Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Andrew Ritchie, Analyst
- Farooq Hanif, Analyst
- Johnny Vo, Analyst
- Jon Hocking, Analyst
- Michael Haid, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Thomas Alford, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Allianz SE Results of the First Quarter 2020. For your information, this conference is being streamed live on allianz.com and YouTube. A recording will be made available shortly after the call.

At this time, I would like to turn the call over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt {BIO 2473131 <GO>}

Thank you. Emma. Yeah, good afternoon from my side as well. And welcome to our conference call. I don't have to tell you that capital markets had a significant impact on our results in the first quarter. So we thought that you may be interested in a more detailed discussion about our asset allocation and investment strategy. Therefore, we have invited, our Chief Investment Officer, Gunther Thallinger, to join us today. He will support Giulio and me during the Q&A session.

But before we come to that, Giulio will talk you through the key numbers of the quarter.

Giulio Terzariol {BIO 17125489 <GO>}

Hi, good afternoon and good morning to everybody. I hope you're all safe and well, and not just you but also your friends and family and now I would like to through quickly through the numbers and then as usual, the most interesting part of the call is the Q&A section.

But if you move to Page 3, you can see there clearly was a challenging quarter but it's important to note is that the underlying performance was good. If you adjust our operating profit for the impact of COVID which we quantify at 0.7 being up for the quarter. You can see that the performance in Q1 was actually good. And this applies both the operating profit and then also to the net income if you also adjust accordingly the net income. Even considering for the impact of COVID, I would say that there is also enhancement in the first quarter and a very challenging environment have been resilience.

If we now move to Page 5. Here you can see the development of the IFRS equity and also the Solvency II Capital on the IFRS equity. Clearly, you see a reduction of about 6%, which is driven by the change in unrealized gains on our investments. This is clearly the consequence of what happened on the equity market and also on the credit spreads. But I think, for you is more interesting identify what is the development of the Solvency II ratio, which has decreased by 23 percentage point from 212% at the beginning of the year, 290% as of the end of March.

I'm going to go into the reason for the drop in a second. If you look at the sensitivity on the right hand side, they are slightly, they're kind of unchanged. If you want, compared to the sensitivity that we had in -- at the end of Q4, one sensitivity which has reduced is a sensitivity to equity markets. At the end of Q4, the sensitivity was minus 15% and now is minus 12%, otherwise the other sensitivities are more or less unchanged.

But if we move to page 7, we can speak about the evolution of Solvency ratio. As you can see, we have a couple of percentage point reduction in the solvency ratio because of the regulatory changes. Here, we are speaking about the UFR. Then the organic generation the operating earnings generation was actually good at plus 5%. So if you remove the taxes and also you deduct the dividends, which we accrue on this profit, we have an increase of plus 2%, which is in line with our expectation.

And then, what you see the big change in due to the market movement that's on a pretax basis minus 28% on a after-tax basis is 23%. Now, based on our sensitivity, that number would be more like minus 15% and driven by equity and by interest rates. On the credit spread, based on the sensitivity, we would have expected something closer to zero. The point is we have a gap of about 8 percentage points, and this is coming, most likely from cross effects. We have, what we've just shown is cost effects are relatively minor and they are usually offset by the mitigating measure that we have put in place, but it looks like the cost effects are more significant than what we saw in the past.

So that's one thing. And then, when you look at the other position, and the other position looks like a plus 2. So like a positive, but here we need to consider that we have the positive effect of the taxes. On the loss of market value, so, if you remove for that we are losing about 1 to 2 percentage point of solvency due to other and this has to do with lower diversification benefit in a crisis. You can see that the amount of market and credit risk is going up and there is less diversification benefit from -- with other risks.

So, I would say, the explanation for the 190 that I know that wasn't expectation, is going to be a little bit higher than the SII cost effects which are more substantial than what we -- we have a (inaudible) also for diversification benefit. This said, I would say 190% is a very good solvency level and also perspective is thinking about this number from a absolute point of view in terms of excess capital. So, we have EUR37 billion of excess capital above the EUR41 billion of SCR. So we feel that our solvency ratio and solvency situation is actually pretty strong and we are very, very confident in this regard.

And with this, we can move to the segments on page 9. We start as usual with the Property-Casualty segments. And as you can see, we had on the growth side, a growth rate of about 2 percentage points. What is good, is the growth rate is coming from price development and not so much from volume. So that's usually a good thing, especially considering the future performance of the business. You can see a nice dynamic in the UK from a price development and growth point of view in Spain as well. Although, you see a negative number from a growth point of view, the price change was very positive.

And then, also AGCS has double-digit price increase offset by lower volume. But that's definitely the picture we like to see in the case of AGCS. And then I would say, we have a couple of companies like Italy or Euler Hermes, where you see a reduction in growth. This is where we see also the impact of the COVID which in the case of Italy, might be more temporary, in the case of Euler Hermes, this might be for a prolonged long time in 2020.

Let's move now to page 11. The operating profit for the P&C segment has decreased by about EUR400 million. This is clearly driven by the underwriting results. So by the combined ratio, which has decreased or increased by 4 percentage points. Now, as you can see, first of all, we had the impact due to COVID, which is EUR400 million. This is coming from entertainment and from business interruption, other effects have been offsetting each other. If you translate this EUR400 million in a loss ratio impact, this is about 2.5 percentage point. And then as you see, we have also a higher amount on net cash, compared to last year that's also swing of 2.5%. So if you adjust the loss ratio for the COVID impact and also for the higher amount of natural catastrophe, in realty, you can see that the loss ratio accident here has improved by 1 percentage point compared to last year.

On top of that, you can see that the expense ratio is better by 50 basis point compared to 2019, the first quarter. And indeed, the expense ratio is also affected somehow by COVID. So, the improvement is even more than that. So overall, when you look at the underlying performance of our P&C business in realty, Q1 has been very, very satisfactory. And also is clearly indicated in that in the absence of all the noise that we saw in Q1, we are tracking way to get to our targets for 2020 --'21.

Now coming to the to slide 13. Where we can see the development for this single companies. Maybe I'll draw your attention just to a few companies with a combined ratio of 100, which is the UK for example, or Australia or AGCS. In the case of the UK and Australia, this is driven by natural catastrophe. So, adjusted numbers for natural catastrophe you get to a picture which is consistent with what we would expect. And then, in the case of AGCS, here we had the COVID impact. If you adjust for the COVID impact, the combined ratio what you see as -- would have been 100%.

So otherwise, we see good numbers in most of the other companies, especially, I think pleasing is the result in Spain. If you remember, last year Spain was 90-98. But as you see, now we are back to a 94, the same combined ratio. And as I was saying before, we have also nice price increases coming through. So we believe that Spain is back on track as we were expecting.

Page 15, that's on the investment income on the P&C side. Overall, if you see a decrease in investment results by about EUR70 million, this is in realty, mostly driven by noise associated to FX effects. If you just look at their underlying investment income, so the current income is stable compared to the prior period level.

So all-in-all, I would say in P&C again, if you look at the numbers and you look at the underlying performance, I think there is a lot of strength in the business and now we just need to -- for 2020 we need somehow to face the COVID impacts, but the underlying expectation remains very, very solid.

So now moving to Page 17 on the Life side. First of all, you can see that the production has been up a couple of percentage point. So this means that in reality, the impact coming from COVID in Q1 was kind of limited. I wouldn't say, it was zero but it was kind of limited. Clearly, we are going to see a little bit more impact as we go through the remainder of the year.

On the new business margin, you can see a good new business margin 2.7%. You just need to consider that the interest rate level is very much down compared to the level that we had one year ago. And just to give you that I'm sure you know the numbers but just to refresh the numbers a little bit. In the case of the euro, insurance rates are 80 basis point lower compared to last year, in the case of the US more than 100 basis points lower. So overall, a good business margin under the economic conditions. And also you see that mix has improved compared to what we had last year. So the majority now 90% of our products are in the so called capitalized bucket.

Moving to page 19. The operating profit of the Life business has been clearly affected by the turbulence's in the capital markets. So, we've quantified and try to get to the prior period which is also, if you want our expectation for the quarter, is COVID related because we know that up to February indeed our performance in Property Casualty, in Life and Health was tracking plain. What is coming here to make an impact is clearly the -- on the VA side, in the US, we know that in this kind of environment hedging costs are going up and also the basis risk has a tendency in this kind of environment to be negative.

So Allianz Life is explaining 60% of the deviation compared to prior period. And then, clearly in a situation where you have a lot of impairments on equity even if there are mitigation through hedges and even if we have mitigation through the policyholder participation, you're still going to have clearly a lower performance compared to a situation where markets are stable. But still, it's EUR100 million of operating profit in a very, very challenging quarter. I think is also a testimony to the resilience of our operating profit in the Life business.

At Page 21, you can see the numbers for the new business margin for the operating profit by companies was [ph]74, the biggest drop was at Allianz Life USA. We had also a significant drop in the case of Germany Health, this is related to impairments. In the case of Spain, in reality, this is just due to the deconsolidation of our joint venture with Banco Popular. In the rest of the business that you see more resilience or even you see capital situation where the operating profit has gone up.

And with that, maybe moving to Page 23. That's the breakdown of our investment margin. I think first of all, what is important to notice is that the difference between the current yield and the guarantee is pretty much stable. Indeed, even maybe slightly up, but let's say, stable, so that's very important because this is the KPI that has to stay as much stable as possible over time.

And then, clearly we have a significant impact on the so called harvesting, which is mostly offset by the profit sharing under management, still eventually when you run our calculation, we lose about 4, 5 basis points -- 4 to 5 basis points in investment margin. Again, considering the environment for Q1, I would say that an investment margin of 15 basis point is pretty good and pretty resilient.

Now, we come to Asset Management, at Page 25. We have in total EUR2.1 trillion of assets under management. Thereof, EUR1.6 billion -- trillion for third-party. And clearly, when you look at that in Q1, the assets under management for third-party have decreased by about 8%. And if you look at the different asset classes, you can see that all asset classes, all regions have gone down. So this is clearly, what you would also expect in that case of a crisis like this, where spreads are going up and the equity markets are going down.

Still, the starting point in reality that we had is especially because of the good performance in 2019 was pretty good. So from that point of view, I think that, that's been very helpful for the quarter as we are going to see in a few slides. When you look at page 27, here we can see also the driver of the development of the asset base.

On the outflows or the inflow side. We had EUR46 billion of outflows. They're mostly coming from PIMCO. As of February, we had a situation of inflows, so everything happened indeed in March and I would even say everything happened in a few weeks in March. Towards the end of March, we already saw stabilization and in the month of April, for example, we saw to-date May, we are seeing positive -- slight positive inflows at PIMCO. So, we see more stability. Also what happened in Q1 is not the answer related a lot of retail investors going to the sideline and we also say that's, eventually they are going to come back. So stability has been definitely there as we went into the second quarter.

On the market development, you can see clearly there was a bit swing in the month of March. Net deposition, the loss in assets under management between market and the fees was about EUR80 billion plus. I think, we recovered already EUR40 billion, even a little bit more in the month of April. And then clearly, we will see what the markets will do as we move into the remainder of the year.

At Page 29, you can see that revenue up and that's because, as I was saying before the development of our asset management operation has been overall compared to one year ago, very, very good. So you can see a nice development of the revenue. This is coming from PIMCO. In the case of AGI, we are rather flat and then you can also see that the third-party fee margin is up.

This is however more due to technical effect. In reality, if you adjust for the technical effect, is stable but that's still a good result. So, if you go to page 31. When you translate this into profit, you can see that in Asset Management, we had a very good operating profit performance for the first quarter with an increase of 20% driven by PIMCO clearly, but also in the case of AGI at least you see resilience in the numbers.

So bottom line, good results for the Q1. Clearly some headwinds, at the end of March. But, I would also say there is stability coming through. Let's see what the markets are going to do and the starting point, I will say is overall pretty, pretty solid. So from that point of view, I would say that, in the case of asset management, we see good results and we think we might be having still good level of performance in the remainder of the year.

Now, going to Page 33. On the corporate segment, you can see a deviation of about EUR60 million, compared to prior period. This has to do with FX volatility and also we had a payment to a solidarity funds in France, but I would say all this kind of momentum are relatively minor. So overall, the segment is performing according to our expectation. And with that page 35, that shows our net income is a 1.4. As you can see at the end of the day, the main impact on the shareholder net income is coming from the operating profit otherwise below the line, not so much as happen. So they're unrealized. The realized gains and losses have compensated for the impairment and the realized gains and losses are coming basically from the disposal of our joint venture with Banco Popular.

We had some more restructuring expenses. We are working as you know very diligently on making sure that we are -- we can increase our productivity. So clearly as we do that, you see also restructuring expenses below the line. And then on the tax side, there was a positive effect due to the United States. So, all-in-all, when you put all these things together, there was not much happening below the line.

And with that I come to the last page, Page 37. So clearly was a -- it was a challenging quarter but the performance is robust. I just like to repeat, the underlying performance in P&C, when you look at the combined ratio is actually pretty good and also on track to achieve our objective for 2021. The expense ratio is down, so that's also a good sign.

On the Life side, yes, there was market volatility, but the operating profit still very sizable at EUR600 million and also the new business margin is resilient 2.7%. On the asset management side, we have very good operating profit. Sure some headwinds coming into the end of the quarter, but also stability as we go into the second quarter. And then on the solvency ratio, the solvency ratio it's under 90% is a good solvency ratio and the excess capital of EUR37 billion is -- that's also a way to look at the capital situation, I think it's a pretty big number.

And so all-in-all, when you just look at the performance both from a IFRS point of view and also our capital situation or our ability to make distribution to our shareholders, I think that's even in a challenging environment, we have delivered good results.

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

Questions And Answers

Operator

Thank you. (Operator Instructions). We'll take our first question from Jon Hocking from Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

Good afternoon, Giulio. I've got three questions please. Firstly, on trade credits, you've got a pretty small number in Q1 for Euler Hermes. I just wonder if you could give some detail in terms of how the reinsurance coverage is going to work there, particularly given the government schemes in Germany and France because of big numbers floating around the market in terms of the potential size of losses in trade credits, how you could help us to mention that please.

Secondly, say on the COVID issues, likely a business interruption. The numbers you've given today, does that include any amounts for the sort of various goodwill schemes. So I think we've already seen in Germany for the hospitality industry. I think there is some talk about something similar in Switzerland.

And then finally on dividends. Does the April restriction on dividends, is that going to have any impact on the timing of upstreaming for the rest of the EU subsidiaries you've got around the Group? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So let's start -- thank you for the question. First, let's start from credit insurance. I would say the following; so what we have been doing also with the agreement that we have achieved and not just ours but in January, the insurance -- the credit insurance industry has achieved with the government in Germany and other countries. And the agreement might be different, but fundamentally, aiming at the same, is somehow to be able to offer capacity. Because we think this is important for clearly for the economy, but on the other side, clearly, we cannot run an exposure which will be twice.

So that's the idea of these agreements. So what you're going to see happen in credit insurance, sure, the combined ratio is going to be more elevated but this stood out for example, we think the combined ratio should be anyway -- we should be able to breakeven in more scenario on the underwriting results. But I'd say, clearly also because you are not taking the full amount of risk and then clearly what we are going to see the profit coming from the investment income.

So, when you look at what is going to happen for credit insurance, I would say that the profit that you see for the first quarter is going to be more or less the profit that's you're going to see by the end of the year. Otherwise, we are acting more like a facilitator in making sure that there is the credit insurance available in the marketplace, but we are not necessarily taking a significant amount of the risk and as a cost of clearly, then also you should not make a lot of profit for the remainder of the year.

So, I think it's a sensible agreement. We could have gone the other way, just to reduce capacity. But when you look, also the long-term relationship that you want to preserve and when you also look at just doing something which is support in the economy, we have seen that was the most sensible thing to do.

So, that is on the credit insurance. Then on the business interruption, I would say that is absolutely the agreement that we did with -- in Germany, in Bulgaria is definitely included in the numbers. And so from that point of view, yeah, what we are reporting here and that's also important in general for the COVID conversation, we are not booking based on reported claims. We are booking mostly based on incurred, but not reported.

So that's what we did. This applies also to entertainment, for example, where we have a EUR200 million plus loss. This is not because we got EUR20 million plus of claims reported by the end of March, but there is clearly the expectation what has incurred, but not reported yet. On the business interruption, if you ask me, I think that's -- we have both most of the other losses, clearly we're going to see some other losses coming through other country legislation.

But also let me tell you that, every time we make a statement this might change here. That is the reason also why we don't give you a guidance. Clearly, we have been diligently working on and understanding all the in and out, so the COVID crisis and running scenario, the point is the environment might change. And so, something that we tell you today in two, three weeks might be very different because some regulators and other stakeholders maybe changing the rules of the game.

So, but based on the best knowledge that we have and we will say that on the business interruption, we should have booked most of the losses not all, but I think we book a significant amount. Then on the dividend, I'd say what the [ph]Op statements has influenced to some degree a few countries, so we see a few legislation where indeed, dividend for us to the holding company is challenged. Let's put it this away.

But I have to say that it's pretty limited. So the number is not zero, but I would also say is not a number which is changing materially. I will say our liquidity position, we have already received a lot of dividend. So, yes, there is some impact, but I would say is pretty well adjustable.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Just to come back on the trade credit for me. The comment you made, does that include the countries where you haven't got government backstop in terms of reinsurance? Is there a risk as such this number could be higher than you think at the moment?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. But I would say almost in all countries we have achieved this. We have this kind of agreement also in the countries where there is not an agreement like this, we can reduce capacity. Beauty -- is a beauty. So, I don't want to say the beauty but at the point with the Coronavirus, it gives -- you pay for shipping transit so you can also react to that, where there is a point that's when trade is freezing there is not much going on.

And then, at the point in time is your choice, as a credit insurance if you -- as trade resume if you are comfortable to give capacity or not. So, there is a lot, which is under control because here, we are not dealing with giving a loan for the next 20 years. Right? It is something where you can adjust capacity constantly and also think about the trade is kind of frozen. So from that point of view, it's also something that we can -- the capacity we give we can control. And the capacity we give is a function of the schemes that we are achieving with the governments.

Q - Jon Hocking {BIO 2163183 <GO>}

Very clear. Thanks Giulio.

Operator

Thank you. We will now go to our next question from Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. Hi, Giulio and thank you. I think you've done a pretty good job -- bit frustrated by the uncertainty still on the business roughly. I have a question which is completely related to the side comprises both of, so first of all, your lovely colleague, if you could maybe explain a little bit the sensitivity to topics in (inaudible), the things that impact on (inaudible) minus figure, look (Technical Difficulty).

And then in terms of (Technical Difficulty) a related question is on PIMCO. The sensitivity background, remember in Q1 in mid-March. I think, (Technical Difficulty) and my question is what would happen if you have a combination of the closings in (inaudible) and now you've seen a lot of at the same time as markets (Technical Difficulty) with the risk, you could -- and the earnings events. Could you talk and knock-on effects during (inaudible) kind of account months, shareholder money investment on the question, but (Technical Difficulty).

A - Oliver Schmidt {BIO 2473131 <GO>}

Hi, Michael. You know you're breaking up a lot. So, the first question, (Multiple Speakers) In the first quarter -- Yeah. Now it's better, any way. (Multiple Speakers) Yeah, because now it's much better.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. (Multiple Speakers) Now, you're very clear. (Multiple Speakers)

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah. The first question, let's say, your colleague on from [ph]France Angel and any delayed impairments coming from the unlisted?

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. Okay, got you, okay. No. We don't see, for the time being, that's a question regarding rating migration. I would say, for the time being we don't see much of a rating migration happening. I believe also that what governments are doing, our central banks are doing are helping. We anyway, on the sensitivity, just to give an idea in the case, we have a rating migration, who are not across the board, our solvency ratio will drop by 10 percentage points.

So that's a sensitivity that we ran. I don't think we're going to see something like that. On the other side, we might have here and there, clearly some rating downgrade, that will be naive to a spread and that is going to happen. But at least for the time being, we didn't see much happy news. When you look at rating agencies, they maybe put a negative outlook out there, but there was not much movement.

And so I'd say this seems to be -- this is not the case for the time being. And I believe this issue is going to be manageable but it might have some impact on the solvency ratio. The other question was on -- I understand on PIMCO by you need to repeat the question.

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah, if I may. So, if I put it in the total and I don't mean it like now to talk, because I think it's the only tail risk Allianz really has. I can't figure. What would happen if we had to repeat of mid-March when bond markets are closed and the treasury market was struggling. And if at the same time, you had a sudden acceleration of exemptions because people like me thought, I might go and see that, I need to go and buy some more -- some food, money to redeem my mutual fund. How does that impact Allianz?

A - Giulio Terzariol {BIO 17125489 <GO>}

So I would say, when you have a situation like that usually you can count on the central banks liquidity. I would say no, we just went through this situation, if you want in Q1 from a -- I think your question is aimed at liquidity risk. There was no, not at all liquidity concern at PIMCO. And again, PIMCO is the stress test and clearly, I will tell you to run a stress test you need to be comfortable with the level of stress tests you're putting your business through. But they are running this stress test to ensure that they have enough liquidity. And also when they go through a crisis or they go through tough times, they are also going to change the parameters that use to define what is a liquid asset and what is not the liquid asset.

So, in a current situation a liquid asset is going to become [ph]liquid. And also as they try to manage their portfolio, usually they try to do vertical, to understand it can do it clearly, but they're trying to do a vertical, and to get redemption they try to be as vertical as possible reducing their portfolio. So not just reducing what are the liquid -- most liquid assets because then you get adjusted with the liquid part but they try to consistently keep the liquidity as stable as possible.

So from that point of view, PIMCO has gone through a few tests in the last, I'd say 10 years and every time they have been more than capable to sustain all kind of stress they had. So from that point of view, I would say that they have a strong liquidity management in place.

Q - Michael Huttner {BIO 21454754 <GO>}

And this does guarantee your sales of money familiar to that?

A - Giulio Terzariol {BIO 17125489 <GO>}

No, We don't have that. No, we don't have any kind of guarantees that we provide to PIMCO from a liquidity point of view, no, no absolutely not.

Q - Michael Huttner {BIO 21454754 <GO>}

Okay. Fantastic. Super. Giulio, thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Thank you. We will now go to our next question from Andrew Ritchie from Autonomous.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there. First of all, on to Giulio, if you could clarify on the press conference call this morning. I think you gave indications about the expected COVID impact for -- in non-life for the year as a whole. But yet, you're today now telling us there won't be much more of an impact beyond what you saw in Q1.

In this morning, you said EUR100 billion to EUR1.2 billion in the press conference, can you just clarify what your assumptions are for further COVID non-life claims vis-a-vis, are you -- well, are you able to give some of number because of reinsurance retentions? Are you assuming the frequency benefits that you enjoyed in Q1 continue? And there isn't any pressure for premium refunds et cetera. So I just think, I'm just trying to tie your comments this afternoon with your comment this morning.

The second question, what additional stress test have you performed on the US Life general account assets? And I'm assuming there was no impact to local stat from Q1 market movements because it likes that, but maybe just give us an update on the local statutory position of the US Life business? And finally, based on market movement since the quarter-end, it would look like your solvency hasn't really changed. It maybe even gone down slightly, but that's missing the other factors we can't model like lower volatility et cetera. So can you give us any indication on movement since the quarter end? Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. So maybe starting from the P&C question. Yeah. So what we said this morning which is by the way, what you still applied this afternoon is that we expect on the underwriting side 15% to 20% impact, compared to the outlook of 5.6. So when you run the numbers, you get to something which is between, let's say, about EUR1 billion of impact.

Where this is coming from, I will say definitely is going to come from a big chunk of it, is going to come from AGCS. And the case of AGCS, we have both in Q1, that it could be more than EUR200 million of losses due to entertainment. We expect these losses by the end of the year to double, specifically entertainment.

And then clearly, we also expect to have additional impact in AGCS which could be also D&O financial life. So, overall, we expect the losses from AGCS to be higher compared adjusted the EUR200 million. So what I was referring before is, we both clearly what has been incurred in our report about we are clearly now booking might be losses claims which are going to happen in May or in June. So that's a different story.

Then clearly on Euler Hermes, we also can see any further effect that Euler Hermes operating profit is going to be basically flat compared to the level that we have now. So compared to plan, that's also a guess that we need to consider. In the case of Allianz partners, we're also considering that we are going to have a lower underwriting profit moving forward because we're going to have lower revenue, clearly there's no signs to booking in Q1 but is going to impact the profitability for the rest of the year.

So when you add up the global lines, you'll get to basically the kind of numbers that we are talking about. And then, you can open up the conversation about what is happening on multiple and what might happen in other lines of business which are now globalized. On that one here, we are assuming our calculation that we are going to have a benefit from lower frequency in multiple but we also considering that there would be rebate. In some cases the rebates are even coming through the way the policies are written because the premium is a function of the amount of mileage. In other cases, there might be pressure coming from politicians, so regulators on that one are reflecting improvements. But yeah, it's difficult to put a number, but we would tend to be cautious and then clearly, as I was saying before we're going to see also some negative in other lines of business, we are going to pick up some business interruption losses also in some other country although the number shouldn't be that material.

So when we put all together, I would say we are kind of working under the assumption that the losses we are going to see will come basically from the all deviation to prevent, if you want. On the underwriting side, they are coming mostly from the Global lines where we will say on the other businesses we will expect to be more or less flattish, maybe depending on the frequency developing in motor. We might even see a slight positive number but overall for the sake of argument. I would say relatively neutral.

Then you had the question on the general account assets for Allianz Life and I think at the end of the day you were referring to the RBC ratio. The RBC ratio for Allianz Life in Q1 is about 325%, so which is considering that we are running the company as long as the RBC ratio is over 300 per se, we -- that's totally fine. So overall, is a good RBC ratio. In the IoT, there is some volatility more than you think in the RBC calculation anyway, so especially, it can be volatility because the reserving side is not an economic basis or this can create depending on the situation, causes negative volatility within that the RBC ratio of Allianz Life is going to go up by the end of the year, some of the volatility is going to -- that is embedded in the number now is going to to reverse.

But to your question on the RBC ratio Allianz Life is 325 and this is after they pay the dividend of about EUR700 million, about EUR700 million just to give you the idea of the capital position of the company. And anyway, the last question is, I'm not so sure I

A - Oliver Schmidt {BIO 2473131 <GO>}

Could you repeat the two questions?

Q - Andrew Ritchie {BIO 18731996 <GO>}

Sure. I was trying to understand, is the solvency ratio, we couldn't really model it successfully in Q1 because of the factors you talked about Giulio to do with some the correlation and volatility. Did that -- was that done since the end of the quarter,

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, no, sure, sure...

Q - Andrew Ritchie {BIO 18731996 <GO>}

If I can look at the sensitivities and then looks like your solvency ratio has not moved or gone down. What am I missing?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. So I would say, what we will do and we thought about that because clearly if you look at our sensitivity, the sensitivity we gave you at the end of Q4 and you run the numbers, you don't get to 190, there is definitely know where you get there. And so, what we need to do and we are going to do this presumably start in Q2 we are going to provide the sensitivity of a specificity that should give any idea about the cross effect.

This number has never been really significant. And so that's the reason why we never really focus on that, so also because we know that when we go into a rough market usually we take action, right. We're not going to sit there without doing anything. So the assumption has always been the cost effects and the action that we take are going to be mostly neutral.

It doesn't look like is the case in Q1. And so, what we are going to do presumably, starting Q2 is to provide you with the sensitivity of 50 basis point insurance trade down, 50 basis points spread widening and 30% equity down, because it is actually the sensitivities that we show you for the single driver. So by putting them altogether, this should provide a little bit more guidance.

But I want to make also a point, besides of that, I really believe that 190 solvency ratio is a good solvency ratio. If you look, because you have all mathematical, if you look at what a let's say, EUR500 million more or less of own fund can do, a EUR500 million more or less SCR can do, and really speaking of around and this kind already made 3 percentage point of solvency ratio. So fundamentally, we need also to understand that, especially when you look at the ratio there might be also some real volatility, which is just noise in a very complex calculation, so that's the reason why you know, yeah absolutely we should look at the ratio, but also do the exercise a little bit to look at the excess capital.

Do the exercise to see what EUR1 billion more or less of SCR can do to a solvency ratio, then you can ask yourself, is EUR1 billion more or less of SCR really relevant in the real world. And so then, I think you can get a perspective on the Solvency II ratio, which is maybe more balance. So look at the solvency ratio, by looking at the absolute numbers, move the SCR by EUR1 billion, there you see what this can do, can do something. But then you can ask yourself, what EUR1 billion of SCR really make for a difference.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thanks.

Operator

Thank you. We'll now go to our next question from Nick Holmes with Societe Generale.

Q - Nick Holmes {BIO 3387435 <GO>}

Hello, hi there. Thank you very much. Two questions please. The first is, at what level of solvency would you definitely cancel the second EUR750 million share buyback because I think that is just suspended is rather than canceled at the moment? And the second question is, these interest rates are going to be lower for longer, could you remind us of your thoughts about whether this is a problem for you or whether you're pretty relaxed about it? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, so on this solvency ratio and buyback, at what point of solvency ratio we would definitely skip the buyback, that will be 160. At 160, we would definitely say there is no, no -- we will skip it. I don't think we would have long conversation. If you add by 160, clearly there are a lot of other consideration that come into play, but that's also important to in this environment as you see there was a lot of push back on even on the dividend and buybacks. In this environment maybe -- might be the solvency ratio is even higher than 160, substantially higher than 160 might lead that we are going to continue to postpone the buyback.

So a lot depends on you know what -- how the sentiment is going to be, but from a pure technical point of view, I would say the hard line would be below 160. We will not do a buyback and there will be no kind of -- different kind of consideration where maybe we might do it in any case. No, there will be the red line there for coming back. And then on the low interest.

Q - Nick Holmes {BIO 3387435 <GO>}

(Multiple Speakers) sorry just very quickly to follow up on that, so would it be correct to say that since it suspended not canceled, it is essentially your intention still to have that buyback you know, ideally that's what you would like to do?

A - Giulio Terzariol {BIO 17125489 <GO>}

That's still the intention and also asking on the Solvency II calculation, so that's the intention. We're going to see how that develops also how the sentiment is developing, we are going to see also if Europa is going to change the view on dividend payments, forget about buybacks. They have a view on dividend payment. If there is a change in sentiment also on the regulatory side, that point in time, then we clearly we are going to reevaluate buyback. But we'll need to get there first. And see when regulators are going to have a different view.

That's on the buyback. Than we had a question on the low interest rates. I'd say that the low interest rates environment is not a problem as long as we take actions. So clearly if we sit here and we say that the world is the same like two years ago, that wouldn't be necessarily a recipe for success. If we are acting diligently and changing the products like we did a few years ago where rates came down and we are cautiously doing the same this time, which we will do, then clearly we are going to be able to be successful also in a lower interest rate environment.

But there is no doubt, that compared to the situation of 2019, the world has changed. So, when you go back to, I would say 12 months ago, maybe -- yeah, 12 months ago, the swap rate, I always look at the swap rate, because that's a relevant indicator for us. That was closer to 1.5 and now the number is basically zero. So the environment has changed, which means, clearly we need to change accordingly to the new rate environment. We are making changes, suggested in the United

States. They have a playbook 1%. They have even a playbook 0% interest rate. So we are making changes in the US, it should be sustaining the business margin, and eventually the performance of the Company moving forward.

We are making changes in the summer in France. And then also in the case of Germany, we expect also to have a different mix and changes that would come in next -- the beginning of next year.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Thank you very much. Just very, very quick follow-up. In the US Life business where it was quite a big loss. Was that mainly due to lower interest rates or was that equity market volatility?

A - Giulio Terzariol {BIO 17125489 <GO>}

No, that was mostly coming from equity market volatility hedging costs, which in a situation like this tend to be more elevated. And then, also a business risk and don't ask me why, but I can tell you I was in Allianz Life many years ago and there business ratio should be asymmetric, that should be positive or negative, there is some kind of correlation when the markets are getting very narrow businesses as definitely a tendency to be negative, I will say. The correlation tends to be one to one. And then, it tends also to reverse by the way in the markets the recovery you see positive businesses. So that's something that's yeah, somehow it's happening all the time and that's part of the volatility that you have on the -- in the Life business. In the VA business, that's also the reason why we decided to somehow not push VA business anymore because it was a little bit too much volatility.

Then, what you also see a little bit is some interest rates impact, because on the IFRS basis and then there is still some sensitivity of the operating profit to interest rate movement. And in this case, there was a big drop in interest rates. But I would say, this is not the primary driver for the decrease in profit that you saw in Allianz Life.

And then, yeah I stop here because I could go on and on but, you know, yeah. If you want, we can have a separate call and I can explain even better, but fundamentally it's due to the VA business.

Q - Nick Holmes {BIO 3387435 <GO>}

Right. That's very clear. Thank you very much, Giulio.

Operator

Thank you. We will now go to our next question from Vinit Malhotra from Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Good afternoon and thank you very much. I hope you can hear me clearly and hopeful as well.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Thank you. So just -- so one is just the PIMCO 1Q market movement of a EUR107 billion. It's close to be quite severe given also the risk we went down. Is there some thinking within Allianz that the credit spread risk of these products should be reviewed or is there some plans to -- so this is under control or just let them be. I just wanted to clarify how you're thinking about this quite a sharp volatility in the PIMCO asset base? And second one is just on the volume. I mean, banking online in the volume was down 1% P&C Group -- for P&C and Allianz. I mean there is obviously some thought that this year is going to be worse than that, over a time of period. So if volume is down, say 2% thinking of that for the year, would it have any problems for the expenses -- expense targets or expense ratios, or do you see any such scenario where that could be an issue? Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. So, maybe starting from PIMCO. The drop in market return at PIMCO was about EUR60 billion of the EUR107 billion that you see there. So just to give you a sense about how much was at PIMCO, if you can see that the size of the portfolio PIMCO, that is not a huge number. But to come to your point, because you're asking there are you taking a lot of credit risk there? No but -- no especially. But you need to consider that the income funds is there to produce income, so you might somehow go a little bit higher on the risk factor, because at the end of the day, you can count that when this volatility is sorted out.

You might generate it to be more income. But also what's important is the typically this kind of income strategy. So when we look at what PIMCO is doing compared to us, running similar strategy at the end of the day, I would say is the same kind of approach. But again, looking at the number as the PIMCO drop due to market return was EUR60 billion and we are speaking the case of being cover EUR1.2 trillion of third-party assets.

On the volume, I think your question was, there is the volume impact. Our ability to achieve our expense ratio would always differentiate anywhere between what might happen in 2020. What is that trajectory for 2021 because, as I was saying before, we feel very, very confident about the progress that we see in our numbers, both on the loss ratio once you adjust what we saw in -- with the COVID in this case.

And also on the expense ratio, if you see we have been able to reduce the expense ratio despite growth which is 1.8%. So it's not that we have a significant decrease in the expense ratio despite moderate growth, I would never make it the story out of the quarterly comparison, because you might have also some different way you're spending expenses sometimes in the year versus another year. But still, the number is pointing out to a decrease. And also thinking I think that's indeed, a 27.3, will even be better, if we adjust for COVID. So now when we look at the rest of the year, yes, we can expect that the annual basis might be coming under pressure for 2020. But we are still committed to do our best effort to get to an expense ratio of 27.5, which is the target that we had for 2020. And we're saying, we can get there. Even if revenue are going to be lower compared to what we have assumed. So this is what we are going to try to achieve. And then, I believe for 2021 as we continue to work on productivity and eventually also the revenue basis is going to normalize from the COVID impact.

And I think, we'll be able to push the expense ratio further down. So yes, revenue might be a little bit of headwind from this point of view, but I believe our productivity efforts as such that we should be able anyway to continue to show good expense ratio numbers.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

Operator

Thank you. We now go to our next question from Farooq Hanif from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks very much. Just referring to that press call that Andrew talked about in one of his questions. You also mentioned a 10% reduction to your Group operating profit. Could you just remind us what kind of your assumptions were behind that? Was that referred to P&C impact only or was that kind of like a global view? And then, returning also to the EUR800 million to EUR1 billion roughly impact in P&C alone, presumably, a large part of that will be revenue reduction rather than claim.

So I was wondering, if you just talk a little bit more about that. Secondly, on social inflation. Impression I got from from previous conversations was, you're expecting maybe potentially a little bit more reserving risk in AGCS in this topic area. Is that now on hold because of what's happening. Can you update us? And lastly, I believe you're still in the process with the SulAmerica deal, can you update us? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, so coming from to the question about the 10% of operating profit for the low, this was just the translation, if you want the 15% to 20% underwriting impact compared to the P&C outlook to scale into the EUR12 billion. So that's basically, that was it same number just put in IFRS to a different basis. And when I talk to the price and now going to be 8.5 or 8.9. So its a rounded number but that's just the same number scale to a different basis. On the question that you have about what is revenue related versus claims related? I would say most of the impact is coming from losses, I would say. And then clearly, in the case of Allianz Partners, where we are speaking anywhere small amount. So here in the case of Allianz Partners, we might be talking about on the underwriting results about EUR100 million deviation, maybe they could be highly depending on how long on the COVID is going to be.

And this is coming mostly from lower revenue. So there will be lower revenue. And in the case of Euler Hermes, almost an aggregate to separate what is lower revenue versus might be a little bit higher loss ratio. But I would say maybe half enough. But fundamentally, I will say that most of the issue is coming from the claim side. And then on SulAmerica, I believe that the transaction might take place in the third quarter. So the original plan was to be transaction completed by the second quarter.

But this might be third quarter maybe it can even be fourth quarter, because of what is happening with the COVID crisis. But I will say, by the end of this year, we should complete the transaction, but is not -- it's not happening in Q2 anymore. And we are working clearly anywhere on preparing from an operational point of view, we are already doing the work to be prepared operationally, to start with a new company once we can close the transaction. That's okay?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah. And on social inflation, any quick comment there?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, sorry on social inflation. Sorry, I forgot that. I would say it's a little bit too early to speak about social inflation. I would say that's for what we saw in Q1, there was nothing popping up on the social inflation side which is there will be rather a good news. What we see in the US maybe is social relevant. What we saw is clearly a lot of price trends, that was definitely the case. When you look at the price development for AGCS will see with a double-digit number. So from that point of view, I would say that on the accident year results, things were going according to our expectation. What can social inflation might do to the result, that is something that we will evaluate later, but there was nothing happened in Q1 to suggest anything that could be relevant. I believe the COVID crisis can create a lot of noise on a lot of drivers, so one, could this change somehow social inflation and the other one, might also be can this change the price trends that we saw towards the end of last year -- in the course of last year and also at the beginning of this year.

Our answer, this doesn't look like this. So at the moment, we still see price trends and when we look at what also brokers are saying or other competitors, it looks like the price trends is still there, but there's clearly something that we need to watch in the next months, whether the COVID crisis might have an impact on the amount of rate increases that we are able to pass through the system.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thank you very much.

Operator

Thank you. We'll go to our next question from Michael Haid from Commerzbank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon to everyone. Two questions, both on life and health insurance. The life new business and the lockdown, maybe Allianz employees and also agents currently work from home so do many clients. Your investments were marginally affected by this in the first quarter, what are your expectations for the second quarter? What is your experience so far, given that we are almost halfway through the second quarter? Second question also on life and health insurance. Your Solvency II ratio fell more than expected, also because you had to deviate from the 97 points of the shareholder profit sharing. So, to what extent do you expect this higher policyholder sharing to come through in the final 2020 results? And should we also expect higher policyholder sharing for 2021 and beyond?

A - Giulio Terzariol {BIO 17125489 <GO>}

So, when you speak about the policyholder sharing and the fell into the Solvency II calculation to what we are going to do in say how we're building so what is that you're referring to? To the mechanics of Solvency II, to?

Q - Michael Huttner {BIO 21454754 <GO>}

(inaudible) in Solvency II.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, okay. Yeah, sure. So I would say the total policyholder participation is the following; when you have a situation like what we had in Q1 but fundamentally, you have a reduction of the annualized gains on that can be on bonds because of the credit spread on shares, there is also -- if you want there's annualized gains are going down and as part of these annualized gains, if you want to have also a sort of policyholder participation -- a deferred policyholder participation there. So these are all kind of buffer that can be used as your under projection of Solvency II model.

So the annualized gains and not just the net part for the policy -- for the shareholder, but also, on the policyholder side. As the buffers are going down because of the crisis, you're going to have less of these cushions in the projection, if the market going up, then clearly we are going to see also if you want a stronger buffer in general and also a stronger policyholder participation offset.

This maybe I told this mechanism is part of our sensitivity. So it's not that this is something that is not part of our sensitivity. And the problem is, that's a no slide when you add up the sensitivity is lead to the total picture and that's the reason why we want to provide a cost effect. Also maybe from a pure modeling point of view, the way we do the model or this policyholder participation might make the estimate a little bit more complicated on this driver, but this is more a model issue as opposed to be from a conceptual point of view or what we are talking about is, when market goes down there are fundamentally less buffer in the system. You need to keep in mind that we are running risk neutral calculation there. So clearly, there is due to calculation that can be kind of finalizing.

And when market goes up, you're going to have more buffer available and this has place the volatility of that you can see in the Solvency II calculation. But this should be reflected in our sensitivity. This is not something that should come on top. And then, you had a question on the Life side, may be I can estimate, I was looking more what is going to happen by the end of the year based on what there is happening.

We think we might be about 5% to 10% down compared to the level of last year. So I'll say that, if you see in Q1 we were 2% -- 2 percentage point up and then I will say that this should revert to a negative number, and we think we might be by the end of the year, above 5% to 10% down. I think it's very difficult to put a number on this -- on the production. What we see, sure that agents are now visiting customers. But on the other side, they are making more and more use also digital tools.

And also, if there is a little bit of a stabilization recovery, we might see indeed a production might even come back pretty strong but working at part of this as of now is that we are going to see, I would say more paint in 5% to 10% drop in production compared to last year, which is by the way, not an issue at all. So, just speaking this -- this is not something that makes a difference. That's sometimes the beauty of life insurance that you are not necessarily dependent on a much premium you're going to make in a single year. What is more relevant is the asset basis and then also clearly the quality of the business and asset basis, but the dependency on the profitability, on the production of a single year, it's kind of limited.

Q - Michael Haid {BIO 1971310 <GO>}

Fantastic. Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Thank you. We'll now go to our next question from Johnny Vo from Goldman Sachs. Please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah, good afternoon. Hi, Giulio. Just a question, just coming back to the business disruption and then calculation plan, I mean have you made assumption with regards to how long the lockdown is from a group perspective or are you allowing the OEs to take the decision with the assumptions they're making with regards to the losses that they are incurring? That's the first question.

The second question is just in relation to the BBB portfolio. Can you just tell me the top three OE balance sheet that have the most BBB on their balance sheet, if you can let me know that, is that US is that Germany and so forth? And then the last question is just the sensitivity of the US life business and the RBC ratio to downgrade of investment grade. The non-investment grade, if we saw a 20% to 25% downgrade of your BBB into non-investment grade, how that would be RBC ratio, just a sensitivity there? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

So, let me start from the last one. I don't say there's change for the sensitivity on the RBC ratio of Allianz leading to downgrades, On that one, we should come back to you. What I can tell you is the Allianz sorry, Allianz Life has already few mitigation action in place. So, even if we have a situation where we're going to see rate downgrades, that's in the case of Allianz Life had an impact on the RBC ratio. We have also mitigation action in place that we can trigger. Then on the question about the business interruption. Now, somehow we're being clearly giving instructions to our subsidiary about the definition that we need to go slow that's also very, very an interesting question, because we can see also that's depending on the line of business.

What is the worst-case scenario, might be a good case scenario, best case scenario for a different line of business and vice versa. So as you go through the SSI's to think about what can happen, and as your run scenario is based on different length of the Corona crisis is you really need to think this through because the worst case in not the worst-case scenario for everybody. So there was also a sense in that we had to consider as we are -- we are considering as we do the exercise. And then on the BBB, I can just tell you one for surely Allianz (inaudible) and the other one is Allianz Life.

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah and the other one is Italy?

A - Giulio Terzariol {BIO 17125489 <GO>}

It was. This is logical to see that country.

Q - Johnny Vo {BIO 5509843 <GO>}

Actually they thought about it.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah.

Q - Johnny Vo {BIO 5509843 <GO>}

You have the only reason why you have to say Italy. Okay, thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

Operator

Thank you. We'll go to our next question now from Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thanks again. Just two questions, one on the solvency. I don't know if you gave us an updated figure. And I think was implicit but I don't know if you have something or you can provide something. And then on the -- the other main topic is on life insurance. So you kind of indicated that the rebates would be small and that or the net impact would be small and it wouldn't necessarily be a substantial offset and one of your competitors has almost the opposite. I mean we have the Portuguese, what do you think I can't quite credit with the actual number of claims because they really a lot, lot I just one -- I'm not sure if I'm missing something here? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Your question on the motor is that the amount of claims is very low that's what you say? or to not to.

Q - Michael Huttner {BIO 21454754 <GO>}

Yes. Okay. (Multiple Speakers) Excuse me just very low. Sorry.

A - Giulio Terzariol {BIO 17125489 <GO>}

Say again. Sorry?

Q - Michael Huttner {BIO 21454754 <GO>}

The claims are a lot lower.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah, no, the claims are -- yeah, absolutely. And we don't say that we are now in a situation we're going to have rebates, by definition in countries like Germany. Now that currently is, we need to see what is going to happen. So what we're saying is that if you just look at the pure decrease in frequency, you or we may come up also with substantial numbers. But then, we are kind of reflecting that potentially some of this benefit there to go back.

Or also we are thinking maybe we are going to have a situation where frequency is going to spike because people might be very excited about being back on the road. So what we say is, if you adjust on the numbers and you adjust as shown that you look at the frequency development that we are seeing up to now and then you make some assumption that we might have also in the month of May, some nice frequency development, the number might look indeed pretty, pretty good.

But saying there will be a little bit naive to think that we can cash all that kind of frequency reduction. Either because of the stakeholders intervention or because maybe the frequency is going to go up. That I can also look, I can get very creative, I can also say most likely a lot of repair shops are not making a lot of business now.

I don't want to see what that makes to the severity once you bring your car to a repair shop. They might go up very, very quickly. That's the reason why we will be a little bit cautious on making the assumption that eventually motor will be going to add the big impact, positive impact. I explained that we are going to have a positive impact, but yeah, we will be cautious. But again we are dealing with a lot of uncertainty here, so we can maybe speculate for how was -- about what might happen.

One, I can tell you -- one thing I can tell you it was that in Q1, we are now reflected all improvement in frequency that we really saw. So we have being kind of cautious and also because then we are -- we have asked, also I'd say the question. It might be that we are just dealing with late reported claims because people in our reporting claims, we saw then clearly, this is not the case of frequency is very low, but fundamentally, we are taking cautious view on that.

But I guess before Q1 because that's something that we know in Q1, definitely, we are not reflected full amount of improvement in frequency in our numbers. On the solvency ratio, today, I will say it's a more or less at a level of the -- at the end of Q1, if you look at equity markets are up, interest rates are down but not much, credit spreads have moved to being widening. So there might be a slight negative. But I will say fundamentally not a big change. And so from that point of view, I will say we are kind of close to the level of the end of Q1. That's okay.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

Michael still there?

Q - Michael Huttner {BIO 21454754 <GO>}

Yeah, that sounds good. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay, great.

Operator

Thank you. We'll now go to our last question today is from Thomas Alford and HSBC please go ahead.

Q - Thomas Alford {BIO 1855071 <GO>}

Sorry, actually I put it up the queue. The question has been answered.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. Okay, no problem. Any more questions?

Operator

We have no further questions at this time. I would now like to turn the conference back over to you Mr. Schmidt for any additional or closing remarks.

A - Oliver Schmidt {BIO 2473131 <GO>}

Yeah. Thank you. Yeah, thanks to everybody who joined the call today. We say goodbye to everybody and wish you a very pleasant remaining day. Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Stay safe guys.

Operator

Thank you. This will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
