Q3 2021 Earnings Call

Company Participants

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

Other Participants

- Andrew Ritchie, Analyst
- Dom O'Mahony, Analyst
- Fulin Liang, Analyst
- Michael Huttner, Analyst
- Peter Eliot, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst
- Will Hawkins, Analyst

Presentation

Oliver Schmidt {BIO 2473131 <GO>}

Good afternoon, everybody, and welcome to the Allianz Conference Call on the Financial Results of the Third Quarter of 2021. As you may have noticed already, we have changed the setup for this call. Among other things, we no longer have an external operator. Therefore, it is up to me to remind you that this conference call is being streamed live on allianz.com, and YouTube and that a recording will be made available shortly after the call. (Operator Instructions)

All right. That was all from my side for now. And with that, I turn the call over to our CFO, Giulio Terzariol.

Giulio Terzariol {BIO 17125489 <GO>}

Thank you, Oliver, and good afternoon or good morning to everybody. And we can go straight to Page 3 of the presentation where we show the numbers for the nine months. And as you already know, we had a very good quarter and also very good nine months results, and this applies to all segments and also to all KPIs. As you see, the growth in revenue was 6%m and this has driven by all segments. Operating profit is 27% higher compared to the level last year. Clearly, last year, we had the COVID effect, but even if you adjust for that, the growth rate to the operating profit will be 9%. All segments have also contributed positively to these developments. The combined ratio is 2 percentage point better compared to last year.

Here, I would say it is more important even to look at the normalization of the combined ratio. We have a combined ratio of 93.9%. The NatCat load is 3.7%. If you adjust the 3.7% to the 2 percentage point that we usually expect in the combined ratio will be basically slightly north of 92%. So there is also a clear sign that if you adjust the numbers for the NatCat, we are very much in line with our 93% combined ratio target, if not even relatively better of that.

On the life side, you see a nice operating profit and also a nice new business margin. Then when we look at the asset management, the operating profit for the nine months is 2.5%, with a cost-income ratio well below 60%, and also flows of EUR90 billion, thereof, EUR36 billion are coming from AGI, which is a very good number, EUR54 [ph] billion are coming from PIMCO. So a very good picture for the nine months.

And when you go to Page 5, you can see also that in the third quarter standalone, we had very good numbers. Here, you can see also momentum on the revenue line for Property-Casualty, with a growth rate of 7%. When you look at the operating profit, we have a double-digit growth in operating profit. And when we look at the KPIs by segment, you can see a slight deterioration of the combined ratio by considering the NatCat load of 4.9% is a very good combined ratio. And then in the other lines of business, you can see a very healthy level on the business margin, a very good level in the life side, a very good level of cost-income ratio. In Asset Management, also positive flows. But I'm going to come back on these numbers later on in the presentation as I go through the segments.

On Page 7, the solvency ratio is 207%, which is stable compared to the level that we had in June or at the beginning of the year. And when you look at the sensitivity, it's pretty much unchanged compared to what we had in the prior quarter.

On Page 9, we are showing, as always, the waterfall. And you can see that the organic capital generation is continuously strong with a 7 percentage point number. When you adjust for the dividend accrual and also for taxes, we have an organic capital generation of 2.5%. The market impact is minus 1%. It's relatively minor, that's coming from a twisting.

If you go onto the curve, especially the credit spread curve, then capital management in total basically, neutralizing itself and then we had negative impact of 5% in tax and other. 2 percentage point of the impact is due to taxes, and then 3 percentage point is due to sort of miscellaneous or small items that accumulated to this 3 percentage point negative impact. Overall, we have a strong solvency ratio, stable solvency ratio of 207%, which is in line also with the level that we had in the prior quarters.

Now, if you go to Page 11, coming to the segments, we had a strong growth in P/C of 7.2%. Clearly, Allianz Partners has contributed to this growth with a growth rate of about 50%. But even if we adjust for the numbers for Allianz Partners, we have about 4 percentage -- 4% of growth. So, overall, a growth -- a good growth rate for the segment.

Overall, we see growth in Germany, we see growth in Australia, in Eastern Europe, in Latin America, Turkey, AGCS, Allianz Partners, as said before, and also Euler Hermes. We have adjusted a few entities, where we are now growing at the moment, and usually, the reason can be pressure on the motor side or in some cases, we are doing pruning in commercial lines. The rate environment is stable with -- and I would say benign with the growth rates for the renewal of 3.8%. And as you look at the different line -- different countries, you can see also that in all countries, the development is either stable or positive. So also from that point of view, we are in a good situation.

Now, if we move to Slide number 13, the operating profit is relatively stable compared to the level of 2020. When we look at the combined ratio, you can see a slight increase of 20 basis points. Here, we need to consider that we had more than 4 percentage points deviation compared to the prior period because of the NatCat. On the other side, last year we had about 50 basis points of negative impact because of COVID, and then this year, we have about 2.4 percentage point of better run-off.

So when you anyway normalize the numbers for these effects, we still have an improvement compared to the prior period of about 1 percentage point. Most of this improvement is coming from also lower weather-related losses, but there is also a little bit of the underlying improvement. But again, when you normalize these numbers, and you get very easily to a combat ratio, which is well south of 93%, it's also for the quarter, again, a confirmation that we are well on track for the 93% combined ratio on an underlying basis.

When we move to Page 15, on the picture by OE, we see that clearly a few subsidiaries have been impacted by the NatCats. Germany, clearly with a 14 percentage point impact, mainly because of the floods, but there were also some storms impacting Germany. So overall 97.9% combined ratio which is a very healthy combined ratio considering the impacts from the NatCats. Also, a very good combined ratio in England, France, Australia, Eastern Europe. Italy, we have a combined ratio, which is a little bit higher compared to what we are used to, but also the NatCats impact was higher compared to what we usually expect to see in Italy.

And then AGCS has a combined ratio of over 100%, but considering the NatCat impact of 16.3%, this is a very healthy combined ratio. So we are very confident that AGCS is going to get to the 98% combined ratio by the end of the year. And then, we have a very good performance in Euler Hermes. So when you put together, overall, a 94.7% combined ratio, again considering the level of NatCat of the third quarter, I would say these are very good results, proving a very strong underlying performance.

On Page 17. On the investment income, we see a decrease of 6%, but this decrease is mainly due to swings in the net harvesting and other, which is basically a swing in the F/X effects. Otherwise, when you look at the development of the current yield, it's is stable. When you look at the interest and similar income, it is even a little bit higher compared to what we had last year. So summarizing for the segment, I would say a very strong quarter. Yes, we had the impact of the natural catastrophe, but the underlying performance continued to be pretty strong.

Now, we come to Life. On the Life side, I'm very pleased about the development of the new business. First of all, you see a growth rate of the present value in the business premium of about 50%. Here, we have also the impact because of a contract -- of an insurance contract that we -- assumed an insurance contract that we had done, but even adjusting for that, the growth rate will be about 30%.

And now, we can see basically growth across the board. Germany is down, but just for the quarter. When you look at Germany on a nine months' basis, in reality, we're growing also in Germany. Then you look at the business mix, it is definitely developing in the right way. Even if you adjust the numbers for the transition for the -- assume the insurance transaction, you see that -- you will see that the mix is definitely going in the right direction.

Now, moving to Page 21. On the operating profit development, we see an increase of about 12%, and this is explained by the increase in loadings and fees, in investment margin, and also in technical margin. So I would say all profit sources have contributed to this increase. Clearly, you see also high expenses, but that's also the consequence clearly of higher production. So, in total, EUR1.3 billion, if you round it the operating profit, which is well above the EUR1.1 billion expectation that we have for the -- usually for the quarter. We will also say that we are at a point where we believe that our rate is a little bit higher than the EUR1.1 billion that we have usually communicated.

And with that, when we go then Page 23. On the value of new business, it is clearly very healthy with an increase compared to prior-year period of 80%. Part of it is also explained by these contracts on the insurance side, but even if you adjust the numbers for that contracts, you see a 45% increase in the value of new business. And I would say that's basically almost all countries have contributed to this development. And also in the new business margin, you see a very strong picture across the board, and the same applies in general to the operating profit. So overall, a strong performance in the Life segment and also a widespread strong performance.

Moving to Page 25. On the investment margin, you see a growth rate of 13%, and that's clearly the combination of two drivers. On the one side, we are increasing the policy reserve, so there is a growth rate of 4%, and on the other side, we're also improving the investment margin, and the investment margin is better compared to what we had last year. This is an increase by about 8%, and I'm referring here to the margin expressing at present. [ph] And clearly when you combine it to F/X, you get to a growth rate of -- which is double-digit.

One thing which is also important, we are growing on the reserve basis. But when you look at the Solvency II evolution, there is basically no increase in SCR because of the growth on the Life side. So from that point of view, I would say there is really a capital efficiency, which has come into play, so we have more reserves, not more capital. And when you look at IFRS numbers, you see an improvement in the investment margin.

Also here, you see that the current yield is much higher compared to last year, and that's because last year, the dividends were pretty low, where now we see a normalization of the dividend payment. And on the other side, you also see that we are continuously reducing the guarantee. So that's a very nice effect because clearly, this development is going to give stability to this ratio as we move forward.

Now, coming to Asset Management. We have now more than EUR2.5 trillion of assets under management. And when you look at the growth of our assets under management, compared to the beginning of 2020, you see a 7% growth rate. If you look at the growth compared to September last year, you see a 12% increase in assets under management. Part of this increase is due clearly to the market development, but in these 12 months, we have been able to record EUR120 billion of inflows. So that's also a very important number to remember. So this increase is not just due to market, but also to a very strong generation of the inflows, which was also pretty consistent quarter-over-quarter.

Now, if we move to Page 29, speaking specifically about Q3, we see flows of EUR26 billion, thereof about EUR20 billion is coming from PIMCO, and then we have about EUR7 billion coming from AGI. When you see the split by asset classes or by regions, you can see that basically there was a contribution coming from almost all asset classes and coming from all regions. And then also when you look at the split between mutual funds and separate accounts, you see that the flows are coming from mutual fund, which is also where we have higher fee margin.

And now coming to Page 31, you can see clearly that the revenue up compared to last year by 16%. When you adjust for FX, and both PIMCO and AGI are growing nicely. And on the fee margin, you see also an increase of the fee margin of about 1 basis point. This is coming from PIMCO, and that is also the effect of basically having a higher mix in mutual fund compared to the separate accounts. So overall, a good revenue growth for the segment, and also when we look at the segment, a stronger fee margin level.

This means when you go to Page 33, that our operating profit is clearly growing. This is the effect of the growth in revenue and also of the operational leverage that you have in Asset Management. So overall, we had a growth rate of 30%. And when you look at the single entities, you see that PIMCO grew the operating profit by about 20%, and I will say, very noteworthy is the development at AGI with a growth rate of 72%.

Also, the cost-income ratio is clearly going in the right direction, especially at AGI. You see a reduction in the cost-income ratio by more than 10 percentage points. When you look at the nine months number for AGI, you see the cost-income ratio of 60 -- of about 61%, also with an improvement of 10 percentage point compared to last year. So overall, very strong performance in Asset Management and PIMCO, but also I would say, an exceptional performance at AGI. So we are very happy with this development.

Page 35, on the Corporate segment, there is not much to say. It's basically a little bit better compared to last year and in line with our expectation.

Now, I turn to Page 37. Here you can see that the non-operating items about EUR300 million lower compared to last year. This has to do with the amount of realized gains, which has been lower compared to what we had last year. When you put all together, we have EUR2.1 billion of net income, which is 2% above the prior period levels, also a good number considering the development of the operating profit, and there we had less realized gains below the line.

So summarizing, a very good quarter and also very good nine months with a growth in revenue, a growth in operating profit. Again, even if you adjust for COVID last year, the growth rate in operating profit was almost double-digit, a good increase. Very healthy increase in net income. Our solvency ratio is stable and much above our target. We have paid between dividend and buyback EUR4.7 billion of remittances to our shareholders. And as you know, considering the strong underlying performance, we have also revised the outlook from upper half of the range to the higher end of the range, or I would say that based on where we are right now, we are very confident about our operating performance in the third quarter.

And with that, I would like to take your question.

Questions And Answers

A - Oliver Schmidt {BIO 2473131 <GO>}

Yeah. Thank you, Giulio. Perhaps before we start with the Q&A session, let me just quickly remind you how you can raise your hand in the new setup. (Operator Instructions) And we will take our first question from Andrew Ritchie. Andrew, go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hello. Hi there. Good afternoon. Giulio, I wonder if you just give us an update on what you're seeing in terms of frequency and severity trends in your key non-life markets, I guess, in the context of activity returning to normal and also in the context of any sort of inflationary trends?

The second question was the media call this morning, you suggested an answer to a journalist that, I think, you could take a reserve related to the Structured Alpha situation before the year-end. I was surprised you are willing to say that. So maybe could you just give us some color why you felt the need to say that? Is there anything you can say in terms of timing where there is a bit more clarity? Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. So thank you, Andrew. So starting from the first question on the frequency severity. I would say regarding frequency, we basically see a normalization of frequency. That's almost across the board. There might be a couple of countries where frequency might be slightly lower the level that we had pre-COVID, but in general, we see frequency pretty much normalized in the pre-COVID level.

In the case of severity, I would say it's -- or if your questions about inflation, I would say, we don't see a widespread increase in inflation, so that is not the case. So -- and then clearly, it is always a different situation country-by-country or line of business by line of business. I would say moto TPL, in general, we don't see increase in inflation, and that's also because, as you know, for the time being, there is no real wage inflation kicking in. So from a moto liability point of view, we don't see that. As you know, we don't have exposure -- a meaningful exposure to workers compensation, but also for workers comp, there will be the same line of thinking. As long as we don't see wage inflation, we are not going to see necessarily an increase in severity.

When we look at other lines of business, which could be also moto and (inaudible) damage, or maybe property. In some cases, you can see a little bit of an increase in inflation, but again, I wouldn't say it is widespread. So if you ask me do we see any impact in our numbers as we speak, no. Do I expect to see any impact in the fourth quarter numbers, not really.

Clearly, we are monitoring this development very carefully. So I would say we have very proactive in monitoring and then we are going to be also extremely reactive. Let's put it this way. If we see that inflation is really picking up and to this point where we are thinking is clearly you can always do tariff increases to offset inflation, but we're also thinking what we can do on the claims management because that's also an area where we can try to offset some of the inflation that we might eventually see. So bottom line, no, not widespread but in some regions, in some countries or lines of business, definitely, we see a little bit of a pickup in inflation. But for the time being, it's not having any impact on our number. So I think we are overall well positioned that we see what is coming in our way.

On the other question which was booking before year-end. No, I didn't say that. So first of all, we are going to do a booking when we had the information to do a booking. I cannot envision that we are going to be capable to do a booking before year-end, but you never know. I -- what I said is, I believe that we are going to do potentially a booking for the fourth quarter when we close the numbers, that's -- but that's also something that I cannot tell you that it is going to happen.

So what I can say is that clearly, we are giving high priority to the resolution of this case, and also we would like to put the uncertainty behind us as quickly as possible. On the other side, clearly, we want to be very, very cautious because we want to get to the best -- to a good outcome from an economic point of view. So if you ask me, I cannot tell you when we are going to do a booking. I don't see us doing a booking before year-end. But definitely, before the year-end closing, we need to think very, very hard about if we can put a number, what kind of number we can put there. I hope this clarifies the topic.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. Then we take the next question from Peter Eliot. Peter, go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much, and first of all, congrats on the great results. And I had three questions, please. And the first one, probably predictably on the AGI cost-income ratio, just wondering if you can help us understand how sustainable that might be? I mean, you seem to be pointing us to the nine months because just now Giulio, rather in Q3, so maybe that's part of the answer. But even for the nine months, I guess, if I compare the divisions to your outlook, Asset Management is the one that's performing by far the best. And I know you said that the outlook was probably most conservative for that division in the part of the year. But I'm just wondering how much of it surprised you? Or whether it's all in line with what you expected after the actions you took? And it's all, so that would be great. [ph]

And the second one was, I was just wondering how the whole Structured Alpha Funds issue affects your thinking on your ability to do share buybacks or other flexibility, M&A or whatever that you might use money for? I mean, even though you haven't disclosed any scenarios for the financial inflations as of yet, I mean I guess, you've got some idea on the back of your mind. And I'm just wondering, do you sort of think of the position net of those? Or do you think now you can gradually allow for them over time? Now, I'm wondering whether the solvency ratio might become more of a binding constraint. So just how you're thinking about that, that would be very helpful.

And then thirdly, I just wanted to ask about cyber insurance actually, because obviously, prices have rocketed up recently and it's being attributed to increased frequency and severity of losses there. And I know we covered that inside Allianz -- there as well, but I was just wondering if you could update us on your sort of assessment of the risk there, just given that it's a very young and volatile business. Yeah -- so that will be great. Thanks so much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you, Peter. And starting from the first question, AGI. Yes, the reason why I pointed out the 61.3% was just to say the right expectation. So I wouldn't say that 57.3% should be the cost-income ratio that we should expect moving forward for AGI. I believe that AGI can operate at a 61% cost-income ratio clearly because that's where we are already. Now, in reality, I don't know whether this is going to be the real target that we are going to have for AGI because to a certain degree, we want always to allow also for the possibility to do additional investments.

So I would say that 62% to 63% could be a cost-income ratio of target that we have for AGI, and this would anyway mean that we have the ability to operate lower than this. So that's the important thing. So it is like for PIMCO, right. PIMCO, we have basically -- and at the end, then we'd like to ramp PIMCO as not above 60%, so slightly below 60%. We know that if you really want to just go in savings moat, we can run 55%, maybe so 56%. So there would be a little bit of philosophy that we are going to run also with AGI. So I believe we're going to fix at 62% to 63% cost-income ratio target, knowing that this can invest -- either a possibility to invest in good times or some protection in the case, you know, we go through the periods where revenue could be lower because, as you know, Asset Management can be also a little bit volatile.

What I can say, we are in a good spot, so that's really a good spot to be. We made a major step change. If you ask me, I would definitely say that's been a step-change in the cost-income ratio of AGI. You can see also the inflows are really, really good, EUR35 billion of flows, that's something that AGI never had before. I can tell you, it was October, we had positive flows of EUR2 billion for AGI. So I believe this company is now performing at a different level, so from that point of view, I think we are starting from a position of cost trend. That's on the AGI question.

On the Structured Alpha, whether this is changing our thinking regarding capital deployment? I would tell you, not really. I don't see that we have a constrain on the Solvency II ratio for the kind of investments or deployment or buyback that we want to do. So at the end of the day, clearly, we want to input some numbers around Solvency II and adjust our Solvency II ratio down. I think you can do the exercise that where you would like to do. I believe, you are going to come straight to a Solvency II number, which is well above our 180% level.

And I would tell you just since you're asking buyback, let's say EUR1 billion buyback is a couple of percentage points of our Solvency II ratio, so I don't feel that there is any constrain. When we think about EUR1 billion buyback, EUR1.5 billion buyback, I don't see that. If we start talking our capital deployment of EUR5 billion, EUR6 billion, that's a different story. But as long as we are speaking of the normal steady capital deployments, I would say there is no constrain at all, so we feel we have all the flexibility that we need to have in order to pursue the course of action that we had before Structured Alpha, and also stay tuned because we might also do back book transaction in the course of the next six to 12 months, and that can also somehow provide additional Solvency II ratio. But even in the absence of that, I'm very confident we have all the flexibility in the Solvency II stage [ph] that we need to continue with our strategy like before Structured Alpha came into our life.

And the last question on cyber insurance, I tell you I -- we are very cautious. I'm personally very cautious. I know that price is going up, but I don't know who is going to win between price frequency, severity, all these kind of effects that you need to consider. So we are extremely cautious. So we give -- we do some cyber but in very limited amounts, and this means that we have a very low capacity risk and also, we have a pretty strong reinsurance program around it. So which means we are not really going strong in this market at all. So from that point of view, if you ask me, do I see cyber to be an engine of growth and profitability for Allianz in the next two, three years, the answer is no. This also means anyway there shouldn't be an area of risk because we are taking a very cautious positioning on cyber.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Giulio, thank you very much. Very clear.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. Thanks, Giulio. And we will take our next question from Michael Huttner. Michael, please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much, and yeah, well done to these results. And my first question and I'm really puzzled -- I mean, it's getting on the same topic. How much of your time is spent thinking at the Board level or personally, or when you have general with somebody on Structured Alpha? And -- because clearly, it's the only topic which I believe investors are thinking about at the moment. So I just wondered how big the disconnect is?

And then the other more kind of boring question. 93% you used to mention that as a target for the combined ratio for the year. I haven't heard it in this call, but maybe I missed it. We're talking about underlying which may not be quite the same (inaudible) And you said something about buyback deals or backfill transactions. Just wondered if you could give a little bit more of an update.

And then the final question is on Italy. I was really surprised. I know it's NatCats and stuff, but I have been figuring [ph] to see 88% or 86% combined ratio. Just wondering are these value drivers? [ph] Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you. So starting from Structured Alpha, no, I don't talk to my wife about Structured Alpha. She would divorce me. She is a saint (inaudible) when we're talking about Structured Alpha. But otherwise, clearly, that's something we're as a Board or management we're spending time. But the reality is we spent a lot of time also on underlying performance, and as you will see, the underlying performance is very good. And I'd like to highlight also again the underlying performance, specifically of AGI is very good. So we let this -- yeah, we let this for Structured Alpha.

Now, coming to your question regarding the combined ratio. I think your question was how we look at the combined ratio in the 93%, and how we look at the combination normalized? So I'll just tell you, so as of now, I would say that if we just take a normal course of action, our combined ratio by year-end is going to be above 93%. And if you were to ask my number, I would say this should be about 93.5% based on a normal level on NatCats in the third quarter, and you know, we have also an aggregate which is going to kick in. So that will be my expectation.

Yeah. Can we go to 93% if we really want to? Yes, that would be possible because we have clearly the balance sheet strength to get there. But I believe it makes more sense to focus on the underlying. And so I will say is going to be very clear that if we close the 2021 with a combined ratio of about 93.5%, with the NatCat load of about 3 percentage point, you're going to see that the run-off is very normal. I think everybody is going to be -- is going to have a very good picture about the fact that we are in the 93%. In the Capital Market Day, we are going to anyway talk about the target for the combined ratio moving forward, and also consider that overall, we are having very good results in Asset

Management and also in Life. So I think we are very happy with our operating performance and so I don't see the need to push the combined ratio, and as you can appreciate, the combined ratio is definitely at a very good underlying level. So that's on that topic.

On Italy, because you were asking, I believe about the combined ratio of Italy. First of all, usually in Italy, we would expect a couple of percentage point of NatCats. Now, we had about 4. [ph] So if you normalize for that, you are 89%. And then I would say there is some pressure on Italy on the moto side. The competition is pretty tough there, so -- and we are also a little bit cautious, most likely as we think also about reserve inflation, the pickup in severity that we might see in the future.

So from that point of view, there is a little bit of that too, but also I just tell you and we -- I think we talked about that already in the past. We should not expect Italy always to perform at 83% or 85% combined ratio. So we need also to understand that the combined ratio of Italy is still going to be very, very good and very healthy, but it is not going to be 83% that we have seen for a few years in the past. But that's always been part of our line of thinking, so from that point of view, there is no news here.

On the back book, we are continuously looking at where it makes sense to do some transactions. You saw that we did a transaction in Switzerland just a few weeks ago. We are potentially close to do a very small transaction in France, and we are looking at other opportunities, always there. In the case of France and Italy, we are not necessarily just doing back book transition in the sense of doing reinsurance contracts, but we are also looking at reworking some of the contracts or to do transfer from legacy products to new products. And also we are looking at opportunity, I would say, in other countries about how we can clearly optimize our capital situation on the Life side.

Keep in mind that our RoE in the Life is about 12 percentage points. So we have fundamentally a healthy business, so that's something to keep in mind. But clearly, as we see opportunity to make RoE in ANCI [ph] transition, we are going to do so. And to give an idea of Switzerland. In Switzerland, we had over the last year, an RoE of 10%, which is not a better RoE, by the way, for Switzerland, very stable market, 10% now based on the transaction that we have completed, whilst we are going to get a capital upstreaming, which is going to happen in 2022. Then by 2023, we expect the RoE in Switzerland to be 13%. So that's I think a good example of how we can lift the RoE from 10% to 13% through a transition. And I would say that if you have a 13% RoE in the Swiss operation, I believe, it's a very stable Swiss operation. I think that's a very good number.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. That's so helpful. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. Then. We take our next question from Fulin Liang. Fulin, go ahead. We will open your line now.

Q - Fulin Liang {BIO 21126177 <GO>}

Hi. Good afternoon. Thank you very much. Three quick questions. The first one is you upgraded your normalized capital generation again from 10 percentage points to 12 percentage points, and then your quarterly capital generation is like 2.5 percentage points or 3 percentage points in the last two quarters, despite very heavy NatCats. Can I take this like 2 -- 2.5 percentage points, 3 percentage points as a new norm quarterly cap gen? So that's the first question.

And then secondly is, your Euler Hermes, if I remember correctly, you kind of guided that the -- we should expect to see a higher operating profit after the government scheme finished. But if I look at the operating profit from Q2 versus Q3, they're very similar. So am I missing anything there?

And then the last question is, I just wanted to understand what is your liquidity capacity or limits in terms of if you agreed on some kind of settlement with (inaudible) Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yesh. So on the organic capital generation, I would say yes, you could say that the new normal is to have a capital generation of 10 percentage point per annum. Now, there is always one thing to consider. So, in reality, there is also a capital strain in P&C, so if we -- it makes a difference if you go 3% in P&C, if you 5%, 6%, 7%, 8% in P&C. So from that point of view I would always say that there is that element that can depend subject to the growth rate subtract to this 10%.

The good news is on the Life side, we don't see basically any increase in SCR and the business evolution because even if you're growing pretty strongly on the Life side and new products are very efficient and then we had a release of SCR coming from the in flows. So from that point of view, I think that's a very good news that we are not so basically increasing our SCR for Life.

And then on the P&C side, it depends on the growth rate, you might have more business evolution or not. So, for example, if you see in this quarter, the business evolution is 0.2. This is coming from P&C. I believe last quarter, the business evolution was about zero. So fundamentally, yes, if you ask me to give you a rough indication of our Solvency II organic generation, we will point out to a 10 percentage point.

The other question was Euler Hermes. I would say, first of all, technically speaking, you have a slight increase in operating profit in Euler Hermes in third quarter versus Q2. Now, the point is also that in Q2, we had a substantial release of run-off, and this quarter, we have also some release or run-off in Euler Hermes, but to a lower degree compared to what we had in Q2. But if you look at the number of third quarter for Euler Hermes, it is EUR130 million. If you annualize that number, we are speaking of EUR120 million, and before COVID, Euler Hermes was running at about EUR450 million of operating profit. So that looks pretty good indeed.

And the last question, can you please --

A - Oliver Schmidt {BIO 2473131 <GO>}

Liquidity capacity.

A - Giulio Terzariol {BIO 17125489 <GO>}

The liquidity capacity. Okay. We have ample liquidity. So really, you should never be concerned about our liquidity position because we have a lot -- plenty of liquidity. And I would say, first of all, we have liquidity, let's put it this way, from a -- we think like a -- from a corporate holding point of view, but you need also to consider that our holdings also the reinsurance company at the same time. So from that point of view, we have also access to liquidity from the insurance portfolio. But we don't even take into account for that. We just first run with a healthy level of liquidity at the corporate holding level, but we can always access other liquidity sources if needed. So liquidity, we have ample amount of liquidity.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right, Fulin.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

Good. Then we will take the next question from Will Hardcastle. Will, you are next.

Q - Will Hardcastle {BIO 22230376 <GO>}

Afternoon, everyone, and hope you're well. Two questions from me. The first one Solvency. Is there any possibility you can help us to understand the 5 percentage point move in tax and other? I'm sure it's a lot of small moving parts, but any color there might be helpful. And the second component is just on AGI. I guess, one risk is that consultants may look to, I don't know whether the word is downgrade opinion or recommend clients to switch away from AGI at some point, that's always been the tail risk I guess. Have you experienced any of this year-to-date? Any color there would be helpful. Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. No, thank you. So starting from Solvency II, when you look at the 5 percentage point of impact on Solvency II, 2 percentage points, about 2 percentage points is coming from just tax, so there you need to reallocate to the operating earnings or market impact, which in this case, has been zero. So the rest is basically about 3%. And so when I look at the split of the 3%, I can tell you that about EUR200 million, so let's talk about EUR200 million, right, 0.5 [ph] to EUR200 million. EUR200 million is basically coming from the tax offset, so we have less tax offsets compared to what we had before.

Now, just to give you an idea, the tax offset is over EUR5 billion, so now that you have EUR5.2 billion of tax offset, or EUR5.4 billion tax offset, that's really coming from where you run the model and what kind of -- which companies are going to contribute in the given scenario to our SCR. So there is really noise, but this already explained basically about 1 percentage point or the 3 percentage point you were referring to. Then, we have also some minor updates -- assumption updates. Then, we have an expose update that can be also about 50 basis points. And the point is when you calculate the Solvency II SCR, you need to make basically a projection about what you expect your premium exposure to be next year. So if you are planning for -- with premium growth, this is going to lead to a high SCR right away. So that's what we put in other.

When we do the business evolution, we put under the business evolution, the effective increase in premium. But when you run a Solvency II model, you need already to consider for the expected premium increase. So that will be about 50 basis points. The diversification is a little bit less, then you get other 50 basis points. And then if you want, I can bother you with some other very technical stuff, but really, we are speaking of very minor amounts and they accumulate in the same direction. But, for example, the exposer update, that is very simple to understand. This means that we are anticipating the next year, we are going to have a higher level of premium compared to what we currently have, yeah. This helps?

Q - Will Hardcastle {BIO 22230376 <GO>}

Yeah. It does. It does indeed.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes. And back end always organizing one-on-one with our exercise (Technical Difficulty)

Q - Will Hardcastle {BIO 22230376 <GO>}

Please. Please (Technical Difficulty)

A - Giulio Terzariol {BIO 17125489 <GO>}

(Multiple Speakers) more losses because then you will see certain losses -- yeah, expected losses in quarantine, [ph] and clearly, it's -- you know, you have EUR42 billion, EUR43 billion of SCR, so you just need small movement here and there, and this can -- this is really just a small noise.

On AGI, on your question about the consultants. Yes, there could potentially be a risk. We didn't see this yet. As I was saying before, we had EUR2 billion of inflows, that's AGI in October, and we had also positive inflows in September. Please keep in mind that in reality, the AGI institutional business in the US is not really crucial, let's put it this way, for AGI, and also keep in mind the Structured Alpha is really a specific strategy. So from that point of view, I cannot exclude that we might see some consultants suggesting to the clients to go somewhere else, but it's not something that we saw such therefore it was a very specific strategy and in any case, the institutional invest -- institutional business in AGI is not the -- by far not really the primary source of revenue for AGI.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. And then we will take our next question from Will Hawkins. Will, we will open your line now

Q - Will Hawkins {BIO 1822411 <GO>}

Hi. Sorry. Can you hear me?

A - Giulio Terzariol {BIO 17125489 <GO>}

Yes, we can.

Q - Will Hawkins {BIO 1822411 <GO>}

All right. Thanks, Giulio. And you've already said useful stuff about the ability to do buybacks, which I think was mostly focusing on the kind of flow that you're generating each year. Just -- with regards to capital management on the balance sheet, I have seen some of the big volatility that we know could be around the corner. What's your intended direction of travel for this Solvency II ratio because the difficulty for me, as you know, the only figure you put out, there is a target of 180%, and you're massively above that. And so I don't know if we should always be considering a massive cushion, or if -- you should be running your balance sheet more efficiently? So given the around 210% at the moment, structurally is the intention to keep it at that level to get the ratio back down to a more efficient level? Or maybe even to be building the cushion up? I mean, when you used to have a ceiling, I think it was 220% or something, but I know you dropped the ceiling. That's question one, please.

And question two, forgive me if I missed it and tell me if I do and I'll go back and read the transcript. But when you were talking in detail about back book transactions, I don't think you refer to the US, which clearly is the market that's most in focus at the moment. Can you just remind us, you've always been really committed to your US portfolio and I'm proud of it, and what is the size and nature of the kind of business that you may be looking to exit from in US Life?

And then lastly, just very briefly. You've done another RT1 debt issue. You've already been very clear about your confidence on liquidity. But what's the overall direction of travel for debt leverage from here? Are you at a level that you want to maintain? Could you be issuing more debt or bringing it down again? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you, William. So on the -- maybe starting from the last one, or from the amount of leverage that we have right now from amount of hybrid. I would say, we are planning to be stable, you know, then clearly over time, the idea is to increase the level of hybrid based on the increase in the size of the business. But as we go into, let's say, next year, the idea will be to keep the amount of hybrid flat, which means since the business is going to grow automatically, that would also mean in reality, a lower leverage ratio. So from that point of view, you should expect stability on the amount and leverage ratio, which is slightly decreasing. And then, you know, we usually wait a couple of years, and then we do again a bump in the hybrid in order to to keep a certain level. So that's the way we are thinking about our hybrid issuance and our leverage ratio. But as you think about the next 12 months, so you can expect that we are not going to be particularly active on increasing the amount of hybrid.

On your question about the USA, as you know, fundamentally, and as you said the business is high quality, we might be looking at the insurance, also of fixing this annuity and also VA, so both. That can be depend clearly on what kind of offer we get. We can go down both routes, but we are also believing that there is a possibility to monetize value on fixing this annuity side. So that's definitely an area where we are taking a look if we can do anything there. So that's something that we might have also some news in the not far future.

And then the other question was on capital efficiency. Sure, if you talk to our CFO, our CFO is always going to be for capital efficiency. So the idea clearly is not to around with a solvency ratio which is -- look, if you ask me, I'm really not in the camp of let's advertise the solvency ratio 220%, 230%. I don't think this is healthy. So I'm not in the competition to add a higher solvency ratio of the industry. There is no other way I think about solvency. I believe capital is something that you need to add enough capital to be sustainable, to be resilient, but you want also to add the least amount of capital in order to be as efficient as you can.

So from that point of view, as we are working to also reduce volatility of the ratio, if we can bring this -- our target level down or the axis that we keep over the target level down, that is something that I would definitely say will be a success, and that is also something that we are working on. And some of the back book transaction might help in that direction. Not necessarily any transaction in the US would not necessarily help from a volatility point of view, but transaction in Europe, that can bring down the volatility and then they can also help us to bring down the target level, to bring down the axis that we keep on top of the target level.

Q - Will Hawkins {BIO 1822411 <GO>}

Thanks, Giulio. Would you be able to also help size your US back book under review? I think it's been quoting tens of billions, [ph] but that's obviously a pretty wide range.

A - Giulio Terzariol {BIO 17125489 <GO>}

No, I don't tell you right now. Once we have news, I will give you all the details. But as of now, you think anyway the US, right. So the US, you don't speak about EUR5 billion, you speak about -- more about. At this point in time, I don't want to go too much into further details. Sorry about that.

Q - Will Hawkins {BIO 1822411 <GO>}

Thank you very much. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. Then we will take the next question from Dom O'Mahony. [ph] Dom, go ahead, please.

Q - Dom O'Mahony

Hi, folks. Thank you for taking the questions, and a couple from me. One, just turning back to the Asset Management business, and I guess this is a broader point about performance. And you might have thought from the outside that the reduction in bond yields, notwithstanding the recent increase, might make fixed income a bit more challenging to play as an active manager, given that the fees consume more of the yield. That hasn't seemed to [ph] happen to you. You have very strong mutual fund flows and fixed income. Is that the sort of pressure that you're seeing across the industry? Or you're just avoiding through up -- very good performance of funds? Or are there other factors to think about in terms of why we should think that both flows and revenue margins there should be sustainable at this level?

And then the second question, and I hate to ask you a question about Structured Alpha, and I understand there is nothing you can say about the specifics. But I wonder if you could help us understand what the prerequisites would be setting a provision? Are there any technical things that need to happen for you to be able to set a provision, maybe requirements from an accounting perspective? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Yeah. Starting from the first question about our performance in Asset Management. Yeah, it is a financial performance clearly. So when you look at the performance at PIMCO, but also AGI, by the way, it's definitely a very good performance, and this is definitely helping to sustain very healthy flows. And you can think also especially, where rates are very low, it is really critical to have somebody that can produce some extra yield is even more relevant. So from that point of view, that's definitely the component number one. But then

I would not underestimate also the distribution reach. AGI has a very strong distribution, especially in Europe, and also in the US, the distribution strength of PIMCO is pretty strong. They have also invested in quality distribution.

So it's a combination of performance and that's the primary driver. But then I would not underplay also this distribution aspect. But that is also the reason why -- as I was saying before we are not necessarily looking to run these companies at the lowest possible cost income ratio because we want to invest also in distribution. We want to invest in technology. So that's part of the equation. You know that you cannot aspire to have a very strong and positive flows, but then you are going to be basically keeping these companies under investors. So when you put all together, anyway, you can see a very strong picture.

On the litigation side, on the Structured Alpha side, at the end of the day, all what you need is to have more clarity and time in order to get to a better understanding of what possible range might be that's what we need.

Q - Dom O'Mahony

Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. We will take the next question from Vinit Malhotra. Vinit, the line is open for you now.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Thanks, Giulio, for taking my question. Just -- so one question, just back to -- sorry, the AGI. I mean, it is remarkable we're talking about AGI. You said what EUR40 billion odd [ph] flows since supposedly this event took place. But I mean going forward, do you think that when you said 62 to 63 [ph] kind of cost income ratio, does that consider the risks of greater compliance cost or other regulatory potential burdens? And I'm just curious as this thought is somewhat in the number of should we think about that going forward?

Second thing is on the Life side, and I'm just zooming in on the capital-efficient products which obviously, the headlines are very appealing, 350 range, [ph] for a while used to be 200 plus, 225 [ph] sort of range of operating profit. But I also note that pre-DAC, the number isn't that high in the capital-efficient product segment. And now it's two quarters in a row that pre-DAC was far lower than the headlines, how should we be thinking broadly about capital-efficient products? And whether we are now at the cusp of this 330, 350 [ph] kind of quarterly run rate? Or should I be reading more into this pre-DAC number, and then thinking that we've had a few lucky quarters in capital-efficient products? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So the first question was about AGI. And whether I think the 62, 63 cost income ratio could be much different, if we have to step up our compliance results. I don't think see so. In the same sense, I don't believe that we have any particular compliance issue or control issue at AGI. So from that -- I can see that maybe here and there, we need to strengthen a few things, but I don't believe this is going to be a primary driver for the cost-income ratio with AGI moving forward. So I would say that 63 cost income ratio should be achievable, even if we need to step up our compliance effort.

A - Oliver Schmidt {BIO 2473131 <GO>}

Yeah. Yes. And Vinit, if I may just add one comment here. I think it would be rather the opposite because one big driver for this cost income ratio reduction is complexity reduction on the product side among other things. And with less complexity, it would be much easier to keep things under control.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thanks.

A - Giulio Terzariol {BIO 17125489 <GO>}

So -- and then coming to the question about the CR. [ph] First of all, I don't think we had just a few lucky quarters. So I would say that we should see a good development of our production, also our operating profit in CR. One thing to keep in mind is there is a special effect in the way we are calculating operating profit on -- in Germany because basically, you need to do -- we do a (inaudible) for GAAP. And when you do the (inaudible) for GAAP, we apply basically 90% policyholder on the (inaudible) but in reality, when you look at the statutory accounting, you have a 50% policyholder set on the acquisition costs. So you get basically technically speaking, sort of acquisition cost drag. And since that's the area where Allianz revenue is [ph] growing then you get this acquisition cost drag into the numbers of CR.

So from that point of view, as this business, let's put it this way, is maturing, we are going to see in reality, higher growth of -- even higher growth of the profit in CR. But I would say that the ratio is pretty clear, so from that point of view, you're going to see how the contribution of this business is going to grow also in terms of operating profit over time.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you.

A - Oliver Schmidt {BIO 2473131 <GO>}

Okay. I have one last caller here on my screen in the queue. So, Michael, welcome back. The floor is yours.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. It's a big privilege. So two questions. One is really, really tricky one and you might have answered that, and then I have another. So, on the tricky one, there was a lovely dinner yesterday organized by one of your peers, actually. And clearly, or I could interpret that the investment they made in bringing all their guys together in London, saying that they're the new Allianz. Is that a potential concern for you that you know as a result of all these things, your rating might sustainably be lower which would kind of reduce the pool of deals you can do in all sorts old fashion? I don't know, to build the consequences, something basically asking for this Structured Alpha.

And then the kind of geek question is that, so you're now into the agreements [ph] for NatCats and NatCats have been high this year. Is this something where you think, oh, I want to buy more reinsurance, or reinsurance is so expensive, I want to buy less? How this looks like?

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay. So I understood the geek question, though I didn't understand the first one. Can you repeat the first one? That's the only, yeah.

Q - Michael Huttner {BIO 1556863 <GO>}

Sure. And relative to access effectively, my interpretation saying we have a new Allianz. We have new guys who are going to deliver and look at us, we are shiny when you -- obviously, it's going well for us, which basically means that the rating could improve and they can then consider deals which are more expensive and relative you might like a little bit, and therefore that could reduce the opportunities you might see in terms of deals you would. Your cost of capital goes up, so your pool of deals reduces a little bit. Is that a kind of broader concern considering Structured Alpha?

A - Giulio Terzariol {BIO 17125489 <GO>}

Okay, got it. So I never talk about peers, so I don't have any comment to make, and I wish everybody well. And on the other question, the geek question. So reinsurance, I will say the following. We have been looking at our reinsurance structure because clearly, we know also that there would be an increase in premium -- reinsurance premium coming our way. So we have looked at different reinsurance structures, but at the end of the day, we achieved the conclusion, our program is pretty good, so we are comfortable with the program. We might be doing some tweaking to the aggregate level, so there is more about the attachment point and the capacity, but fundamentally, we are not changing our insurance structure.

From a pricing point of view, I would say, we are generally a very good account, so from that point of view, yes, we expect to see some increases. But in our case, since we have a good account increase, it should be more moderate. And anyway, these are also increases that clearly we're going to put into our calculation for our premium.

So from that point of view, the answer to your question is, we have analyzed different options, but eventually, it's going to be pretty much business as usual with respect to our reinsurance program, just with some tweaking. And right now, we are going by the way through the negotiation, so let's see what comes out of the negotiation.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you very much. Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

You're welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. I just got another caller. I don't see a name here. So whoever you are, we will open your line now. Go ahead, please.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. Hi. Thanks. Vinit again. I just had two questions on.

A - Oliver Schmidt {BIO 2473131 <GO>}

Vinit, hi. Yeah.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry. Okay. Sorry. I just had two questions which I didn't ask at that time. One is on the pricing trend. I mean, I was a bit surprised to see AGCS report a lower 3Q pricing. I think it was about 9% of the 15% advantage. [ph] I mean is it driven by some of the fronting business noise because otherwise in the market, everybody is talking about some reduction but not such a reduction. So any comments on that, please?

And secondly, just on the P&C ordinary investment income. The private equity continues to be a strong complement or supporting complement. And is there are any better view now whether this is sort of cost sustainable? Or what should -- how should we think about that? Thank you.

A - Giulio Terzariol {BIO 17125489 <GO>}

So starting from AGCS, yes, okay. The growth rate of AGCS was also partially because of fronting. If you adjust rate anyway, we had a high single-digit growth rate. This is also consistent by the way with the change in renewal that you see. And your point about people seeing some reduction in pricing strength, that's to a certain degree true. So if you see our number is 15% for the change in renewal, that number was I believe slightly above 20%, last year. So there is a little bit of decrease but it's still a very healthy environment, and you need to that this rate increase is accumulating, right. So the accumulate compared to what we got at the end of 2019, what we got throughout the course of 2020, and then you have also clearly the rate increases we are getting as we speak. So there is a decrease rate increases, but still, very healthy rate increases, and think about the accumulation effect, this is definitely very healthy for the combined ratio.

Otherwise, with respect to the investment income, what we are seeing right now compared to last year is more dividend coming also from private equity funds that we have. So this is definitely helping the interest and similar income. As we move forward into 2022, '23, we still expect to see some pressure because of the low-interest-rate environment. But clearly, this pressure is diminishing over time because positive portfolio has already been turned into the lower interest rate environment.

So from that point of view, I wouldn't say that we have a bottom right now, so we are still going to see potentially some pressure, but not to the same degree that we saw over the last three, four years. So if you remember, a few years ago, our investment income was EUR3 billion. Now we are closer to EUR2.5 billion. We are now going to loss EUR400 million [ph] of investment income in the next three years, so we might be a little bit lower than the EUR2.5 billion, but not significantly lower than this. So I would say that the worst is behind us.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Great. Thank you very much.

A - Giulio Terzariol {BIO 17125489 <GO>}

Welcome.

A - Oliver Schmidt {BIO 2473131 <GO>}

All right. So we have no callers left in the queue, therefore, this concludes today's conference call. Thank you very much for joining this call. And we say goodbye to everybody and wish you a very pleasant remaining afternoon.

A - Giulio Terzariol {BIO 17125489 <GO>}

Thank you, guys. Have a good rest of the day.

A - Oliver Schmidt {BIO 2473131 <GO>}

Bye-bye.