Allianz SE XTRA:ALV

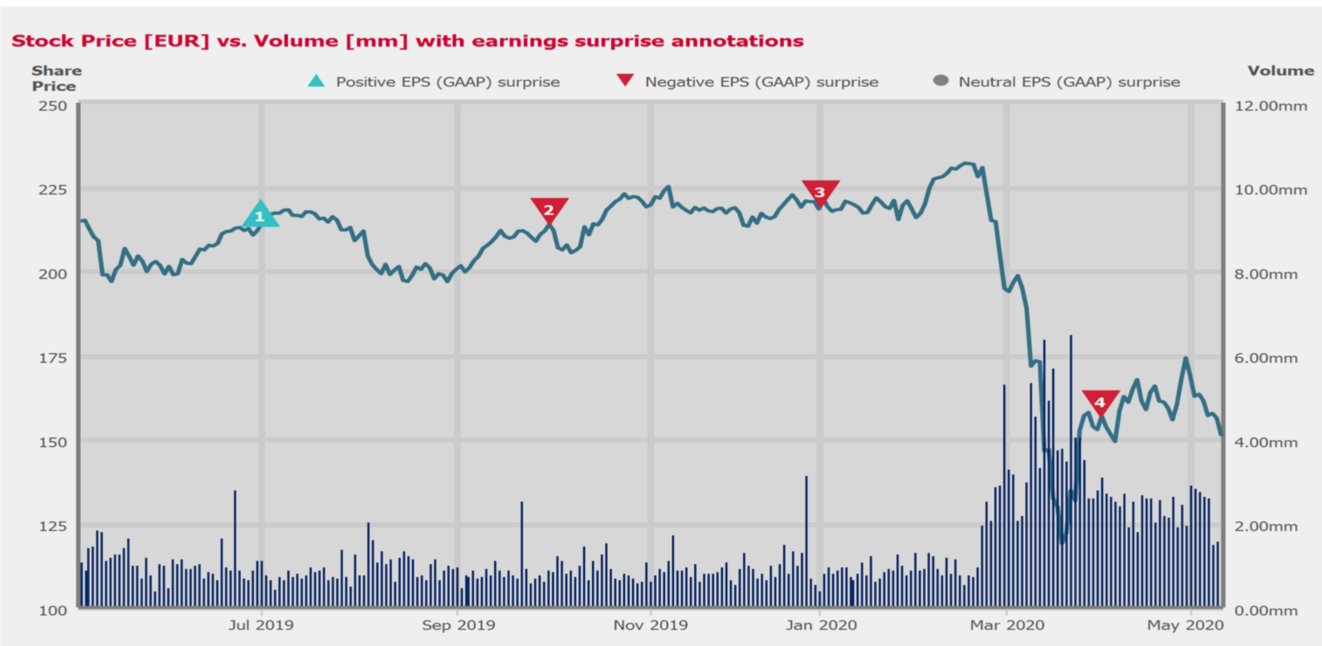
FQ1 2020 Earnings Call Transcripts

Tuesday, May 12, 2020 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	4.00	3.21	(19.75 %)	3.85	16.43	20.00
Revenue (mm)	37877.01	42552.00	12.34	34834.02	139072.00	143810.53

Currency: EUR
Consensus as of May-12-2020 11:47 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	4.22	5.10	1 20.85 %
FQ3 2019	4.71	4.66	2 (1.06 %)
FQ4 2019	4.54	4.44	3 (2.20 %)
FQ1 2020	4.00	3.21	4 (19.75 %)

Table of Contents

Call Participants

EXECUTIVES

Giulio Terzariol
CFO & Member of the Board of Management

Günther Thallinger
Member of Management Board

Oliver Schmidt
Head of Investor Relations

ANALYSTS

Andrew Hughes
Macquarie Research

Andrew James Ritchie
Autonomous Research LLP

Farooq Hanif
Crédit Suisse AG, Research Division

Johnny Vo
Goldman Sachs Group Inc., Research Division

Jonathan Michael Hocking
Morgan Stanley, Research Division

Michael Hermann Haid
Commerzbank AG, Research Division

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

Nick Holmes
Societe Generale Cross Asset Research

Unknown Analyst

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results of the first quarter 2020. For your information, this conference is being streamed live on allianz.com and YouTube. A recording will be made available shortly after the call. At this time, I would like to turn the call over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt
Head of Investor Relations

Thank you, Emma. Yes, good afternoon from my side as well, and welcome to our conference call. I don't have to tell you that capital markets had a significant impact on our results in the first quarter. So we thought that you may be interested in a more detailed discussion about our asset allocation and investment strategy.

Therefore, we have invited our Chief Investment Officer, Gunther Thallinger, to join us today. He will support Giulio and me during the Q&A session. But before we come to that, Giulio will talk you through the key numbers of the quarter.

Giulio Terzariol
CFO & Member of the Board of Management

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

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

If we now move to Page 5. Here, you can see the development of the IFRS equity and also the Solvency II capital. On the IFRS equity, clearly, you see a reduction of about 6%, which is driven by the change in annualized gains on our investments. This is clearly the consequence of what happened on the equity market and also on the credit spreads. But I think, for you, it's more interesting or relevant what is the development of the Solvency II ratio, which has decreased by 23 percentage points from 212% at the beginning of the year to 190% as of end of March. I'm going to go into the reason for the drop in a second.

If you look at the sensitivity on the right-hand side, the other slightly -- they're kind of unchanged. If you want to compare to the sensitivity that we had in the end of Q4, the one sensitivity which has reduced is the sensitivity to equity market. At the end of Q4, the sensitivity was minus 15%. And now it's minus 12%. Otherwise, the other sensitivities are more or less unchanged.

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

And then what you see is a big change in -- due to the market movement. That's on a pretax basis, minus 28%. On an after-tax basis, it's 23%. Now based on our sensitivity, that number would be more like minus 15% and driven by equity and by interest rates. On the credit spread, based on the sensitivity, we would have expected something closer to 0. The point is we have a gap of about 8 percentage points. And this is coming most likely from cost effects.

We have overall assumed these cost effects are relatively minor, and they are usually offset by the mitigating measure that we have put in place. But it looks like the cost effects are more significant than what we saw in the past. So that's one thing.

And then when you look at the other position, the other position looks like plus 2 so like a positive. But here, we need to consider that we have the positive effect of the taxes on the loss in market value. So in reality, if you remove for debt, we are losing about 1 to 2 percentage point of solvency due to other. And this has to do with lower diversification benefit. In a crisis, you can see that the amount of market and credit risk is going up, and there is less diversification benefit from -- with other risks. So I would say, the explanation for the 190% that I know there was an expectation it's going to be a little bit higher than that, is due to cost effects, which are more substantial than what we have assumed and also from a diversification benefit.

This said, I would say 190% is a very good solvency level. And also perspective, think about this number from an absolute point of view in terms of excess capital, so we have at EUR 37 billion of excess capital, about EUR 41 billion SCR. So we feel that our solvency ratio and solvency situation is actually pretty strong, and we are very, very confident in this regard.

And with this, we can move to the segments at Page 9. We start as usual with the Property-Casualty segment. And as you can see, we had on the growth side, a growth rate of about 2 percentage points. What is good is the growth rate is coming from price development and not so much from volume. So that's usually a good thing, especially considering the future performance of the business.

You can see a nice dynamic in the U.K. from a price development and growth point of view. In Spain as well, although you see a negative number from a growth point of view, the price change was very positive. And then also GCS had double-digit price increase, offset by lower volume, but that's definitely the picture we like to see in the case of a GCS. And then I would say you have a couple of companies like Italy or Euler Hermes, where you see a reduction in growth. This is where we see also the impact of the COVID, which in the case of Italy, might be more temporary. In the case of Euler Hermes, this might be for a prolonged time in 2020.

Let's move now to Page 11. The operating profit for the P&C segment has decreased by about EUR 400 million. This is clearly driven by the underwriting results or by the combined ratio, which has decreased -- or increased by 4 percentage points. Now as you can see, first of all, we had the impact due to COVID, which is EUR 400 million. This is coming from entertainment and from business interruption. Other effects have been offsetting each other.

If you translate this EUR 400 million in a loss ratio impact, this is about 2.5 percentage points. And then as you see, we have also a higher amount of NatCat compared to last year. That's also a swing of 2.5%. So if you adjust the loss ratio for the COVID impact and also for the higher amount of natural catastrophe, if you add it, you can see that the loss ratio accident year has improved by 1 percentage point compared to last year. On top of that, you can see that the expense ratio is better by 50 basis point compared to 2019, the first quarter.

And indeed, the expense ratio is also affected somehow by COVID. So the improvement is even more than that. So overall, when you look at the underlying performance of our P&C business, in reality, Q1 has been very, very satisfactory. And also is clearly indicating that in the absence of all the noise that we saw in Q1, we are tracking well to get to our target for 2020, '21.

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

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

Page 15, that's on the investment income on the P&C side. Overall, you see a decrease of the investment results by about EUR 70 million. This is in reality, mostly driven by noise associated to FX effect. If you just look at the underlying investment income, so the current income, is stable compared to the prior period level.

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

So now moving to Page 17 on the Life side. First of all, you can see that the production has been up a couple of percentage points. So this means that in reality, the impact coming from COVID in Q1 was kind of limited. I wouldn't say it was 0, but was kind of limited. Clearly, we're going to see a little bit more impact as we go through the remainder of the year.

On the new business margin, you can see a good new business margin of 2.7%. And you just need to consider that the interest rate level is very much down compared to the level that we had 1 year ago. Just to give you -- I'm sure you know the numbers, but just to refresh the numbers a little bit. In the case of the euro, the interest rates are 80 basis points lower compared to last year. In the case of the U.S. more than 100 basis points lower. So overall, a good new business margin under the economic conditions. And also, you see the mix has improved compared to what we had last year. So the majority now, 90% of our products are in the so-called capital-light bucket.

Moving to Page 19, the operating profit of the Life business has been clearly affected by the turbulences in the capital markets. So we have quantified a target to the prior period, which is also, if you want, our expectation for the quarter as COVID-related, because we know that up to February, indeed, our performance in Property-Casualty -- I mean in Life, it was tracking on plan. What is coming here to make an impact is clearly, the -- on the VA side. In the U.S., we know that in this kind of environment, hedging costs are going up. And also the basis risk has a tendency in this kind of environment to be negative.

So Allianz Life is explaining 60% of the deviation compared to prior period. And then clearly, in a situation where you have a lot of impairments on equity, even if there are mitigation through hedges and even if we have mitigation through the policy of the participation, you're still going to have clearly a lower performance compared to a situation where markets are stable. But still, EUR 800 million of operating profit in a very, very challenging quarter, I think, is also a testimony to the resilience of our operating profit in the Life business.

At Page 21, you can see the numbers for the new business margin for the operating profit by companies. As I was saying before, the biggest drag was at Allianz Life USA. We had also a significant drop in the case of Germany Health. This is related to impairments. And in the case of Spain, in reality, this is just due to the deconsolidation of our joint venture with Banco Popular. The rest of the business that you see more resilience or even you see a couple of situations where the operating profit has gone up.

And with that, maybe moving to Page 23. That's the breakdown of our investment margin. I think first of all, what is important to notice is that the difference between the current yield and the guarantee is pretty much stable. Indeed, even maybe slightly up. But let's say, stable. So that's very important because this is the KPI that has to stay as much stable as possible over time. And then clearly, we have a significant impact on the so-called harvesting, which is mostly offset by the profit sharing when you run the math. But still, eventually, when you run our calculation, we lose about 5 basis point -- 4 to 5 basis point in investment margin. Again, considering the environment for Q1, I will say that an investment margin of 15 basis point is pretty good and pretty resilient.

Now we come to Asset Management on Page 25. We have in total EUR 2.1 trillion of assets under management. There of EUR 1.6 billion -- EUR 1.6 trillion are for third party. And clearly, when you look at what happened in Q1, the assets under management for third-party have decreased by about 8%. And if you look at the different asset classes, you can see that all asset classes, all regions have gone down. So this is clearly what you would also expect in a case of a crisis like this where spreads are going up and the equity markets are going down. Still, the starting point in reality that we had, especially because of the group performance in 2019 was pretty good. So from that point of view, I think that, that's been very helpful for the quarter as we're going to see in a few slides.

When you look at Page 27, here we can see also the driver -- the development of the asset base. On the outflows -- on the inflow side, we had EUR 46 billion of outflows. They are mostly coming from PIMCO. As of February, the -- we had the situation of inflows. So everything happened indeed in March. And I would even say, everything happened in a few weeks in March. Towards the end of March, we already saw a stabilization. And in the month of April, for example, we saw -- or to date, May, we are seeing positive -- slight positive inflows at PIMCO. So we see more stability.

Also, what happened in Q1 is not Allianz-related. A lot of retail investors went to the sideline. And we also expect that eventually they are going to come back. So stability has been definitely there as we went into the second quarter.

On the market development, you can see clearly there was a big swing in the month of March. Net the position, the loss in assets under management between market and FX was about EUR 80 billion-plus. I think we recovered already EUR 40 billion, even a little bit more in the month of April. And then clearly, we will see what the markets will do as we move into the remainder of the year.

At Page 29 you can see that revenue are up, and that's because, as I was saying before, the development of our Asset Management operations being overall compared to 1 year ago, very good. So you can see a nice development of the revenue. And this is coming from PIMCO. In the case of AGI, we are rather flat. And then you can also see that the third-party fee margin is up. This is, however, more due to technical effect. In reality, if you adjust for the technical effect, it's stable. But that's still a good result.

So if you go to Page 31, when you translate this into profit, you can see that in Asset Management, we had a very good operating profit performance for the first quarter with an increase of 20% driven by PIMCO, clearly. But also in the case of AGI, at least you see resilience in the number.

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

Now going to Page 33, on the Corporate segment, you can see a deviation of about EUR 60 million compared to prior period. This has to do with FX volatility and also, we had a payment to our Solidarity Funds in France. But I will say, all this kind of movement are relatively minor. So overall, the segment is performing according to our expectation.

And with that at Page 35, the shareholder net income is EUR 1.4 billion. As you can see at the end of the day, the main impact on the shareholder net income is coming from the operating profit, otherwise, below the line, not so much has happened. So they are realized -- the realized gains and losses has compensated for the impairment, the realized gains and losses are coming basically from the disposal of our joint venture in Banco Popular. We have some more restructuring expenses.

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

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

On the Life side, yes, there was market volatility, but the operating profit is still very sizable at EUR 800 million. And also, the new business margin is resilient, 2.7%.

On the Asset Management side, we have very good operating profit. Sure, some headwinds coming into the end of the quarter, but also stability as we go into the second quarter. And then on the solvency ratio, the solvency ratio at 190% is a good solvency ratio and the excess capital of EUR 37 billion is a -- that's also a way to look at the capital situation. I think it's a pretty big number.

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

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Jon Hocking from Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 3 questions, please. Firstly, on trade credit, you've got a pretty small number in Q1 for Euler Hermes. I just wonder if you could give some detail in terms of how the [kind of] reinsurance coverage is going to work there, particularly given the government schemes in Germany and France because there's some big numbers flying around the market in terms of the potential size of losses in trade credit. I just wonder how you could help us mention that, please.

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

And then finally, on dividends. Does the EIOPA restriction on dividends, is that going to have any impact on the timing of upstreaming from the various EU subsidiaries you've got around the group?

Giulio Terzariol
CFO & Member of the Board of Management

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

So what you're going to see happening in credit insurance, sure, the combined ratio is going to be more elevated. But it should not -- for example, we would think the combined ratio should be anyway -- we should be able to breakeven in most scenario in underwriting results. But that's it, clearly, also because you are not taking the full amount of risk.

And then clearly, what we're going to see still a profit coming from the investment income. So when you look at what is going to happen for credit insurance, I would say that the profit that you see for the first quarter is going to be more or less the profit that you are going to see by the end of the year. Otherwise, we are acting more like a facilitator in making sure that there is still credit insurance available in the marketplace. But we are not necessarily taking a significant amount of risk.

And as a consequence, clearly then also you should not make a lot of profit for the remainder of the year. So I think it's a sensible agreement. We could have gone the other way just to reduce capacity. But when you look at also the long-term relationship that you want to preserve, and when you also look at just doing something which is supporting the economy, we think that was the most sensible thing to do. So that's on the credit insurance.

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

This applies also to entertainment, for example, where we have a EUR 200 million-plus loss. This is not because we got EUR 200 million-plus of claims reported by the end of March. But that's clearly the expectation what has incurred but not reported yet.

On the business interruption, if you ask me, I think that we have booked most of the losses. Clearly, we're going to see some other losses coming through other canceled legislation. But also, let me tell you that every time we make a statement, things might change here. That's the reason why we don't give you a guidance. Clearly, we have been diligently working on understanding all the ins and outs of the COVID crisis and running scenario. The point is, the environment might change. So something that we tell you today in 2, 3 weeks might be very different because regulators and other stakeholders, maybe is changing the rules of the game.

So -- but based on the best knowledge that we have, and we will say that on the business interruption, we should have booked most of the losses. Not all, but I'd say we booked a significant amount.

Then on the dividend, I would say what -- the EIOPA statements has influenced to some degree, a few countries. So we see a few legislation where, indeed, dividend flows to the holding company is challenged, let's put it this way. But I have to say that it's pretty limited. So the number is not 0. But I would also say, it's not a number which is changing materially. I would say the -- our liquidity position -- we have already received a lot of dividend. So yes, there is some impact, but I would say it's pretty -- very digestible.

Jonathan Michael Hocking
Morgan Stanley, Research Division

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

Giulio Terzariol
CFO & Member of the Board of Management

Yes. But I would say, almost in all countries, we have achieved this. We have this kind of agreement. And also in the countries where there is not an agreement like this, we can reduce capacity. The beauty -- I don't want to say the beauty, but the point with the coronavirus is you pay for shipping transit, so you can also react to that, right? There is a point that when trade is freezing, there is not much going on. And then at the point in time, it's your choice as a credit insurance, if you a resume if you are comfortable to give capacity or not.

So there is a lot which is under control because here, we're not dealing with giving a loan for the next 20 years, right? It's something where you can adjust capacity constantly and also think about the trade as kind of frozen. So from that point of view, it's also something that we can -- the capacity we give, we can control. And the capacity we give is a function of the schemes that we are achieving with the government.

Operator

We will now go to our next question from Michael Huttner from Berenberg.

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

I share your view that you've done a really good job and a bit frustrated by the uncertainty still on business [environment.] I have a question that is completely unrelated to all this. So I apologize so first of all, let me call it if you could maybe explain a little bit the sensitivity to [topics which] generate the potential impact from inflows from your [managed] portfolio. [And also the unrest or unease of unfavorable impact when and what could we see in the earning take out?]

And then the completely unrelated question is on PIMCO. So [giving a bit of] background remember in Q1 in mid-March, I think [Paul] said something -- the markets actually froze which is unusual. I think [it was -- a bit more is COVID and discount-] related. And my question is, what would happen if you had a combination of the big outflows you've seen, but maybe another [say a larger, at the same time, as markets freezing and not COVID which we would been in just an earnings event of Allianz or could it for kind of] knock-on effects of the [downstream and] kind of balance sheet on shareholder money invested? I know it's a funny question, but is more [sensitive to the COVID effects than overall?]

Giulio Terzariol
CFO & Member of the Board of Management

Michael, you're breaking up a lot. So the first question I think here...

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

[I'm sorry, my first question was...]

Giulio Terzariol
CFO & Member of the Board of Management

Yes, now it's better by the way. And it was sensitivity?

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

Yes.

Giulio Terzariol
CFO & Member of the Board of Management

Yes, because now it's much better. Now suddenly you're very clear. The first question was on market sensitivity.

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

Yes, before I was underwater. Okay. The first question was to your colleague on fallen angels and any delayed impairments coming from the unlisted?

Giulio Terzariol
CFO & Member of the Board of Management

Okay. Okay. Got it. Okay. Now we don't see for the time being. That question regarding rating migration. I would say, for the time being, we don't see much of a rating migration happening. I believe also that what governments are doing or central banks are doing are helping. We anyway are running sensitivity just to give you an idea. In the case we have rating migration 1 notch across the board. Our solvency ratio would drop by 10 percentage points. So that's the sensitivity that we run.

I don't think we're going to see something like that. On the other side, we might have here and there are clearly some rating downgrade. That will be naive to expect that nothing is going to happen. But at least for the time being, we didn't see much happening. Also when you look at rating agencies, they are maybe putting negative outlook out there, but there was not much movement. And so I would say, this seems to be -- this is not the case for the time being. And I believe this issue is going to be manageable. But it might have some impact on the solvency ratio.

The other question was on -- I understand on PIMCO. But you need to repeat the question.

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

Yes, if I may. So if I put it in a rather brutal way, and I don't mean it like that at all, because I think it's the only tail risk Allianz really has, or I can figure. What would happen if we had a repeat of mid-March when bond markets were close, even the treasury market was struggling, and if at the same time, you had a sudden acceleration of redemptions. Because people like me thought, oh my gosh, I need to go and buy some more -- some food and I need to redeem my mutual fund.

How does that impact Allianz?

Giulio Terzariol
CFO & Member of the Board of Management

So I would say, when you have a situation like that, usually, you can count on the central banks to have a liquidity. I would say, no, we just went through the situation, if you want, in Q1. From a -- I think your question is aimed at the liquidity risk.

There was no -- not at all liquidity concern at PIMCO. And again, PIMCO is running a stress test. And clearly, every time you run a stress test, you need to be comfortable with the level of stress tests you're putting your business through. But they ran the stress test to ensure that they have enough liquidity. And also, when they go through a crisis or they go through tough times, they are also going to change the parameters they use to define what is a liquid assets and what is not a liquid assets.

So in a COVID situation, liquid assets is going to become illiquid. And also as they try to manage the portfolio, usually, they try to do vertical to the extent they can do it, clearly. But they try to do a vertical. And as they get redemption, they try to be as vertical as possible in reducing the portfolio. So not just reducing what are the liquid -- most liquid assets because then you can start with just the liquid part, but just they try to consistently keep the liquidity as stable as possible.

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

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

And this doesn't guarantee or shelter money for Allianz in there?

Giulio Terzariol
CFO & Member of the Board of Management

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

Operator

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

Andrew James Ritchie
Autonomous Research LLP

So first of all, I wondered, Giulio, if you could clarify -- on the press conference call this morning, I think you gave indications about the expected COVID impact for -- in non-life for the year as a whole. But yet you're today -- now telling us there won't be much more of an impact beyond what you saw in Q1. I think this morning, you said in a EUR 800 million to EUR 1.2 billion in the press conference. Can you just clarify what your assumptions are or further COVID nonlife claims? Vis-a-vis, are you -- well, are you able to give that firmer number because of reinsurance retentions? Are you assuming the frequency benefits that you enjoyed in Q1 continue? And there isn't any pressure for premium refunds, et cetera? Sorry, I just think -- I'm just trying to tie your comments this afternoon with your comment this morning.

The second question what additional stress tests have you performed in the U.S. Life general account assets? And I'm assuming there was no impact to local stat from Q1 market movements because it lags that but maybe just give us an update on the local statutory position of the U.S. Life business?

And finally, based on market movements since the quarter-end, it would look like your solvency hasn't really changed. It may have even gone down slightly, but that's missing the other factors we can't model like lower volatility, et cetera. So can you give us any indication on movement since the quarter end?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So maybe starting from the P&C question. Yes. So what we said this morning, which is, by the way, what is still applied this afternoon, is that we expect on the underwriting side, 15% to 20% impact compared to the outlook of 5.6%. So when you in the numbers, yes, you get to something which is between, let's say, about EUR 1 billion of impact.

Where this is coming from? We said, definitely, it's going to come from -- a big chunk of it is going to come from AGCS. And in the case of AGCS, we have both in Q1, a little bit more than EUR 200 million of losses due to entertainment. We expect these losses by the end of the year to double, specifically entertainment. And then clearly, we also expect to have additional impact in AGCS, which could be also the D&O financial lines. So overall, we expect losses to AGCS to be higher compared to just to the EUR 200 million.

So what I was referring before, is we book clearly what has been incurred in our reporting, but we are clearly not booking what might be losses, claims, which are going to happen in May or in June. So that's a different story.

Then clearly on Euler Hermes, we're also considering for the fact that Euler Hermes' operating profit is going to be basically flat compared to the level that we have now. So compared to planned, there's also a gap that we need to consider.

In the case of Allianz partners, we're also considering that we are going to have a low underwriting profit moving forward because we're going to have lower revenue. Clearly, this is not something that you book in Q1, but it's going to impact the profitability for the rest of the year.

So when you add up the global lines, you get to basically the kind of numbers that we are talking about. And then you can open up the conversation about what is happening on Motor and what might happen in other lines of business, which are now globalized. On that one, yes, we are assuming our calculation that we are going to have a benefit from lower frequency in Motor, but we're also considering that there will be rebates. In some cases, the rebates even coming through the way the policies are written because the premium is a function of the amount of mileage.

In other cases, it might be pressure coming from politicians or regulators. So on that one, we are reflecting an improvement. But yes, it's difficult to put a number, but we would tend to be cautious. And then clearly, as I was saying before, we are going to see also some negative in other lines of business. We are going to pick up some business interruption losses also in some other country, although the numbers shouldn't be shouldn't be that material. So when we put it all together, I would say we are kind of working under the assumption that the losses we are going to see will come basically from the deviation to plan, if you want.

On the underwriting side, they are coming mostly from the global lines where we will say on the other businesses, we would expect to be more or less flattish. Maybe depending on the frequency development in Motor, we might even see a slight positive number. But overall, for the sake of argument, I would say, relatively neutral.

Then you had a question on the general account assets for Allianz Life. And I think at the end of the day, you were referring to the RBC ratio. The RBC ratio for Allianz Life in Q1 is about 325%. So -- which is considering that we are running the company as long as the RBC ratio is over 300%, we -- that's totally fine. So overall, it's a good RBC ratio.

In reality, there is some volatility in -- more than you think in the RBC calculation in the U.S. So especially can be volatility because the reserving side it's not on an economic basis. So this can create, depending on the situation, positive or negative volatility. We think that the RBC ratio of Allianz Life is going to go up by the end of the year. Some of the volatility is going to -- that is embedded in the number now it's going to reverse. But to your question, the RBC ratio, Allianz Life is EUR 325 million. And this is after they paid a dividend of about EUR 700 million -- about EUR 700 million, just to give you an idea anyway of the capital position of the company.

And then you had a last question that I'm not so sure I [understood the question.]

Oliver Schmidt
Head of Investor Relations

Could you repeat that question please? Last 2 question?

Andrew Hughes
Macquarie Research

Sure. I was just trying to understand because the solvency ratio we couldn't remodel it successfully in Q1 because of the factors you talked about, Giulio, to do with the correlation and volatility. Did that -- what's that done since the end of the quarter? It -- I can look at the sensitivities, and it would look like your solvency has not come down. But what am I missing?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So I would say what we will do -- and we thought about that because clearly, if you look at our sensitivity, the sensitivity we gave you at the end of Q4 and you run the numbers, you don't get to 190%. There is definitely no way you get there. And so what we need to do, and we are going to do this presumably starting Q2, we are going to provide the sensitivity of [-- sensitivity] that should give an idea about the cross effect.

This number has never been really significant. And so that's the reason why we never really focused on that, also because we know that when we go into a rough market usually, we take action, right? We're not going to sit there without doing anything. So the assumption has always been the cross effects and the action that we take are going to be mostly neutral. It doesn't look like it's the case in Q1 and so what we're going to do presumably starting Q2 is to provide you with the sensitivity of 50 basis point insurance write-down, 50 basis points spread widening and 30% equity down. Because this is exactly the sensitivities that we show you for the single driver. So by putting them all together, this should provide a little bit more guidance.

But I want to make also a point, besides the fact that I really believe that 190% solvency ratio is good solvency ratio. If you look -- because you are all mathematical. If you look at what a -- let's say, EUR 500 million, more or less, of own fund can do and EUR 500 million, more or less ACR can do. And really speaking of rounding this kind already made 3 percentage point of solvency ratio.

So fundamentally, we need also to understand that especially when you look at the ratio, there might be also some real volatility, which is just noise in a very complex calculation. So that's the reason why in all, yes, absolutely, we should look at the ratio, but also do the exercise a little bit to look at the excess capital. Do the exercise to see what's EUR 1 billion more or less of ACR can do to a solvency ratio. Then you can ask yourself is EUR 1 billion more or less of ACR really relevant in the real world? And so then I think you can get a perspective on the Solvency II ratio, which is maybe more balanced.

So look at the solvency ratio, but look at the absolute numbers, move the ACR by EUR 1 billion. Then you see what this can do, can do something, but then you can actually see will EUR 1 billion ACR really make for a difference.

Operator

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

Nick Holmes
Societe Generale Cross Asset Research

Two questions, please. The first is at what level of solvency would you definitely cancel the second EUR 750 million share buyback? Because I think that is just suspended, isn't it? Rather than canceled at the moment?

And the second question is, if interest rates are going to be lower for longer, could you remind us of your thoughts about whether this is a problem for you? Or whether you're pretty relaxed about it?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So on the solvency ratio and buyback, at what point of solvency ratio, we would definitely skip the buyback? That will be [150.] At [150,] we would definitely say there is no -- we will skip it. I don't think we would have long conversation.

If we are about [150,] clearly, there are a lot of other consideration that come into play. But that's also important to -- in this environment. As you see, there was a lot of pushback on -- even on dividend and buybacks. On this environment maybe might be the solvency ratio even higher than [150] substantially higher than [150] might lead that we are going to continue to postpone the buyback. So a lot depends on how the sentiment is going to be. But from a pure technical point of view, I would say the hard line would be below [150,] we will not do a buyback, and there will be no kind of -- different kind of consideration where maybe we might do it. In any case, no. That will be the red line.

That's how you can buy back and then on the low interest...

Nick Holmes
Societe Generale Cross Asset Research

Giulio can I -- sorry, can you just very quickly to follow-up on that. So would it be correct to say that since it's suspended, not canceled, it is essentially your intention still to have that buyback? Ideally, that's what you would like to do?

Giulio Terzariol
CFO & Member of the Board of Management

Sure. That's still the intention. And it's also deducted from the Solvency II calculation. So that's the intention. We're going to see how the situation develops. Also how the sentiment is developing. We are going to see also if EIOPA is going to change the view on dividend payments. Forget about buybacks. They have a view on dividend payment. If there is a change in sentiment also on the regulatory side at that point in time, then we clearly -- we are going to evaluate the buyback. But we need to get there first, and I -- let's see when regulators are going to have a different view. That's on the buyback.

And we had a question on the low interest rates. I would say that the low interest rates environment is not a problem as long as we take actions. So clearly, if we sit here and we say that the world is the same like 2 years ago, that wouldn't be necessarily a recipe for success. If we are acting diligently and changing the products like we did a few years ago, where risk came down, and we are accordingly doing the same this time, which we will do. Then clearly, we are going to be able to be successful also in a lower interest rate environment.

But there is no doubt that compared to the situation of 2019, the world has changed. So what -- when you go back to, I would say, 12 months ago, maybe, yes, 12 months ago, the swap rate -- I always look at the swap rate because that's a relevant indicator for us. That was closer to 1.5. And now the number is basically 0, so the environment has changed, which means, clearly, we need to change accordingly to the new rate environment.

We are making changes, I just said in the United States, they have a playbook 1%. They have even a playbook 0% interest rate. So we are making changes in the U.S. They should be sustaining the new business margin and eventually the performance of the company moving forward. We are making changes in the summer in France. And then also in the case of Germany, we expect also to have a different mix. And changes, they will come in next -- the beginning of next year.

Nick Holmes
Societe Generale Cross Asset Research

Just very, very quick follow-up. In the U.S. Life business, where there was quite a big loss, was that mainly due to lower interest rates? Or was that equity market volatility?

Giulio Terzariol
CFO & Member of the Board of Management

No, that was mostly coming from equity market volatility hedging costs, which, in a situation like this tend to be more elevated. And then also business risk. Don't ask me why, but I can tell you I wasn't Allianz Life many years ago. And basically should be asymmetric, right? Should be positive or negative. There is some kind of correlation when the markets are getting very nervous, business risk has definitely a tendency to be negative. I will say, the correlation tends to be 1:1. And then it tends also too reverse, by the way, when the markets are then recovering, you see positive basis risk.

So that's something that, yes, somehow, it's happening all the time. And that's part of the volatility that you have on the -- in the Life business, in the VA business. That's also the reason why we decided to somehow not push the VA business anymore because it was a little bit too much volatility then. What you also see a little bit is some interest rates impact because on an IFRS basis, at the end of the day, there is still some sensitivity of the operating profit to interest rate movement. And in this case, there was a big drop in interest rates. But I would say, this is not the primary driver for the decrease in profit that you saw in Allianz Life.

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

Operator

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

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

I hope you can hear me clearly and hopeful as well.

Giulio Terzariol
CFO & Member of the Board of Management

Yes.

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

So just -- so one is just the PIMCO 1Q market movement of EUR 107 billion. It felt a bit quite severe given also the risk we went down. Is it -- is there some thinking within Allianz that the credit spread risk of these products should be reviewed? Or is there some plans to bring this into control? Or just let them be? I just wanted to clarify how you're thinking about this quite sharp volatility in the PIMCO asset base?

And the second one is just on the volume. I mean back in '09, I think the volume was down 1%, P&C Group, for P&C in Allianz. I mean there is obviously some thought that this year is going to be worse than that 2009 period. So if volume is down, say 10%, something like that, for the year, would it have any problems for the expenses, expense targets or expense ratios? Or do you see any scenario where that could be an issue?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So maybe starting from PIMCO. The drop in market return at PIMCO was about EUR 50 billion of the EUR 107 billion, EUR 108 billion that you see there. So just to give you a sense about how much was at PIMCO. If you consider the size of the portfolio of PIMCO, that's not a huge number.

But to come to your point, because you're asking there, are you taking a lot of credit risk there? No, but -- no, no. And especially, but you need to consider that the income funds is there to produce income so you might somehow go a little bit higher on the risk spectrum. Because at the end of the day, you can count that when this volatility is sorted out, you might generate a little bit more income. But also less important is typical this kind of income strategy. So when we look at what PIMCO is doing compared to competitors running similar strategy at the end of the day, I would say, it's the same kind of approach.

But again, look at the number and the PIMCO drop due to market return was [EUR 60 billion] -- EUR 50 billion. And we are speaking in the case of being over EUR 1.2 trillion of third-party assets.

On the volume, I think your question was, does the volume impact our ability to achieve our expense ratio? I would always differentiate anywhere between what might happen 2020, what is the trajectory for 2021. Because, as I was saying before, we feel very confident about the progress that we've seen in our numbers. Both on the loss ratio, once you adjust for what we saw in -- with the COVID in NatCat and also on the expense ratio. If you see, we have been able to reduce the expense ratio despite a growth, which is 1.8%. So it's not that we have a significant decrease in the expense ratio despite moderate growth. I will never make a big story out of a quarterly comparison because you might have also some different way or spending expenses sometimes in a year versus another year. But still, the number is pointing out to a decrease. And also thinking -- think that indeed at 27.3% would even be better if we adjust for COVID.

So now when we look at the rest of the year, yes, we can expect that the revenue basis might be coming under pressure for 2020, but we are still committed to do our best effort to get to an expense ratio of 27.5%, which is the target that we had for 2020. And we think we can get there even if revenue are going to be lower compared to what we have assumed. So this is what we're going to try to achieve. And then I believe for 2021, as we continue to work on productivity and eventually, also the revenue basis is going to normalize from the COVID impact. And I think we'll be able to push the expense ratio further down.

So yes, revenue might be a little bit of a headwind from this point of view, but I believe our productivity efforts are such that we should be able anyway to continue to show good expense ratio numbers.

Operator

We will go to our next question now from Farooq Hanif from Credit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

Just referring to that press call that Andrew talked about in one of his questions. You also mentioned a 10% reduction to your group operating profit. Can you just remind us what you -- kind of your assumptions were behind that? Was that referring to P&C impact only? Or was that kind of like a global view?

And then returning also to the EUR 800 million to EUR 1 billion roughly impact at P&C alone. Presumably, a large part of that will be revenue reduction rather than claims. So I was wondering if you could just talk a little bit more about that.

Secondly, on social inflation. I -- the impression I got from previous conversations with you were expecting maybe potentially a little bit more reserving risk in AGCS in this topic area. Is that now on hold because of what's happening? Can you update us?

And lastly, I believe you're still in the process with the Sul America deal. Can you update us?

Giulio Terzariol
CFO & Member of the Board of Management

Yes. So coming from -- to the question about the 10% on operating profit for the group. This was just a translation, if you want, the 15% to 20% underwriting impact compared to the P&C outlook to scale into the EUR 12 billion. So that's basically -- that was it. So it's the same number, just put in reference to a different basis. And when I talk to the press, I'm not going to be 8.5 or 8.9. So it's a rounding number, but that's just the same number scaled to a different basis.

On the question that you have about what is revenue-related versus claims-related. I would say, most of the impact is coming from losses, I would say. And then clearly, in the case of Allianz partners, where we are speaking anywhere with a small amount. So in the case of Allianz partners, we might be talking about on the underwriting results, about EUR 100 million deviation, maybe a little bit higher, depending on how long the COVID is going to be. And this is coming mostly from global revenue. So that would be lower revenue. And in the case of Euler Hermes is almost struggle to separate what is lower revenue versus might be a little bit higher loss ratio. But I would say maybe it's half and half. But fundamentally, I will say that most of the issue is coming from -- is coming from the claims side.

And then on Sul America. I believe that the transaction might take place in the third quarter. So the original plan was to be -- to have transaction completed by the second quarter. But this might be third quarter, maybe it can even be fourth quarter because of what is happening with the COVID crisis. But I will say, by the end of this year, we should complete the transaction. But it's not happening in Q2 anymore. And we are working, clearly, anyway on preparing from an operational point of view. We're already doing the work to be prepared operationally to start with the new company once we had -- we can close the transaction.

That's okay?

Farooq Hanif
Crédit Suisse AG, Research Division

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

Giulio Terzariol
CFO & Member of the Board of Management

Sorry, social inflation. Sorry, I forgot it. I would say it's a little bit too early to speak about social inflation. I would say that for what we saw in Q1, there was nothing popping up on the social inflation side, which is there will be rather a good news.

What we see in the U.S., maybe that's also relevant. What we saw is clearly a lot of price trends. That was definitely the case when you look at the price development for AGCS, we're speaking a double-digit number. So from that point of view, I will say that on the excellent year results, things were going according to our expectation. What social inflation might do to the reserve base is something that will evaluate later, but there was nothing happening in Q1 to suggest anything that's -- could be relevant.

I believe the COVID crisis can create a lot of noise on a lot of drivers. So what could be could this change our social inflation, the other one might also be, can this change the price trends that we saw towards the end of last year in the course of last year and also the beginning of this year. Our answer is, it doesn't look like this. So at the moment, we still see price trends. When we look at what also brokers are saying or other competitors, it looks like the price trends is still there, but it's clearly something that we need to watch in the next months where the COVID crisis might have an impact on the amount of rate increases that we are able to force to the system.

Operator

We'll go to our next question now from Michael Haid from Commerzbank.

Michael Hermann Haid
Commerzbank AG, Research Division

Two questions, both on Life and Health insurance. The Life new business and the lockdown, many Allianz employees and also agents currently work from home, so do many clients. New business was marginally affected by this in the first quarter. What are your expectations for the second quarter? What is your experience so far, given that we are almost halfway through the second quarter?

Second question, also on Life and Health insurance. Your Solvency II ratio had more than expected also because you had to deviate from the 90-10 policyholder shareholder profit share in rules. To what extent do you expect this higher policyholder sharing to come through in the final 2020 results? And should we also expect higher policyholder sharing for 2021 and beyond?

Giulio Terzariol
CFO & Member of the Board of Management

So when you're speaking about the policyholder sharing, Michael, you are referring to the Solvency II calculation? Or to what we're going to do in in this Hagibis? Or what are you referring? To the mechanics of Solvency II?

Michael Hermann Haid
Commerzbank AG, Research Division

Okay. In Solvency II.

Giulio Terzariol
CFO & Member of the Board of Management

Okay. Yes. Sure, sure, sure. So I would say the topic with the policyholder participation is the following. When you have a situation like what we had in Q1, where fundamentally, you have a reduction of the annualized gains on the -- that can be on bonds because of the credit spread on shares. There is also, if you want, the annualized gains are going and down. And as part of these unrealized gains, if you want to have also a sort of policyholder participation, the deferred policy of the participation there.

So these are all kind of buffer that can be used as you run the projection, the Solvency II model. So the unrealized gains in -- not just a net part for the policy -- for the shareholder, but also what is the policyholder side. As the buffers are going down because of the crisis, you're going to have less of this cushion in the projection. If the market are going up, then clearly, we are going to see also, if you want, a stronger buffer in general and also stronger policyholder participation of sets. This, in reality of this mechanism is part of our sensitivity. So it's not that this is something that is not part of our sensitivity. And the problem is that it looks like, when you add up the sensitivity, you don't get to the total picture. And that's the reason why we want to provide a cross effect.

Also, maybe from a pure modeling point of view, the way we do the model of this policyholder participation might make the estimate a little bit more complicated or this driver -- the driver. But this is more a modeling issue as opposed to be from a conceptual point of view or what we are talking about is when market goes down, there are fundamentally less buffer in the system. You need to keep in mind that we are running a risk-neutral calculation there. So clearly, in a risk-neutral calculation, that can be kind of penalizing. And when market goes up, you are going to have more buffer available. And this explains also the volatility of -- that you can see in the Solvency II calculation. But this should be reflected in our sensitivity. This is not something that should come on top.

And then you had a question on the Life side. Maybe I can -- the estimate, we were -- I was looking more at what is going to happen by the end of the year based on what they always are telling us. We think we might be about 5% to 10% down compared to the level of last year.

So I will say that if you see in Q1, we were 2 percentage points up. And then I would say that this should revert to a negative number and we think we might be, by the end of the year, about 5% to 10% down. I think it's very difficult to put a number on this -- on the production. What we say is true that agents are now visiting customers. But on the other side, they are making more and more use also of digital tools. And also if there is a little bit of a stabilization recovery, we might see, indeed, the production might even come back pretty strong. But the working point is as of now is that we're going to see, I would say, more changing of 5%, 10% drop in production compared to last year. Which is, by the way, not an issue at all.

So honestly speaking, this is not something that makes a difference. That's sometimes, the beauty of life insurance that you are not necessarily dependent on how much premium you're going to make in a single year. What is more relevant is the asset basis and then also clearly the quality of the business in the asset basis. But the tendency or the profitability on the production of a single year, it's kind of limited.

Operator

We will now go to our next question from Johnny Vo from Goldman Sachs.

Johnny Vo
Goldman Sachs Group Inc., Research Division

Just a few more questions. Just coming back to the business interruption [and then] calculation claim. I mean have you made assumptions with regards to how long the lockdown is from a group perspective? Or are you allowing the OEs to take the decision with the assumptions they're making with regards to the losses that they're incurring?

That's the first question.

The second question is just in relation to your BBB portfolio. Can you just tell me the top 3 OE balance sheets that have the most BBB on their balance sheet? If you can let me know it. So is that the U.S.? Is that Germany and so forth?

And then the last question is just the sensitivity to the U.S. Life business and the RBC ratio to downgrade of investment-grade to non-investment grade. If we saw a 20%, 25% downgrade of your BBB into noninvestment grade, how would that move the RBC ratio, just the sensitivity there?

Giulio Terzariol
CFO & Member of the Board of Management

So let me start from the last one. I don't have a sense for the sensitivity of the RBC ratio of Allianz Life to the downgrade. So on that one, we should come back to you. But what I can tell you is the Allianz -- sorry, Allianz Life has already a few mitigation action in place. So even if we have a situation where we're going to see rate downgrades, that in the case of Allianz Life have an impact on the RBC ratio, we have also mitigation action in place that we can trigger.

Then on the question about the business interruption. No, somehow, we have been clearly giving instruction to our subsidiary about the different scenario we need to go through. That's also by the way, an interesting question because we can see also that depending on the line of business, what is a worst-case scenario might be a good case scenario, best case scenario for a different line of business and vice versa. So as you go through the exercise to think about what can happen and as you run scenario based on a different length of the corona crisis, you really need to think this through because the worst case scenario is not the worst-case scenario for everybody.

So there was also something that we had to consider as we or we are considering as we do the exercise. And then on the BBB, I can just tell you one is for Allianz Leben. The other one is Allianz Life.

Günther Thallinger
Member of Management Board

And the other one is Italy.

Giulio Terzariol
CFO & Member of the Board of Management

[This seems logical too considering country. I should have thought about it.

Günther Thallinger

Member of Management Board

Yes. It's like the reason I have to say Italy.

Operator

We'll go to our next question now from Michael Huttner from Berenberg.

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

It was just 2 questions. One on the solvency. I don't know if you gave us an updated figure. I think it was implicit, but I don't know if you have something or you can provide something.

And then on the other main topic is on Motor insurance, that you kind of indicated that the rebates would be small or the net impact would be small and it wouldn't necessarily be a substantial offset.

One of your competitors has almost the opposite. I mean they haven't reported yet. What do you think -- I can't quite square it with the actual number of claims because they really are a lot, lot lower. I just don't want -- I'm not sure if I'm missing something here .

Giulio Terzariol
CFO & Member of the Board of Management

Your question on the Motor is that the amount of claims is very low. That's what you're saying? Or not too low?

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

Yes -- no, no. I'm confused. It is very low, sorry.

Giulio Terzariol
CFO & Member of the Board of Management

Say again? Sorry.

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

The claims are a lot lower.

Giulio Terzariol
CFO & Member of the Board of Management

Yes. No, the case. Yes, absolutely. We don't say that we are now -- in some situation, we're going to have rebates by definition in some countries like Germany.

In other countries, we need to see what is going to happen. So what we're saying is that if you just look at the pure decrease in frequency, you -- we might come up also with substantial numbers. But then we are kind of reflecting that potentially some of this benefit, they had to go back. Also, we are thinking maybe we're going to have a situation where frequency is going to spike because people might be very excited about being back on the road.

So what we say is, if you just run the numbers and you just assume that you look at the frequency development that we are seeing up to now. And then you make some assumption that we might have also in the month of May, some nice frequency development, the number might look indeed pretty good. But I think there will be a little bit naive to think that we can catch all the kind of frequency reduction either because of stakeholders' intervention or because maybe the frequency is going to go up.

Data can also look, I can get very creative. I can also say most likely allow to repair shops and not make a lot of business now. I don't want to see what happens to the severity once you bring your car to a repair shop. They might go up very, very quickly. That's the reason why we're better be cautious on making the assumption that eventually Motor, we're going to have the big impact, positive impact. I expect that we are going to have a positive impact. But yes, I will be cautious. But again, we are dealing with a lot of uncertainty here. So we can maybe speculate for hours about what might happen.

One, I can tell you -- one thing I can tell you anyway that in Q1, we have now reflected all the improvement in frequency that we really saw. So we've been kind of cautious. And also because then we have asked also ourselves the question. It might be that we are just dealing with late reported claims because people were not reporting claims. We saw that clearly, this is not the case. The frequency is very low.

But fundamentally, we are taking a cautious view on that. But I can speak for Q1 because that's something that we know. In Q1 definitely we have not reflected the full amount of improvement in frequency in our numbers.

On the solvency ratio today, I will say it's more or less at the level of the end of Q1. If you look, equity markets are up. Interest rates are down, but not that much. Credit spreads have moved -- have been widening. So there might be a slight negative, but I would say, fundamentally, not a big change. And so from that point of view, I will say we are kind of close to the level of end of Q1.

It's okay?

Oliver Schmidt
Head of Investor Relations

Michael, still here?

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

Yes, all good.

Operator

We'll now go to our last question today from [Thomas Asar] from HSBC.

Unknown Analyst

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

Giulio Terzariol
CFO & Member of the Board of Management

Okay.

Oliver Schmidt
Head of Investor Relations

Okay. No problem. Any more questions?

Operator

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

Oliver Schmidt
Head of Investor Relations

Yes. Thank you, Emma. Yes. Thanks to everybody who joined the call today. We say goodbye to everybody. I wish you a very pleasant remaining day. Thanks.

Giulio Terzariol
CFO & Member of the Board of Management

Please stay safe, guys. Thank you.

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