S&P Global
Market Intelligence

# Allianz SE XTRA:ALV

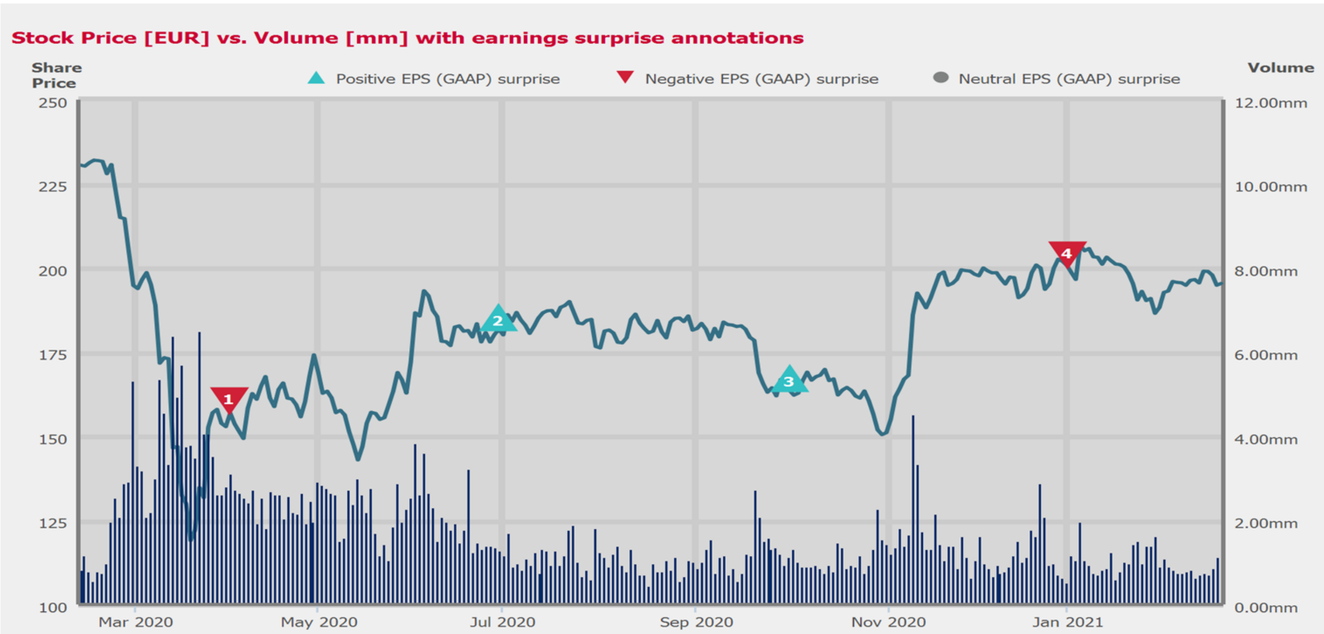
# FQ4 2020 Earnings Call Transcripts

## Friday, February 19, 2021 1:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ4 2020- | | | -FQ1 2021- | -FY 2020- | | | -FY 2021- |
|---|---|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS |
| **EPS (GAAP)** | 4.64 | 4.39 | (5.39 %) | 4.73 | 16.14 | 16.32 | 1.12 | 19.50 |
| **Revenue (mm)** | 33446.00 | 35585.00 | 6.40 | NA | 138869.46 | 140455.00 | 1.14 | 141072.01 |

Currency: EUR
Consensus as of Feb-19-2021 5:19 PM GMT




- EPS (GAAP) -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ1 2020** | 4.00 | 3.21 | 1 (19.75 %) |
| **FQ2 2020** | 3.40 | 3.73 | 2 9.71 % |
| **FQ3 2020** | 4.04 | 4.89 | 3 21.04 % |
| **FQ4 2020** | 4.64 | 4.39 | 4 (5.39 %) |

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# Call Participants

## EXECUTIVES

**Giulio Terzariol**
*CFO & Member of the Management Board*

Oliver Bäte
*Chairman of the Management Board & CEO*

**Oliver Schmidt**
*Head of Investor Relations*

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# Presentation

**Operator**

Ladies and gentlemen, welcome to the Allianz conference call on the financial results 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 conference over to your host today, Mr. Oliver Schmidt, Head of Investor Relation. Please go ahead, sir.

**Oliver Schmidt**
*Head of Investor Relations*

Welcome to our conference call. I hope that you're all well and safe.

I'll let you know, we will squeeze in 2 presentations today, so I keep it brief. And I hand over directly to our CEO, Oliver Bäte.

Oliver Bäte
*Chairman of the Management Board & CEO*

So good afternoon from Munich, Friday after lunch time. I still hope that you have tons of energy. We have some to share today for you.

I would like, as usual, to give you a brief overview how we see the situation for '20 and a little bit of an outlook for '21. I know that you're very interested in this one. And then Giulio will, in the usual high quality, go through all the details and hopefully answer all the questions that you may have.

We would like to start, and I'm going to give you always the pages of the document that I'm going to be on. And I would like to start with Page A 5 (sic) [ Page A 3 ], and you've seen the presentation already.

Just a quick recap: EUR 140 billion in revenues, EUR 10.8 billion operating profit, EUR 6.8 billion net income. And we have kept our dividend flat to last year, and we are very happy about that. I would like to remind everybody that we are operating in an environment where the European regulator has been saying we shouldn't be paying dividend. We have a very good regulator in Germany that looks at the facts. And over the last few weeks, we had very intensive discussion with our supervisor, the BaFin. They have stress test the solvency. They have stress tested cash flow. And they've really looked at our plan. And then approved the payment of our dividend and the enforcement of the ratchet. And we are all very happy and proud that we've achieved this outcome, which was by no means clear, not because of Allianz, but because of the regulatory environment, which will remain difficult.

And I'd like to say it upfront. We, of course, we're thinking about whether we would be able to reinstate share buybacks, which we would like to do, or maybe at some point, even increase dividend earlier than anticipated. Under the current circumstances, we were advised that we are good to go with the EUR 9.60. And then we will rediscuss towards the Q3 and Q4 with our supervisor when we can reinstate increases in payouts. And you should know that whatever we can't invest into the growth of the business, as over the last 5 years, we would like to return to shareholders. That is the clear intent and the clear thing that we'd like to do.

Now however, that needs to be balanced with a very, very strong balance sheet. We believe that Allianz has to be the bedrock of our industry in terms of resilience. We have a very large balance sheet to defend. And we are very happy that after the shock in the first quarter for the industry and the world out of COVID and market corrections, we brought back our solvency to 207%. Giulio will talk about the fact that also, if we buy -- call back the RTIs (sic) [ RT1s ] in a couple of weeks, that solvency would still remain at 203% or higher.

ROE was 11.4%. Now it's the number, and that's what the number is. It was affected by EUR 1.3 billion in COVID impact, EUR 1.1 billion out of Property-Casualty, EUR 200 million in life and health. Now you always have to think about how you benchmark these numbers. In difference to other companies, we have not included effects on investment income. I think that's very important because we have various definitions of what COVID impact.

We believe, I believe, we've taken one of the most conservative estimates on what COVID impact has been because we believe it's one of the most honest. We have to deal with capital market volatility as part of what we do. The COVID impacts that we have accounted for in P&C and life are really extraordinary and directly affected by what has happened in business interruption and other items. Financial income hits, which have, by the way, also been significant but very well-managed by our colleagues and AIM, have not been included in this number.

So that means we would have been at or north of our midpoint outlook for the year, and that's very important to bear in mind. So north of EUR 12 billion, if you keep the number in the back of your mind for the year.

Now that remains highly relevant when we're going to talk about the outlook because I've looked at some of the feedback that people have said that it's maybe a bit cautious. Yes, we are conservative. And we're also going to be conservative. The issue is not conservatism. We do not want to promise things that we don't keep. Keeping promises, whether that's on dividend or performance, is very important.

And I'm often surprised, colleagues, to have to tell you it appears to be more important to promise things that people don't know whether they can keep. And then when they miss the target, as we've seen over the last few days, they don't worry about it, but the outlook is much better otherwise. I'm surprised when I see these things, we believe that promising and delivering on promises is the bedrock of our equity story, and it's going to be that. It may be a little, as somebody says, underwhelming. We find that very convincing.

Now let me go ahead and say why is the performance of Allianz so resilient? Page A 6 (sic) [ Page A 4 ] gives you an indication. One, we have the levers to balance shocks out. And you see that in the development of the solvency ratio on the right-hand side, when we have also had our ratings reconfirmed. You see that at the cash remittance that we have disclosed.

By the way, somebody wrote it's the first time we've done that before. Oskar Buchauer will remind you, we did that in 2011 and '12 already when there were questions after the European -- the Euro crisis of what cash flow from life entities was. Has been stable, is going to be stable, and we are managing it for stability. That's very important. So cash and solvency are strong and will remain strong because we've worked now almost a decade on making sure that we have the levers to balance against shocks.

The other one is what we've been talking about for many years, and it's still not, I think, in the minds of people and certainly not in the spreadsheets. It is the diversification that we have between different parts of the business. Maybe because we're talking primarily to insurance analysts and investors rather than people that understand asset management. But the reality is, again, this year, we had asset management outperforming very strongly relative to expectations.

PIMCO, since we made the management change in 2016 really when -- has been exceeding expectations continuously every single year, and they will -- every year, there is a new story. They have too much credit exposure. The interest rates are going to go up. So guys, this thing is the best fixed income house on the planet probably, and it's going to continue to perform. And it's very important because they don't just perform as an asset manager for third-party clients, they also manage our assets and have been able to help us outperform on the investment side for us.

So we are getting 2 benefits: One is for our clients on the third-party side. And the other one is the -- we have the margin on the life insurance side, and we get the margin on top and the outperformance on asset management for the assets we entrust with them.

So that was able to balance the performance in P&C that was impacted by COVID. I'd also like to mention, I expect this to be the last quarter, that's Q4 last year, where we had extraordinary impacts from reserve strength in AGC&S. That's it. We expect the company to at least show a 98% combined ratio for the year. That is our expectations.

We allowed the new management team that we put in at the end of '19 to do what we in German called tabula rasa, i.e., used the year '20 to clean up and strengthen the reserves where needed. Now we expect them to focus on the future and use the strong market environment to do much better and put the past behind it. That is at least my personal expectation.

And on the life and health side, we've been remarkably resilient even though in the fourth quarter, we had a special effect with AZ Life that Giulio will the alerting to, that made the investment margin look a little larger than the guidance was. And the guidance is as it is. So overall, we have a very well diversified model.

I'd like to say before I move on that also AGI has done really, really well. I can applaud the team that has taken the helm. Despite a lot of the noise, they had EUR 9 billion in inflows in the fourth quarter. They have done really, really well. They have brought the cost down. We are working on improving the cost income ratio further. That has been stubbornly stuck at a high level. And we're going to bring productivity forward because the industry is facing margin pressure. We all know that.

But we have various sources of alpha, not just investments. There's particularly very strong client feedback that we have, both in PIMCO and AGI, and very strong operational resilience. So congratulations to our colleagues, both in PIMCO and AGI, for an outstanding job in 2020.

And it's a very important part of Allianz that complements the life insurance side, as I said. It's a core part of what we do. And we'll talk later when we talk about the outlook -- I think if there's an area we generally have a conservative outlook based on the higher AUMs, 2021 should have a very strong start already. So I think we're a bit conservative on our outlook on asset management.

Page A 7 (sic) [ Page A 5 ], I don't want to talk about. I'm actually surprised that our share didn't do better in '20. Yes, we had relative outperformance. But I think the overhang we have on, can we really pay dividend? What does 0 or negative interest rates, the swap rate, 20 years being negative, can you escape that?

I'd like to tell you something. We have been for years saying that we are changing new business into preferred line, that we are building mortality. But that is probably because people are worried about the in-force not coming really through. I'll give -- let me give you an example. The German life business has so strong income from their risk results, that only the risk profits that we are getting out of the German business are sufficient to pay their dividend.

So it's a bit of an extreme, but you could make the point that we don't even need investment income to pay the dividend out of the life business. This is how strong our protection franchise has become, and we're going to spend the next few years to strengthen this even further, diversifying income sources away from pure investment income to fee and loadings, and in particular, strong protection earnings. A lot of people are talking about it. We are doing it. You see -- you also see that in the Asian business that has really been powering ahead in terms of value and earnings, and that is the way we're going to go. So just as a reminder when you're worried about, is the money going to come from is very important.

Now I just got a tip from Oli Schmidt that I always have to deduct 2 from the page number because you have 2 different page numbers. I got that. So my A 7 is your A 5. I'll keep that in mind.

Now I'd like to talk a little bit about what we believe is bringing -- going to bring sustainable value. My Page 8 and your Page A 6 talks about what we are doing for clients. And what is very important is that, at the end of the day, we in Allianz now believe that if you are the loyalty leader in your industry relative to competition, be it both old and new, you win over the clients. And the businesses that we have that are loyalty leader are both more profitable and growing faster than the other businesses that we have.

That's why we set out in November of 2015 to say, we would like to have 74% of our businesses above market average as a first target step. And we have already exceeded that for 2020 as having 79%. But what's more important is we actually now have 60% of our businesses being loyalty leaders, i.e., in the position where people prefer us over any other option. And I think that's very, very, very important. And we have now exceeded 100 million in direct clients. We have more indirect clients through travel and other insurance where we white label, so we're building that.

Second time the most valuable brand in insurance according to Interbrand, that's the only one that we are really looking at because it's the only really professional brand management issues. And we're, for the first time, in the top 40 brands across industry in the world. So that's very important. We'll keep a focus on.

And we're trying to strengthen our brand by having partners with the Olympic, and particularly the Paralympic movements over the next year. So we will have a lot of benefit in China and in Italy, where we have a very strong brand, now having higher appreciation than some of the very old, established local brands.

And we're obviously doing a lot on the benefit side for our clients, which is, again, recognized in the customer feedback number. So it's quite odd, in an industry that was criticized overall, particularly last year, our customer loyalty numbers -- which by the way, are not self-measured. They're audited externally because they're part of top management compensation. We've broken all records.

The same is true when you go to your 8 -- Page A 7 on the employees side. We have spent a lot of time -- and I have to admit personally, a few years ago, I underestimated the power of having a purpose for the organization that's crystal clear and focusing enough on systematic improvement of engagement.

We have been ahead of our ambition that we have for 2021 in terms of what we call our Inclusive Meritocracy Index. What the heck is that? It's basically 10 questions of a comparable index that is done across 2,000 global institution that measures in 10 questions the ability of our people to lead and inspire our employees. That is what we are measuring.

We're also measuring employee engagement, as every institution does it. And we have an index that's called Work Well, where we are measuring the mental and physical and health resilience of our people. All of these indicators in 2020 are massively up. That means our people have given us very strong positive feedback on how we've worked with them. And by the way, that has also driven a large part of the improvement on the customer satisfaction side. Only with highly motivated people you can really do that.

And last but not least, our massive multibillion investments in technology over the last few years that many have criticized on. We are doing too much on digital, you're not seeing the benefits, is becoming quickly clear. We have now more than 1,600 sites on our one global network. We have 112,000 of our 150,000 employees on our centrally run Allianz Virtual Client system. That's working, and that allows more than 90% of our employees to work from home, not having to deal with all kinds of leased third-party solutions that are not safe. And that has made us very, very proud. So that has been very good.

Last, but certainly not least, you know that Allianz was one of the, say, the fastest organization. I'll say the earliest comers in terms of driving environmental impact. I was personally criticized a lot in this country for getting out of coal. We have taken it to another level with the net-zero asset owner, Allianz now having more than EUR 5 trillion. And we're going to do more than that, i.e., having very concrete targets by 2025. I'm not going to go through them at this point in time. Again, Allianz is not racing, but it has a very clear science-based plan that goes into the future and shows resilience. And that's not just due on other social items.

I just would like to remind you also that our employee share program is starting to have track. For a long time, we were stuck at a level of 12% to 15% of employees being shareholders. With the new program, we have now more than 50% of our employees being shareholders of Allianz. And we're going to continue and drive this up.

Top management more, I think somebody wrote up that we have too little exposure. I'd tell you, I have 800% exposure to my base salary on the Allianz stock. I think that's higher than any -- any other company in the German DAX for sure, so I don't understand really the comment. And it's a large part of my fortune is tied to this company as is for my colleagues. So we are making sure we have the same interest as people that invest in the stock.

And last but not least, we have just been voted the company -- the #1 company in the German DAX in terms of shareholder-friendly remuneration system. So we are also very proud of that as well.

Now keeping the balance between what we call performance, that's financial outcomes and health of the organization -- this is in particular customer satisfaction and recommendation. And employee satisfaction and recommendation is very important. And my Page 11, your Page A 9 tries to summarize that. We have a very clear plan. We had a very clear plan, and we aim and continue to deliver.

Now productivity is a very important part of it. Over the first 2 years of CEO, where we had to massively invest more than actually planned in IT, we have started to drive productivity up and the expense ratio down. Now the number for this year is a bit better than the true economic picture. It's more around 27 -- 27-point something percent. But we are on track to deliver on our target, as you are used for Allianz, whatever we have under control. And that is despite pressure on the top line.

Like to remind you, and as part of last year, we had a 40% drop in new car sales. New business in motor went significantly down. So that was not easy to do. But we -- our colleagues did it, so big kudos to that. And we have done it without large restructuring. We don't come out and say, let's do another restructuring and then promise earnings growth next year. We need to keep the balance between our stakeholders. So between shareholders, employees and clients, we really need to seek a golden triangle.

Now in terms of, what is the ambition for 2021? We want to go back to normal, so to speak, despite the fact -- that is Page A 10 in your deck, we don't believe COVID is over yet. And again, we have discussed it in the management team, should we aim higher than the EUR 12 billion? You could have said, why shouldn't they do EUR 12.5 billion? We have really gone through all the details, looked at all the things that can happen this year. And we want to deliver an outlook that is both ambitious, but pretty clear that we can deliver it even under adverse developments.

And please remember at least 3 important ones: One is, again, COVID is getting worse in some countries, not better. We don't expect massive losses out of that, but the recessionary impact can be significant. The second one, we've had a massively weakened U.S. dollar. Last year, you already see that -- saw that, particularly in asset management. It cost us EUR 100 billion in AUM in terms of converted numbers into euros. And the weak U.S. dollar will impact earnings. And we have significantly lower interest rates. Yes?

We are updating, and we'll probably be better now than we thought a couple of weeks ago. But we still are going to lose coupons because we have derisked the asset side consciously also on dividends. For the equity side, we really believe a lot of the equity markets are by far overvalued.

So we want to make sure we can deliver very strong earnings without taking too much risk. And I would like to remind you, yes, you can promise higher earnings by just going on the edge a little more, on having less capital or having more risky investments. We do not want to do that. And that's why we also give a little bit more variance on up and down in terms of the outlook.

Our strategic priorities, last page, A 11, are unchanged for this year, and I will not go through them. We have to continue to drive productivity, by the way, over time. Also, in distribution expenses, we have to simplify our products further and scale them across the platforms. That is a key word. In the meantime, we are decommissioning. You saw in the fourth quarter, we had significant restructuring expenses. We are investing this money in order to both integrate new businesses that we've had like SulAmérica, but also in order to drive the technology scale that we have been able to create. And we'll continue to reallocate capital away from low-performing businesses.

My personal focus is making technology work and making commercial lines deliver much better profitability, and on the life side, transforming the business even further into towards protection than we've done that in the past. But we'll do it on a continuous basis without creating short-term shocks. Because that would not bode well on customer satisfaction and employee motivation, which will allow us. And again, we believe there's lots of opportunity for consolidation, which we're going to do bolt-on as the year and the coming years unfold, to deliver earnings growth in a measured and a safe way.

That is what I wanted to tell you. And now Giulio will give you all the high-quality details. And then I'm very happy to hear from you again when we get to the Q&A. Thank you very much.

**Giulio Terzariol**
*CFO & Member of the Management Board*

Thank you, Oliver. Good afternoon or good morning. And we start, as usual, with Page 3 with a short update on the quarterly results.

Overall, the fourth quarter was pretty strong, with an operating profit of EUR 3 billion. When you look at the composition by line of business. In Property-Casualty, the profit is a little bit lighter. And that's because of the impact of COVID and also because of the reserving, the negative runoff or reserve strengthening at AGC&S. So all in all, we ended up with a combined ratio 97.4% for the quarter.

When we look at the Life/Health business, we have a very strong quarter with EUR 1.4 billion of operating profit. What might seems different here is the fact that we have highlighted a positive impact due to COVID of EUR 200 million. And the reason for it is we wanted to reflect that there was a normalization in the course of the year so we could recapture some of the depreciation we had in -- especially in Q1. So from this point of view, we wanted to give a fair presentation that we had a catch-up in Q4.

The results in Asset Management are very strong, with an operating profit of almost EUR 900 million. When you look at the inflows, we had about EUR 30 billion of inflows for the quarter. And this time it's not only PIMCO. We had about EUR 9 billion of inflows also from AGI, so that's a very good development.

So overall, I will say, with EUR 3 billion of operating profit, the quarter was strong or in line with our expectation. Clearly, Asset Management and life have driven these results. In Property-Casualty, we were a little bit light, but the full picture for the quarter is pretty good.

If we move to Page 5. We have a EUR 10.7 billion operating profit. Oliver already said that if you adjust for COVID, our performance would have been in line with our outlook, and that's a important message. When we look at the underlying performance, we feel that we are actually doing pretty good. And if we just take the combined ratio, 96.3%, if you remove the COVID impact from the combined ratio, we're already at slightly above 94% combined ratio. And then as you see, we've been overall conservative on the runoff. Even if you adjust for the AGCS negative runoff, we are taking a conservative view. So this gives you definitely an idea that the underlying performance is below 94%. And that's the reason why we feel confident also about achieving 93% combined ratio in 2021.

On the life side, we have EUR 4.4 billion operating profit. So basically, despite the COVID impact, we were able to achieve our outlook. And the new business margin, with 2.8%, is very, very strong, considering that we have negative interest rates.

And finally, on Asset Management, with EUR 2.9 billion of operating profit, EUR 200 million beat compared to the outlook, and nice cost income ratio, 61.2%. So in Asset Management, I will say the performance has been extremely positive.

Moving to Page 7. The solvency ratio is 207%, even if you adjust for the call of the RT1 that we are going to do in March. The solvency ratio is very strong at 203%.

And if we move to Page 9, you can see basically the driver of the development. This is the driver for the year. Basically, the story is pretty simple. We had positive earnings generation. If you do the calculation after tax and after dividend, the organic generation was about 7%. We had also positive impact from the management actions that we undertook in the course of the year. On the other side, clearly, especially coming from Q1 and Q2, we had a negative impact coming from especially the interest rate development.

But all in all, we are landing with a very strong solvency quarter -- solvency ratio north of [ 200 ]. And so that's a very strong number. I'm sure that later, you're going to ask me about the development in the quarter so I'll leave this for the Q&A section.

Moving to Page 11. We go into the segments. Overall, the growth rates is minus 1.5% when you adjust the growth rate for consolidation and for FX effects. If you remove Allianz Partners and Euler Hermes from the picture, these 2 companies have been particularly affected by the crisis, you can see a growth rate of 1.3%. So overall, we have been able anyway to grow our top line also in a difficult environment.

When you look at the growth rate by companies, you're going to see a mixed picture. I will not read too much into this growth rate in this kind of environment because, clearly, also different companies or different countries have been affected to different extents. But the bottom line is we have been able to increase our premium revenue in this environment once you remove Allianz Partners, which is clearly totally different story or the credit insurance, which is also a totally different story.

What is important in this slide is the momentum on rates. And overall, you see a positive or a stable momentum in most of the geography. The only exception is Italy. That's also the country anyway where we have a very strong technical excellence and combined ratio. But that's the only market where we see some pressure on rates as of now.

If you move to Page 13. The operating profit has reduced clearly compared to the prior period, mainly because of the COVID impact. If we look at the combined ratio, 96.3%, if I look at the accident year claims ratio, adjusted -- without the nat cats, the accident year claims ratio is 68.6%, and that's flat over the 2019 numbers. And this includes anyway the 2 percentage point of impact of COVID I was talking before. So this means that the underlying performance on the accident year basis has improved compared to the performance that we had in 2019.

The runoff is lower than what we had in prior period. If I adjust this number for the AGCS runoff, that will be about 1.5%. It's still a very low number. We've been kind of conservative because we wanted to reflect that there is uncertainty, clearly, as we go into 2021. So we took a conservative view on setting our reserves in general at the end of the year. And this should provide us with support as we go into 2021 in the case there is any additional surprise coming from COVID development.

The expense ratio is 26.8%, so 70 basis point better compared to 2019. We had a couple of special positive effects. But even if you normalize the expense ratio for this positive effects, we are at 27%. So that's again a nice improvement compared to 2019. And as you have seen, we have been able to improve now the expense ratio over time in a consistent fashion. And I will say this time also, without having any a tailwind coming from growth in premium. Because the growth in premium has been kind of moderate, still we have been able to decrease our expense ratio, thanks to our productivity initiatives.

Page 15. We are showing the operating profit and combined ratio by lines of business. Overall, I will say a lot of companies are showing a very nice combined ratio, so I will say, Germany, also France, United Kingdom, Italy, Central and Eastern Europe, Spain. Even Latin America and Turkey, don't get confused that the combined ratio high because the interest rate environment is very different there. Also these 2 entities have a good combined ratio. So overall, you see that a lot of companies are performing at a nice good level.

In Australia, we had some challenges in 2020, a little bit because of nat cat, some special effects on the expense side, also a little bit of COVID. So from that point of view, 2020 has been challenging for Australia. And then we have AGCS with a combined ratio of 115%.

Now if we remove COVID and also if we remove the runoff from the AGCS number, we are basically already at a level close to 98%. That's the reason why we are confident that we can hit the 98% in 2021 because the starting point is already pretty promising. This will still remain relatively cautious due to the recent experiences, but we really believe that now we're in a better position with respect to AGC&S.

Moving now to Page 17, on the investment income. Oliver has alluded to it. Clearly, there is pressure on investment income. In this case, we see that the operating investment results has decreased by EUR 300 million. This is the consequence of 2 factors: On the one side, we have lower income from bonds. You can see this reflected also in the decrease in current yields. And on the other side, we had also less investment income from shares, from stocks because we reduced our equity holding, but also because there were less dividend payments in the course of 2020.

Clearly, this is something that is going to have an impact also as we go into 2021. That's the reason why we are very focused on the improvement of the combined ratio, achieving also the productivity gains that we have committed to achieve.

And with that, moving to Page 19. On the life business, I would say the numbers are actually pretty good. They show a lot of resilience. The new business margin is 2.8%. Keep in mind that interest rates have been negative. Also, the 20-year swap rate has been negative. So that's really a big test when you do profit profitability calculation.

Still, we have been able to achieve a new business margin, 2.8%. I will say this is positioning us to get to a 3% new business margin as we go through 2021. Because all the actions that we have undertaken are going to clearly show further effect as we go into this year.

You see also how the mix has changed in the right direction. And then on the production, it's down, but it's still up compared to the level of 2018. So if you ask me what happened to our production in 2020, actually, not so much. It's still at a very healthy level. And also, in fourth quarter, we saw in reality a growth rate of about 10%. But between us, we have a EUR 50 billion production, we have a EUR 58 billion production or a EUR 65 billion production, this is not really the critical point. The important thing is that we keep doing the right things regarding the value of the new business margin, that we keep this KPI in a healthy -- at a healthy level.

Page 21. The operating profit for the life segment has decreased compared to the prior period. Here, we need to remember that we had the consolidation of Banco Popular. And also 2019 was particularly strong. The volatility was very low in 2019. We saw definitely a pickup of volatility, especially in the first part of the year in 2020. But the bottom line is with EUR 4.4 billion of operating profit, the performance is in line with our expectation.

Before, I mentioned that we had about EUR 200 million of impact due to COVID. On the other side, also, at the end of the year, we had a positive impact coming from and unlocking a revision of assumption in Allianz Life. So the 2 effects have compensated each other. Bottom line, we were able to achieve our outlook for the life segment.

And when we move to Page 23, on the new business margin, you can see that a lot of companies are having a healthy new business margin, above 2%. There are just a couple of exceptions.

And when you look at the profit, I would like to highlight Asia Pacific. We had a increase in profit -- a double-digit increase in profit. But even more important is, if you look at the profitability, the operating profit of Asia Pacific in 2018, that number was below EUR 300 million. So you can see there is a nice trajectory in Asia Pacific, and we expect to see additional growth coming from that region.

In the case of U.S.A., you see some reduction. That's normal because it's driven by the volatility of the equity market. So as I said before, '19 was very stable, '20 was not as stable. And then the only point would be, when you look down at Spain, the big drop is just because of the deconsolidation of Banco Popular. Overall, I would say, a strong picture when you look at the performance by entity, and again, a sign of the resilience that we have on the -- in our life segment despite the low interest rate environment.

Page 25. If you look at the investment margin, it's actually stable at 86 basis points compared to 2019. I checked also 2018 was still 86 basis points, so it looks like that's the number. In reality, we had the impact from the unlocking, which was positive. And the impact of the unlocking is partially going -- the positive part is going through the investment margin. The negative part, if you want, just going through the deck. So here, we have just the full positive impact of the unlocking. And then we netted this positive impact of the unlocking with the additional hedging costs that we had. So when we do this kind of normalization, investment margin will be about 80 basis point. So that will be basically in line with the guidance that we gave you at the beginning of the last year of 75 to 80 basis point.

The new guidance for this KPI is more towards the 75 basis point. We know there we're going to have some question on this KPI, so that's -- as expected. And also, our expectation is that this pressure is going to be compensated by more profit coming from loadings and technical margin. Also, there is an element of growth anyway embedded in our expectation for the reserve development.

With that, we come to Asset Management, Page 27. That's a very simple slide. We have record assets under management. And this applies both to the total assets under management and also to the third-party asset under management. So that's not just a statistical indicator. That's obviously also a good starting point for 2020, '21. So this makes us very proud and also confident about 2021.

If we move to Page 29, you can see that we had positive flows both at AGI and at PIMCO. As I said before, AGI had a very good fourth quarter. We see nice momentum both at AGI and PIMCO also for the month of January. So what we are seeing right now is very positive.

Then you can see, coming back to the development of last year, that the markets have been overall positive in -- for the Asset Management segment. Rates went down. It might not be helpful for our operating profit in Property-Casualty, but you can see how this can somehow help the asset basis in Asset Management. So there is a little bit of a compensating effect. And also credit spread went down. That's also a positive overall for the asset base.

What has been a negative for us is the development of the FX. The U.S. dollar has depreciated. We have over USD 1 trillion assets in -- yes asset denominated in U.S. dollar. So clearly, a depreciation of the U.S. dollar has taken a little bit of a toll on our assets under management. But despite that, we were able to increase our asset base.

Page 31. The revenue are up, mostly driven by PIMCO. In reality, the AGI is negative. But if you adjust for the -- if you look at the basis fees at AGI, you can see growth there. And then also, what is good to see is the development of the fee margin at AGI. There is also a little bit of a technical factor. This explains half of the improvement in the technical margin, but the rest is driven by a better business mix.

In the case of PIMCO, we see a little bit of a deterioration of the fee margin because they sold lower shares of mutual fund and more institutional. But overall, as we know, the performance of PIMCO is really good and the revenue are anyway up.

And Page 33, we see that when revenue are up, the operating profit is also up. And because of the operating leverage, the operating profit is going to grow more than the revenue. So overall, we have a 7% increase in operating profit when you adjust for the FX. And clearly, the growth has been driven mostly by PIMCO.

I'd like to highlight anyway, the combined -- the cost income ratio development. At AGI, they were able to improve the cost income ratio by about 1.7 percentage points, which is a very nice development, considering also that the revenue base has been, as we saw before, not positive or negative. So from that point of view, the ability to increase -- to decrease the cost income ratio despite having -- not having the support from the revenue, I think, is a strong testimony to the actions the company has undertaken. And we also know that these actions are going to earn also positive results as we go through 2021.

So overall, very good performance from our Asset Management operations. And based on where we are right now, definitely, a good starting point. We cannot clearly predict the future. But based on what we see now and where we are now, we are in a strong position.

Page 35, corporate. Just for the sake of time, I'm going to say, you see a big swing compared to 2019. In reality, the results are not far from our expectation. So there is not really major to say there.

And with that, I will go to Page 37, where we can see that the nonoperating items are down about EUR 370 million compared to -- so more negative compared to 2019. This is all driven by the restructuring and integration expenses. And in this case, we had about EUR 250 million of decommissioning expenses. This is part of the program that we discussed many times, and that's also part of the more overarching Allianz Customer Model strategy that we are driving. And in the course of 2020, we have decommissioned more than 300 applications. So that's a big effort, which is going to continue also for the next 2, 3 years.

On top, we have also the integration cost for the acquisition like LV and SulAmérica. So these are all, basically, if you want, investments that are going to turn into either lean organization or additional profit coming from the synergies that we're going to realize, thanks to the integration costs that we are incurring right now.

And with that, I would like to go to the last page, which is the outlook. I can show you the numbers by segments.

For P&C, having been at midpoint of EUR 5.6 billion, the assumption are very simple. We have assumed some increase in premium, but around 1% to 1.5%. So we are kind of conservative on estimating what's the top line. I'm referring here to net premiums earned. By the way, we're kind of conservative in estimating what the trajectory of our NPE might be for 2021. The combined ratio, we have assumed 93% combined ratio. And then on the investment side, we might have been slightly conservative. We have assumed basically a reduction of our investment income by EUR 300 million plus. We might be a little bit better than that. But again, we decided to be a little bit on the conservative, yes, to take a little bit of a conservative position that -- on that KPI, especially after the experience that we had in the course of 2020.

On the Life/Health, we stick to a EUR 4.4 billion expectation for operating profit. So we think this is our normal run rate as you adjust for the volatility, positive or negative, that we might have seen over the last 2 years.

And then Asset Management might seem conservative, and maybe it's also conservative at this point in time. But here, we need also to recognize that the U.S. dollar is depreciated, especially in the second part of the year. So when you take our numbers for 2020, the operating profit for 2020, which is almost EUR 2.9 billion, you need to adjust it down because of the FX effect that is going to materialize even more during the course of 2021. So from that point of view, the number is conservative, and maybe not as conservative as you might look at the first glance.

And with that, we end up with an operating profit midpoint of EUR 12 billion. As Oliver said, we feel that this is a realistic assumption for 2021. And as Oliver said, it's very important for us to be able to deliver on our commitment and not be derailed by the first kind of noise that might come in the course of 2020, '21.
And with that, I would like to open up to the Q&A session.

# Question and Answer

**Operator**

[Operator Instructions] We will take our first question from Peter Eliot from Kepler.

**Peter Eliot**
*Kepler Cheuvreux, Research Division*

I have 3 questions, please. The first one, AGCS, I mean I guess the difference a little was last year, the reserve increase was sort of well flagged. This year, probably less so. So I'm just -- I mean, I appreciate what you about management was allowed a sort of clean up exercise. But I was just wondering whether you could clarify if this was something that appeared sort of right at the end of the year. And if so, what it is that makes you very confident that that's the last of it?

Secondly, on Euler Hermes. Just wondering if you could elaborate on what you see as the outlook for credit insurance as the government schemes run off. And maybe how much visibility you have on that outlook?

And then finally, Asset Management. Obviously, the cost-to-income ratio at AGI had a lot of moving parts this quarter. I'm just wondering if you could sort of give us a feel for what you consider to be the current sort of run rate underlying cost-to-income ratio. And I don't know if I'm pushing my luck, but whether there's any hints you can give us on sort of future performance fees as well.

Oliver Bäte
*Chairman of the Management Board & CEO*

For future performance fees?

**Giulio Terzariol**
*CFO & Member of the Management Board*

Our future performance fees. Okay. Well, okay. Maybe I'll start with the AGCS. The difference between -- you said last year, we flagged it. This year, we flagged AGCS a little bit less. I would say the difference between this year and last year is last year was not optional. So it was pretty clear that we have a lot of runoff. And so this year, I will say that the situation is definitely much better compared to the one that we had in 2019.

But at the end of the year, when we looked at the actual versus expected, which is an important KPI, we saw that in reality, the actual versus expected across the company was neutral. It was not a negative number. But as we went through the different lines of business, we saw that, in the liability line of business, it was negative; in other lines of business, positive. And we gave more credibility to what we saw on the liability -- the negative on the liability side, and we basically didn't give a lot of credibility on the positive that we have seen in other lines.

We think also that from a technical point of view, that's the right answer. But the difference is, last year, we had definitely something that was absolutely needed to book. There was no doubt that we had to catch up. And this year, I will say that has been a little bit of a choice. I think it's also the right choice.

I wouldn't say that now we have built a margin, but then we have an adequate reserving. But definitely, there was less of an urgency compared to the one that we had in 2019. So this explains the difference and also why we basically decided towards the end of the year to go down these routes. So that's on AGC&S.

On Euler Hermes, basically, we -- when we put that plan together, we have shown that we're going to have these fees to the government for the course of 2021. The implication of that in reality is that our revenue are lower than where we planned for Euler Hermes. From a combined ratio point of view, we would expect to see, in reality, a normalization of the combined ratio. I can also tell you that the combined ratio that you see in 2020 is overall a conservative number. In reality, it's all IBNR, and that's out of prudency. But when you look at the underlying development, we didn't see in reality a lot of the capital claims.

So from that point of view, we put a conservative combined ratio at the end of 2021. We'd expect a normalization in -- or normalization -- we are reflecting in 2021 the kind of underlying trend that we saw in 2020.

From state schemes, we have assumed basically the state schemes for the 12 months. At the moment, we have an agreement for 6 months. And then we're going to see in 6 months how the situation is going to be. And yes, from that point of view, there could be even some uplift in the case we can go out, so we decide to go out of these schemes.

One thing which is important is we have ceded to the states about EUR 100 million of profit in 2020. So I want to repeat, the situation in the credit insurance is not dramatic at all. In reality, the underlying business is doing okay. And always keep in mind, credit insurance, not a bank, so we can cut limits and capacity very quickly. We're not giving loans to -- for 5, 6 years. We can definitely -- we know exactly -- not exactly, we know most of the time clearly which customers can be solvent or not solvent, and we can change very quickly. So it's a very different business model compare to the banking business model.

And the last question was on Asset Management. We told you 2018 that we want to go or achieve a combined -- a cost income ratio of 67%. I believe that as of now, if the markets are stable, you're going to be -- that we could -- we were going to be able to go there because we are starting from 68.4%. And a lot of the actions that we have undertaken in the course of 2020 are going to show their effect in 2021. So under the assumption of stable markets, I think that we're going to be able to go to a 67% combined ratio -- cost-to-income ratio.

If the markets are going to be unstable, this is just delayed by 1 year. But I definitely believe that we are going to be able to achieve that number at least by 2022, and then we can push it even lower. So the expectation is, if you ask me for a midterm expectation at AGI, I would definitely see a cost income ratio below 67% as absolutely realistic.

On the performance fees, there was a question. Estimating performance fees is very, very challenging. The only thing I can tell you that we are becoming, in reality, less reliant, especially at AGI, on performance fees. That's also something to keep in mind because it makes a difference if you achieve EUR 626 million of operating profit, like we did in 2020 with less performance fees compared to 2019. So that's also, in reality, if you ask me, a sign of quality of earnings.

But predicting the performance fees, it's very hard, both for AGI and for PIMCO because it depends on the development of the capital markets. So that's not a number that I can estimate. If things are normal, I could expect that we're going to see in 2021 the same amount of performance fees we saw in 2020. But again, this is a function of the equity market or capital market development.

**Peter Eliot**
*Kepler Cheuvreux, Research Division*

That's great. I guess you've flagged sometimes in the past you've flagged and you've known some performance fees that are coming through. And I just wondered if that was the reason for the confidence in the outlook, but that seems all good.

**Operator**

We will take our next question from Farooq Hanif from Crédit Suisse.

**Farooq Hanif**
*Crédit Suisse AG, Research Division*

Going back to the comments, Oliver, that you made about Allianz Customer Model. You haven't really talked -- in the slides you presented at the beginning, you talked a bit less about technology and transformation technologically. I was kind of wondering, for ACM, is that because now it's sort of embedded in what you do and there are not really that many benefits to come.

And in terms of innovation, is that because, really, you think you have the model? And in areas like commercial, for example, you don't really see a lot more that you can do to improve underwriting, data, the connection -- connectivity? So that's kind of question one.

And question two, in Allianz partners -- and obviously, it's been crushed because of travel mainly. But historically, it's been such a strong growth part of your business. And that's the strength of the Allianz brand, I guess -- not the brand, but the Allianz machine in white labeling.

So I was wondering how you rediscover growth there on the assumption that travel is not really something that will necessarily recover quickly. But just other areas that you think you can use the technology in?

Oliver Bäte

*Chairman of the Management Board & CEO*

Yes. Can you hear me, Farooq?

**Farooq Hanif**
*Crédit Suisse AG, Research Division*

Yes, we can hear you.

Oliver Bäte
*Chairman of the Management Board & CEO*

Okay. So let me add the opposite -- very good. So the first question, the opposite is true. We haven't spoken a lot about it. We'll do it at the end of the year. There is a lot more to come. Actually, in commercial lines, the level of automation and analytics is appalling in the industry, and I think we are not much better. So there has to be done a lot more.

By the way, it's also the reason for why this sector is not just very volatile in terms of underwriting results, to put it mildly, but also is very inefficient. The expense ratio that we have in commercial, even though it's an individual business, is dramatically higher than it is in retail. And in the next few years, we're going to show you the results of the segments between commercial and retail a little more in detail in order to show that to you. We really want to clear at least a bit that. So -- and the benefits in retail are going to come and going to come more.

The key thing that we have to do is, if you remember the strategy, is simplify what we do. So technology is not an objective in of itself and the application just for pure automation. It is also and foremost a lever to bring better value and create more simple and intuitive products for our clients. That's the most important thing. So simplicity wins is the answer.

Now why? As we've learned from Netflix and all the other thing is, if you run something that is super complicated, consumers will hate it and it's very expensive. And remember, our industry comes from a background where in every country, we replicate the full value chain in every line of business. So from designing products, to designing sales systems and commission systems, to designing IT, everything is different. And we come out of 125 years where we have been allowing ourselves, under certain technology principles and underwriting principles, to operate completely different systems.

Even, by the way, within Germany, remember, until 2006, we had 7 different P&C companies. I mean they had the same name, but they were 7 different companies. Even the call centers were operated differently. So fast forward 13 years, we have now an integrated platform that we are driving from motor and non-motor, retail into SME, and then later in commercial. We are going to bring our businesses on -- unto not just the same technology, but the same process framework.

And the benefits are just starting to come. You've seen them in the last 3 years, as an indicator, a declining expense ratio. And it's very important. We haven't done big restructuring programs. Have you heard about we're firing 5,000 people here? No, no, no. It's coming out of continuous work on simplification.

Now the next step that has now has to happen as we have new technology is we have to retire old products and systems. So one of the reasons why you've seen EUR 700 million decommissioning expenses for the last year and take EUR 200 million out for integration is that we are driving the retirement of our systems. And that is the proof of the pudding over the next 3 years, is we need to bring hundreds and thousands of -- actually 3,000 systems out of Allianz and move the products.

Let me give you an example. In Italy last year, we moved 740 non-motor retail products that we had inherited from the 3 old Allianz companies that we had before 2007 and the acquisition of FonSai into one product that we call Ultra. Now technology-wise, it's not yet where it needs to be. So that's the next step. But we have been basically moving from 700 products to 1. And that is what you have to think about.

So it's about technology, but technology enabling simplification and much better productivity. And it has to start in commercial. It's not even really fully started. So there's a lot of upside.

Now the second question is around Allianz Partners. It's absolutely true. And by the way, I think it's remarkable what Sirma and her team have been able to produce in terms of profit, given the fact that more than 1/3 of the business literally imploded, and there are lots of funny issues to deal with. They're going to come back strongly.

We actually believe that travel insurance, particularly on a direct-to-consumer basis, not just B2B, is going to be one of the core products for the future, because people want to travel, they need to travel, and they want to be safe. So I actually believe that industry is going to see a spectacular coming back whenever we are coming out of lockdown. And particularly, as we, as the world leader in assistance are going to have all the options to drive that, by the way, through Partners and through local system because Partners has built a global network of doctors, hospitals and emergency support that is unrivaled in our industry.

That leads me to the second part. There is an international health business that, under the radar, is continuously growing and thriving, and we're going to build that out as well.

So Partners is going to come back to growth very, very strongly. You're going to see a lot of digital innovation there. We have a lot of automation opportunities. Think about emergency calls or roadside assistance, that is going to look a lot more like Uber apps than it's going to look like as call centers. So there's lots of fascinating things going on. And I think we're going to use this opportunity to regear up for growth. It's going to be a great story, and we're very proud to have it.

Farooq, a question I have, and that relates to, by the way, to the outlook before we need to look. We are always cautious as optimists. I compare myself a little bit to an immigrant. When I went to the U.S. in 1987, I was told by the lady that I lived with, she came from Puerto Rico, as an immigrant, you have to be a paranoid optimist.

I think about, as we look through COVID-19 forward, we are optimists fundamentally because we believe we have one of the strongest, not the strongest platform in our industry. But we want to be paranoid about all the things that can go wrong and harm you as our investors and particularly our clients. That is our mental model.

And we do not like the exuberance that we see, for example, in the equity markets. Somebody talking nicely about some bitcoin, and the thing goes up 1,000%. We actually believe we are in an environment we don't want to funnel irrational behavior. That's why we -- maybe that's a bit our German DNA. We want to be a bit more on the conservative side. Excuse that, please.

**Operator**

We'll now move to Michael Huttner from Berenberg.

**Michael Igor Huttner**
*Joh. Berenberg, Gossler & Co. KG, Research Division*

I just had 2 questions. One is, I was trying to maybe move you to be a little bit less -- more optimistic maybe a little bit on the profit. And I just wondered maybe you could talk to some of the potential levers we might see for the year. And this is not as a challenge. But if you remember when in 2018, you said you'd grow [ 4% ] in operating profit, so that's what would get us to EUR 12.5 billion in 2021. And this is well within the target range. So I just wondered if you could give us some more indications than what we've seen here.

And then, on the cash flow, on that lovely slide, B 45. I just wondered if you can go through a little bit of what happened in 2020, the volatility in life and in P&C and also give us some indications for 2021. Yes, it's -- that would be really nice.

And I suppose the last question. On the growth, you said the -- your assumption of 1.5% or something percent is a bit conservative. Can you just talk how much of an impact could it have if, say, we start to travel again in June?

**Giulio Terzariol**
*CFO & Member of the Management Board*

I'll start on the cash flow and then we'll go through the other questions.

So on Page 45, you are noticing that there is a sort of geography between P&C, Life/Health. Part of it is some of our companies are composites. And we can also decide, depending on the situation, whether we get the dividends or the upstream from the life entities or from the P&C entity. So from that point of view, it's a little bit of a choice that we make.

One thing which is -- so we got more dividends in reality through upstreaming out of the life companies and less out of the P&C companies in 2020 versus 2019. And also, in 2020, on the life business, Allianz Life was pretty strong, and 2019 was good but not as strong as in 2020. So this explains a little bit the development between Property-Casualty and Life/Health. But when you add up the numbers at the end of the day, you get to a stability overall.

How we look into 2021? We believe that the cash received in 2021 is going to be lighter compared to what we have in 2020. So we think it's going to be a little bit below EUR 7 billion. But then we -- also because of we're anticipating here and there that some regulator will not allow for dividend. But therefore, we expect a catch-up in 2022.

So if you ask me what is our expectation over the next 2 years, I will say that, on average, you should see something similar to what you have observed basically on average on -- in the last 3 years. So basically, we don't expect to see over time a significant change in the average number, EUR 7.5 billion that you see on Page 45.

The other question was whether we can achieve EUR 12.5 billion. I think it's achievable. What we need in reality is -- we don't need -- we need the absence of, how you say Gegenwind now in…

**Oliver Schmidt**
*Head of Investor Relations*

Headwinds.

**Giulio Terzariol**
*CFO & Member of the Management Board*

Headwinds. I would say if we don't -- I need to slip always from German to English, so sometimes, I don't find the English word, yes. So we need the absence of headwinds in reality. So I will say that to the extent we don't have headwinds, I think that -- and we push hard and we do the right things, [indiscernible] But a lot of things comes together. It makes a difference if you have a depreciation in U.S. dollar or if you have an appreciation in U.S. dollar. It makes a difference if you have absence of volatility, or suddenly, you see a spike in volatility. So that makes a difference. It also makes a difference if you have a correction at the end of the year versus at the beginning of the year.

But I would say that, yes, we will definitely -- we have in mind the EUR 12.5 billion of operating profit. And I think that there is a possibility for us to go up to that level. But we see how the year goes, and -- yes, we can speak about that. Maybe in June, we are going to have a better view on what could be an outlook, a more precise outlook for 2021.

And then you had another question? No, that was it. Okay.

Oliver Bäte
*Chairman of the Management Board & CEO*

Yes. But -- and Michael, I just want to add to Giulio, again, the paranoid optimist. We have a reason why we put the EUR 1 billion range rather than EUR 500 million, which I thought relative to the EUR 500 million. We put then the EUR 500 million range in when we are at EUR 7.5 billion or so OP. And we -- and since have moved OP up. That's one. And we believe there is a lot of uncertainty. You don't see that uncertainty in the market yet. The spreads are further tightened with drag in the economy. And everybody believes everything is going to go great.

We are trying to look through the clutter. And when you look at -- somebody talked earlier about defaults, that we don't see in Euler, but that will have an impact on recessionary and top line. When we see the issues around -- what we're seeing on -- when the furlough support run from the government come out -- run out, when then, finally, somebody will ask the question, who's going to pay back all this debt? Now we're having this European facility at the top of the house of EUR 750 billion.

I have a simple question. That would normally mean when you have additional leverage at the European level, you have to reduce the level at the -- leverage at the local level. Obviously, it's not there. So we are actually putting leverage on top of leverage, and all of that money is going to the south. We have massive people refraining from investments. Saving rates in Northern Europe are north of 20%. They have more than doubled, and nobody is ready to invest. And also we want to be very cautious.

But we believe with the right momentum throughout the year, if the money is spent wisely, if the reforms are coming, if people get the confidence back. And it's very important we get the vaccinations right. The COVID economics are all about confidence. The COVID economics are all about confidence. And there is a lot of distress because of the Dutch botched vaccine outside of the U.K.

By the way, congratulations. Now lots of things went wrong last year, but now it's going very well. And it's very important that our administration, our politicians have to deliver. Again, we're going into elections in Germany in September. The outcome is totally unclear. So we would be unprofessional if we were going out with things that we promise, and then along the way, we have to say, oops.

And other people are taking a different tack. They're not taking the reserves up and saying, I'm going to earn them back through the up cycle in commercial lines now. This is not how we operate. Yes? That may have a fault when everybody is exuberant, but we believe -- no, Allianz is a stock that you should own, and that is not a stock for rotation trade. So that's how we want to be seen, a stock I want to own.

**Operator**

We will take our next question from Kim Shapiro from Morgan Stanley.

**Kimberly M. Shapiro Fustic**
*Morgan Stanley, Research Division*

Just 2 questions, please. First of all, could you update us on the impact on the Solvency II ratio from the current EIOPA proposals? I think you provided some guidance in the past on the impact of the curve proposal. Just wondering if there's an update and when you plan to adopt these.

And the second question is just, if there's any additional guidance you could provide on buybacks. I understand it's challenging in the current environment. Just wondering if it might be possible that these will resume in 2021.

**Giulio Terzariol**
*CFO & Member of the Management Board*

Thank you for your questions. On the buyback, I would say, look, for the first 6 months of 2021, I don't think they are going to be on the table. Then -- I believe, look, honestly speaking, buyback might be back on the table when we are not in lockdowns, wearing masks. So the time you start traveling and go on vacation somewhere, that's the time where we start talking about buybacks. Before that, I believe, from a political point of view, a sentiment point of view, there are no buybacks. So that would be the link I will establish between traveling for pleasure and having a buyback.

On the Solvency II, from a timing point of view, it's not clear when the review is going to be implemented because, basically, EIOPA has made a proposal now. And this proposal has to go through the legislative process. And this might -- it can take 1, 2, 3 years. So I usually would expect that it's going to take, overall, a couple of years before there is a consensus on the review. But -- so potentially might be, at the earliest I will say, 2023. It might be more 2024. But this is pure speculation at this time because there is no final approval yet.

With respect to the impacts on our numbers, based on the latest proposal, that the impact on our solvency ratio is about 7 percentage point negative. And this assumes that we will not do anything. Clearly, as the proposal is refined or implemented, we're also going to take action in order to protect our solvency ratio.

So overall, the proposal that EIOPA has put forward is a little bit different compared to what they had suggested before. And now there is a mechanism that basically allow for some cushioning where you do the extrapolation of the yield curve.

There are however other factors, including this proposal, that are now going to go into. But basically, fundamentally, if you're going to look at the flagship number, let's put it this way, as of now, if we were just to implement the proposal the way it is without doing anything, the impact will be about 7 percentage point on our solvency ratio.

**Operator**

We will take our next question from William Hawkins from KBW.

**William Hawkins**
*Keefe, Bruyette & Woods Limited, Research Division*

A couple of strategic questions, please, Oliver. To come back to what you were saying to Farooq about technology, I'm just interested in your views about the quantifiable impacts of what you're doing. I'm excited by Allianz's opportunities in technology. That is not debated. But at the end of the day, is it the fate of a business like yours, which is already so large and diversified, that whatever technology initiatives you have in place are going to get lost in the rounding?

I mean, Allianz, for a very long time has been a low to mid-single-digit growth business, generating low-teen ROEs. And you've done that very successfully and stably. But is there ever going to come a point when you turn around and say, look, now is the time to be overwhelmed. Because of this technology stuff that we're doing, there's going to be a step change in our financial profile. That's question number one.

And then question number two, please, Oliver. Again, you alluded to this at the beginning. But would you say through the life of this business plan, you -- your thoughts about capital management priorities have evolved at all? And whether you've learned anything from all the different events, regulatory and humanitarian and the rest of it? When you're thinking about the balance between dividends, buybacks, organic growth and M&A, basically, is your mind still the same as it was in 2018? Or do you think you've kind of evolved any thoughts about priorities or initiatives? I'll leave at that.

Oliver Bäte
*Chairman of the Management Board & CEO*

Let me start with the last question, if I may. Yes, it has evolved. Yes, it has evolved. And we see an increasing separation between what happens in Asia much more than in '18, what happens in the U.S. and in Europe.

In Europe, unfortunately, we are stuck, not just because of corona, but because of a lack of investment in infrastructure. True reforms, in Germany, we haven't seen true reforms for a decade now. You talk about infrastructure. There are some things happening, but a lot more has to happen now. And as you can see with the vaccine, it's a real, really, really, really big problem. So therefore, I don't believe -- and also, there is no insight in other than sort of printing money and how do we get out of this crisis and spending more money and having more debt.

I see a totally different dynamic in the United States now. They have the whereabouts and they have the energy to invest. So we need to be long in the United States. And you see -- have seen that China -- how China has pulled itself out of the problems and being the growth engine again in Southeast Asia. So we need to tilt more strongly towards the U.S. and towards Asia. We need to continue to drive productivity and free up capital in Europe where it's not properly producing returns.

So in particular, we need to be -- and I was negatively surprised about our own performance in commercial lines. It has to get -- has not -- not just AGC&S. It's also a large corp. We have had single-digit ROEs. They're not bad. They're covering cost of capital, but they're certainly not close to the target returns we need. So we're going to have a lot more focus on driving commercial lines separately as a business to higher returns. And that may well mean letting market share go, and we've started to do that.

To power, however, ahead in retail, I think we have a world-class franchise that has been masked by that. For -- let me give you an example. In Germany, last year, we had for the first time in many years, massive market share movements positively in the most profitable lines that we -- this, we need to accelerate on the back of strong customer satisfaction.

Now on the life insurance side, we've done a lot since 2011 in terms of shutting down and lowering growth in capital-intensive products. With negative rates, we need to do another jolt, and we'll talk about that by the end of the year, again, driving a lot more around protection. Being a lot more ruthless also on in-force book management rather than trying to grow out of it is going to be the essence of it. By the way, that's very difficult.

And last but not least, you saw in the industry a lot of wobbling. I believe there is a lot of people that are struggling. So I expect further consolidation to come, and we need to be prepared. We have our coffers filled. We're looking at the opportunities, and there is going to be a lot more consolidation than I anticipated.

Again, our strategy has been and is to try to drive bolt-on acquisitions where we have strong platforms that can -- and strong management team that can integrate. But I'm surprised, at the last 6 to 8 months, I've seen a lot more activity than I've seen in the last 3 years. And we need to keep our eye open.

If we can't invest your capital, it's your money, probably, we will go -- give it back to you. We promised that. We are going to grow dividend with earnings. And if we can't invest, we'll do the share buybacks, if and when, as Giulio said, we are back to travel. We have no interest to sit on it. I'm getting paid for having a proper ROE.

But at the end of the day, Allianz would be successful if we grow the company. And there is so much room for growth, both organic and inorganic. We need to make sure that this company develops a lot more ambitious on this dimension. But again, we are in an environment where a lot of people are worried about their future, a lot of people are worried about their jobs. We do not know how to pay back the debt other than passing it on to our children. So let's remind ourselves not to be exuberant and be cautious as we go through this really difficult situation for our society. Everything else would be not very responsible.

Now in terms of applications and numbers that I would assume, to be honest, Oliver, we give it to him, yes, as you know me, now citing how many applications we have retired, how much we are planning. We're trying to bring out 60 -- by 2025, 65% of all our total application landscape will have been retired, the latest. And I'm trying to accelerate that. Just to give you -- there's more than 3,300 applications. Out of which, 600 or 700 have already been shut down last year, and we are going to accelerate the numbers as we speak. But again, the details, Oli Schmidt has for you.

**William Hawkins**
*Keefe, Bruyette & Woods Limited, Research Division*

I suppose my question on technology was not more about the detail. Was about whether it ever changes the financial profile of Allianz's growth in return. You've been a…

Oliver Bäte
*Chairman of the Management Board & CEO*

Yes, the returns. Absolutely, the returns. And then eventually -- because we need to leverage technology in order to bring unit costs massively down. What we have now focused on is really simple levels of automation, taking flows out of the system, making sure we don't have 3 different property system in a country and so on. That has however not delivered scale.

What we need to be able and start to do is offer our technology and our software, the service bases across borders. So imagine that you do not implement a local IT system anymore, but you source the service, because you have an API on your local iPad where you can design your product.

And we have what is called the Allianz Product Library, on which you can preconfigure a product and that then automatically gets operated in your IT. This is the future we are going to go to. We started in retail motor and retail non-motor, and it's going into life insurance as we speak.

Now in difference to P&C, because you have very long-duration contracts, it will take a long time until you see it in all of the contracts. But it's also used as an excuse. If I see some of the runoff companies, how they are able to move back books in 12 to 24 months, we have to get to the same position. So the journey is just starting.

And by the way, it's not just important for margin. It's also important for resilience. Think about cyber risk, think about IT system stability. A lot of our competitors run hundreds of different systems that are not integrated. We do run global network, by and large, for insurance now. We have one global virtual client system. Nobody has that. So that makes us -- over time, it has to make us a lot more productive. And it has to allow us to offer client satisfaction levels, as you see, that people cannot match. This is what the power of it is.

And in the digital world, my last comment is, a lot also about brand. The negotiation power that we have with digital and physical intermediaries is only going to go up, because people seek our brands today. They go online, and they want to buy a product from us. And that gives us different negotiation power with intermediaries. And you're going to see that over the next few years. Just watch it.

**Operator**

From Autonomous, we will take our next question from Andrew Ritchie.

**Andrew James Ritchie**
*Autonomous Research LLP*

There was a couple of announcements out in January with respect to Allianz in China. The launch, I think, of the first wholly owned insurance asset management company, and you took ownership of Allianz China Life. Can you just clarify, is there -- is that -- is significant investment required in relation to those transactions? I don't know if you've got any sense as to when -- I mean, clearly, it's a very dynamic environment. But can you give us any sort of qualitative guidance as to when we would start to see significant impacts from those businesses there?

A second question, Giulio, you mentioned that new business margin was likely to be at 3% for Q1, up from, what was it? 2.8% in Q4. What are the kind of actions that you can achieve to achieve that sort of significant improvement in just 1 quarter?

And finally, Oliver, you alluded to the fact that you felt you were underperforming in commercial lines. Now we can see that clearly at AGCS. What do you think is -- in the rest of the business, excluding ACGS, where do you think your commercial lines business is running relative to retail?

Oliver Bäte
*Chairman of the Management Board & CEO*

I'll be very forthright with you. I'll start with the last one. We have ROEs north of 14% to 16% in retail. And in commercial, it's around 8% to 9%, even in the core markets. So you figure out the difference in what -- and by the way, there is no reason why commercial should be not running north to 11%.

Now it's -- I think there's many reasons for that. It has something to do with local scale. And most importantly, it's about discipline. When people were looking to make top line targets, they were often looking at commercial. When they're looking to support their local distribution in terms of commission income, they were looking to commercial. We've just to be -- we have to become a lot more disciplined, a lot more stringent in how we manage the segment away from retail. We have allowed cross-subsidies, and they have to end.

Now the other one, and it's like the Eye of Sauron. You need to put the eye on things and make sure you don't turn your eyes somewhere else. This is really important. Really, really important because there's a joke that my father, he's 85, always as says. He says, Oliver, you're not running the company. The agents are running the company. So we need to make sure that we align the interest between us and our distributors. I think that's the #1 thing to be done.

You may laugh about it, but it's also very clear about discipline. But it's about the Nike statement, just do it. So that you will see, and we'll put it in your eyes and also the internal eyes. We have in the last fall started to have fully separate accounts for the segment. And once they're auditable, we'll make sure that we steer them also properly.

The second one -- and that's it, fundamentally. And when you look at that, again, it's just driving just an adverted [ commerce technic excellence ] up. The long term, Andrew, really, upside, has to come from making even commercial lines a flow business as retail. We need -- we have just abysmal levels of automation and analytics relative to where we are in retail.

Now -- so as our former Chancellor Schmidt, Helmut Schmidt, says, the most beautiful room of all is not your living room. It's the room for improvement, and that also applies to this part of our business.

Now the second part is on China. This is very exciting, and I would like to pay -- turn your attention not just to China, but also to India. Now in China, we were, as you know, got the first foreign fully owned insurance license. Things work not very fast because of COVID, but they work. And we have the insurance asset management license. And now for the first time, we have 100% control of our life company. So after AIA, we are the second one that exists.

That opens lots of opportunities, and particularly for partnerships. I don't want to announce anything today. But as you can imagine, there is a lot of interest. And given what has happened with Ant Financial and others, now the tech sector understands that you need to have very strong, reliable partners. The regulators are very much turning the screws on innovation. So we're trying -- we're going to partner over time along the value chain with people that can help us to really leverage the growth of China as one of the most promising markets in the future.

As you see, their interest rates are going down there. They will face the same problem as any maturing life insurance market. It's risk management. I get constant calls from the China Development Forum to really show off how we deal with risk management. So we believe the opportunity is starting, and it's starting now.

By the way, not just in life. We believe the same is true for health. And by the way, as you probably have seen, our joint venture with JD has really moved great. We are far exceeding our plans, and we are planning to accelerate it even further in the digital world. It's always difficult to deal with a Chinese tech giant, but Richard is -- has been a fantastic partner, and we think we can do even better.

Now what happens and has happened in India is also very important. The government, 15 years by the way after promising us, for the first time, Modi has delivered on his promise and has lifted the FDI limit to 74%. As you know, we have created in 2000, 2001 2 companies together with our partners, Bajaj, and we have the option to increase our ownership in P&C to 50% and in life to 74%. And we will carefully evaluate the options. So India is also a spectacular market, and opportunities are arising.

Again, nothing will happen, Andrew, overnight, but we have been sowing the seeds for many, many years to come. And they are now finally coming to fruition.

**Giulio Terzariol**
*CFO & Member of the Management Board*

And the other question, the new business margin. So basically, there are a few effects. One is the change in mix is going to clearly come more and more into play. Then in the case of the United States, we have an increase in the yield on the treasury rates. And in the case of the United States, we are basically updating the new business margin on a biweekly basis. So you're going to see the impact coming right away in Q1. Then for Europe, you see also an increase in the swap rates. This is going to come rather in Q2 because we have a quarter delay.

But fundamentally, we have a better rate environment as we speak right now. And also, the change in mix that we started -- or the actions that we pushed in the course of 2020 are going clearly to have an impact also in 2021. And just to give you an idea, we launched a product in France basically in Q4, and there was already an impact coming from that product. Its impact should be even more noticeable as we go into Q1 and then into Q2.

**Operator**

We will take our next question from Michael Haid from Commerzbank.

**Michael Hermann Haid**
*Commerzbank AG, Research Division*

2 or 2.5 question. Motor insurance, first question. Can you talk a bit about the year-end renewals in German motor? I am particularly interested pricing. How you positioned yourself against your main competitors? And did you experience a move from tight agent-driven business towards direct online contracts, i.e., Allianz Direct? Related to that, any specific developments in other motor markets, increased price competition or initiatives from your side?

Second question, equity exposure. You reduced the equity exposure in 2020. Any plans to come back? I think the DNA of Allianz is to invest in real assets. It seems that in 2020, you sacrificed investment income to solvency, which at 207% may make no sense anymore.

**Giulio Terzariol**
*CFO & Member of the Management Board*

Maybe I start from the second question with the equity. At the moment, we don't have any particular intention to increase our equity exposure. So from that point of view, I think that when we look at our sensitivity on the Solvency II, and we're looking, in general, at how we are positioned, there is not necessarily the kind of desire right now to increase the equity component. But that might change in the future.

Personally speaking, I'm a believer that -- I don't dislike the Nordic model, right? They don't have equity in P&C. They're under technical results. They try to make money out of underwriting and holding equity in a property-casualty balance sheet. You can do it. But I don't know whether it has something to do with the business or the property-casualty company. So from that point of view, philosophically, I don't -- I'm not a big believer that you need to hold equity.

In the case of a Life business, might be different, clearly because there is a different dynamic also with the policyholder participation. So that might be part of the business model. It's a little bit different also if you hold private -- alternative equity versus holding public equity. There is a little bit of a different dynamic there. But I won't differentiate between holding equity in Property-Casualty, where it's not necessarily part of the business model. It might make sense if you have these alternative capabilities to do it because you have capabilities. But just investing in public equity might not be necessarily the absolute value driver.

On your question regarding motor, I can just tell you, in general, that we had a strong price momentum in Germany. When I look at also renewal in retail, the increases that we got, the actual exchange was about 5%. So from that point of view, we have been also looking for pricing strength.

What makes me happy? Oliver Schmidt got a price increase of 9%. So -- and so this tells a little bit about the strength of the rates that we got into our system in the renewal.

**Oliver Schmidt**
*Head of Investor Relations*

[indiscernible] driving staff. All right. Michael, if you are fine, I would say it's Friday afternoon. We have spent more than 90 minutes on the call already. So I think we should close the call now. In case you still have any questions, you can, of course, call the team or me afterwards. Okay?

And with this, we say goodbye to you. Thanks for joining the call. We wish you a pleasant remaining day and a very nice weekend. Thank you.

**Giulio Terzariol**
*CFO & Member of the Management Board*

Thank you. Have a good afternoon. Bye.

Oliver Bäte
*Chairman of the Management Board & CEO*

That's all. Thank you.

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