Member of the Board of Management
- Klaus-Peter RÃ¶hler, Member of International Executive Committee
- Line M. Hestvik, Head of Global P&C
- Oliver BÃ¤te, Chairman of the Board of Management & CEO
- Oliver Schmidt, Head of IR
- Petros Papanikolaou, Unknown

Other Participants

- Andrew James Ritchie, Partner, Insurance
- Dhruv Gahlaut, Analyst
- Farooq Hanif, Head of Insurance Research in Europe
- James Austin Shuck, Director
- Johnny Vo, MD
- Jonathan Michael Hocking, MD
- Michael Hermann Haid, Analyst
- Nick Holmes, Equity Analyst
- Peter Eliot, Head of Insurance Sector Research
- Thomas Seidl, Senior Analyst
- Unidentified Participant, Analyst
- Vinit Malhotra, Banca di credito finanziario S.p.A., Research Division

Presentation

Oliver Schmidt {BIO 2473131 <GO>}

Good morning, to everybody in the room. Good morning to those who are following us online today. Welcome to the Allianz Capital Markets Day here in Munich.

Please allow me some brief housekeeping before we start. As always, our legal department kindly asks you to note our disclaimer about forward-looking statements in the back of the handout. Second, let me remind you that this event will be recorded and broadcast live on the Internet. And finally, as you can see on the agenda in front of you, we will have a joint Q&A session after the end of the formal presentations. So please save your questions until then.

That's already all from my side for now. And without further ado, I hand over to our CEO, Oliver BÃ¤te.

Oliver BÃ¤te

Good morning. Warm welcome to Munich. Thank you for your attention. I'm really happy to see a lot of shareholders and friends in the room and those we would like to be friends in the room. We have some others still left. But I think we're trying to do our best today to make the last hesitant investors and others to make a real big fans of

Allianz.

I have a strong crew on stage today. So this is not a one-man or one-person show. Allianz is an institution that delivers. It's far less dependent, that's the good news, on its CEO than people think. And we will try to showcase that today.

Now before we dive into the future, just a little recap of where we are coming from when we launched the Renewal Agenda three years ago because people have gotten used to a lot of good news and no surprises from Allianz. But in itself. And given the environment, that is no and was no sure thing.

So what I'm going to talk about is 4 things. First, take a little stock of the last three years, what has happened, talk about what we're going to do in the next phase of our Renewal Agenda. And the headline is called simplicity wins. We're trying to decomplexitize what we do and harness something that you have never seen in economics in our industry. That is called scale. Factually, we have these economies of scale in our industry. And we'll talk about how do we turn something from what we can call a conglomerate discount into a premium.

Then a little bit on capital management from my side. Giulio will talk a lot more about capital management and how we are going to deliver. Then I'll briefly touch upon the targets, not just the numbers, what is the philosophy behind the way we set targets. And we will remain what you've always known, conservative Germans at the heart with the global power to deliver beyond what people think is possible.

Now you know that we are a global financial leader. But just as a little bit of a backdrop. We're expecting more than EUR 11 billion in operating profit. By the way, people tend to forget that we are earning more than EUR 3 billion in United States. When people say, what is your global footprint? We're earning more than EUR 3 billion in the Unites States and growing. The value of new business from Asia, which was very low a few years back, is growing constantly. And we haven't compromised on capital strength. I think there's very few institutions in our industry that have the balance sheet that we do have.

And again, on the asset management side, I think it's still underappreciated. We're managing more than EUR 1.5 trillion in assets under management for third parties. That is not including the money that is managed for us. And we have the vast majority with our asset managers because we believe they are the best, not just because they're with us.

Now going a little forward, I hope that happens. When we said to set our targets. And I would like to particularly go on the earnings per share growth, the 10-year average that Allianz had achieved between 2005 and '15 was 2.6%, through the financial crisis, of course. But that was the number. When the current management team took over as a team, the analyst estimate of what we would do over the next few years was 2.4%. That was the consensus.

Now we said we need to rebase the expectations of our investors to how Allianz can grow its earnings. And we targeted 5%. Now as of nine months, we are looking at 7.1% compounded EPS growth over the last three years. And we'll talk about how we are going -- what are we going to do going forward. So this is 1.4x what we gave ourselves as a target. And we really believe it's a stretch target. And it's 3x of what the analyst community considered to be possible in 2005.

Now you will may immediately say, if you're a cynic, yes, yes, yes, when you do a share buyback, that is easy to do. Well in order to do share buybacks, you have to do a few things. And one of them is to have the money to actually spend it. Now you can take the money and borrow it by leveraging your balance sheet. But you can also do something else. You can try to improve operating performance. And you can do it in a sustainable way.

So this page A5 is super important because we had given ourselves operating profit improvement targets across the entire universe of Allianz, not just thinking through how we can help our colleagues in Newport Beach to refoot themselves. Remember, we had a few hundred billion in outflows. The tide turned only in the Second Quarter of 2016. '17 was the most successful year in the history of the firm, EUR 145 billion net inflows. And in this year, which probably is one of the most difficult in the history of bond management, we're having positive flows. Very few do have that.

And the same, Allianz Global Investors, we are seeing be on a not-so-successful business model, hodgepodge of leftovers has proven to be extremely strong and are growing, while active asset managers, particularly those owned by large other firms, have been pushed to the wayside.

Now the key objective beyond turning around PIMCO and refooting the Asset Management segment was structurally rebuilding the Life Insurance business. And we wanted to have new product set that reduced the capital consumption massively. Remember still 65% of our risk capital, because of the reserve build-up, is in the Life Insurance segment. And we had to transform it. Now we have overperformed our target, 82% is in the new lines, on average, 60% to 70% less capital consumptive than just a few years ago. And our new business margin is north of 3.4% and that -- given that a significant part of our portfolio is still in Europe with very low interest rates. And we tried to do the almost impossible, move all of our life businesses to earn a return on equity north of 10%. So making sure that with the volatility, we would never fall below the cost of capital.

93% is what we have been done. We have 2 or 3 small ones left. And let me tell you, we are working on making those either improved or find a different destiny. Instrumental, of course, was the sale of our Korean business at the end of 2016, what people still tend to forget. At the peak, the negative value was north of EUR 1.5 billion.

The other thing I'd like to mention is, why are we doing so well for consumers and our shareholders? Because we change the dependencies on traded equities and other instruments that we consider to be overvalued by moving consequently over many years into being a leader in alternative assets. We gave ourselves a target to have EUR 110 billion in the portfolio in the alternative asset space, obviously, a significant part in real estate. As of today, we are closing in on EUR 130 billion, outperforming our own expectations. And that's very good for our shareholders because it detaches us from the volatility that you've seen in the equity markets and consistently delivering on something and building the competitive advantage that we have. That is excess liquidity that is not under stress.

So that is what I wanted to talk about. We have made a lot of progress on digital and transformation. But IvÃ¡n de la Sota will talk a lot more about that. So let me just move onwards.

The other thing that is very important is now we're starting to harness the benefits of working on the profitability side. Because if you improve the margins consistently and if you work on managing productivity up, you start to see growth coming in. And it's very, very important to notice that this is not a low-growth business anymore, whether you'll see that in property-casualty, in the life new business space, in third-party assets under management or the total internal growth. And I think people do not have that in their mind as they think about Allianz. And these things are actually going in tandem.

Only if you exceed in customer loyalty, you have the proper productivity is growth coming. They are depending on each other. And they are not independent of each other. If you're trying to grow without having the prerequisite, you will wreak havoc eventually on margins. So it's very important that you see -- and I'm very proud to see, after a long time in spending on IT, that we see productivity growth coming through, at the same time, that customer loyalty is really picking up.

Let's move forward. Now that you know the shareholder returns relative to the index have been very strong, thank you very much for your support. And we do not intend to change that picture.

Now let me summarize, therefore, the last three years and how do we move. The first one, PIMCO is back to top performance. GI is substantially strengthened. In Life and Health, we have restructured the business model to make sure we have the power to grow. And in

P&C, we are closing in on the 94% combined ratio and the growth in the business while others are losing top line.

So therefore what is next? What is next? What do we do? And the messages are we have to do 3 things to drive the renewal agenda for the next chapter. We need to aim to outperform across the portfolio, not just in the vast majority. There's no room for leakage. We really need to transform the core of the business, not just optimize it. It's particularly important for the Property-Casualty business after many years of laying the foundations of, for example, retooling our key infrastructure massively. And we need to rebalance our capital allocation internally even more towards the business where the growth and value creation is. Move away from the focus on top line across the portfolio on those where the value is even if that's very difficult. So on top of that, I'd like to move forward.

Now why is this so important? We believe we are entering an era that is a lot less benign than the last three years have been, particularly in terms of the stock market. So we spent a lot of time analyzing our environment that was basically driven by significant economic growth globally, fairly stable political environments and booming capital markets. And having low interest rates, yes, we knew. But we had enough time to deal with that and we also had good time to deal with regulation. The next two years, ladies and gentlemen, are going to be very different. You saw that over the last few months.

So we asked ourselves, how much do we want to be dependent on an environment that supports us? And the answer is absolutely nothing. We want to do what we have under our control. And we can say. And we don't mean it in an arrogant way, we don't need help from anybody to get this done.

Now let's talk about it, how we think about it conceptually. So what we've done the last three years is to lay the foundations, to do the groundwork with our Renewal Agenda 1.0. Remember the turnarounds we had to do in Asset Management, the transformation in the Life business and bringing technical excellence to Property-Casualty. So delivering on the outperformance agenda, the transformation, the rebalance requires 3 things in terms of focus.

Number one, bringing productivity to the core of our DNA. That is very important. Creating scalability to what we call the Allianz Customer Model. And we're starting in Property-Casualty on the retail side and SME. And again being more strict in capital allocation and giving targets to our businesses on where the capital needs to go, including building new businesses like our European Direct Platform that are acting in a legacy-free way environment.

The tools are going to be the same. We do not want to every three years have a new way to run the company. We need stability. Some of our top investors this morning just said, we're investing in you for no surprises. We need stability in the way we do things. But we need to tweak a little bit the ambition.

So I don't want to go through the details. But just give you a couple of examples. A lot of that is about culture. For the last 11 years I've been here, I was CFO, we have basically spent a lot of time with our businesses to negotiate plans and then making sure ambitious plans that are being delivered upon. It was very much checked against the competition. But to be honest, it was all about how do I make my plan or outdeliver. It was less about how do I beat the best in the market. And that is what has to come now.

The aspiration for all Allianz businesses has to be to beat the best in every market. And it is very tough to do and we may not always be able to do that. But that is the aspiration. The other one is the constant feedback you get. Well if you do a business transformation, your people will be unhappy because you're letting employees go and so on. It's just not true. Our most successful change leaders do reposition the business for the future and mobilize the people, even if that includes job losses at times, which are not the objectives.

The second thing and that is very important is we need to move out of the boom and bust cycles that we have in our industry. When there are soft cycles, the markets go down. There's cost-cutting programs where you take money out of marketing, advertising, you stop investing in IT. This is not what we mean. What we mean is to move to a different level of operational excellence starting with a very simple concept. The simpler we design our products and processes, the better it is for our consumers and the better it is for our people. And I will talk a little bit about that in a second.

Therefore, we will continue our drive to outperform the market. As it stands today, we have about an NPS outperformance of 71%. I think it's more going to be like 72% by the end of the year. We need to move north of 75%. And by the way, more on a personal note, today, about 40% of our businesses are loyalty leaders, i.e., in customer satisfaction are the best of their markets. We need to move far beyond that to 50%. Because only if we excite our clients, we will be great.

Now every business is trying to do that today. So it's not about the ambition, it's about how do we deliver. But if you think about that 2014 at the end, only 47% of our businesses, it's quite embarrassing actually, were better than market average. Just in three years, we moved this number north of 71%. And there was a massive contribution by our business leaders. And we're going to continuously push on that. It requires more intuitive products where the word intuitive and insurance rarely make it into the same sentence, right? So that is really what we have to do.

We have to make sure, very parochial things, that processes are trouble-free for our people and our clients. And we are going to implement the most advanced technology to measure customer satisfaction in real time frontline steering called, what we call, Voice of the Customer. So no more telephone calls out asking people what they think. Having instant replies is what we're going to do.

The same is very important on employee mobilization. And we need to get better at that. And I say it openly, we have to make sure that we are more purpose-driven in our culture, less expert-driven and really train our people to not just be leading the people into technical excellence or towards technical excellence. But to be helping the business to transform.

A key prerequisite is, by the way. And I'm going to talk about it a little more and IvÃ¡n will do even more so, is to get rid of what we call legacy. We are excellent in inventing new things. We're very good at reconfiguring the platform and bringing new products. What we are not so good at is making sure that the so-called back book is disappearing as quickly as it can. And we've now laid the foundation over the last few years by harmonizing our global IT to move. And we think we're unique in our industry to discard the legacy. That will require energy. It will require significant investments against increasing productivity. And our people will have to deliver that in a way that is legacy-free.

Now how do we define outperformance? There are many ways per market how you can do that. As an investor view, you would use some of these matrices, particularly for Life and P&C. And you can see that in Life Insurance. And I think many investors do not have that on their radar. We are closing in really on best practice in terms of margin. Allianz is coming from a very different point and starting point. And we are now ready for growth and innovation.

Now return on equity is not really the best number to assess an asset management business. Run rate revenue growth will be the number, in our opinion, for the future. Sustainable earnings growth will be very, very important, not AUM. I think the AUM focus is totally wrong because a lot of low-margin business is flowing into balance sheets. And we're already there because we are leading in profitability already and we have proven in this environment to grow revenues like few others.

And that leaves us with the focus on our core business Property-Casualty, the foundation of Allianz' success over many years. We're getting very close to the 94% aspiration base. But there's much more potential. There's much more potential, there's further upside, particularly through productivity. You've seen it this year coming through, growing particularly the retail space and doing massively better on analytical excellence.

So let me repeat, we do not need the market to help us. We do not need a transformational M&A to fix a problem that we don't have. We're going to do it when it makes sense. But first, we make sure we are the best at what we do across the portfolio.

Now there's a couple of examples of how you can use technology. And I thought about how much time I spend on it. Since IvÃ¡n and the colleagues are going to give you a look into the machine room, just take as a note that we are not looking at, for example, artificial intelligence as a mumbo-jumbo thing that is somewhere in the back, geeks that we hire from Google and do something outrageous that we don't understand. This is about making everything that we do better every day. It's focusing on customer complaints, what is the average claim file duration in the business, how to bring the Net Promoter Score up and how do we bring fraud protection up. These are real examples. This is an example out of Turkey thinking through how we drive it through the business. So you get these examples every day. What you don't get is the impact it has on the business if you execute properly.

This is the last conceptual slide I'm going to use. But let me just summarize what is it that we are trying to achieve. We call this simplicity wins and we mean it. And we are a fairly complex organization and it's -- we're not going to be super simple tomorrow. So this is a journey that we are on. But it starts with something that we haven't really focused on enough, making sure we have massively fewer and more intuitive products that our consumers really like. And if we have to differentiate, we want to differentiate in modules so that additional variation doesn't cost us in the machine room. And we want to make sure we have no negative surprises. The key driver, by the way, for customer satisfaction is not the average NPS that we have. It's getting rid of these detractors. We have the good -- get good in the machine room like any good manufacturing company is today.

Digital is not about replacing humans. Everybody says this is about the human-free enterprise. It's just not true. What we are going to take out is all the complexity that our people internally and externally don't want to have in the first place, that is trouble-free processes without legacy. Let me tell you, the last year, we had a lot of IT challenges internally as we moved to a global data center structure. So doing that sounds easy. In practice, getting to global scale and having stable operations is not an easy thing to do. Then enhanced data analytics come on top.

Now the third one is very important for you as investors to think through. Our business for 200 years has not been scalable. In fact, most of us get a conglomerate discount because you say, how can you manage something better than the capital market? So we need to prove that to you. And we've started already 10 years ago -- 14 years ago with a sustainability program on technical excellence. This is what we are really good at, taking rating and pricing technology across markets, product design in Life and globalizing it. So we're very good at it.

What we've not been able to do is to bring it into the machine room. So harmonize products and processes in a way that we can replicate them across countries. And IvÃ¡n is going to talk about how we do that. And it was not born in my brain or some conceptual adviser. It was born by our CEOs. And 3 of them are on stage today that have gone through the journey the last few years to say, are our products locally really so much different than our middle managers are telling us? And they will tell you the story of how harmonized our platforms can be. And again, now we have the IT stack to actually do it.

Last but not least is not just around reducing cost per unit, it is also bringing revenues up because we want to replicate innovation across the markets and not just productivity. Now we're not doing it afresh. So if you are worried about something that may sort of rupture the operation, please remember that we already have global platforms highly successfully dispersed across our enterprise today in asset management and the corporate lines, Allianz Partners. But also in Allianz Investment Management, our really strong platform that is delivering us between 40 and 50 basis points every year in risk-adjusted outperformance. So we're going to do that and again we'll talk about that today in more detail.

The idea is -- and Page 20 is just an illustration. We have to therefore bring the scale to something that you eventually need to see in hardcore numbers. We have to bring growth up beyond where it is, organically, not through M&A. We have to move the profitability significantly. And we can do a lot more. And and this is where it starts, to bring the customer satisfaction beyond what people believe is possible on the industry average.

Now let me give you one example that gives you an illustration of the power of what we are talking about today. This is an example from our Spanish operation that Allianz sets, in many ways, the benchmark for efficiency. And have worked on it for 20 years, by the way, also outgrowing the Spanish markets on a consistent basis organically. Now we did an analysis of how can we move even further on productivity over the last 18 months. Then we said, is there any potential to work on the legacy? And the answer was no because only 3% of the revenues, that's nothing, are in so-called legacy products. 3% of the portfolio is nothing. Most of other business, we have 40%, 50%, 60% in legacy.

Then we took a deep look in the IT cost that is dedicated. And I have to tell you our cost allocation mechanisms have some room for improvement. And you start to look and you find almost 20% of the total IT budget was dedicated to just 3% of the revenues. And let's assume these 3% are actually profitable from a loss ratio percentage. If you allocate cost properly, it's not making money.

So the key message is that even in the best businesses that we run, the upside potential from removing legacy is massive. And therefore, a lot of what we're going to do is, in our hands, is cleaning up those legacies. And that is easier said than done.

Sorry, let me go back a little bit. The other thing and that is very important is we believe. And having looked at a lot of the insured techs and the startups, that we actually have most of what we need in-house. And as you know, we do invest in the innovators. And what we're going to do is to create a direct platform for Europe. Now this is not meant to compete with our other distribution channels for the same client base. Factually, cannibalization between our direct businesses and our traditional agency platforms is 0. Let me repeat that, cannibalization is 0. But we've been missing a massive opportunity across products in moving to the Allianz brand because that's what our consumers are expecting. They're saying, you're camouflaging the fact that you are not giving me what we want. First observation.

Second, why do we do it the way we do it? We want to create, for the first time, a legacy-free offer, direct offer to consumers that is consistent across markets, very consistent with the story that I just tell you, proving the scalability. But there's a second component. We are going to create an operating platform that is designed to cost that is also going to operate on a legacy-free basis, to create an internal benchmark for our German, our Italian, our Dutch colleagues to see where we have to go with our operating cost in the legacy businesses over time. It's much more convincing because you can show the how, not just the what if you have a platform inside. That is the objective of what we're going to do with EDP.

So now I move to capital management and give you a few things because you say, you're going to hold me, not just Giulio, accountable for what we do. I think we can be very proud of what we've done the last three years. We honored the commitment that Michael Diekmann and Dieter Wemmer gave many years back. But we need to work very hard to actually honor that commitment, making sure the Life balance sheet was improved, the capital was upstreamed and we actually did execute the share buys that we did back.

So what are we going to do going forward? We will remain with the same discipline that we've had the last few years. So there is no itching, no, I have to do it. And the discipline is very, very simple. We have the same hurdles we have for share buybacks or capital management overall that we have for internal growth and external growth, there is no difference. There is no difference. And if we buy something, we'll talk about it, we apply the same mechanisms that we apply to managing capital in many other ways. And we're going to get even stricter because we have internal growth also on the page.

And I put it on the page for very good reason because we have still businesses that where we put capital in that does not have the right returns. We started in Life, remember, with the ROE targets for the Life businesses. And we're going to apply it across the portfolio. Where is the value growth is where we need to go. So we have the same principles.

In addition, on the M&A side, there are 2 criteria that are very important. First. And we really mean it, we need to be able to extract value from what we buy that is consistent with what we have to pay. And the quality of the franchise needs to be as such that it enhances the performance of Allianz. It just does not just enhance the size. And that is very, very important for you to know.

And the record of what we have done over the last few years just speaks to it. You can go through the page in terms of what we bought. And everybody says we don't sell. It's just not true. We sold the last banking assets, Oldenburgische Landesbank. We have a small license left in Bulgaria. We have taken out the back book in Taiwan. We sold the Korean business. We sold the AGF U.K. business. And so we are constantly pruning the portfolio and we are working on the Life back books. But what we are not going to do is to risk our reputation by separating from clients that we expect to continuously be our clients. That is also very important. And I'd like to mention that at this point, we really care for our reputation very much.

By the way, the Korean number is obviously understated given its economic effect. That has allowed us to build the solvency and massively increase the capital returns in order to move to a return on equity number where we are today and that we are very proud of. And to be honest, I am puzzled given that we are north of 13% ROE without any accounting tricks that we are trading where we are trading because we have many peers, many, many peers that have massively lower returns and promises. And we don't believe in promises unless you deliver them.

Now let me talk a little bit about the targets and what we are giving ourselves as a target. Now before I go to this page, there are targets that are not on the page. But they are equally important. And I'd like to mention that. We want to be respected by our peers, our communities and the societies we live in. I am really proud, for example, that we won the Dow Jones Sustainability award as the #1 in our industry this year in the second year. We may not have it always. But that is what we want to be.

We are trying to be a company that people are trusting and are proud of and not just one that produces financial returns. And that's very important. So for the next few years, we're going to spend a lot of time on reputational risk because we do not want to end up where other people are ending up. That being said -- and that's important because it will require some decisions to exit certain businesses or do stuff that is maybe less attractive in terms of returns short term but very attractive in the long run. So you need to trust that Allianz makes decisions for many years to come, not just for the next 4 quarters.

Now let me go through the numbers. The most important message today, again, that I'd like to repeat is we don't need help from M&A and others to grow earnings. We don't need. We don't even need share buybacks to grow the earnings because we are giving ourselves a 4% organic growth target year-per-year over the next three years. And we haven't had that in a long time.

Now why are we saying 5% plus? Because you can assume that we're going to generate significant amounts of capital on top of the organic growth. And as we have very strict return on equity targets, we will not let the capital sit idle. So whatever we don't need, we're going to give back to shareholders or put it into productive investment. That is the commitment we have made three years ago. That is the commitment that we renew. But in this environment, we don't want to rely only on capital management. We want to rely on our own earnings power.

Profitability, we call at 13% plus. Now plus, Giulio will say, plus doesn't mean 13.1%. And he's going to talk a little bit about what that means. But we also want to be very clear, we are going to move in an environment where volatility is going to be very strong. And that is why we are making sure that we don't overpromise on something that is there. But having the returns that we have today and moving north of that, I think, is a very strong commitment from the team.

We are removing the 220% headline. We want to make sure that it's north of 180%. Giulio will talk about why this is a very important message for you. And last but not the least, we've said this is not just about performing for shareholders. It's performing against expectations of our clients, most importantly, because financial performance is the outflow of delighting clients. So we're going to move north of 75% and having loyal leadership ambitions that are stronger than we have them today and making sure that our employees are mobilized to deliver on the transition. So no excuses for transformation in terms of mobilizing our people. This is the target.

Now if we execute that, we would like to see the following happening. We started in the past with a discount because of the issues we had in PIMCO and the Life business. And that was clear and we had been working, including the last few years before 2015, to make that a much more resilient balance sheet. And I think we've achieved that beyond our expectations. The last three years, we committed to disciplining ourselves on capital management, which we haven't been before. And making sure that profitability in all segments goes back to where you expect it to be and beyond. We're closing in on best practice in many segments. And we are very proud of that. We're starting to deliver on organic growth. But what we really need to get to a premium valuation, we believe, is to outperform on productivity, on scalability by being a more simple company, in particular with regards of what we do with our clients and our people and hopefully also in internal organization.

So these are my messages for today. And that reinforces the equity story that we have shown to you three years ago. When you invest in Allianz, you sleep well because you have the downside protection you need from one of the world's best risk managers. We are well diversified. We have an outstanding capital position. And the investment portfolio is getting better by the day.

We have a very attractive dividend policy. We don't believe we constantly need to promise people more share of payouts because we know and you know that capital management is not a side constraint. It's at the core of what we do. We have a dividend ratchet. And we are going to bring the money back to you if we can't invest it. You need to trust us that we do the right thing with your capital.

And there is enormous upside. Almost all our competitors have given up on global scale. Every single equity story you read is we give the power back to the markets, we are going to sell portfolio, we're going to focus on 3 markets in Southeast Asia, soon 4 here. Think through what this means. We have a different ambition. We have an ambition to say we can really grow earnings better than anybody else because we are going to get to scale. We're going to outperform through continuous productivity gains. And we're going to rebalance the capital to where the growth is. That is our promise. And therefore, we can believe we can organically grow much more than we can do in the past, plus the capital management efficiencies on top of that.

We thank you for your support. And we hope that what we are going to do will delight you as it has the last three years. Thank you very much for listening. And I hand over to my colleagues.

Ivan de la Sota {BIO 19492628 <GO>}

Good morning. Our industry is complex, Oliver has already told us. This is changing at Allianz. And simplicity is the name of the game. We're going to transform the core of our business in depth. We're talking about the business with our intermediaries, the business where our main profit pools are; and we're going to develop new models at scale, the European Direct Platform to be disruptive and innovative; and we're talking about the online world and the profit pools of the future.

Simplicity and harmonization at scale. And when we talk about simplicity, we just -- we don't mean only the products and its components, we mean the processes, the business tools, the customer journeys and also the organizational structures. So the best of Allianz will be available by implementing business models to all the organizations. And by the way, simplicity is also the best starting point to apply data and analytics and artificial intelligence thoroughly and again in depth with full impact in the organization.

Today, we're going to talk about 2 main pillars: the Allianz Customer Model and the European Direct Player (sic) (European Direct Platform). Let's start with the first one. And let's start deriving a little bit the logic of the Allianz Customer Model. We ran a survey, a little survey with 500 online people giving the answers. It is not statistically significant. But we did it in several countries and it confirmed our main hypothesis. And the first -- and the word cloud that you see is the words represent how often these were found in the response.

So price is there quite prominently. And we know that we are in a price-sensitive industry. Complexity, we were relieved that our theory is confirmed. And we talk about complexity of products, too many guarantees, different sums assured, different deductibles, different language and different products, a world of mistrust for the customers. But the new insight was the rejected claims. We still reject too many claims. We are starting to measure the rejected claims. And it might be technically correct that we reject the claims if the guarantee is not covered. Economically, we cannot pay something that is not priced in the product. But it is not about economically correct, it is not about technically correct. What is important is the customer perception. And with the frequency of 10% or even lower %, a customer will not remember after 10 years what he has bought. And he will be purely disappointed when the claim is not covered. So it's not about technically correct. It's about customer perception. And we will see what are the implications for the products design at Allianz.

And the first thing that we believe that we have to do is demystify products. It is difficult to create an emotional bond with the customer and the products, even more so in the digital world when you don't even hand a paper to the customer. You want to make it paperless. And we want to demystify the products. And we want to make the products simple. The language has to be understandable. It has to be a trustful environment, even more so intuitive. In today's world, with the online customers especially, if it's not immediately understood, they move to another offer. There is no time for booklets. There is no time for complicated explanations.

And the next thing is that products have to be comprehensive. Our product idea is a simple product made out of packages. The packages are filled -- prefilled with the guarantees. And the basic package shall be comprehensive so that the basic package covers the most likely event and the customer is not disappointed. It is necessary if we want to build a truly relationship based on trust. We believe that this is the right approach.

Of course, we want to be and we are already, in many fields, innovative. Mobile first, we need to adapt to the lifestyle of our customer. Our customer is spending hours in the phone. If he wants to do, based on a self-service basis, anything around the policy, he can do it by mobile. But also our intermediaries shall be mobile and be able to sell closer to the customer on-site through the iPad, through a mobile device, on-site closer to the customer, the products and services.

Data-driven. Of course, data-driven, to know more about the customer, anticipate its wishes, offer directly the package that he really wants to and data-driven to improve the processes to make them really customer friendly and efficient. And very strong and powerful, the idea of one logic, here comes in the idea of the master product that I would like to elaborate upon.

The master product means that we are not only designing simple products for Allianz and comprehensive products for Allianz. The master product means that we want to have one logic for the Allianz products through one organization and throughout the group. And this means that we are working in patterns, that products are parameterized, that we pass -- that we design the master product, for example, in motor. And this product can be used with little IT intensity as a basis for the home product. And new products are launched again with little IT intensity so that there is a high reusability of products in a horizontal basis across one company. But what is even more important is that we can become global. We will start and we start using global products through the Allianz. This is a vertical component. We will launch, for example, next year in Ibero/LatAm in the 6 countries not only 1 product which follows the master product idea in home through the different 6 countries. But it will be the same product for 6 different countries. So it will follow the same logic.

What -- how do we combine it with the go-to-market strategy? We believe that this is just an environment. I have made the personal experience implementing this simplicity product design in several markets in Ibero/LatAm and in the region of Ibero/LatAm. And there was no noise in the implementation. Of course, we did it smart. When we changed from a traditional type of product with many questions and lots of free choices for the customer, the cherry-picking of the guarantees, while launching the products in the first -- at the beginning, we were a little bit more competitive to make it smooth. But there was no noise at all coming from the intermediaries. It was good for the customer, simple and understandable. And what is good for the customer has to be good for the intermediaries as well.

And with respect to the go-to-market strategy, I would say that this is just a framework because the local companies can decide what are the guarantees that we put in, what are the price the commercial -- what is the commercial price, what are the sums insured and what are the deductibles. So the go-to-market strategy, we take care of it as well.

Anyway, we discovered. And this was completely enlightening, that products are already the same. We just make efforts to present them differently. Klaus-Peter RÃ¶hler and myself had the honor to sponsor a project, an Allianz project which was called -- is called product harmonization. And we started with the expert of different countries, of 5 countries. And it was astonishing. After several iterations, we identified that in home, Motor and SME, similarities were around 90, even beyond 90%. If we look at it from the claims side, since the differences in the coverages were more marketing-oriented types of coverages, from the claims side, the similarity of products is close to 99%. So we do have already the same product.

And within this product harmonization project, we set the basis to have in Allianz a common taxonomy and to start walking the path of common products. We created the product lab. The technical components of the products are common. The coverages that the Allianz world will use for developing products will be common pieces that will be taken out from the product library with a technical solution. And the best practice product will be also included in the future in the product library. So common language and common taxonomy that will lead also to a common database that will give us, in claims, the best information to start being global in evaluating the data and being even more powerful in pricing and customer insight.

So we are talking about the products. But we have to move on. The ACM, the Allianz Customer Model, is not only the products. The simplicity that we've built into the product spread across the whole organization. And here we have a conventional organization. Any long-standing insurance company in the world could look like this. We have a huge number of products. The products are differently in logic and different from a structure point of view. Decommissioning of the old books has not yet taken place. So there are too far too many product portfolios. And this translate into difficult processes. You see all the entangled processes. All the tasks around the policies are very complicated and each -- and probably the organization is very much oriented towards silos, towards lines of business with every line of business designing different end processes. Along time, with the increase of products and processes, we end up with a situation where complexity grows exponentially. How can you cope with this chaos. So to say, with this entangled picture with one IT platform? Probably this organization has many IT platforms and you can be sure that there will be not only one database from which you can extract all the information, insurance-relevant information and customer information. And if you add to this that a multinational group could have a sum of companies that looked like this, what are the reusability of assets? Very little reusability of assets. But let's move on to the Allianz customer world, how it could look like.

In a world of the ACM, we work with a master product, all products are the same from a structural point of view. There's a little number of products. These translate into a very clean picture, an organization made out of one piece. All the processes, all the tools, all the customer journeys are one. We can cope with one back office with a whole set of products. We become truly clean and efficient. It is a perfect environment to have a robust IT, a scalable IT and a high-performing IT. And again, one database for insurance topics and one database with all the customer information. And if all the companies act like this in a group and they work with the same business model, anything that will be developed, any new asset, any new product, any innovation can be plugged in and it is immediately available for the whole organization, a huge advantage. This is the world of the ACM, of the Allianz Customer Model. And this is the world we are pursuing at Allianz.

This world brings in many advantages. The products are understandable for the customer. But I would say that the customer is -- in a nutshell, what receives the customer is the best value for money and we are able to anticipate the needs of the customer. With the processes, digital is digital by default. All processes are clean and designed end-to-end. And with the customer journeys, a little bit of the same. We do have only a reduced number of customer journeys that we know very well, that we optimize and this is also, again, through simplicity, a very well-known environment, an environment that creates familiarity and trust for the customer and the intermediary.

Distributors. For the distributors like the ACM, it makes them better entrepreneurs. Everything is available for the distributors. They become a one-stop shop for the customer. They can do anything around insurance and solve anything immediately with the customer, little administration through automation and real time to upsell and to give real valuable advice.

And for the Allianz, for the Allianz, it's the world of growth and profitability. Every -- all the best of the Allianz, the best products and all the products and tools and assets developed become available to the whole group. And also quite importantly, we do have then, in a world of the business models, a management that has the same culture and a management community that is very much strengthened, being completely aligned.

Oliver was talking about beat the best. And this is our philosophy. In the Allianz Customer Model, we do have the proof and our companies are better where we have implemented, basically, better in NPS. They are faster and give better service to the customer like better quotation times and most of the companies are best in class in efficiency. So what we manage is to break the dichotomy between -- we manage to break the dichotomy between growth and profitability and between low expense ratio and customer satisfaction.

Now we want to make it happen. It is already started. But we want to accelerate. We want to -- we are consolidating the implementation of the ACM in Ibero/LatAm. Later on, we will see with Petros that in the CEE, we are very much advancing with spectacular results in the implementation of the ACM. But now we want to move on to the next level of implementation. The ACM shall be implemented in Germany together with Klaus-Peter RÃ¶hler. We want to drive change. We want to adjust the model for the needs of a larger organization and fine tune it for the needs of a more sophisticated market and then Germany shall help in implementation in other big markets. At the same time, in parallel, we will implement the model through the master product concept and through decommissioning of the old product portfolios in the whole Allianz world with the certification process. So we are really accelerating and moving on. As I said, the best of Allianz available for all companies and with full impact.

Let's move on to the direct player. The value proposition is very simple. We have -- we believe that we have a great opportunity. Our customers are on -- are digital in all their different aspects of life. We do use our mobile telephone as we do use our computer. They have become computers and spend hours in the mobile phone. We do make our banking transactions online. There is one exception, maybe the bakery. But for sure, also the exception is the insurance. So we do have to think why it is like this. And the opportunity is even bigger because out there, they are already in the online world searching for advice. The hybrid customers and the ROPO customers, 70% of the customers, 2 clicks away or one click away from becoming online customers. So the first one to crack it will have a huge opportunity and we want to be among the first. We believe that we have all the ingredients with our brand, with our insurance competence, with our know-how about the customer and with our openness to instill from the start-ups new capabilities in the organization to be agile and to learn and to integrate new talents.

The new global player will be disruptive. We will start in 4 countries, as you see, then with one product with Motor, then we will move on to other countries and expand to other products. It will be global and disruptive. One brand, Allianz Direct, will be the brand. We want to capitalize on our treasure that is our brand and to build a relationship in the online world with a customer which is disintermediated to generate a real pull effect. We want to have one common platform that will be developed for the purpose, as Oliver was saying, without legacy and this platform shall serve and bring innovation for the whole of

Allianz world. One master product across countries and one insurance carrier and one steering. Global. Global steering with the best talents from Allianz and with local implementation with systems and structures. But also some of the services will be, of course, global like a call center or claims.

Very ambitious targets, as you see here. And have strong ambition. In the medium term, we believe that if we solve the problem of trust for the customer, we will be able to -- not to grow. But to multiply the business. And beat the best philosophy with reverse engineering ideas, we put the targets in place and then we squeeze our brain to get to these targets, targets that are, from an operational perspective, highly detailed and address all the efficiency issues and all the customer issues.

And here we are. If we -- with the EDP and the Allianz Customer Model, this is the new Allianz. We are changing Allianz and simplicity is the driving force of the new change. We want to transform and disrupt the current customer models and the new customer models. We want to strengthen our 2 options of -- the options of the new world and the options of the existing world. We want to combine the beauties of being a multi-liner. We have the access to the customers and we can sell all products and exploit the full relationship with the customer. But at the same time, we want to do it in an efficient way, in a way as if we were a mono-liner, to bring the best offer to the customer. So closer than ever to the customer, delivering best product and services with efficiency. We want to accelerate growth and enhance profitability. And this is a journey that has already started. Thank you.

Giulio Terzariol {BIO 17125489 <GO>}

So good morning to everybody. Welcome to Munich. I like now to give you some more insights about the operating performance moving forward and also capital management because it's the combination of operating performance and capital management that leads to excellent financial performance and better generation.

So starting from the operating profit growth that we anticipate for the future, as you can see, we are anticipating an operating profit growth of 4% plus. Now when you look at the slide, you can see that we are starting from the midpoint of the outlook which -- for 2018, which is EUR 11.1 billion. So if we start from that point. I would emphasize the plus. If you take the EUR 11.1 billion as a reference point, I would say the plus has a significant meaning. Now if we are starting from a point which is different from the midpoint, you are moving maybe more towards the upper end of the outlook then maybe you want to emphasize more the 4 instead of the plus. So I believe this can give you some guidance about how to read this number. But no matter how you look at this, I think that's -- we have a strong commitment to grow our operating profit performance moving forward.

When you look at the different segments, the performance is mostly driven by Property-Casualty and Asset Management with a growth rate of 5%. Now when you look at the Life/Health business, you see a growth rate of 2%. Now we need to consider here that we are taking into consideration that we are going to have the deconsolidation of Eurovida moving forward. So if you adjust for that, the organic growth, excluding the deconsolidation of Eurovida, it's more like 3percentage plus. So that's what we have from an operating profit performance.

Now I'd like to give you some insight into the drivers. We had talked a lot about productivity as we were meeting together. And I tell you, the topic of productivity fits very well into the strategy. You heard it from Oliver and also from Ivan. Also, we believe now that productivity has to be a core skill set also for the insurance industry. I tell you, at the beginning of the year, I've been doing sort of a road show here in Munich, meeting CFO of industrial companies based here in Munich. I will not mention these companies. But you know there a lot of great good companies here in Munich. And that was very interesting to see what they do in industrial companies on productivity. So we took some lessons from them. Then what we do here in Allianz, every time we put a focus on something, we're going to develop KPIs. Then you can see here some of the KPIs that we have been developing in order to measure our productivity improvement moving forward.

For you, we try to simplify the story because I believe, at the end of the day, you want to see something which is tangible and recognizable. And so we have translated what the productivity improvement is going to do into our operating profit. And we expect to have an increase in operating profit of about EUR 800 million moving forward in the next three years coming from productivity. If you see, EUR 600 million will come from Property-Casualty; EUR 100 million is coming from the Life business, this is after taking into consideration for policyholder participation; and EUR 100 million is coming from Asset Management. If you put this number in relation to the 4% plus growth that we were mentioning before, this is about 2% plus of growth coming from productivity improvement.

So that's a commitment and I believe a commitment is always a starting point to see also results flowing. But I know your question is always is it really different now? And I will say yes, it's different now and I'd like to show you this slide. If you see on the left-hand side, we have the development of our expense ratio in P&C over time and you have also the comparison to plan over time. And 2018 is going to be the first year where the expense ratio is going to be below the level that we had in the prior period. And also, as you look at the delta, actual versus plan, we are anticipating this year that we are going to be better than plan. That's not been the case in the prior period. So you can see already the numbers, that something is changing. And the reason for that is stronger focus, action plans that we are putting together. We are also reaping the benefit of actions that we put into place in the future. And also, productivity is now part of management compensation. So there is a combination of factors that is already bringing to tangible results in the current P&L.

Now as we are focusing on productivity, clearly we don't want to forget what has been a core skill set of Allianz on the P&C side, which is our technical excellence. You can see that over time, we have been able to improve the attritional loss ratio and we see that there is still room for improvement. We are very proud about our technical excellence level. But we still believe that there is room for improvement also on our attritional loss ratio.

Just to give you an idea on the steering of the P&C portfolio, we have over 700 technical portfolio. It is looking at 700 technical portfolio. And we are then segmented this portfolio into fixed, growing and maintained portfolio. So there is definitely room for improvement also in some part of our business. Also, we should not forget that we have now in the future the possibility to access -- use also data and also use artificial intelligence in order to harvest the information out of this data. So there is also improvement that we are going to see on the loss ratio moving forward. So the combination of some improvement on the loss ratio plus the productivity improvement on the P&C side is going to lead to a 5% operating profit growth for the P&C segment moving forward.

Now switching gear and coming to the Life business. You can see, as I was saying before, that the expected growth for the operating profit in Life is 2%. If you adjust for the Eurovida, expect the deconsolidation, it's going to be 3% plus. Now we need to consider that we are replacing capital-intensive products or in-force book with capital-light business. So from that point of view, you should also expect some sort of -- if you want dilution of the growth of the operating profit because for 1 unit of reserves, the reality you need less profit to get to a good ROE. So we are including here also the fact that this kind of capital release is contributing positively to our earnings per share growth. So the operating profit growth is about 3%, once you can see also for the efficiency of capital, you can translate this into a 4% to 5% sort of EPS growth coming out of the Life business.

What we have been doing is also to look beyond 2021. Right now, we have a value of new business which is about EUR 2 billion, which is significantly higher compared to the level that we had just a few years ago. So this level of new business at EUR 2 billion, which we expect to grow at 5% over time, is going to contribute to the operating profit growth in the midterm. And that's the reason why we expect the operating profit growth as we go beyond 2021 to go higher than 4%. That's the dynamic of having a value of new business of EUR 2 billion. Just a few years ago, we were at about EUR 1 billion. And increasing this value of new business by 5% is going to contribute to operating profit growth moving forward.

Now coming to the asset management segment, we are anticipating a growth rate of 5%. And here, we are showing you also the assumption. And if you look at the assumption relatively conservative, if you ask me, at the end of the day, we are anticipating a growth rate of the assets under management by about 3.5% per annum. Think about that a lot of our assets are in the U.S. where currently, on a fixed income portfolio, you get definitely more than 3.5%. We have also some equity. We usually don't normalize equity at a rate which is 3.5%. So definitely that is an assumption that I would say is rather on the conservative side. We are also assuming stable fee margin. That might be somehow surprising to you. But in reality, that's what we see. In our business, we do not see a lot of compression of fee margin and we expect the fee margin to be stable moving forward. And we are taking also a sort of conservative view on the performance fees moving forward. On the cost to income ratio, we are confirming the 60% cost to income ratio below for PIMCO. And in the case of AGI where the current cost to income ratio is about 70%, we are anticipating that we can go 67% or below. So when you put all this together, I think this gives you the idea that the baseline scenario is not supported by making aggressive assumptions about the development of the capital market, which means there is some resilience for some volatility. Clearly, if we get significant turmoil in the financial market, that will be a different story. But that's a sort of conservative resilient basis how we are setting up the plan for Asset Management.

So when we put all this together, you can see that the 5 -- 4% plus commitment is based on solid work and solid assumption. And that's the reason why I feel pretty confident about our ability to deliver on this number moving forward. Then clearly, the capital management is going to add on top of the 4% plus operating profit growth.

And now I'd like to talk about the topic of capital management. And as you know, when we speak about capital management, it's a lot about discipline. And I would say, it's about discipline, first, on getting the operating performance right because once you get the operating performance right, then capital liquidity is going to flow. And that's a component is about discipline on using this capital. And we are very committed to this discipline. But we want also to have the optionality to make sure we can deploy the capital in the most value-accretive way.

Now there are 3 dimensions which matters as we speak about capital. One is clearly the capital generation, which is Solvency II. The second dimension is the liquidity, which is a function of Solvency II or whatever capital requirement we have at the local level, at the subsidiary level, including other sort of restriction. Then the third topic is leverage because clearly, through leverage, you can change the composition of capital or you can change also the liquidity situation. So these are the 3 dimensions that counts as we are thinking about capital. And now I'd like to go into the 3 dimensions.

On the capital generation, I'd like to focus on the business evolution. And there is a number in this slide that might capture your attention, which is the business evolution or the SCR, because if you look at the business evolution, the SCR, that's about a cumulative EUR 2 billion for the next three years. You are used to see a different number. You can see also our numbers in the past.

So why is that? I think it's a combination of 3 things. First of all, we have -- we are picking some noise when we do the actual calculation. So there is a little bit of noise as we try to decompose in actual -- our calculation of the SCR evolution. Then also we are definitely growing both on the P&C side and also on the Life side more in our projection compared to what we have done in the past.

Just to give you an idea, the capital intensity ratio of P&C according to our model is about 35% to 40% so premium. So if we increase premium, we will need to consider that we have to put 35% to 40% of capital. I personally believe this number is slightly conservative. But that's what I'm getting from the risk guys. That's the reason why I believe, in actual reality, it's not coming through as large and this might explain a little bit of the gap.

Now so we are projecting based on our model that the business evolution, the SCR, is going to be higher. On the other side, when you look at the operating earnings, we are expecting EUR 38 billion of cumulative operating earnings moving forward, which compares, if you take the last three years annualized in 2018, this compares to about EUR

35 billion. So we are expecting more SCR from the business evolution. But we are expecting also higher operating earnings. So when you run the math, you get back, after accounting for taxes and dividend, you get back to the 10% business evolution per annum that we have been discussing in the past. So at the end of day, there are moving pieces but we go back to the expectation that our business evolution contribution to Solvency II is going to be about 10% per annum, which is a nice contribution also considering the level of solvency that we have.

Now let's talk about cash generation. On the left-hand side, you can see what has been the OE. The subsidiary remittance to group over time. And you can see, we have been running really a very strict capital management philosophy, getting significant amount of cash into Munich. Clearly, as we do this, eventually the excess capital contribution from the OE is going to reduce because we have already got the capital into Munich. But we are still, when you look at 2018, we are still looking at very good numbers. And if I would give you a guidance of what we expect in the future, I would say the guidance would be to have an OE remittance which is somehow in the midpoint of the range that you see for 2018. So OE remittance is going to be, I would say, north of 85% to 90%. That's what we expect to get from the OEs.

Now when you move to the right-hand side of the chart, you can see what is the remittance from a group point of view, including interest expenses and overhead. So when we are referring to higher than 80% of remittance, this is also taking into consideration for the fact that we need to pay interest and we need to pay the overhead. So we are speaking of a relationship of -- if you want cash to net income which is higher than 80%. Then, we take the dividend that we pay and when you run all the math, you end up with a number which is of a free cash after dividend of EUR 2.5 billion plus. So this is what we have available every year, we're generating every year to do buybacks, to do M&A. Clearly, on top of this, we have also cash here in munis. So I would say from a cash situation, we have ample flexibility clearly to deploy capital in a different way. So we have strong capital and we have also a very healthy cash situation.

And now we come to the leverage ratio. If you see, the leverage ratio is about 27%. There was a slight increase compared to the prior period. This is not a session where we speak about development year-over-year. But just for you to know, in reality, the debt level is pretty much consistent with the level that we had last year, slightly lower. But the net asset value went down because of the movement of the interest rates. So if you adjust for that, we are pretty much stable at the level of 2017.

Now the question is what is the target level that we are aiming at? I would say that 27% is a good indication of the target level. I would say you don't want to go below 25% because that will not be efficient from a capital management point of view. On the other side, 30% is the limit where the rating agency might ask a few questions. So clearly, you can stretch above the 30% ratio in some situations, especially if you do -- if you are pursuing a standard growth opportunity. But fundamentally, the range that you want to have long-term is between 25% and 30%. So 27%, I would say we are positioned at the midpoint, if you want, of this sort of a range.

And now I'd like to address very quickly because we discussed this many times and we said we're going to put this in writing, what is our philosophy about M&A. I will not spend time on the strategic fit. I'd like to talk about the financial performance and the valuation.

On the financial performance, what is very important is that we have a clear understanding of the balance sheet and the profit pattern of the target company. That will be critical, have a clear understanding of what we might potentially buy. Also, it's very important that any target is going to add capability. So it's going to have a nice market positioning because this leads into getting strong operating performance. And the third point is we have been talking about simplicity all the time. And so there will be a contradiction to do any kind of acquisition, which will not fit into the simplicity story, will not be something, which is kind of easy to integrate.

The final point which is very important is on the valuation. We know that if we do a buyback, a buyback means that we are investing the cost of equity. So any acquisition has to beat the cost of equity. So at the end of the day, it has to be cost of equity plus the spread. We can debate how much the spread should be depending on the situation. But it must be cost of equity plus spread. Also, we are always checking what is the accretion of earnings compared to the buyback. And we know that in the short term, the accretion of earnings of an M&A versus a buyback might be less. But somehow we want to see the crossover points and also the differential shouldn't be clearly too large even in the short-term. And finally also it's very important, the payback period, call it that way. So we say the ROI has to be at the cost of equity within a reasonable time, which is 3 to five years, because clearly, there is no point to do any kind of M&A if you need to wait for your retirement to see the benefit coming through.

So this is the way how we are thinking. So we discussed this many times. And now you can see this also clearly on the slides.

Now coming to the capital level. As you know, we had a target range of 180% to 220%. And now as you know, we have been running higher than the 220%. And there are technical reasons for that. And just think about credit spread narrowing or widening or just think about there is a change in the calculation of the additional insurance reserve in Germany, this is going to create a change in the level of Solvency II. This has nothing to do with the creation of profit on a statutory basis in the short-term. So the solvency ratio can be about 220% and that's not really driven by the fact that we are not managing capital properly.

So we have decided to deemphasize the upper end. Clearly, we still put an emphasis on the lower end of the range because when the solvency ratio goes down, there is no reason to start discussing whether it's fear or no fear, whether it's a technical reason, it's not a technical reason. The solvency ratio, when it goes down, you are just having a different kind of conversation. So we are confirming the low end of the range. But that's very important, we are committed to an ROE of 13% plus. And as Oliver said before, plus doesn't mean 10 basis points. It means definitely a healthy ROE above the level of 13%. So that's the way we look at capital, at capital efficiency moving forward.

So nothing has changed. So from the point of view that remove the upper end of the range doesn't mean that we want to keep cash in muni, that's something we don't do. And our track record is showing this, just see what happened this year, what happened in 2017. We are confirming the dividend policy, which is a 50% payout with the ratchet. The ratchet is a feature which we shouldn't neglect. This means that if the net income is going down, we are still committed to pay an amount of dividend consistent with the dividend level of the preceding year. And we continue also with the policy of flexible buyback. So I think, from this point of view, there is no change in dividend policy and there is also no change in our capital philosophy.

And coming to the last slide, the fundamentals of the business are strong no matter how you look at the business, whether you look from an operating performance, from a cash generation amount level. If you look from a capital generation level and future contribution, I think in all dimensions we are doing pretty good. I understand that you like earning per shares growth. We like earning per shares growth, too. I understand you like ROE. We like ROE, too. So from that point of view, I really believe we are speaking the same language.

And with that, I think you deserve a break. Since it is before 11, you can even have a cappuccino which is something which is in Italy is borderline. But we can make an exception in this case. Thank you.

Oliver Schmidt {BIO 2473131 <GO>}

So thank you, Giulio. Yes. We will have a short break now and we will reconvene here 10 minutes to 11. Thank you.

(Break)

All right. So welcome back. I hope you enjoyed the short coffee break. We're a bit early. But I think we should start anyway.

So the next speaker is the CEO of our German operation, Klaus-Peter RÃ¶hler. Klaus-Peter?

Klaus-Peter RÃ¶hler

Thank you, Oliver. Also warm welcome from my side. I have the pleasure to provide you insights about Allianz Germany and our successfully ongoing transformation.

Now before I get to my presentation, I would like to introduce Allianz Germany. We are #1 in the German market with 20.4 million retail customers. That statistically equals that every fourth customer is insured with us in Germany. We had EUR 35 billion of revenues 2017. And our operating profit amounted to EUR 2.3 billion. That makes us to the most important entity in Allianz in terms of profit and revenues. And our excellent RoEs: 15% in P&C, 18% in Life and 14% in health, are well above the group's ambition level.

Now we have seen a decade of very slow growth in Allianz Germany with stagnating profits. The only exception is Allianz Leben. And we are now well underway in our efforts to transform our business model. And the main focus is on P&C. And in P&C, simplicity is really the center lever to make a step change in productivity and growth. And this is what I would like to show you.

Now the 4 building blocks to transform our P&C business are, first of all, a broad market coverage; second, digital processes; technical excellence; and a strong claims network. But the most central building block is the simplified product model that was presented by IvÃ¡n del la Sota.

Let's start with the broad market coverage. We need that for our customer experience and for the growth. And we offer with our multichannel setup our customers an interconnected network of touch points for easy access anytime and anywhere. And in this multichannel system, all our channels contribute to the most recent growth. We achieved in the first nine months of 2018 plus 4.3%. That's a new track record for the P&C carrier in Allianz Germany. And we are currently expanding also our channel portfolio. You might have read that we are making a joint venture with Zurich and will acquire their motor insurance business. And that will add another 0.5 million contracts to our portfolio and more than 250 million premiums. And on the other side, it will give us access to their 20 million members of the ADAC. I think that's a nice asset for growth.

In digital processes, we have made significant progress towards a real digital model for roughly 90% of our P&C business. We have digital quote-and-buy processes. And for our newly launched products, this number is 100%. And we are not only limited to digital quote-and-buy processes. We are implementing digital processes in all parts of the company: claims, contract changes and so on. And our goal is to fully digitize our business model while keeping the flexibility to meet our individual customers' expectations and also to offer human interaction where needed to instill trust, to show empathy and to provide real-life help.

Now technical excellence. We have achieved in the first nine months a combined ratio in Allianz Germany of 94.9%. Our normalized combined ratio is lower. It is at 93.6% due to the fact that we experienced severe NatCat especially in the First Quarter of this year.

Very important for profitability is to have a strong claims network. And we have slightly more than 50% of our new motor business now with garage steering. That is a 120% increase over last year's quota of garage steering. And it's fundamental for our productivity because it gives us much more efficient processes and lowers our claims costs. And at the same time, for customers, it enhances their experience because a smooth and fast claims processing gives a positive customer perception.

Yes. The central building block is the simplified product model. We heard a lot about it. I will get to it in detail because we are applying it already in Allianz Germany.

Now our efforts are to drive simplicity. And there are 2 levers to do that: first of all, to radically simplify our open book business; and the second is to transfer our legacy portfolio to the new product model of the ACM. Now we are in the process of applying the ACM model to all our retail and SME business. We have heard about the architecture. But what does it mean in practical terms? It means that our core or basic coverage is the same for all of us. The offers only differ by modules that are being added but not by the quality of the underlying core or basic coverage. And in motor, we even extended this improved basic coverage to our in-force contracts in order to put our existing clients in the same position as the new clients. Now part of the ACM is also to transfer all the in-force clients to the newest tariff generation. And we also do this because it gives us the opportunity to radically shut off old tariff generations. We want to reduce their number by 90% in the next 10 years.

Another point is we wanted to reduce the technical input parameters to get a quote. And we were quite successful. In motor, we went down from 21 input parameters to 11. That's a reduction of 50%. But we don't stop there. We also went to our processes. We are quite advanced at straight-through processing. The newly launched products will achieve straight-through processing of 90% by the end of 2020. For motor, I can already tell you, we are at 88.3%. We started the year with 59%. So the ACM really gives us a huge upside. And it helps us also to improve our underwriting productivity, increases by 10.5%. And the claims settlement productivity, 5.9%.

I would like to highlight the lower part of the chart. We learned from our group CEO that 3% of legacy portfolio consumes 80% of the IT cost. And shifting all the old products to the new model allows us to systematically decommission the old IT systems and, with that, generate additional potential.

Another building block I said are our efforts on technical excellence. And let's take a close look. We can see that with Motor 2.0, we have brought technical excellence in Allianz Germany to the next level. We implemented state-of-the-art risk modeling. We considered some 800 risk parameters partially from external sources. We used machine learning to identify interdependencies and to select the best of 23 risk models. We combined that with modern pricing techniques. We developed a real-time pricing engine that allows us to adjust prices in a very efficient way because we decoupled the pricing engine from the tariff.

We also use behavioral pricing models since conversion rates are impacted by that. For example, we use them to determine if we offer an annual or a monthly payment. And last but not least, not to confuse our customers with potential price changes, we give a price guarantee of 2 weeks for every quote.

Now we also apply real-time monitoring. That means that we control the conversion rates and the customer behavior on a real-time basis on all our platforms. And the results allow us to daily adjust the prices if we want even by tariff itself. This has allowed us to have conversion rates close to 50% in the last renewal season, a fantastic target achievement. Now combining this technical excellence with the cost reductions we have already executed allowed us to target much lower tariff levels without changing our profit expectations. And this fueled growth. And therefore, in 2017, we had the most successful renewal season in 16 years.

Simplicity and productivity are one side of the coin. The other one is customer-centricity. And let's take a look at our motor offer under the aspect of customer-centricity. Now important for you to know is that with almost 40% of our P&C premiums and 9 -- 5 out of 11 million retail customers, motor is a key product and not only for Allianz but for the whole industry. It is actually the anchor product. With 400,000 new customers per year, it is by far the most important entry product. And it gives us an enormous cross-selling potential. That's why we started our transformation with the retail motor product and reviewed it right from scratch.

And let me show you what we did in terms of customer-centricity. Based on a profound market analysis, we used 170,000 customer feedbacks and the strong involvement of our agents. We designed an offer now that is simple, that is comprehensive, that is convenient and that is attractive. Now for simplicity, for once, we reviewed the product but also the customer journeys. And today, you can have from us a quote online in 60 seconds, making the Allianz quote-and-buy process the fastest in the market.

We also created a comprehensive offer. We don't want to have negative surprises of the customers anymore. No matter if they sign up even for a basic version of the product. Let me give an example. In former times, motor insurance only covered damages with huntable animals, wildlife, game. Today, the new motor insurance covers collisions with all kind of animals. Now needless to say that we made this improvement not to have negative surprises anymore because it can't make the difference if it's a deer or a cat.

We also worked on our service offer. We enhanced it. We guarantee, for example, our customers today after a motor breakdown to be on the move in 60 minutes. The customers love this. They give us NPS of more than 90%. And this is just one of many features we added.

We also made our offer much more attractive, for example, by introducing a discount up to 20% for garage steering or up to 40% for telematics. And all of these elements have helped us to have a conversion rate of 45% during our last renewal season. It's an impressive number and beats much of what we have seen in the past.

Now it's not only important to have a fantastic customer journey during the sales journey. But actually, it's more important during the moment of truth, in the part of claims. And I would like to show you our digital claims process where we focus on making the process most convenient for our customer. Please, the film.

(presentation)

Yes. I think this shows clearly that Allianz can be digital, customer-centric, intuitive and efficient at the same time.

We did not only redesign our product. But also, we invested a significant amount of money in making our customers aware that we redesigned the offer. And we launched a broad, integrated multichannel marketing campaign both last year and this year. Last year's Disney campaign you might have seen, it helped us really to increase the customer awareness and sympathy for Allianz. This year's campaign emphasizes very much the value-for-money aspect. Our offer is as attractive as you expect. But at the same time, it's less expensive than many customers think. We provide excellent value for money. AUTO BILD just assigned us 5 stars out of 5 for our motor offer in their price ranking. Yes, combining such a strong message with an integrated multichannel marketing campaign really creates a lot of tailwinds for the new business. And that's what we have seen.

But why is it so important in Germany to have a multichannel setup? We observe, especially in the German motor market, a very hybrid customer behavior. Still, 95% start their online research as the customer surfs. Then 57% of these clients, to get a quote, use the online channel or both. To make the signature, 61% of these clients still rely on an off-line channel. In Allianz, it's even 70%. I think that makes very clear to you why it's so powerful to have a multichannel approach in Germany. There's a lot of room for the direct, there's a lot of room for the off-line. Now combining our integrated marketing campaign with our channel-agnostic pricing and our distribution setup to really capture these hybrid clients, we were able in the off-line market to increase our new business contracts by 127%.

Let's just summarize. Motor 2.0 led us to the real comeback in the German motor market. In the renewal season 2017, we had a growth of new -- net new business contracts of 124,000. Our share of 30% of new Allianz customers is important for our cross-selling. We received numerous quality seals not only for the quality aspect but also value for money. Simply, it was the best renewal season since 16 years.

Do we stop here? No. We want to scale the success. Based on Motor 2.0 as a blueprint that is fully aligned with the Allianz customer model, we want to continue our transformation. There are 3 elements. First of all, the Allianz customer model, the product architecture, the simplified product architecture. The second is our new ability to develop products IT-wise, agile that needs less time and the products are much more reliable. And third, the back-office process in the ACM are streamlined and unified. And these 3 factors allow us to develop our products in future much more cost-efficient. For example, for our new PrivatSchutz, which we will launch in Q4 2014 (sic) (Q4 2019), we expect an IT cost reduction to deliver the product of 35%.

Now what's the road map we have ahead of us? We still maintain a focus on motor retail. And we want to integrate the ADAC motor business exactly on the ACM platform. We expect for motor retail in the next years a growth of 5%. We already launched -- relaunched our motor SME offer. Here, we expect the growth in the next years of 6%. Our next important project is PrivatSchutz. And this we want, as said, to launch in Q4 2019. We expect also significant growth here. And last but not least, 2020, we want to launch the SME product. And with that, we have really covered 80% of our product portfolio. And to grow there, where there is good loss ratios, where there is low expense ratios is a big driver for profitability.

All in all, we will, after a decade of stagnation in P&C, go for 4% growth and an expense ratio reduction for at least 30 basis points every year. That's a very promising outlook. And we have a very strong team. We will deliver this.

Thank you very much.

Andreas Wimmer {BIO 21256220 <GO>}

So ladies and gentlemen, a warm welcome also from me and from the whole live stream from Allianz Leben. It's a real pleasure for me to present today the amazing growth story of Allianz Leben and how we want to leverage it in the future.

So in my presentation today, I will give you a little overview of Allianz Leben and its market position. I will go into some new digital business models in Life. And I will describe how we want to scale our strengths on an international level, becoming a production center for Allianz in Europe. And finally, I will conclude with an outlook on our profitable growth targets.

So let's start with some key facts and figures. Allianz Leben is by far the clear market leader in Germany in Life with 10 million customers, 21 billion gross written premiums and a market share of 23%, which is increasing strongly in the last years. But we are also a very important and stable contributor to group operating profit and solvency. So the OP of Allianz Leben was more than EUR 1 billion in each of the 4 last years. And our solvency ratio will be at the end of the year by more than 400%.

Now the cornerstone of our success and our strategy was the early adjustment of the company to the low-interest rate environment and the consequent transformation of its business mix. Since 2013, we have introduced several capital-efficient products, which meet the demand of the customers by balancing the chances for attractive returns and security and stability. Today, more than 85% of our business is within new and preferred business lines, lifting our new business margins to around 4%. But this is also important for us, this shift in the new business, to have a strong asset allocation and to stick to our attractive crediting policy.

Another important pillar of our strategy is productivity and utilizing economies of scale. This is reflected in a best-in-class expense ratio of around 80 basis point. Now please note this number contains the sum of all administration and acquisition costs. And by being put into relation to the assets under management, I think it's a good KPI for benchmarking.

Based on these strengths, we have experienced an outstanding profitable growth in the last years. And for 2018, we are expecting a value of new business of around EUR 700 million.

So that's our growth story. Now the question is how we want to leverage it even further. And we want to follow 3 routes. The first one is by addressing new target groups, such as affluent clients, foundation and pension entities. So generally speaking, we want to be partnered to all customers who are searching for stability and who have a long investment horizon. In many cases, we are doing this in very close cooperation with our colleagues from Asset Management, for instance, when it comes to the transfer of pension obligations.

Now the second route is we want to bring our solutions into the digital landscape. I will give you later on examples for retail and corporate. But already here, want to point out that we are not only talking about digital interfaces. This is a much more comprehensive approach, changing the whole way we are operating, also with respect to product models, services and simplified processes.

And finally, we also want to transfer our products, our know-how and even digital assets to other OEs to scale them on an international level.

Now I want to go now a little bit into these new digital business models. And we'll start with an example from our retail segment. In July, we launched FOURMORE. FOURMORE is the first application of a totally digital customer-centric product concept. What we try with FOURMORE is to address customers we haven't reached so far because they were not willing to buy normal life insurance either because of they don't want to have these fixed payment obligations or because they were missing digital accessibility. So FOURMORE is designed to be totally flexible with a pay-as-you-like and withdrawals-at-your-disposal approach. It is fully digital with easy-to-use self-services and radically simplified processes. And it offers the participation and the investment in a strong investment portfolio with guarantee elements and an integrated steering of both. So one basically could say it combines the traditional strengths of Allianz Leben with flexibility and simplification.

Right now, FOURMORE is just offer for digital-only clients. But we will also integrate it in a multichannel approach. And we will launch the online sales applications for tied agent and brokers in the next weeks. We will also, based on positive feedback, open it for affinity business, which is also an interesting segment for this kind of application.

Now one thing I want to point out is that we did integrate FOURMORE into our product architecture and our back-office systems. That's a bit similar to what other companies do with these digital products. Because we think it's the basis for further scaling because we want to be able to transfer this product concept also to other lines where we think that this kind of flexibility is interesting and also, maybe in the future, to other countries.

That's the example from retail. Now I come to the corporate pension business, which in Germany accounts for approximately 40% of our new business. Insurance-based pension schemes in Germany means that we actually have 2 customers: the employer, who is in Germany the policyholder and hence selects the provider; and the employee who decides about participation and the amount of money he invests. Now with FOURMORE, we want to address both stakeholders. With the employer portal, we want to offer a end-to-end digitalization and reduce the administrative burdens for the employer. And with the employee portal, we want to offer a configurable and easy-to-use access point for workers.

Now what do I mean with configurable? This means that you can adjust and set up this employee portal according to the relevant pension scheme offered by the company to the information the employer wants to give his workers and even his corporate logo. We do that in form of real mass customization, meaning that we have a standardized set of tools. And you can combine them individually in only 5 to 10 minutes to meet and configurate such a specific portal.

We are very enthusiastic about this new approach. Within only three months since we launched this approach, more than 1,000 customer-specific and employer-specific portals already have been set up.

So it might not be rocket science, Oliver, as you said. But it's a very step forward. And above all, FirmenOnline will help us to first win more customers on an employer level, to offer these products and pension schemes because administrative burdens will be reduced. It will enhance the participation of these employees because they have a easier access point. And the third thing, it will also enable us to implement new product models, such as Save More Tomorrow where digital end-to-end processes are a necessity. So I think FirmenOnline is a very interesting approach for us, which we also will look if we can transfer it to other countries as well.

That's the word, scalability, going to an international level. And that's exactly also what we want to do. How do we want to scale our strengths at Allianz Leben on an international level? Now basically, what we want to do and what this concretely means is that we first want to transfer our know-how and our products also to other countries in retail business. Second, we think that we have great growth opportunities when it comes to the -- creating integrated solutions for international clients in corporate pensions and protection. And thirdly, the sharing of digital assets.

Now this chart shows you some examples, very concrete examples which we have either already implemented or we are currently working on. So for instance, when it comes to the colleagues in Austria, we help them to set up a new business line for disability products. In this case, we also share with them an electronic tool for underwriting, which we use in Germany. And they can use it as a software as a service also in the Austrian market. Another project we are currently working on is the transfer of Perspektive, which is one of our core products in the German market, to other European countries. And this chart also shows -- gives you a little feeling how our cooperation between Allianz Leben and other local OEs could look like. So which part of the value chain is be covered by Allianz Leben and which one by the local OE, for instance, in the case of freedom of (foreign language) framework.

One area where we see enormous growth potential as Allianz is corporate pension and protection on an international level. We already settled a cross-country transfer of pension obligations with our colleagues from France, which I think is a very interesting prototype for other cases. And we will definitely strengthen our footprint -- footstep in cancer risk protection by a global underwriting approach which will be organized from Stuttgart, Allianz Leben and Allianz Re.

And the third thing, as I already mentioned, the sharing of digital asset with this one example. But I see many other opportunities, for instance, providing components of our ABS, that's the core system in Germany, to other OEs in other European countries.

So this already brings me to my outlook. In general, I think as Allianz, we see enormous growth potential due to the demographic changes. And we want to exploit these growth potentials because I think we are perfectly placed. We have a strong market position. We have innovative products with good performance. And I think by utilizing scale effects, we will further enhance our productivity and even further improve our already best-in-class expense ratio.

So it is our target to grow by 5% regarding assets under management as Allianz Leben and to constantly deliver a value of new business of more than EUR 700 million.

So much about Life. Thank you for your attention. And I think I hand over to Line now.

Line M. Hestvik {BIO 15367880 <GO>}

(presentation)

"Isn't there somebody who knows what we need?" was asked by these 2 entrepreneurs we just saw. And we know. And the answer is simplicity. But to be able to answer the question more specifically, we stepped into the shoes of these 2 entrepreneurs in Vienna who are about to launch their hair salon. And as we saw, they have a lot of practical things they need to deal with, including buying insurance. And the feedback they give to us is that they find the insurance industry very complicated and very time-consuming for them to deal with.

And we have done extensive research across Europe into the small commercial segment, the micro SMEs. And this customer segment gives this feedback to the insurance industry, "We're too complicated for them."

And why is it they have this feeling? First of all, the volumes are in retail and in the more larger corporate. So the industry has prioritized those segments stronger. But the micro SMEs get stuck between retail and mid-corp. They're more complicated than retail. So we haven't so far prioritized or found a way for how to automate how we interact with them. So therefore, we treat them the same way we treat larger corporates with then more complexity.

But what does this segment look like? The small commercial segment is actually a quite big market. Outside of the U.S., the market is roughly EUR 60 billion. And within this segment, the micro SMEs are growing strongly, 4%. And they're also underpenetrated with insurance. Only 2/3 would have in place the insurance coverage.

And also for Allianz, it's -- our SME book is roughly EUR 3 billion, which would represent only roughly half the market share of what we would have in other segments. It's, however, very profitable with a combined ratio of 90%. And it's the loss ratio contributing. The expense ratio is too high due to complexity. And for this SME segment last year, we had an operating profit of EUR 430 million, which is a very relevant sum for us.

So let's get back into the shoes of these entrepreneurs again. What they need to do now is to focus on their clients. Our job is to provide them with the insurance solution they need. And we decided to make a totally new solution for the micro SMEs that should be fully automated. And through the full automatization, we will then create the simplicity and get to the productivity as well. And I'm now going to show you what we made, which will be launched in Austria as the first country in February next year.

So the first feedback the micro SMEs gave to us when we interacted with them is that they don't trust insurance. And the way they buy insurance is actually they ask their peers. So a hairdresser would ask another hairdresser for where one should buy insurance. However when the customers interact with us, they're very satisfied with the service we give them. And we decided in the digital solution that we made that this is the first thing we're going to show. And this is claims in Austria and true numbers, to create then the trust that we deliver quality. Then they punch in their company and street address as the next thing. And they move on.

What we then do is we inform them that we will use external data, publicly available data about their business. And this we do to automate how we then are able to deliver price a little later on. Then we inform them that we found them and where they are. And we also inform them -- if they rather want to have personal interaction, we inform them about an agent close to them that they can contact or they can contact a call center if they want to do that. So the digital and personal interaction goes hand in hand here.

Then we show them what the external data has provided. So this is a hair salon. We show them that they have 2 FTEs and -- or employees and what their turnover is. And this we would need to do to automate the pricing a little later. Then they confirm or correct the data based on their knowledge about their business. And this data will then also be matched now very strongly with the internal data we have for the pricing. So now the geographical information systems about the NatCat, pricing and all of this then kicks in.

The second information we got from the micro SMEs is that they want specific information about the risks they're exposed to. So therefore, we decided to make a industry-based visualization of risks. So here, you see a hair salon. And then the entrepreneurs can click around and learn about the risks which are specific for them. And we use global and local then claims data to provide them with this information. Then they move on. And then we ask them for the sums to be insured for the coverage they would want.

And for Austria specifically, here, we will ask them 2 questions which they would need to answer about their risks. So 2 risk questions sitting in. Then we provide them with the suggestion for a insurance solution. And based -- and this is based on the data and any information, all of this we have about them. And here, they can then either buy up or down based on their budgets and also how they perceive their risks. And the prices here are dummy prices. So don't hold us to those.

And typically, what a micro SME would need is a liability coverage. It's a property content coverage. And it's a business interruption coverage. And one thing that's very unique for micro SMEs is that they need to stay in business for their clients. If they're out of business, their probability of bankruptcy increases a lot. So we also added quite a bit of assistance services into what we then offer to them. Then they look further. And they choose to continue to look into the product. Then they have chosen the comfort package, the 2 entrepreneurs see that. Then they can look through more in detail what the product then would provide for them.

Then they move on. And then they move into the digital buying process, which is a pretty standard process with the contact data. Then the payment details, we are suggesting monthly payment. And they choose the method to pay with. They put in when they want the policy to start. And they go through the legal consent process. They can download digitally the policy there. Then done, they bought the insurance. And we, of course, then thank them for choosing Allianz as their insurance partner.

So what I just showed you is what it will -- the look and feel for what it will be in Austria from February next year when it comes to buying insurance as micro SME.

And now I'll give you then some insights more from the machine room. The back end is around what was the old solution and what is the new solution and what is it we have done to be able to transform how we now interact with the micro SMEs. So in the new product, the marketing and the communication, it's digital. And we can go on to more platform partnerships with the different industries. We'll do more individualized risk explanations and communications. And we'll move to one-to-one communication.

On the distribution side, you've seen it's fully digital. And it's fit for all channels. So this is a digital solution all channels can use in their interaction with the customers.

And the key thing which we've changed which has made this possible is the pricing and the underwriting. It's -- as you saw, it's fully automated. The customers will have to answer 2 risk questions. And then it's 7 clicks to get to a product and a quote. And this is to be compared with today where sometimes a customer would have to answer 40 questions about their risk situation. So no wonder that they find it complicated to interact with us. Then we also immediately deliver the policy today digitally, whereas -- or in the new solution, whereas today, it's paper-based and can take days to be delivered.

So what is it we've done in the back end then in the machine room to make this transformation happen? The key thing we did when we set off to make a new solution for micro SMEs was that we said it should be fully automated.

What we cannot automate, we will not cover. For Austria, we've been able to cover 86% of the micro SME segment. And the way we made that happen is that we simplified the products, like Ivan has been talking about. We killed a lot of complexity. It's a lot of unnecessary complexity that was killed. So that was number one.

Number two, we enhanced the use of external data and internal data dramatically and the analytics running behind it. And through data and analytics, you can automate.

Number three was around technology. And over the course of the last three years, we've built a lot of new technology tools in this group for data, product development, pricing, underwriting, claims, marketing, distribution. And what we mainly did was we pulled together things we have built in an end-to-end solution which was fully automated. We made a few new things but mainly used things which was already in place in the group. And Klaus-Peter explained how Motor 2.0 had new pricing technology. And it's exactly the same one that's been used here then.

Then the fourth element which was key for this transformation was that we activated the intelligence of the Allianz Group. So we used best practices from Spain, Italy, U.K., Germany and Benelux in developing this new solution. And we're actually going on air in Austria with the data from Italy and Spain and also the pricing from Italy and Spain because, in Austria, we do not have much exposure in the segment yet so we don't have that much data and information there. And the last thing we did was we interacted closely with the customers, getting their feedback around what we were developing all the time.

So let's have a look at what the customers gave us, feedback.

(presentation)

So the micro SME segment doesn't only want protection, they also want help from us to manage their risks. And we took that input seriously. And we've developed 3 things.

Being digital, we can now provide loss prevention based on the industry. And this hasn't been possible in the segment earlier for pure cost reasons. So that's one thing. The micro SMEs will have to deal with workplace safety, legal requirements, like larger corporates. And that's, for them, quite difficult. So we have -- we are now offering assistance service to come on site to make them feel safe that they're within their legal requirements, delivered through Allianz Partners, which is our in-house service provider.

Then we're into the most critical phase for the micro SMEs. That's when something bad happens, when they have a claim situation, where we're also now offering assistance services through Allianz Partners. It can be an electrician or a plumber coming on site to make the business continue.

And here, we've added one new thing, which is IT and data support. And this is linked to the increasing risk in the society around cyber risks. And many micro SMEs would struggle with dealing with this. So if they have questions, they can call a call center around IT questions. And if they have a data breakage, they can send in their devices to us and we can try to help them to recover their data.

So when it comes to services. So far, we're not doing much. We're in the solution adding what I just said around loss prevention and assistance. And also, on the claims side, we are now embarking on the automation with a digital claims solution for reporting claims. And we are gradually looking into how to automate also that claim side here. We're taking the first steps to deliver the services. And more is to come here.

Scaling up. As I said, we did extensive research across Europe into the micro SME segment. And we found now -- no differences between the nations. So the micro SME needs are the same across the countries. The differences we have ever found were between blue collar industries and white collar industries. And this we've dealt with by making the journey more industry specific, as we just showed there for the hairdressers.

So scaling up the micro SME solution, what we made is within the Allianz customer model. So it's a global product, the one that Ivan presented. We used Allianz best practice, several countries contributing. So thereby also creating a global product. We're using Allianz core technology available for all operating entities or countries in Allianz. We're using Allianz Partners to deliver the services. And it's fully automated. And when it's fully automated, it's easily scalable.

So what's going to happen now, we will implement in Austria in February, then the rest of CEE will roll out with Czech first. Then Germany and Benelux are followers. And our ambition is to double up on the market share in the micro SME segment. And now we're opening up to partner with SMEs to create business.

(presentation)

So now Petros is going to tell us what more than micro SME he's going to do.

Petros Papanikolaou {BIO 4690304 <GO>}

This is a very good pass for me. Thank you. Thank you, Line.

Indeed guys, it's impressive. I remember being roughly 30 years in this group. And when I hear my colleagues. And I started from life, the implementation we are doing in life in Slovakia and now in Austria to scale up the German product in those countries, something unthinkable some years ago. The Allianz Customer Model with Klaus-Peter and then Ivan, implementation of a concrete way of running the business identical in the countries. And I will go through that later, is also quite of an innovative approach.

Then the micro SME concept, which is also deployed as a pilot for Austria and then scaling up those activities in the countries, I would clearly say this makes a community of countries, where I would say, honestly, we feel the pride of being part of it and delivering in a very concrete way in the context of the Renewal Agenda. And our region is a true example of transformation, where the applicability of the concept of the Renewal Agenda is very much visible, not only conceptually but also through the results.

I would like to drive you through this. I would call it quite impressive, if you allow me the wording, Germany the last three years, since the beginning 2015. And then the outlook, the way ahead until 2021.

We are talking about 11 countries that have been managed in a scattered way for quite a few years. And we put together -- we have put together this organization in the last three years since 2015.

EUR 4.4 billion revenues; EUR 491 million operating profit; 8.3 million customers; with an ROE of 14%; and our NPS above market, 75% of the communities, those are the numbers that reflect the achievements of 2017.

And since the outlook and the expectation, the way ahead is also quite impressive, somebody could say, "Okay, the starting point is weak. And therefore, the improvement is significant." I want to remind you that the starting point of this journey is already in 2014, where this community of countries was performing EUR 350 million operating profit. So already, 2017, we were 40% above the starting point three years ago.

Then we commit an additional 45% improvement on operating profitability at the horizon of 2021, combined with an improvement of our revenues, of our top line of 25%. We expected to achieve an overall customer base of close to 10 million with a starting point of 8.3 million today. Then ROE, 14% plus 3%, it makes 17%. I would say a quite interesting ROE from an investor's perspective.

And this is done -- and I want to be very clear on that. It's not only a numbers-driven exercise. There are 11 different communities, diverse countries, different aspirations per country, different degree of maturity on what insurance is about, different degree of financial literacy of the customers. And therefore, putting those 11 countries together represents, I would say, a quite interesting challenge. It's like a micrography of what the Allianz group is about in a global scale.

I want to go through not very much in detail but on the large picture of what has been achieved up until now and what is the expectation, the way ahead. Then I would clearly distinguish our activities, all those -- the last three years in 2 categories, in 2 different distinctive chapters. The first one is what we call outperform. It was characterized by what we have been undertaking in the last three years. Then the true transformation, the way ahead with the Allianz Customer Model being at the epicenter of our priorities, the way ahead.

Looking backwards, 2015 to '17. Then I would try to use a rather provocative example in your eyes to make this a little bit more clear because sometimes, people when they see productivity improvement or performance culture, complexity reduction, they can imagine a variety of things behind those buzzwords. I could take the example of this session today, the investor discussion and the presentation of today.

And let's assume that there are 20 people preparing this room. There are some people that are working on the acoustics, on what we see, the visuals. But also on the setup of the room, the tables, the chairs, the plugs you have close to your seats. So this setup has been finalized by a team of 20 people.

And let's now go backwards and say that in a country like the ones we represent in the region, this has been done before 2015 by a variety of ways with 40, 50, 60 people and with a similar, probably, outcome of the exercise but with different ways and different rhythms of productivity.

What we have been doing between 2015 and '17 is to try to identify that there is a benchmark, there is a best practice. There is a benchmark of 20 people doing this activity. Then we have tried to assess the distance of each and every country towards the benchmark. This hasn't been done centrally and instructively. It has been done in a rather collaborative way.

Then the local entities, the local units, have come to us with their own ambition level for each and every setup. So if, in each and every country, we would have had the opportunity to build a community like the one we have today here, each country would have committed to do it with 25, 30 people or 32 people, a different point than the one they had as a starting one in their mindset.

And this is what the outperformance kind of category of homework is about. It is what I call a hygiene exercise of understanding primarily whether the resources we allocate for certain activities are really the right ones and whether we truly drive complexity reduction in the right sense.

Overarching principle of this lever. And I want to make this very clear to you is, first of all, the quality of people, the understanding of the local communities of undertaking this exercise properly. It's not something instructive. We cannot do it for muni. We have to have locally the right resources and the right mindset. Then, clearly, our ambition -- and it's only reflected in the numbers we have achieved. You will see those on the outlook, in the last page. It is clearly the ambition we have to be outperforming distinctively different than the other components of the group. We have clearly an ambition as a region to show that we can make the difference. And this is something I would say that conceptually is embraced by the entire community of our region.

Then transformation. Transformation is relevant primarily to the Allianz customer model, to the way we intend to run the business in a more simple and a more agile way through simplicity, customer centricity and then regional business model, which would allow us, at the end of the day, to achieve an operating environment of one legal entity. It's like we are having in 11 countries one unit operationalizing our activities within the communities.

Simplicity and harmony. And here, I want to make the difference to what Klaus-Peter was mentioning earlier because it is indeed different to manage a context of a large country or a smaller one standalone. And there, indeed, we are talking about business model transformation and production line that would allow you to support properly the requirements you have set at market level. But then if you have 11 countries to manage in the same context, you needed definitely a steering mechanism, a governance model, certain components of the culture you implement into the community that would allow you comfortably to run this activity the way ahead. It's not simple. It's not easy. Believe me, sometimes the excitement on the effort is much stronger than the reality of things that are happening and that they can happen.

I would take the example that is my preferred one from the cultural bucket, job mirroring and mobility. And here, again, I would refer to the previous example of this room. So the transformational journey we're undertaking now goes beyond to the ambition of having 25 or 30 people preparing this conference of today. Our ambition now is to create exact mirroring tasks in every working position. So the guy who is setting up the tables has to do exactly the same job in each and every country. The person -- the specialist who is specialized on acoustics, he or she should be activating him or herself in the same exact way to make sure that the delivery is outstanding and it meets the expectations of the audience.

So this kind of mirroring the activities, it creates a more, I would call it, industrialized approach on servicing internally throughout human resources, our customers. But it definitely creates a certain degree of comfort because also it's not about having the same characteristics in every job. But primarily creating a certain element of mobility that accelerates this community building. So we have people that are intending to move from one country to another to service those activities. And I think this is amazingly powerful. So we break, I would say, to a certain extent the traditional barriers between the countries by making people working together in a closer way than this has been encountered through the past.

A typical example. And I don't want to exhaust you. I think you have heard and seen a lot today about simplicity call. And this is again a pure reflection of the Allianz Customer Model, the way it has been implemented in the region.

The second set of column, where you see motor product and you have those 4 alternative, it is the exact same product you will have from the end of First Quarter next year in all the countries of the region. This is going to be the motor product, as simple as that, as visible, as clear as it is in this picture, 4 packages that are reflecting the exact needs of the community.

People are thinking many times that we play the role of the expert and we define the packages. This hasn't been done this way. And I want to make it clear. 5,000 people were part of an exhaustive market research, 32 focus groups with 250 participants where we checked the exact components of the package to make sure that not only the communities accept the solution but they also appreciate, they enjoy that this is the right thing to do. So I would clearly say that this is the outcome of a market-driven approach on designing, defining and implementing the product.

Then 4 products, instead of 1,000 coverage and combinations, this is also impressive because we tended to underestimate. If I ask you how would you depict a typical motor product, you could give me your flavor. And I'm sure it's going to be more or less quite homogeneous. But if you go in each and every single corner of our countries, you would realize, for example, that in one of our countries we have a cover for motorcycle clothing. So an add-on to a motor policy for a motorcycle clothing cover, which means that if the car hits a motorbike rider and the rider is wearing valuable clothes, he has the right to collect the compensation of the value of his clothing.

This cover was sold in 43 pieces in the specific country. So we have 43 clients that have bought this cover. And this cover has been there for the last three years, stable, not moving at all, without any either appetite to increase penetration because evidently there is not much of a community of this specific clientele. And therefore, the degree of complexity that this example generates, if you magnify it to 1,000 covers, which were the ones we identified as being relevant in the countries, you can understand the challenges we are facing and the importance of implementing properly the Allianz Customer Model.

Then, on the right, I think, it was also mentioned earlier in the context of the implementation in Germany, we are indeed focusing on servicing the claimants as well with a common customer journey that would allow them to go from notification until ready to go with the clarity of an application where we can follow up all the steps of the policy.

Scalability of the business model, more than evident. I would focus in a few words on 2 things. One, Austria and Russia have been integrated in our region since the beginning of this year. So last quarter of last year, then part of our plans and our numbers beginning of this year. I can tell you the speed and the properness of implementing the regional agenda within Austria and Russia gives us also the comfort to claim that the scalability of the business model is really there already, is already done and we know how it can work. And this is relevant not only to internal candidates but, I would say, also primarily to external potential activity that would allow us to scale up our businesses.

We are now exploiting the opportunity of Slovenia. And we are working on Slovenia on a simplified product value proposition. We are selling in Slovenia only the simplified products, motor and property. And this is done through a branch office from the Croatian activities. And we are also exploring the opportunity of stepping into the Baltics through a branch office again from the Polish activities. It's going to be part of our preparatory work for next year for strategic dialogue. So I would clearly say the scalability of the business model is already there. And it makes a lot of sense to undertake all the necessary actions and collect as much activity as we can afford to make this happen.

I would close my presentation with this page, which is really a trivial one. And it reflects our plans and our numbers. And I wanted to make sure that we understand that, in our community, EUR 700 million profitability, which is doubling the profits from 2014 and it gives a CAGR growth of OP of roughly 10% per year, is something already there, stamped and committed from our organization. Our internal ambition is to reach EUR 1 billion. And I'm telling you this very bluntly. The region should go to EUR 1 billion. We have the right to do it. We have the right way of running our businesses that would allow us to scale up our activities the way ahead. And this ambition clearly drives our expectation of improvement and higher penetration in those markets.

This is not only, as I said earlier, a numbers exercise. It is a people exercise. It has to do with the right attitude. We are greedy in making more and allocating properly our resources in this effort. And I think, clearly, the community we are building around the countries would allow us to comfortably undertake this challenge.

Thank you very much for your attention.

Oliver Schmidt {BIO 2473131 <GO>}

All right. So thank you very much Petros. And a big thank you to the other 3 speakers of the second round. This now concludes the formal part of our Capital Markets Day.

But before we start the Q&A session, I hand it back over to Oliver for some closing remarks.

Oliver BÃ¤te

Yes. Thank you very much. I would like to put a lot of these pieces into perspective so that you get a consistent message. And I'd like to start by saying you now got a view this morning into an amazing engine that is Allianz. It is trying to do something that hasn't been done before, which is to create true scalability in the network across the enterprise, both, as you saw, in small markets and in very large markets, the most important market that is the home market in Germany.

Now let me take a little bit of step outside of Allianz and put this whole thing into perspective, again. So you understand what really the equity story is. What is very important, because you can ask yourself, question is to demystify the stories that you see also in other equity stories. The story is Europe is shrinking, motor insurance is disappearing, there is no money to be made in home markets, let's all move to China. Yes. There is growth in China. But there is massive opportunity for value creation in mature markets. And Allianz is going to be a leader in doing that. And that means we do what we know what we do. And we don't have to hope for political environments, for (by end) markets, for friendly politicians, for benign regulations or markets that help us where others have been hundreds of years and we are a new entrant. We are focusing on what we know and what we do and we do that, too.

Second people are saying, "Well it's not just margin under pressure, there is no growth in mature markets." It's just not true. In a market that is polarizing between the winners and the others, we are intending to take shares both in terms of customer satisfaction, in terms of margin and in terms of customer share on the back of something that we know better than others. And we have the portfolio that others would like to have.

And the last thing is. And we say it with all confidence, we have created a technical environment over the last few years to be able to do that. So we are not distracted by huge integrations by having to bet on benign capital markets, on benign natural catastrophes, on benign growth in China, just look at what happened to the FANGs and the tech stocks last year, if that ever happens to some of the financials in these emerging markets.

Now we do, do reallocate resources to growth markets. Some of them are right under our nose, whether that is clients moving digital or into new ecosystems. Some of them are indeed Asia, where we are playing catch-up, there is no question. But guess what, when the Chinese government had to think about who they want in their country with the first holding, they didn't look at the obvious candidates. They looked for people that think 30 years on and they bring them in. Because we don't want to be big for revenues, we don't want to be big for accounting earnings, we want to be big in terms of impact. And therefore, we are carefully allocating capital and we will be profitable. So what we will not see is super expensive acquisitions to buy distribution or joint ventures where all of the value goes to other people. So we will organically move the portfolio to where the growth is but in a way that doesn't disrupt the earnings power of this group.

That leads me to the fact of capital management, again, because there were questions. In 2017. And Giulio showed it, we paid out 94% of the total cash generation. In 2018, we paid out 90% of cash generation. There is no reason to think that we are going to change our policy going forward if we cannot deploy the capital to grow our global franchise. That is what we have done. And we'll do it. But we are no ATM. We are not just going to overpay and pay out just to make somebody happy for an overnight tick in the share price. We are growing value for those that want value to grow.

Thank you very much for listening.

Oliver Schmidt {BIO 2473131 <GO>}

All right. So thank you for your attention and your patience so far. And now we are very happy to take your questions.

Questions And Answers

A - Oliver Schmidt {BIO 2473131 <GO>}

Do we have the microphones? Then let's start at front row, please. Let's start. Michael first. Then we'll work our way backwards.

Q - Unidentified Participant

This is -- I heard one of my colleagues say these half days are fantastic and I agree. The first question is your contract has been lengthened to 2024. The impression I have from today's presentation is that the 2021 targets you're giving us are kind of almost like a taste of what you might achieve in 2024. Is that right? Is there a sense that there's a lot more growth to come later in the plan? Because some of these things that you presented today will not actually hit earnings until afterwards. So I'm thinking about the new business value. I'm thinking about some of the direct stuff. And the second question is much more simple. In Allianz, we used to be -- used to EUR 0.5 billion of capital release from shrinking the back book. And that helped drive the payouts and stuff. And I was just wondering, has that disappeared? That seemed -- and the last one. And it's really the obvious one, could you repeat the idea that we've no big deals? I think you said complexity versus simplicity. But from the point of view of conglomerate discounts, if you could completely rule out big deals, your share price would go up massively.

A - Oliver BÃ¤te

Can I immediately start with question 1 and 3. And then Giulio does also question 3 and then question 2. Is that a good -- is that a good one? So on the first one, that's exactly right. We have decided, particularly given the massive polarization or environment, just think about society rich and poor, the tensions we see from populist and all of these things, that we need to set the business model for the next 10 years, not for the next three years. And that has huge implications. We've carefully analyzed. Think about digital. We had made a explicit point today not to talk about digital startups. You know why? We are learning that these technologies are super important. But they're playing out totally differently than all the forecasts. So when you're Google, you can take out margin without being an insurer because you just auction distribution capacity. But so I'm not afraid of Google becoming an insurer. But we are thinking through how do we get client control. And that means by being the best of where clients want to go. And we are growing there. It is about acquiring people in the net and bringing them onto the platform that gives them the most value. So we're building it for the very, very long run. But the key thing is we need to prove we can scale. We need to prove that we are not just acquiring businesses and integrating them and saying I'm shifting portfolio from life to P&C. That is a short-term trick. The long-term trick is to prove to investors we can add more value than the local best practice. And that is to be done. Then you can scale. By the way, that also pays into your M&A question. It's not just being clever on timing. When we acquire or do partner, take LV in the United Kingdom, which was an extremely important transaction because it both proved that you can convince the oldest friendly society in U.K. to partner with us, it was also on very favorable financial terms. But the key message is it's not an asset. It's part of an ability to scale our capability globally, which we have not proven as an industry. So it's the latter one. Now on the very large ones, you always make a mistake when you rule out something. But I'd like to go back to the principles that we set ourselves. If somebody came with a big idea, how can we then justify that if we can't prove we have all the integration risks under control, that the returns are being met, that we know that what we're doing, that the capital is there. So by definition, anything that is beyond a certain size is going to be very, very difficult to execute, very difficult to execute. And that's why, for example, we said we are not going to buy something large in P&C in the U.S. because what you have to pay to relative to the synergies we create for the foreseeable future will be very, very difficult to do. So I don't want to ever say never do never because you don't know what's going to happen. And then you will say honesty matters. And I have learned the last few years that telling people what you're going to do and then doing what you tell them is very important. But you can assume we are going to be extremely careful with your money.

A - Giulio Terzariol {BIO 17125489 <GO>}

The other question was about the solvency evolution in the life side. It has not disappeared. But it has reduced. The reason for that is as I was -- as I said also in the quarterly call, we were not including in the past in the business evolution Allianz Life because Allianz Life was not part of Solvency II. Now we are including that. This is not a big amount. But it can make EUR 100 million compared to the EUR 400 million that you are referring to. And also, we are growing a little bit more compared to the past. So I would say the business evolution of EUR 400 million minus for life is now more about minus EUR 200 million. That will be my guess. But that's also important. I don't know whether it really matters considering that we have a solvency ratio 230 and a general business evolution of 10% per annum. So -- but to your point specific to that, yes, it's a little bit lower compared to the guidance we gave you before.

A - Oliver BÃ¤te

Maybe you can say something about the new business value transformation into operating profit in life because that's...

A - Giulio Terzariol {BIO 17125489 <GO>}

We're definitely looking into that. And as you see, as we move into the midterm phase, which is beyond 2021, the earnings are going to pick up. Because right now, we are running at a value of new business, which is about EUR 2 billion. That was not the case a few years ago. If you go back and you look at our new business value a few years ago, that was significantly lower. I tell you we had a new business value even now, EUR 1 billion. Now the difference is, to be fair, the new business value, you could have applied a multiplier of almost 4. And now you need to apply a multiplier to get to the operating profit of 3. But still, if you run it twice, the amount of any new business even if the multiplier might be different, at the end of the day, you understand that the value accretion -- operating profit accretion is going to pick up as we continue to put VNB at this level.

A - Oliver BÃ¤te

And we are working on Michael on making that much more transparent in the sense of when is the VNB materializing in earnings relative to expiring business. So over the next 18 to 24 months, you will get a pretty precise picture on that.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. Maybe I want to say -- I don't know if you are going to get a picture. For sure, we are going to get a picture. Because at the end of the day, the point is the following. When we talk about value of new business, I think sometimes we are not putting the emphasis that we should put because value of new business looks like something esoteric. Now if we get also for internal management conversation, there's sort of -- if you make EUR 10 million more of value of new business, this means EUR 3 million more operating profit next -- in the next two years. If you get EUR 100 million more, it means EUR 30 million. I believe we are going to have different conversation on driving these KPIs. So it's definitely something that we're going to develop internally. And then this is going to help us also in the conversation with you guys. But that's really about driving the business internally.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. We will stay in the first row. Jon. This gentleman over there. Thank you.

Q - Jonathan Michael Hocking

Jon Hocking, Morgan Stanley. I've got 3 questions, please. Firstly on the resilience of the balance sheet. Oliver, you specifically referenced the volatile outlook. I remember the previous plan. There was a specific initiative to reduce interest rate risk for the life business. I just wonder whether you've done anything or plan, to do anything to make the balance sheet more defensive given your view on markets. That's the first question. The second question, just on the EPS targets. You've got very strong organic growth in the P&C business. And you've got a productivity improvements you mentioned. I'm just wondering why that doesn't feed through to bigger EPS contribution from P&C into the group target. And so mechanically, you can probably get to more than 4%. Then just finally, the legacy, I just wondered how quickly the legacy will be retired or whether that's feeding into productivity targets and to what extent is that just retail, P&C and commercial and whether there is some in the life as well.

A - Giulio Terzariol {BIO 17125489 <GO>}

Now with the question about the balance sheet and the strength if we wanted a capitalization level, you are referring specifically the interest rate sensitivity. We have a target. And the target is to have an interest rate sensitivity below 11%. Right now as of Q3, we were at minus 7%. So at the end of the day, our strategy is to run and start to do a ratio match. So the only sensitivity we're picking up in reality is coming from the convexity. So from that point of view, clearly, we are looking at the resilience of our balance sheet to shocks. And this goes beyond the reality interest rate sensitivity. That's also about credit spreads. And that's about equity market. So from that point of view, we have a risk appetite. And based on this risk appetite, we define what kind of interest rate sensitivity can we absorb, what kind of credit spreads sensitivity we can absorb. So that was the question on the capital side. The other one was the translation of operating profit in P&C. And if I understood the question, into EPS. Yes. Absolutely, I will say if we have an operating profit growth in P&C of 5%, I will say that the translation into EPS, I will go pretty much the level of about 7%. So this is contributing clearly on top of what life is doing. You can almost apply almost the same multiplier, we'll say. You saw the 3% becoming 4% to 5%. I will say on the P&C side, the story is not much different. And you, Oliver?

A - Oliver BÃ¤te

Can I say something about risks because that's his? We have systematically worked on reducing tier risk in the book. And in difference to other companies, we have found that given where we are also in terms of profitability, never look -- forget the other component. Selling back books was something as a risk and an earnings question. Selling as something at a loss and then thinking that you've improved ROE going forward from an economic standpoint is not the right thing. And as we showed you earlier, we have 93% of our businesses making a double-digit return on equity. Our need to really sell back books either for risks or for return reasons has dramatically declined over the last few years. And I just wanted to mention that. So both earnings power and the risk profile, now you still have the volatility from the artificial risks that we don't economically have. That's the credit spread. Because we are making sure through reverse stress tests that we do not have a true economic exposure. And let me clarify that the true risk and spread risk is liquidity risk, right? Do you have to sell ever a bond at a discount? That unfortunately is a question that Solvency II doesn't ask. So we really focus on making sure never having to sell a bond at a loss. That is what we focus on, something that's not in the model. And that's why we maintain such a high buffer of capital and liquidity. And you need to understand that has a price. We see that. And given -- and that is what people don't look at. The strength of the balance sheet at 13% ROE at Allianz is a very different number in other balance sheets.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay, next. Perhaps, we move to the right. Could we have, yes, next, Andrew -- that's gentleman over there?

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

Andrew Ritchie from Autonomous. A couple of questions. Just for Giulio. I think the implication is that your interest rate assumptions assume no change in yield curves from this point. Therefore, I'm assuming your EPS encompasses some ongoing decline of running yield. If you could just clarify that. Secondly, on Slide B16, in Ivan's presentation, there was an expense ratio you gave for the European direct business. I think it's 12%. Just to clarify, is that an all-in expense ratio? Or is that excluding marketing expenses? It seems pretty low. On SME, I mean, the biggest SME market is the U.S. It's about $100 billion premium. And there's not that much innovation there right now and quite a lot of greenfield insurers being quite successful. Would that be an area that Allianz would consider exporting its SME revamped product into? And the final question for Oliver. Your NPS is set relative to the industry in each country. The insurance industry is a terrible industry. And is that ambitious enough? Isn't it -- shouldn't you think about NPS not relative to a pretty bad industry?

A - Oliver BÃ¤te

I don't think NPS is terrible everywhere. But I think it's a fair observation that there are markets where other industries have a much higher customer satisfaction than we have. And it's a very fair observation. But it starts -- we would like to sort of walk before we run. So the number one is let me go back to what -- where we are coming from. And you can call that embarrassing because the benchmark is not the right one. In 2014, only 47% of our businesses, we count P&C and life separately, had a Net Promoter Score top down that was better than the market. So you can also be very self-critical and say that was less than half. And that is taking the traditional competitors. By the way, most of them that are at the top are mutuals because they have a very effective way of thinking about that. Today, that number is, as of nine months, 71%. It's going to be 72% where we're above. We have only 4 businesses where we actually went back for various reasons. And we intend to really move to the industry. That is the first step. Then we need to move. The second one. And Nick had a question, how do you actually measure that? I'd like to also point out to the fact that we have an independent group of agencies that do get these numbers to compare us to traditional and nontraditional competitors. And as these numbers are targets for management, we get them independently audited. So the numbers that we do have. And we can show them relative to the ones, are real facts, not self-measured numbers because you may get from other people we are also great. And the second step. And that is very important, these things that drive the NPS are either willingness of our clients to recommend other most important ones. This perceived price value perception, the quality of the product and the service, that is really, really important. And the power of the brand. What we have learned the last three years and that has made a big impact, that we have under invested in communication to our consumers, we have overinvested in commission. And we have under invested in the value perception of our products because people do not understand how good Allianz products really are. That has been one of the biggest movers next to improving underlying products. So the upside that we see from getting this right is massive. And that speaks to your point to what -- where the benchmark should be. But again, let's walk before we run. And let's get to where we need to be. Michael earlier said, it's a 10-year journey. It's not a 3-year sprint. Now to the other questions.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. So when we do our projection regarding interest rates, we use a different approach for the insurance business compared to the Asset Management business. In the insurance business, we are pretty much assuming the interest rate level of June. And we just say nothing else is going to happen. So it's pretty much flat on the level of June. We would move this level only if there is a big change between June and the planning period. So that's what we do on the insurance side. In asset management, especially in the case of PIMCO, we are assuming some sort of increasing interest rates. And this explains why the assets under management growth is 3.5%. You would expect more on the sort of a stable condition. That's because we are assuming some sort of drag coming from high interest rate level.

A - Oliver BÃ¤te

So there was a question on SME then. Conceptually, that's exactly the right answer. Unfortunately, until 2020, to be -- again, this is Allianz, honest where we need to be honest. We are still working on the IT platform for the old Fireman's Fund business. As you know, we are operating through AGCS, the mid-corp and SME business. So we will not be ready for the next 18 to 24 months until we fix the IT. And I think that's really, really important. Now do we say the opportunities over by then? We don't think so. But let's -- again, let's get the infrastructure ready. And then we'll move from there.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. Can I pick up the question direct. The 12% includes all the costs. So marketing costs and so on. Now it's not that we have invested a lot in pushing the direct operation, especially outside Italy. So from that point of view, is the expense ratio of these companies. But you might assume that there were some underinvestment in marketing.

A - Ivan de la Sota {BIO 19492628 <GO>}

This is a target expense ratio. It doesn't include, at the first stage, the change of brand. And it's a very ambitious target because it depends on achieving, I mean, deep improvement in external expenses and in acquisition costs both.

A - Oliver BÃ¤te

That also explains a little bit your question of why are some of the productivity gains not feeding through. We intend to use a significant part of the massive improvements productivity to reinvest in growth. And that's why you see also organic growth picking up. Because as we said, communication in the brand, the empathy of the brand, the value proposition is something that we have to get better at.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. Let's go to the middle here. James and then Nick afterwards, okay, to keep it simple.

Q - James Austin Shuck {BIO 3680082 <GO>}

James Shuck from Citigroup. Three questions from me, please. Oliver, around the scalability of things, which all sounds very sensible and you've given plenty of examples today of where that's going. It seems to me that the evolution of the company is going more towards that of a service center. I'm just wondering what the natural extension of that scalability is. Do you start to offer your own products and services to third parties as a revenue and income stream in order to accelerate and grow even further that scalability? Secondly, just on the U.S., obviously, you make a lot about being global scale. U.S. P&C is somewhere where you've had a mixed track record. And you're currently not there. At some stage, do you make the decision that you might look to grow there organically, leveraging the scale that you've been talking about? And final question is just around the actual price point that you're trying to target for customers. So I'm interested to know to what extent are you actually able to maximize your margin through kind of halo-type effects and better servicing rather than just productivity type gains.

A - Oliver BÃ¤te

I would like to actually also allow some colleagues. And I haven't thanked the team here, who is carrying a lot of the work, right? You always look at us. But the reality is the people that deliver every day sitting on the right-hand side. And let's include them. Let's take a simple example of scalability. Why did Allianz say move to us, right, if we are already the biggest guy? Why do you have someone with a strong brand a proud background? Because they want a partner that can help them to scale. So you've partially answered your question in the sense of that is exactly what is happening now. Why do banks come to us that have normally -- given the business to 5, 6 different providers are coming to us and says, "We want to work with you globally because you can actually ensure product service quality, scalability of services." Last but not least, we are by design, not by accident, the largest assistance company in the world. Everybody is trying to say we are moving from payer to partner. But the reality is who's there, it's us.

(technical difficulty)

Example that -- so it's exactly right. Now are we where we would like to be? Let's go a step back. The operational delivery has to be outstanding. So the question about the U.S., yes. But we need to be honest and transparent and say is the operational excellence in the U.S. P&C business where it needs to be? No it isn't. And until it isn't, we will not allow it to scale. But guess what, the first nine months after we reject some of the platform, the growth has been already 8% right? So the areas where we are really good, the brokers are coming to us and bringing us the profitable business that we are seeking. But we are not ready everywhere yet. Not yet in the U.S.

A - Klaus-Peter RÃ¶hler

Maybe a comment, Oliver, if you allow, because I think it is important. Growth, we always see it as a acquisition of customers. There is an element in growth inherent to our pricing capabilities and our pricing techniques. And we have been observing the last few years, by screening properly our pricing positioning in the market, that there were cases where we left on the table some euros for no reason. We were less expensive than the next competitor by EUR 10, EUR 15. And this was something that the market was appreciating. But the market also was willing to pay to us another EUR 10 or EUR 12 without disrupting the relationship with the customer. This is something that now we are doing it much more, let's say, meticulously, analyzing our pricing position, not only in terms of being the cheapest or the more expensive but understanding also the dynamics, the comparable dynamics to the other players in the market. And there is an element of growth behind this exercise indeed.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. Let's continue with this gentleman in the middle, Nick.

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes at SocGen. Just a couple of questions. The first is, Oliver, going back on to the subject of Asia. I know you articulated the old world argument very convincingly. But Asia is surely a key part of scalability and a global platform. And it's been conspicuously absent, I guess, in your plans that you've outlined today. So I just wondered, if you could elaborate more on where you see your Asian franchise going, in particular China, there's been a very interesting development there for you. So that's the first question. And the second question is just looking at the expense ratio. Very good that you've targeted 27.5% for the P&C expense ratio. But you're almost there, aren't you? And I just wondered whether that's a bit kind of being conservative, whether you think realistically you could deliver more on that?

A - Giulio Terzariol {BIO 17125489 <GO>}

Now with the expense ratio, I would say, okay, we are not almost there because we still expect the expense ratio for 2018 to be above 28%. So it's still some improvement, yes. But yes, the answer to your question, can I see the number to be below 27.5%? The answer to your question, yes, will be potentially, yes. Then there is also a point that Michael has raised. He was saying looks almost, Oliver, you are preparing for the next Capital Market Day in three years. I believe a lot of things that Ivan and the team is doing, they are going to also kick in down the road. So I would also say the 27.5% is anyway not supposed to be the end of the story. And then we can debate about the timing. But there is more to come.

A - Oliver BÃ¤te

Nick, you always ask very good questions on where the gaps are. And you're right. You're right. I'd like to however without deflecting, I'll talk about it, the fact that growth is at home and under our nose. And we'd like to -- we made the same mistake. We always said let's go somewhere else. And let's not find it where it is. And when you really study granularity of growth even in a market that top line grows 2%, their pockets are growing in value 4% or 5%, 6%, 7% a year that we need to capture. So that's the first. So no more excuses at home. And Klaus-Peter was very clear. After 16 years of declining customer numbers is unacceptable. So let's start there. No excuses. And don't accept excuses from anybody else. Second, don't forget the United States. We have more than EUR 3 billion operating profit. We have an amazing asset management franchise in the United States. The United States is going to continue to do well. We have a life insurance company that after 2008, you nicely always pointed out to the improvement potential there in the past. We've made extremely profitable. He was the CFO when we came and says you need to have double-digit ROE. He was thinking about where to move. Now he made it happen. That's why he's here today by the way, one of the reasons. So we have EUR 1 billion earnings coming from the U.S., also on the life insurance side. Then asset management and life together. Then you have all kinds of other issues coming on top. So we believe the U.S. is super important for us before we get to Asia. So we have more earnings potential at home, more earnings potential in the U.S. That is already 25%. And then we can do more. We just need to get the timing right. Then we get to Asia. The honest answer is we are still playing catch-up. We are playing catch-up to many other people. We started early in the -- in early '90s. And because of many reasons, internal, mostly in capital market, we lost touch. And we are rebuilding our position very systematically, very systematically. But before we go to you and gave you a great Asia story to be honest, we needed to fix the basics. Now we have tripled new business value in the last three years. George Sartorel who I would like to mention with his outstanding team has tripled new business value. We were not properly present in the life insurance side. We had issues in China, left, right and center from old joint ventures. We've cleaned it up. In Thailand, we've just changed the shielding structures. There was a lot of cleanup to be done, just to be very transparent. Now we've said we're sowing the seeds not just in traditional business so in the life business that we -- where have been overtaking in terms of EPE growth, even some of the large incumbents. So please do look at the number in terms of both relative and absolute growth of Allianz versus the peers, even the dominant 2 in the markets. We operate Indonesia, Thailand, others. We are better than them. What is the disadvantage we still hold? We are not strong enough in the megacities. So that's Hong Kong and Singapore. And I don't see a short-term change to that. So that's why we have said, "Okay, what is going to open up?" And that is China. So in addition to totally changing what we're doing on the life side in the past because we said we want to do it the right way. So what is the wrong way? One, being a small partner in a huge bank assurance transaction where you show earnings but you never see any cash because everything goes to the bank. The other wrong way is to grow in the wrong products that have massive tail risk in terms of asset allocation, right? China is a very difficult and dangerous place in terms of the insurance -- life insurance products there. So we don't want to do that. That makes us forgo growth short term but ensures that we have a viable business long term. So what we do? The first thing is we said we do want to jump S curves. We do not get into traditional motor insurance. But we partner up with JD.com in order to create something that is truly scalable in the new world. And there, the equivalent of what Amazon is in the United States. The second one is to say we want to bring asset management and our other products like credit insurance fully into China, therefore securing the first ever insurance holding license was absolutely critical for us because it is going to allow us to bring all our businesses, including asset management onshore. And then being able to decide who do we actually partner with. And we are working on exploring further options now that the government has clearly communicated to its own country that Allianz is highly welcome and preferred. And I can tell you we have lots of opportunities. But let's please talk about it once we are delivering not to promise something that isn't there yet. Thank You.

A - Oliver Schmidt {BIO 2473131 <GO>}

We'll keep this for the next Capital Markets Day. Okay. Let's continue with the second row, Vinit. And then afterwards Peter. Okay.

Q - Vinit Malhotra {BIO 16184491 <GO>}

It's Vinit from Mediobanca. So if I make 2 questions on simplification, one for the operational side and one for CEO and one question on PIMCO, please. So 3 total questions. So first question on strategy -- on simplification. I seem to remember that it was five years ago that we were discussing the German story in the P&C side. And one of the real top takeaways was the modularization of the P&C product. And that was supposed to be a key driver. Now if I look back at the German numbers, they seem to have delivered. So my question is that, are you trying to fix a problem that isn't there? Or are you upsetting a very nice functioning product suite by having this only one motor product or whatever is happening? So that's the question for the German motor essentially. Second question is just -- again if I look at slightly longer historical perspective, Oliver, starting with the subsidiaries being incentivized to give capital back to Munich. And now it seems that the subsidiaries are being incentivized to also take products from Munich. And I know Petros said that there is a collaboration. And any comments will also be useful. But is there a risk that you're demotivating the rank and file by forcing down this -- or taking away so much power away as it looks like from the outside? So these are 2 strategy questions.

And one question is on PIMCO on Slide C8 of Giulio that -- one of the last assumptions, which just seems to be very critical to me, is stable markets, et cetera. Is it not an assumption that PIMCO's product suite, which you had updated us in 2015 CMD, the product suite, is it a fair assumption that it is a bit more able to manage very volatile or reasonably volatile

(technical difficulty)

quite different assumption then? So just want to understand if the PIMCO product suite is giving you any more comfort on that.

A - Oliver BÃ¤te

I would like to have the CEOs answer the question of whether Munich is shoving down something their throat.

A - Klaus-Peter RÃ¶hler

So if you take Allianz Germany, on the P&C side, we have lost in the last 10 years 1.6 million policies. I think that's a lot. There were years where we almost lost above -- shortly below 1 million. Now that shows that modularization, in itself, does not help. You need to have the building blocks that I showed in my second slide. And the building blocks, they go on to the simplification. And the simplification, in the end, has the 2 methods. It brings the expenses down. On the other hand, it gives more customer centricity. Then there's the part about technical excellence. And I say, here, we have really made a major catch-up with our pricing capabilities. And last but not least, also the sales excellence is coming through. We are much more effective on our sales networks than five years ago. So I would say, that really makes the difference. And the motor is just the beginning.

A - Ivan de la Sota {BIO 19492628 <GO>}

Yes. I would like to add that the ACM, the simplification model, is something that came up from the bottom up through experiences with companies and through the support and to

-- and additions that the CEOs have added and brought to the concept. So it is fully assumed by the organization. And I think that everybody understands now why Allianz, not only the language. But also the fact that we want to really create -- make something out of the group.

A - Petros Papanikolaou {BIO 4690304 <GO>}

Then, Ivan, if you allow, I think it is important for us to understand that in the commodity world, simplification is a must. In commodity products like motor and property, there is no question about simplifying at the limits of what simplification can be. And there is no reason of doing it in a country-specific way since the modules are clear, the needs are quite clear as well. And therefore, the package solution is the only one that will drive simplification, not only in terms of selling process but primarily in terms of IT infrastructure that you need to support this, where we have all the important benefits in terms of an expense ratio and earnings then.

A - Oliver BÃ¤te

Change. We used to all have what we call the Allianz target model that was developed with the people but out of the Munich. The product comparison that Ivan did, Klaus-Peter did when he was in Italy, Joachim MÃ¼ller did in Germany, it was the CEOs saying you know what is the similarity. Then learning that, by the way, the biggest resistance to change is not them or us, it's in their own organizations.

A - Giulio Terzariol {BIO 17125489 <GO>}

The question on PIMCO, the resilience of the business model, clearly, we have been working on the resilience of PIMCO. And there are 2 ways to work on that. One is also try to diversify into strategies, which are not necessarily fixed income. And you are working on the margin here. But that's something that we are doing. And the other one is also within the fixed income, you can have different strategy. So I will definitely say there is more resilience compared to what we had before. But at the end of the day, there is still see the exposure to volatility in the bond markets. And other consideration also as you are thinking about diversification, you might diversify even more. But this comes at a cost of scalability and efficiency. So it's all about finding, if you want, also the right balance between how much you want to diversify. But on the other side, you know that there is also a benefit in driving scalability and efficiency. But the bottom line is yes, there is more resilience today compared to the resilience we had a few years ago.

A - Oliver BÃ¤te

Now Oliver said and told me you had questions on demotivating people because of capital upstreaming. I would like to sort of take that a little bit because it's very important. Remember, initially, when we said that we have in the past this target based on budget. And people would come and say, the market is soft. Life is tough. Last I gave you x, this year, I'm giving you x minus 5 and then we negotiate it. And sometimes, we came back and said, we actually accepted that. No more. This is super important to understand. We are all incentivized to deliver a certain RoE and to grow the earnings. And that is true, not just for the portfolio and everybody. If you do not produce the earnings growth, we then obviously are going to ask, well, then, we want the money back, right? By the way, we have yet to receive a convincing case of earnings growth and investment startup that we haven't supported really fully. So it's not that we don't want to give the money. We have a lot of it. But if we need to really focus that, it's not just about protecting earnings but growing the business, that's the CEOs and all of our jobs. So I don't believe that's the case. It's just making sure that we beat the benchmark. And that is not easy. And you grow the earnings. And everything, again, that we don't need, we bring not just to the center because we don't want to sit it, we give it back to you. So we have the commitment to bring the capital there where it's productive. And if we cannot use it, we give it back to the shareholders.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. Peter. And then we move afterwards to the next row. Thank you.

Q - Peter Eliot {BIO 7556214 <GO>}

Three questions, please. The first one is for Klaus-Peter. It seems that quite a big part of the German turnaround story has been the garage steering, which, I think unlike the rest of the German market had already been doing a little bit ahead of you. And it's fairly common practice elsewhere as well. I'm just wondering what the reason was for being a little bit behind the curve there. And are there other things that maybe you can improve that you're not quite -- there's still areas to improve elsewhere? And the second one is for Line. On the -- when you mentioned taking prices from other countries, I guess different countries can always have different characteristics. And there's naturally sort of alarm bells ringing a little bit. But I'm sure you've got controls in place. I'm just wondering if you could talk a little bit about what those controls were. And the third one, for Oliver, on the -- I'm not sure if I fully got the message. But my understanding was that you seem to be talking about sort of in-sourcing Insurtech operations a little bit, I guess. Peers will highlight that the entrepreneurial nature of Insurtech needs them to be apart from the industry and the ownership doesn't really work. I just want to understand whether you have a different view there or perhaps you could just explain what you're thinking of there.

A - Klaus-Peter RÃ¶hler

Yes. I think the reason why garage steering was not activated the way it should have been, it was underestimated. How much potential it bears in there, not only expense ratio-wise but also from a customer satisfaction point of view. And that's what we really see. And we will continue this journey. But if you look at the motor product, it has many new features in there. Also, service features I was talking about the premium road-side assistance that has a very, very high penetration now. And we get a lot of satisfaction. So the whole product had been redesigned. We reduced it from 13 modules to 9 modules. We did not only kick out modules. But we renovated them. And behind everything that is really the core is our real-time pricing engine. And I think that makes the difference currently in the German market.

A - Line M. Hestvik {BIO 15367880 <GO>}

So to the question of taking risks around the pricing, on the SME side then. So when you start something, you -- of course, you need to start and you do take risk. And that's where

I think being a part of Allianz Group at the scale of Allianz Group helps. So what we're specifically doing in Austria is we're using the data from the rest of the countries that would have data. And of course, we're also checking how the Austrian market functions and all those modern things that we do. But I think the third thing that's helping us a lot here is the new technology stack for pricing, which has partly been mentioned by Klaus-Peter several times, which is we're rolling it out globally now. So we -- from we write business one day, the day after, we would then have an overview of what happened. And if we see things happening which we didn't expect, we can actually change the price the day after. So we have a very agile pricing technology in place, which gives us opportunity to correct. And we will probably do quite a few of those things because when you start new, that's normal. So that creates this agility in how we can build new businesses going forward.

A - Oliver BÃ¤te

So the question was left on the Insurtech. What we wanted to say is the following: Because of what we have done with creating Allianz X, which, in of its nature, is the largest investment fund in these startups, we have been investing in various startups like others that we try to focus on those that are successful. What we are learning is the following. We are learning, yes, we need the entrepreneurship and the change. But what they all lack is scalability because what you need to make money in insurance is not a smart front end. But you need an integrated business model that actually delivers. So you need both. You need to -- so we will continue to have both. But the idea again is how can we scale the innovation into our businesses rather than keeping them separate. And this is what I wanted to say.

A - Oliver Schmidt {BIO 2473131 <GO>}

We will stay in the second row. One last question from the second row. Dhruv, please.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Dhruv Gahlaut, HSBC. Three questions. Firstly, if I look at AGS -- AGCS, that's been running at a combined above 100%. Just wondering what do you have for AGCS in the current plan? Secondly, just following on your comments this morning on the P&C capital charges that's between 35% and 40% of premiums. What would that number be of -- if I was to look at new business last year on the Life side? And lastly, you have aspirations on CEE to grow revenues by more than 20%, same you're expecting growth in the German book as well, could you say a bit more about pricing as in how do you see the cycle at this point on both these markets?

A - Giulio Terzariol {BIO 17125489 <GO>}

First off from AGCS. Yes. The combined ratio actually right now is above -- it's about 100%. And the plan is to bring down this -- the combined ratio to 96%. Most of the improvement will come from the United States. The other question was the capital intensity for Life. Assuming we do EUR 1 billion of premium, you can assume a solvency requirement of about 2% on the EUR 1 billion of premium. So that's the number for the capital intensity in the Life business.

A - Klaus-Peter RÃ¶hler

(inaudible) I mean, our plan really foresees the growth focused on retail and SME. And these are 2 large segments that are not as cycle related as we would see this -- with the midcorp business. In the midcorp business, we will stay stable. So our growth is really focused on this part where we find interesting loss ratios and where we find also the possibility to get our expense ratio down. So this covers us also more from a cycle. What we have to say compared to last year, yes, also this year in the motor market, we see already a more intense competition compared to last year. But we will have to wait until the end. Then we can tell you more how the cycle in motor will continue.

A - Petros Papanikolaou {BIO 4690304 <GO>}

And in our case, I would say that our 3 markets of focus where our scale today is below what we should have been running as a total book of business, one is Poland where our market share is at 5%. And we clearly need to have a higher ambition. We are working on that. Czech Republic, we're also -- we believe that the P&C book of business, a range of 12% today. It should go above 15%. Then Romania, where we have a leading position but primarily driven by our activities in property business and not in motor that much, we intend to be much more selective and proper in motor. In the overall performance of the book, I would clearly say that the combined ratio we aspire for the horizon 2021, which is below 88%, gives already clearer indication on the profitability buckets that we have in the region that were quite significant. This is primarily driven by the lack of maturity of the markets and the techniques we apply in terms of technical expertise that would allow us to be much more properly selective than the competition. I always say to my colleagues when I visit the countries that when a loss-making business is leaving Allianz is a good sign because this puts more pressure to the competitors and it allows us to be more competitive in the right segments. So we are doing this very simply and very professionally, I would say.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. Now finally, we're moving to the third row. Okay, let's start on left side. Yes, Johnny, the gentleman there. Thank you.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just 2 strategic questions and one sort of financial. Just on the strategic side, just coming back to simplicity. I guess there's obvious benefits for you from a cost perspective. But I guess it does come back to the question of commodification of the products. And so ultimately, is this just a race to the bottom? And effectively, what is Allianz' ultimate competitive advantage on the long term? Is it pricing? Is it distribution and whatnot? Because usually, the tech is usually to support a competitive advantage. In terms of the direct platform as well, just to make clear, there is no differential pricing between the legacy and the platform. Is that correct? Then ultimately then, is this an offensive move, a defensive move or is it ultimately you stick to drive out efficiency from the existing business? Then finally, in terms of the EPS target of 4% organic, that implies about a EUR 1.5 billion buyback per year as a base case. 4% -- but with the 1%.

A - Giulio Terzariol {BIO 17125489 <GO>}

4% is just assuming -- is the growth in operating profit.

Q - Johnny Vo {BIO 5509843 <GO>}

I know. But if we get to the 5%. So it's 4% organic and then the 5%. So the 1% is about EUR 0.5 billion?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. So if the...

Q - Johnny Vo {BIO 5509843 <GO>}

If the organic is higher, do we get a lower buyback and so forth? Can you just talk about the dynamic there?

A - Giulio Terzariol {BIO 17125489 <GO>}

Now we look at the accretion coming from capital management. As I stated right away, if you go for a pure buyback strategy, you can take the EUR 2.5 billion of cash flow. You just said this is going to go full in buybacks. I tell you, you can run the math, it's going to be more than 6% growth in EPS, right? It's mathematical. Now if you go into more M&A, then clearly, the number is going to round closer to the 5%. That's pure mathematic. And the reason is M&A in the short term will never really beat the buyback because you are restructuring, you have all these kind of things. So from that point of view, M&A reaches strategy compared to a buyback strategy, it's going to dilute initially the EPS accretion. If you anyway make sure that in reality, you are beating -- the M&A is beating overall the buyback, over time, you're going to get the accretion back. But it's not going to happen in the first 2, three years.

A - Oliver BÃ¤te

So the number is, as you asked, north of 6%, depending on how you do that. But again, as you said, it's just mathematics. And again, assuming that we have a certain return target, the money will not sit in the bank for 15 basis points. Now the second question you had was. And I alluded very quickly so we have some time, on the commoditization, what is the ultimate competitive advantage? It will come out of 2 things. First, being much closer to consumers in terms of what their value perceptions are. So even in so-called commodity perspective, you find for the strong brands and the strong service 5% to 8% combined ratio advantage, which is massive in terms of capital consumption. And they may operate over time. And then there's scale coming from that. We have 2 leader from branding power. So in a world where we will move from push, i.e. paying commissions, to pull, that is investing in branding and bringing clients onto our platform, scale will truly matter. So being able to build a strong brand and then reduce merger and acquisition costs, for example, by bringing warm leads to our distributor, will make all the difference. And EPP pricing, maybe Ivan?

A - Ivan de la Sota {BIO 19492628 <GO>}

Yes. It will certainly apply in the European platform the idea of decommissioning of the old products so that the portfolios will move increasingly to the new product and most of the -- and there will be a convergence of the pricing. But this will come when we launch the new platform. And have all the products and -- on the same platform, we can deal with it. This will be in one year time.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. This gentleman over there. Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Farooq Hanif from CrÃ©dit Suisse. Just 3 questions. On the ACM, I can see why, from a cost point of view and a customer point of view, it's really effective and radical. But from an underwriting point of view, doesn't it create local risk? So take whiplash in the U.K. or different bonus systems and fraud patterns. I mean, how do you ensure that it doesn't look good from the outside but from the inside, it's profitable? And second question, going back to the FinTech threat and why you're better. I mean, isn't scalability available because balance sheets are available? So if you get this entrepreneurial culture, take the hairdressing salon example, if you can create the right app with the right relationship with your customer, you can borrow the balance sheet and underwriting expertise. So I was wondering why you believe that you are going to be better at this than new entrants.

A - Ivan de la Sota {BIO 19492628 <GO>}

On the ACM, sorry, I don't know whether I understood you correctly.

A - Oliver BÃ¤te

What he said was by driving the ACM, we might lose some sort of the discipline...

A - Ivan de la Sota {BIO 19492628 <GO>}

Yes, yes. I don't think so. I would rather put it the other way. First of all, the idea of making packages is, from a pricing perspective, a price efficient way. We homogenize risk and we reduce anti-selection. So the starting point is good. Then I do think that at the current point in time, pricing, we still can build up a competitive advantage because we have the new pricing tools, we are investing in technical excellence and the pricing that we do have -- we can have a competitive advantage in pricing as well in risk selection. We -- not all the companies have the possibilities to count on the customer that we have. And data analytics are a new field of exploiting and improving the risks, particularly the risk selection and the underwriting that may lead at the beginning for a competitive advantage. So I think that it is both -- it can be combined, the package perspective in products with the right pricing.

A - Oliver BÃ¤te

And so simplicity wins mean -- doesn't mean stupid simplicity. It means smart simplicity because you hide that. You would -- for an iPhone, you would not say this is stupid. A lot of intelligence is just built into the product. Now let's talk about the startups. We will see how that goes. I think the scale players are more relevant. And why? Now I'll give you an analogy, just from the German motor market. Admiral came, the best U.K. sort of direct insurance company. And after a few years, they need to fold in and move home with their tail between their legs. Direct Line came, set up shop, Italy, Germany that didn't move any. Why? It's not because of lack of capital that you can access. It's not lack for distribution access because you can pay commission and you can advertise. What you really need to do is to have the customer franchise. But more importantly, you need to have the infrastructure, the claims settlement network, the ability to negotiate with distributors in order to execute. It is not about regulation. It's building a system. Think about the competitive advantage in credit insurance. Is it about the credit risk algorithm? No. It's about the ability to collect and deal with debt collection and building a global network that can do that. That is what we call platform effect. So do not underestimate the power of having an integrated system that controls the most important value levers. And that is not so easy to replicate.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. And we have Thomas over there, please.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thomas Seidl from Bernstein. Three questions on the Slide C15 on M&A. On the left-hand side, strategic fit. Last time, I think we spoke -- in '16, you talked about upscaling in P&C in countries where you are already strong and buying in asset management for skill. And I look at it now, it seems like a broadening. Is this right? Are you broadening the scale here? First question. Secondly, on valuation, you talked about the hurdle being cost of equity. At the same time, you maintain the RoE target, which is a couple of percentage points higher. Does that imply that you cannot do a large M&A, which is RoE dilutive? And thirdly, can you remind us on the LTIP? What is the lower boundary on the RoE for your LTIP and what is the weight in the LTIP of the RoE?

A - Giulio Terzariol {BIO 17125489 <GO>}

I'm -- coming from the scope, no, I don't think we are changing necessarily the scope. That's not what we are saying with the slides about the strategic fit. So we are pretty clear that Property/Casualty is where we have most of the focus. Then Life, depends what kind of Life you're talking about. But clearly, we're not looking to capital-intensive Life businesses. For sure, in asset management, we are definitely looking whether there are bolt-on acquisitions possibility, which is what we said also in the press. So there is no change in this philosophy. With respect to the RoE, yes, you are right. If the RoE target is 13% plus, that's a little bit of a constraint on some large acquisition because there is a difference in reality. Economically, at the end of the day, you need to be the cost of equity over buyback. And then the EPS is going to reflect that. In order to keep the RoE is a different story because you need to be -- you cannot dilute too much the RoE of the group. So that's sort of constraint. And I would also add that I would always anywhere remove restructuring expenses, all these kind of things from the initial calculations. So I would always look anyway at the full earnings as opposed to take into consideration also for when we only adjust one-off in the first years. And the last question, I don't understand what is the LTIP or whatever. So I don't understand.

Q - Thomas Seidl {BIO 17755912 <GO>}

Your long-term incentive plan?

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. And what is included in the -- yes.

Q - Thomas Seidl {BIO 17755912 <GO>}

A lower hurdle on the RoE and what is the weight in the LTIP because it's not clear from your annual report.

A - Giulio Terzariol {BIO 17125489 <GO>}

I don't know.

A - Oliver BÃ¤te

I'll make it simple, then we take it off-line with Oliver. We have the same incentives internally that we have externally.

A - Oliver Schmidt {BIO 2473131 <GO>}

We can follow up on this, Thomas. I can give you all the details, no problem.

A - Oliver BÃ¤te

And by the way, we will, over the next year, change top management compensation and move in much more to shareholder-oriented compensation than it is today. Today, it's only 25%. That is actually the relevant observation. The relevant observation is 25% and it's going to go up in importance significantly. We can't talk about it now because it goes through increasing -- internal agreement. But that's a relevant one. I think it's not the hurdle that is important. I would like to talk one thing again about -- that you have mentioned before, the large dilutive deal. That is the question sort of on top of the question of Michael. Large dilutive deals, we do not do. Is that a better answer, Michael?

A - Oliver Schmidt {BIO 2473131 <GO>}

Thank you. Okay. We are almost -- time is almost up. We do have time for a couple of more questions. But please keep in mind that there will be the opportunity for informal talks over lunch as well. But yes, Michael, in the back.

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

Michael Haid, Commerzbank. Just one question. When I look at your operational targets, then the combined ratio of 93%, I think it's an ambitious, it's a very brave target. It shows probably the power of the organization. When I look at your Life and Health target and your business margin, above 3%, you are already at 3.5% or close to 3.5%. Why are you so cautious here? Do you expect a change in the business mix? Or is the 3.5% as good as it gets? Why are you so -- compared to the other targets, asset management, P&C, it seems a rather cautious target.

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A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. We're not expecting any significant change in business mix. So it's not just an indication that we expect some pressure. We just say, once the new business margin is above 3%, at that point in time, we are looking more for growth as opposed to necessarily try to lift new business margin even higher toward 4%. So if you ask me what we are going to see, we are going to see a new business margin under this condition, which is going to be more or less the new business margin of 3.5% that we are seeing now. And then the idea is to pick up growth instead of try to get a new business margin to be higher. So just look at this higher than 3% is almost a threshold we don't want to fall below. But the expectation is to see new business margin at the current level also for the planning period.

A - Oliver Schmidt {BIO 2473131 <GO>}

Is that good enough? Okay. We have time for 1 or 2 last questions, if there are any. If not, we say thank you very much for being here, for your attention. And let's continue our discussion over lunch. Thank you.

A - Oliver BÃ¤te

Thank you, team. See you out there.
