S&P Global
Market Intelligence

Allianz SE XTRA:ALV

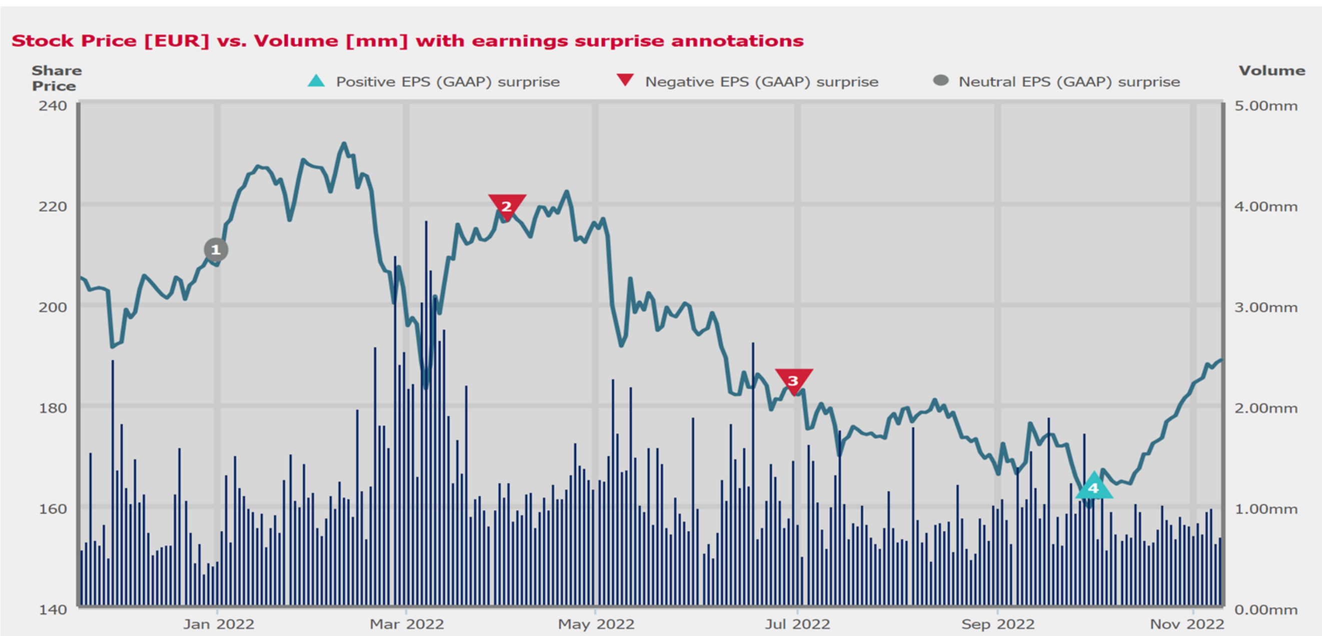
FQ3 2022 Earnings Call Transcripts

Thursday, November 10, 2022 10:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	5.09	6.02	18.27	4.94	16.39	NA
Revenue (mm)	37206.76	34800.00	(6.47 %)	38809.62	153751.01	NA

Currency: EUR
Consensus as of Nov-07-2022 8:12 AM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	5.53	(0.72)	NM
FQ1 2022	5.82	1.36	(76.63 %)
FQ2 2022	4.42	3.85	(12.90 %)
FQ3 2022	5.09	6.02	18.27 %

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Call Participants

EXECUTIVES

Giulio Terzariol
CFO & Member of the Management Board

Holger Klotz

ANALYSTS

Alexander Huebner

Ben Dyson

Jean-Philippe Lacour

Julie Steinberg

Michael Flämig

Olaf Storbeck

Samuel Casey

Stephan Kahl

Unknown Analyst

Presentation

Holger Klotz

Good morning, and welcome to Allianz' Third Quarter Results Web Audio Conference. The conference is scheduled to last up to 90 minutes today. As usual, our CFO, Giulio Terzariol, will guide you through the quarterly results, and we'll then take your questions. I hereby hand over to Giulio, please.

Giulio Terzariol
CFO & Member of the Management Board

Thank you, Holger, and good morning to everybody, and I'm pleased to present as always, the results for the third quarter of Allianz. But before we go into the third quarter results, as usual, we give also a short update on the picture for the 9 months.

Overall, we had a very strong set of results for the 9 months with an operating profit of over EUR 10 billion. This is driven particularly by Property-Casualty. But I will say that all segments have contributed fairly to the operating profit subject really to the current market condition.

When we look at the Property-Casualty segment, we have a combined ratio, which is basically stable over the last year level, but we are benefiting here from higher premium growth. And also we have much better investment results.

In the Life segment, we can see that the new business margin is significantly improved compared to the one that we had last year. And also, it's a good new business margin at a very good level. We have lower production, that's not unusual in an environment like this. But as you see, the value of new business is higher compared to the level of new business value that we had last year.

And finally, in Asset Management, yes, we have outflows. That's not expected in an environment like this. But when you look at the operating profit, we have basically EUR 2.4 billion of operating profit, which is very stable compared to the level that we had last year. So that's a strong positive signs.

So all in all, very good results for the 9 months. And as you know, we have revised our expectation for 2022. So now we expect to end up in the upper half of the range of our outlook.

With that, I'd like to move to Page 7 -- 5, where we have the snapshot for the third quarter results. The narrative is more or less the same that -- of the narrative for the 9 months' view with very strong results in Property-Casualty and with a nice resilience in Life/Health and Asset Management.

On top, you see the net income is very strong at EUR 2.5 billion, and that's driven by the operating profit development, but also we had some realized gains below the line, so a strong picture for the third quarter, I was told this is the highest operating profit for a third quarter. And as you see, it's also improved over 7% compared to last year.

Now we come to the solvency ratio. The solvency ratio, Slide 7, is at 199%, which is a good and comfortable level. This is before the deduction for the buyback that we have announced last night. So after the deduction, the buyback, we are still at a very good and comfortable level of 197%.

The sensitivity have improved compared to what we had in Q2, and I'm referring here to the sensitivity to the equity markets. In Q2, we had a sensitivity of minus 20% for a drop of the equity market of 30% and now, as you see, we are at minus 17%. So there is an improvement, which is also a function of the risk in action that we have been taking. So stable level and also reduce sensitivity to the equity market for our solvency ratio. And clearly, we continue to deploy capital in an efficient way.

If we move now to Page 9, this is the evolution of the Solvency II ratio for the quarter. And as you see, we continue to generate capital on an organic basis. On a pretax and pre-dividend basis, we have 7 percentage point of capital generation. If you adjust for taxes and dividend, that's a good 2 percentage point of capital generation that we should be able to create on a quarterly basis.

For the quarter, you see that there is a negative impact coming from the market movement. This has to do with rate volatility with a drop in the equity market in Q3 and also with some twisting of the credit spread. These kind of moments clearly are volatile. So sometimes, they can be positive, sometimes they can be negative. What really counts at the end of the day is the ability to generate capital on an ongoing basis.

So from that point of view, we are starting from a good level of Solvency II, and we can always rely as we move forward on a steady capital generation from the underlying performance. So that's on the solvency ratio evolution.

Now we can go into the segments, Page 11. We start, as always, with the Property-Casualty segment. You can see that we had a very nice growth in Property-Casualty of 9%. If you adjust the numbers for FX and for consolidation, if you take the total growth, is a total growth of 14%. So a very strong number.

If we look at the internal growth of about 9%, the driver there is especially price. So 80% of that number is explained by price changes, which is a clear indication that we are taking action clearly to offset the inflation that we might see come in our claims.

What is also good in this picture is that basically all OEs or almost OEs are contributing to the growth of the segment. So you can see that across the board, we are taking action that are leading to this growth in premium. So that's a very good picture also because it's not just coming from a few entities, but because it's coming from basically almost all entities.

If we move to Page 13, the operating profit development for the quarter, you can see there is nice improvement of over 30% compared to the level of last year or about EUR 400 million or over EUR 400 million expressed in absolute euro terms. And the improvement is coming both from underwriting and also from investment income.

If we focus first on the underwriting results improvement, there are basically 2 drivers. One is the improvement in -- or the increase in premium that we saw before. And the other reason for the improvement in the operating profit or underwriting results is due to the combined ratio, which is lower compared to what we had last year.

If you look then at the components of the combined ratio, we see that we are benefiting from lower NatCat compared to the third quarter 2021. And also, we have a higher runoff. So from that point of view, clearly, this has helped the combined ratio, but I can also tell you that we are very prudent on the way we choose the [loss peak] for the accident year 2022, where we are setting specific provision for inflation. So the bottom line here is that the quality of the 94% combined ratio is, in my opinion, very, very good. And that's the main message that I want to bring across. So 94%, very solid combined ratio with increasing level of premium.

When you look at the picture by companies, Page 15, you can see that a lot of our entities are providing very good combined ratio. This applies -- this is true for Germany, France, Australia, Eastern Europe, Italy, Switzerland, AGCS, Allianz Partners. Considering their business model, 96.8% is a good combined ratio, and also Allianz Trade. So you can see basically almost all our entities are providing very good results.

There are a couple of exceptions like Latin America, which is driven by Brazil. We see stabilization there and also in the United Kingdom. Also, the combined ratio is higher compared to what we were expecting. This is driven by some one-off and also is driven by some inflation impact, which is coming through. What is positive, both in the case of Latin America and U.K., this is not an idiosyncratic situation for our entities.

This is something that we see in the broader market, which is also indicating that most likely we're going to see a nice improvement moving forward because clearly, the marketplace will have to react. Bottom line anyway, the majority of the companies is providing really healthy combined ratio. And this is, in my opinion, very, very strong picture.

And with that, I will move now to Page 17, where we see that investment income is also significantly higher compared to what we had last year. We are speaking with the increase in investment income of about 36%. And when you look at the current yields, you can see that number is now more than 10 basis points better compared to what we had last year.

And what is really eye-catching is the development of the economic reinvestment yield, which is now at 3.5% compared to 1.3% 1 year ago. This means that we are going to continue to see strong investment results as we move forward. So this is going to be definitely a driver of operating profit improvement compared to what we had in prior year.

So overall bottom line, very strong results in P&C with growth in premium, a stable combined ratio, increase in investment income. The quarterly operating profit was 1.7%, which is well ahead of the outlook of EUR 1.5 billion per quarter. And we also believe that this performance can be repeated in the future. So this is a strong underlying performance, which is not driven by one-off.

And with that, I'd like to come to the Life segment, where we have also a positive message. And when you look at the new business margin, the new business margin is for the quarter at the level of 4%. That's really an excellent level. And all segments are contributing to the growth, to the increase in new business margin.

When you look at the present value of new business production, this is down compared to last year. Here, we should do some adjustment because last year, we had a big contract, a corporate contract coming from Allianz Re, plus there are some technical things that should be adjusted for. So if you do that, the present value in the business premium reduction would be more like minus 10% instead of minus 30%. And the fact that it's down is not surprising in an environment like this.

Clearly, investors -- policyholder are going to be a little bit more conservative. So from that point of view, we see a little bit less sale of unit-linked business, and also single premium is down compared to the last year level. This said, our focus has always been on margin rather than pure growth.

So from that point of view, this is a picture we are very comfortable with, and we really like the 4% of new business margin, which is also something which is going straight into our Solvency II calculation. So this is a number which is relevant because it's contributing to the organic capital generation of our Solvency II calculation.

And with that, if we move to Page 21. The operating profit is about EUR 200 million lower compared to the level of 2021. Here, we need to also remember that in 2021, the capital markets were very favorable. So from that point of view, last year, we had rather the positive volatility coming through the numbers, where this time we have rather the negative volatility coming through the numbers.

And as you see, when you look at one of the major drivers for the drop is due to the guaranteed savings and the annuity business, where you see EUR 200 million less of operating profit and half of that EUR 200 million is due to the VA business in the U.S. that we know is particularly volatile. So considering the market condition, I view these things as totally normal. And I will say that making over EUR 1 billion of operating profit in this kind of environment is a sign of strong resilience.

And with that, Page 23 on the value of new business -- new business margin. First of all, you see similarly to what we saw for the combined ratio that the new business margin is basically improving across the board. When you look at the value in new business, it's down by about 17%, but this is due to this large contract. So when you adjust for the large contract of last year in reality, the value of new business is up 2%. So again, good underlying development.

And when you look at the annual operating profit, as you can see here, we have [indiscernible] drop because of the VA business in the U.S.A. and also the operating profit of Allianz Leben in this kind of environment has been a little bit softer because of the lower harvesting results, but overall, a good set of operating profit.

And this leads me to Page 25. That's indeed a very positive picture. Yes, the investment margin is down by 4 basis points, and that's because of the harvesting, which has been negative this quarter compared to usual the expectation of a positive net harvesting. But what is really important in this slide is the differential between the current yield and the minimum guarantee.

If you look at that in Q3 2021, that differential was 51 basis points. And now we are speaking 57 basis points. This is really the underlying performance because the harvesting can be clearly volatile up and down. What counts over time is that this differential is going to be healthy.

And as you can see, can go -- is going up. I'll also look at the annualized number. In 2020 the differential between current yield and guarantee was 1.8%, in 2021 was 2%. And by the end of this year, we should be at 2.2%, 2.3%. So a swing of 50 basis points within 2 years on a EUR 500 billion reserve is about EUR 2.5 billion of profit, if you want, which we are going to share with the policyholders obviously, but it gives you the idea of the extra cushion that has been built up in the last 2 years by the work that we did on our products.

So overall, a positive development in the Life segment with a new business margin of 4%, a very healthy development of the differential between current yield and guarantee. So the underlyings are good. And clearly, in this quarter, we are paying some price in operating profit because of the volatility. But still, we have achieved an operating profit which is in excess of EUR 1 billion.

And with that, we can go now to the Asset Management segment. Overall, the assets under management have been relatively stable compared to the level of June. You see a drop of 3% here. But this is basically explained by the transfer of the AGI U.S. assets to Voya. If you adjust for that, in reality, the drop in assets under management will be only 1%. And when you look then specifically at PIMCO, you can even see that there is flat development of the assets under management. So overall, despite all the volatility in the capital markets, the asset basis has been relatively resilient.

And when we look then specifically Page 29 to the development of the third-party assets under management, you see that we had about EUR 20 billion of outflows. Thereof, 3/4 are coming from PIMCO, 1/4 is coming from AGI. In this kind of environment, it's not unexpected to see this kind of development. I would even say it's relatively moderate.

If you think that PIMCO has basically EUR 1.4 billion of assets under management -- EUR 1.4 trillion of assets under management for third party, EUR 50 billion is really not a big amount. And then when you look at the delta or the netting of market and dividends and the fixed and others, you see there is a EUR 24 billion drop, and this is basically all explained by the transfer of the GI U.S. assets to volume.

And with that, if we move to Page 31 on the revenue, the revenue are resilient indeed, basically flat over the level of last year. Clearly, we are benefiting here from the appreciation of the U.S. dollar. But at the end of the day, the U.S. dollar is also an economic parameter, it's no different from the equity market development or from the interest rate swings. So from that point of view, this also counts in our math, so basically flat revenue.

And what is very positive is the development of the third-party assets under management margin, which is slightly up compared to what we had 1 year ago. And the point is, yes, we have outflows, but there is a little bit of a tendency to see outflows in mandate with lower fees. So from that point of view, there is also something to consider. It makes a difference if you lose more assets on higher fee mandate as opposed to lose assets on lower fee mandate. So that's also something that is helping the resilience of our results.

And when you go to Page 33, you can see that the drop in operating profit was 10%. If you adjust for the performance fees, it's about 8%. Here, we should really keep in mind that the third quarter of 2021 was almost at the peak of the capital market. So that's -- we are going basically from the peak to, I don't know whether it's the bottom, but definitely to a situation which is much different compared to what we had 1 year ago.

And when you look at the performance of PIMCO it's more or less stable compared to what we had 1 year ago. And in the case of AGI, you can see a drop. The performance in 2021 was extremely high. I will say that with EUR 178 million of operating profit in the third quarter 2022, that's a very good result for AGI. If you annualize that number, you will get to a very strong operating profit.

So overall, I would say, in Asset Management, clearly, the market conditions a little bit challenging. But at the end of the day, we have EUR 800 million of operating profit. Our outlook divided by 4 is EUR 850 million, and this assumes the performance fees are spread equally over the year, which is not the case in reality. We know that we'll get more performance fees towards the end of the year.

So basically, an operating profit of EUR 800 million is consistent with our outlook, and now we're going to see clearly what happens in fourth quarter based on the market volatility and also how much performance fees we are going to get. But these numbers are trailing very closely our outlook that we gave you at the beginning of the year.

Corporate, it's significantly improved, Page 35, compared to last year, and this is driven by high investment income, the driver of high investment income, [insurance] rate level, which is higher, dividend and also we have some inflation-linked bonds in our Corporate portfolio. So this all explains the majority of the nice improvement that we see in our Corporate segment.

And now we turn to Page 37, on the below-the-line items. As you see, we had about EUR 650 million of realized gains. These realized gains are driven by the transaction of the disposal of AGI U.S. to Voya and also we sold a participation, a minority stake in a bank in Croatia.

On the other side, the impairment are a little bit more elevated in this kind of market condition, but the net position, we net the 2 items together is positive compared to last year. So this together with the increase in operating profit leads to a shareholder net income, which is 17% higher compared to what we had last year. So with EUR 2.5 billion of shareholder net income, that's a very strong performance for the quarter.

And with that, I come to the end of my presentation. So very strong set of results, strong underlying. As you know, we have revised our expectation for the remainder of the year that we are going to end up in the upper end of the range. We have EUR 2 billion of buyback for 2022. If you add up this to the EUR 4.5 billion of dividend that we paid in May, that's EUR 6.5 billion of remittances. So definitely a strong set of results.
And with that, I'd like to thank, as always, our employees for the excellence job that they do every day. So with that, I would open up to questions.

Question and Answer

Holger Klotz

Thank you, Giulio, for your explanations and indeed a great set of results. [Operator Instructions]

Our first question today comes from [Herbert Fromme].

Unknown Analyst

I've got 3 questions. One is what effect does Structured Alpha have on your 2022 results? Your share price for the year so far is minus 7.9%, and that's worse than major rivals in [ING Groep] is plus 8%; Zurich plus 12%; AXA plus 0.3%; only Generali is in minus. Why is that? Why do shareholders not trust you?

And then we -- I would like to know you more or less shut down [Sincere], your IT subsidiary. What kind of write-down was needed there? And perhaps you can enlighten us on the full software problem, ABS, what does this cost Allianz? And what write-downs can you expect on that?

Giulio Terzariol
CFO & Member of the Management Board

Thank you for your questions. Structured Alpha -- in the Q3, there was basically no impact on our numbers because of Structured Alpha. The only part will be clearly you can always consider the gain that we posted. That could be a consequence of Structured Alpha. And also now, we are running the gain of about EUR 300 million. There will be a consequence clearly of the Structured Alpha situation.

Also, basically in Q3 the AGI has been running with a new setup. So from that point of view, we would have had maybe EUR 20 million more operating profit, in the case, we had kept the asset that we dispose to Voya. But there is no basically meaningful impact on the operating profit, I would say, of the group for Q3 due to Structured Alpha.

So regarding your question about the development of the Allianz share price compared to the competition. But first of all, we need to say that clearly, the Structured Alpha situation had some impact on our share price. But also, as you know, it's always difficult when you compare point-to-point because if you take a different reference time, then you get to totally different results.

So usually, I don't take a very short period. I take a longer period. And so I'm sure that if you look for a period with outperformance of Allianz, it's not going to be so difficult to find that. So it's very important that you can see the different time reference and then you can get to a better judgment whether there is underperformance or not. I can tell you that around 2015 to the August 2021, the outperformance of Allianz compared to the index -- insurance index was about 50% -- 50 percentage point, if I'm not wrong. So it's all a matter of reference point.

And then on your question about [Sincere]. And then you had a question about ABS. [Sincere], it's a venture that we started basically in 2018. And sometimes things are working better than others. So we decided that eventually, this was not an initiative that could be successful. So we decided basically to stop that initiative. I think that's totally fine that the company and a group of our size is going to try different things. And as I said, sometimes things are working, sometimes things are not working, but I don't see anything bad in that.

Regarding the ABS software, there is no ABS software. It's doing what it's supposed to do. We are implementing the ABS software. It's already implemented in most companies. As you know, we are driving the homogenization of our business model, our IT infrastructure. We already did that. We tried to harmonize the IT architecture, and there is no kind of concern about any depreciation of the ABS software at all.

Unknown Analyst

How much did [Sincere] cost you?

Giulio Terzariol
CFO & Member of the Management Board

Look, I tell you -- I can tell you for this year or for this quarter, I think the impact of [Sincere] was slightly above EUR 10 million.

Unknown Analyst

So the whole investment was written-off or written-down in some way, wasn't it?

Giulio Terzariol

CFO & Member of the Management Board

No, no, there's definitely an investment where we have at the end of a loss. There is no doubt, but that's part of doing business, trying things, and some things are working, some of the things are not working. And when you look at our operating profit in the -- let's say, right now, we have record operating profit. Basically, we are set to have record operating profit.

Last year, we had record operating profit. So you need always to put things in perspective, but there's the reality that as we try a lot of things, something is successful, something may not be successful, but the bottom line is that in 2021, we posted record operating profit. And based on what we are seeing right now, we think we're going to have, again, record operating profit in 2022. And we just had [indiscernible] was told, the best operating profit over the third quarter.

And then clearly, we can always start talking about all the things which are going well and we can also talk about the things which are not going as well.

Holger Klotz

Then the next question comes from Michael Flämig from Borsen-Zeitung.

Michael Flämig

Mr. Terzariol and Mr. Klotz, I have 2 questions, please. One on the outlook, one other to the [indiscernible] to the outlook. You have quite a way to go to reach the midpoint of the new target range, EUR 13.9 billion. What are the factors to be so optimistic in the last quarter in a quite recessionary scenario?

The second one, you said you made a lot of harvesting with substantial losses and impairments. Why did you decide to do so? Is it because of the market environment or with a view on the solvency ratio?

Giulio Terzariol

CFO & Member of the Management Board

So on the harvesting, you mean there was negative harvesting in Life. This is coming basically just from the IFRS accounting when you have the value of the equity holding that you have goes either below 20% within a time frame on 9 months, so it stays below the book value for more -- sorry, goes either below 20% compared to the book value or stays below the book value for more than 9 months, you need to do a depreciation.

So that's basically what the IFRS accounting says, and this has been driving the majority of the impairment. This was not an active selling, equity realized impairment also in our case. Because of the Solvency II, we are keeping some derivative position, which is clearly providing economic hedge, but from an accounting point of view, you get a mismatch. So there is also a little bit of an accounting volatility there. So no specific decisions. More the consequence of how accounting is applied.

And as you can imagine, capital market creates volatility up and down, and to a certain view accounting is going to reflect the volatility, sometimes accounting can even exacerbated volatility due to accounting mismatches, but nothing really where we should be concerned about fundamental impairment. The only exception would have been the impairment at the beginning of the year related to Russia. That's the only thing which is really systematic as opposed to pure volatility.

On the other question, which was about the outlook. That's the way we see the situation. In property casualty, we had EUR 1.7 billion of operating profit. And based on what we see right now, this is something that is definitely repeatable. As always, we don't know what NatCat might be doing, but you should keep in mind, we have also an aggregate could give us protection in the case the NatCat activity is very pronounced in the course of the next 6 weeks.

And we know that we have a strong investment income. And also we see that from an underlying combined ratio, we have a good view of what the underlying should be. So fundamentally, clearly -- I'm not saying that we're going to have EUR 1.7 billion of operating profit in P&C, but this is something that could be a reasonable expectation at this point in time, then we will see. So that's number one.

On the Life side, I will say the following. First of all, part of the reduction in operating profit compared to our expectations coming from the VA business in the U.S. Technically speaking, this is driven by higher hedging cost. There is a point when the markets are going down, the hedging costs are getting lower. It's a technical issue because the guarantees are once they are more in the money, there is less need to hedge. So there is less, I will say -- doing the hedge is less costly. That's basically a consequence of just how the liability are working.

Also, on the same time, we think that we're going to have some positive unlocking coming from Allianz Life. So from that point of view -- and also, I will say, regarding other companies, the majority of the impairment have come through basically in Q1, Q2. So fundamentally, we expect to see better results in Life in the fourth quarter.

And then in the case of Asset Management, yes, the markets are tough. From that point of view, also the assets under management that we have right now are a little bit lower compared to what we had on average in Q3. But on the other side, in Q4, we also get performance fees. And now there is always clearly some uncertainty around the performance fees, but we still expect to gain more performance fees compared to what we had in Q3. So that's also an element to consider.

And then as you saw throughout the year, our corporate segment has been much better compared to the outlook that we had. So we expect also in fourth quarter, the corporate segment to be better compared to our outlook. So basically, I will say, we should expect similar performance in Property-Casualty, and we would expect to see better performance in Asset Management, Life and -- in Asset Management and Life in Q4.

Holger Klotz

Our next caller is Sam Casey from Insurance Insider.

Samuel Casey

Could you talk about what impact you think Hurricane Ian might have on the pricing conditions in the commercial market both in terms of the lines of business you operate in, but also in terms of reinsurance buying, too?

Giulio Terzariol
CFO & Member of the Management Board

Thank you for the question. So first of all, I want to say that for us, Hurricane Ian was not a big event. At the end of the day, we have less than EUR 100 million of impact coming from Hurricane Ian. And then coming to your specific question. We know that on the reinsurance markets right now, the market is hard. So we definitely expect to see an increase in premium that we need to pay to our insurance companies. And the Hurricane Ian can be just again a confirmation of this trend. But I don't think it's going to make a huge difference because we already -- based on the conversation we were having before Hurricane Ian, we know that price is going up.

So clearly, this can just strengthen maybe or confirm that trend, but I don't think it's going to be a big game changer unless you are completely exposed to that area. That's a different story. For us, we are not really affected by Hurricane Ian. So I don't think it's going to have any impact at all. For our conversation with the reinsurance companies, in some cases, it might have an impact.

Overall, I will say we are right now in a market where we need to expect that we're going to pay a higher, higher reinsurance premium for 2023. And that's part, by the way, or the way, we're also setting our pricing. So from that point of view, I don't think we're going to have any surprise. We have a very clear view of what the condition might be for 2023 at this point in time, plus/minus is always some range. But fundamentally, I think we know what we should expect.

Holger Klotz

Our next question comes from Ben Dyson from S&P Global Market Intelligence.

Ben Dyson

Yes, I just really wanted to ask about the impacts of inflation really. I mean, we've seen a couple of impacts in the pricing and the results this time around. But I was just wondering if there were any concerns about reserving with relation to inflation and whether particularly for long-tail line, you're going to have to increase reserves?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So we don't have a major concern in this sense. So first of all, especially for the time being, being on the long-tail line we don't see a reality inflation coming through. Clearly, this can change over time. But keep in mind that for that kind of things, we will have also inflation-linked bonds on the other side. So there should be potentially an offset. What we do, however, is we are setting specific reserve for inflation in general. This is also for the accident year 2022.

So from that point of view, we don't have concern because we are taking anyway action on that already in our reserve, which are already flowing through the numbers. So when you look at our 94 combined ratio for this quarter, you need to consider that we put into this number a non-sizable reserve for inflation.

So from that point of view, we are not just naively thinking that inflation might not have an impact, but this is already included in the numbers. What is also important is, as you see, the premium growth has been substantial. This is premium growth coming from rate changes. So that's clearly a nice offset to the inflation. And I can tell you that rate changes are going to accelerate as we go into Q4 and also into next year. So from that point of view, we are going to get more rate changes and not less changes.

And then the third point is we always focus on inflation. But there is a lot of something that we can do on the claims handling too. So it's not like you see inflation, you need to consider this 1:1 as this is going to impact the claim severity. So the combination of we already taking action and making sure that we build reserve for inflation. The fact that we have rate increases, which are substantial. The fact that we are going to have even larger rate increases and the fact that we are taking also action on the things we can control to mitigate the claim severity, they should position us well to be profitable in this environment.

And also keep in mind, just in the quarter, we had about EUR 200 million more -- EUR 150 million more investment income -- EUR 150 million to EUR 200 million more investment income compared to our claims. So there is also a big offset coming from there. I'll give another example, we were thinking that we're going to achieve the mark of EUR 58 billion, EUR 59 billion of NPE by 2024. We're already there as of now. So this is also clearly -- as long as you have a combined ratio which is well below 100, this is also a positive for the operating profit development of the company.

Ben Dyson

Okay. Great. So I have a quick follow-on question from Sam's question about reinsurance. I'm just interested that if the price increases that you're expecting on the reinsurance side will prompt any changes to your reinsurance buying strategy and whether you may have to buy less in certain areas?

Giulio Terzariol
CFO & Member of the Management Board

So we are doing some refinements to our strategy. But I will say, fundamentally, we are not changing, let's say, the program. So we are doing some changes. And if you ask me, sometimes you can get more aggressive on some position, other position can get more conservative. If you ask me, we are getting more conservative on the amount of program that we're going to purchase. So some tweaking up and down. Fundamentally, a little bit more protection, and we know that we are going to pay a little bit more of a premium. But you can put this also as part of managing the inflation.

Holger Klotz

Your next question comes from Alexander Huebner from Reuters.

Alexander Huebner

I have some detailed questions. First one on Russia. You had said before that you're expecting the closing of your sale of your Russian business in Q3. Now it's -- you're saying it's rather Q4 or even Q1 next year. What's happening here? Can you elaborate a bit on that?

The second one is on Voya. As far as I remember, you had said that some -- more than $100 billion in assets under management are affected by that move. Now I'm seeing that it looks like it's only 42% or something. What has happened here?

And the next -- the last question is Nord Stream, on this incident, this blow-up of the pipeline. Are you as an insurer involved in this in any kind as an insurer?

Giulio Terzariol
CFO & Member of the Management Board

Thank you for the question. So maybe let's start on the last one. Basically, we have almost no exposure to the Nord Stream. So it's completely immaterial. So let's say, the answer is no. We have some exposure, but we're speaking a very, very, very small number. And we don't think, by the way, it's going to materialize, but anyway, we're speaking of a very, very, very little number.

On the Voya transaction, if you need to consider that we have about EUR 61 billion of assets, which are still included in our numbers because we are not managing the assets in the sense of basically the investment management is with Voya, but we are administering the funds and also especially we are distributing the funds. And the point is that we are not necessarily getting the same amount of profitability that we were getting before. We are still getting a sizable profitability from this. So that's the reason why maybe [RTI] needs to take the EUR 42 billion, but then you need to add up about EUR 60 billion to come to the EUR 100 million.

And then for Russia, the point is, clearly, you need to go through negotiation and approval processes, and so this can take time. If you want to volunteer for the negotiation with the authority, you can do that. But as you can imagine, this can take some time, and we are now controlling the process. But basically, the train has left the station. So at the end of the day, just a matter of when we're going to get the approval. But from our standpoint, there is no second thoughts, so that's basically just going through the process.

Holger Klotz

Our next question comes from Olaf Storbeck from the Financial Times.

Olaf Storbeck

Yes, I also have a follow-up question on Russia. So I mean, how likely do you -- is there any probability that this whole process might be derailed by kind of the regulatory -- or the lack of regulatory approval and potentially the fact that you won't get it, as it's kind of now taking on longer already than you expected? And could you maybe also slightly elaborate a bit on what the actual obstacles are, what the issues are that needs to get resolved?

Giulio Terzariol
CFO & Member of the Management Board

Yes, okay. I don't think there are any obstacles. It's just the process of selling companies, can take time. So that's often the case. So sometimes you can take up to 1 year to sell a company. So in this case, if you remember, basically, this is something that is coming from April, May. And this is even a more special situation. So it's not unusual that it can take a long time to get to a transaction. Think about when we did the transaction in Poland, that was February or March, and we ended up closing the transaction in November. You can imagine that was a little bit easier compared to closing down this one. So it's not unexpected that it can take up to 1 year.

And to your question whether there is a likelihood, you never know in life, but I will say this is not our working hypothesis that we might have a problem. So there is nothing really unusual. It can take really up to 1 year, still something normal. If you go beyond the year, then I will say this becomes a little bit unusual, but the time of 1-year approval is not unusual at all.

Holger Klotz

Our next question comes from Julie Steinberg from the Wall Street Journal.

Julie Steinberg

I wanted to follow up about PIMCO outflows and see if you can elaborate a little bit more, and your outlook as rates continue rising.

Giulio Terzariol
CFO & Member of the Management Board

Sorry, can you repeat the question because -- that was PIMCO outflows and then, what did you say?

Julie Steinberg

Yes, if you can elaborate on the PIMCO outflows and then give us your outlook as rates rise.

Giulio Terzariol
CFO & Member of the Management Board

Okay. So I start from PIMCO outflows, yes, what we see right now is clearly a reflection of the uncertainty. Think about that, if you are a bond investor or somebody who wants to invest in, potential in bonds. Then clearly, you're going to expect for the right timing because right now, you might say rates are going to go up. So I stay a little bit on the sideline. So from that point of view, it's not unusual. We see the rate volatility is very high right now. We see this in our Solvency II model that rate volatility was like 50 basis points at the beginning of the year, now we're speaking of I believe, something which is much higher, which is closer to 90 basis points, just to give you an idea.

So there is a lot of uncertainty right there regarding rates. So once this uncertainty is going to go away, and this is going to go away once there is no more conversation about where the central banks are going to raise rates or not, then at that point in time, we're going to see flows coming back. And I believe we are not just going to see flows coming back, we're going to see strong flows coming back. And then you have also to consider that the accretion of the assets under management is much stronger. It's going to be much stronger. So fundamentally, sure right now we are seeing the downside of this change in rates. But eventually, we are going to see the upside.

And what is also important to note is, PIMCO had just EUR 600 million of operating profit. They had EUR 1.8 billion of operating profit. So the profitability of the company is very, very strong. We are speaking of EUR 1.8 billion of operating profit for 9 months. And I will say, once we -- the stability comes back, we will see a lot of growth coming starting from a very strong level.

About rates expectation, I'm not -- nobody can really predict what is going to happen to rates. I believe that central banks have to walk a fine line because they have already increased rates significantly. And there is a point where additional rate increases can really hurt the economy.

On the other side, clearly, you need to keep inflation under control. But I will say they need to walk a fine line. So future rate increases might be less sustained compared to what we saw so far. So if you ask me, but that's just a personal opinion, I believe that by the Q1, Q2 next year, we are going to have better clarity and more stability coming to the system. But honestly speaking, nobody really knows. So that's just my personal view.

Holger Klotz

Our next question comes from Stephan Kahl from Bloomberg.

Stephan Kahl

I just have one last remaining question. Can you give us a better sense of what the net effect is from actually transferring those AGI U.S. assets to Voya. On the one hand, you have this onetime positive effect that you booked last quarter or for the third quarter, the EUR 500 million. And then you also have restructuring costs. So I think those stretch over like a number of quarters. But what is actually the net result of all of this? What will you gain from actually transferring the assets to Voya?

Giulio Terzariol
CFO & Member of the Management Board

Okay. No, I understand your question. So yes, the restructuring cost that we encounter so far, a little bit more than EUR 150 million. So they need to tax effect that. So I will say that you could take the EUR 300 million gain because the number you quoted -- let's say, the EUR 500 million because that's fair enough. And then you should run against that number, I would say, after tax about EUR 150 million of restructuring because we're still going to see some restructure moving forward. So there will be a good representation of, if you want, the one-off impacts due to the gain and also the restructuring that we are incurring for the transfer. That could be a good representation.

Stephan Kahl

So that I get it right, so the net effect would be something like EUR 300 million?

Giulio Terzariol
CFO & Member of the Management Board

Yes, something like that. Yes.

Holger Klotz

For now, our last question comes from Jean-Philippe Lacour from AFP.

Jean-Philippe Lacour

I have 2.5 questions, if I may. So the previous question addressed to PIMCO and the withdrawals related to the interest rates, you would have the same answer for AllianzGI, I presume. That maybe you can just confirm this?

Secondly, how do you explain that Hurricane Ian had such a light impact on your accounts when we speak of insured loss of about -- up to $40 billion loss for Florida according to Fitch.

And the third question, maybe beyond this call, but we have recently seen acts of light vandalism on works of art by climate activists. I'm wondering if that generates new reflections on the level of insurance of this kind of works you're already ensuring, but okay, you have enough of it. You have seen maybe new customers contacting you about ensuring this kind of works of art or any other works you could be a target of these activists?

Giulio Terzariol
CFO & Member of the Management Board

Thank you for your question. The last one, I'm not aware of anything. So I might double-check, we're not aware, so at least it didn't raise to my attention.

On the Hurricane Ian, the point is our business profile is also maybe pronounced over there in Florida, but also we have a reinsurance program. A lot of our business there is specifically reinsurance. So this explains why the loss is, for us less compared to others, business profile, but also, a lot of the exposure there is reinsured.

And then on the question regarding the PIMCO and AGI, yes, what I said for PIMCO is also true for AGI, but we need to keep in mind AGI is a little bit of a different business profile. So PIMCO is definitely a little bit more exposed to the positive/negative of rate swings. This applies anyway, clearly also to AGI, but to a little bit less degree. In general, if we speak about Asset Management, and I'm not just speaking for Allianz, I can speak also for the sector, really in a situation like 2022, you are going to see flows going down. But eventually, investors will come back. So that's fundamentally true, which is relevant for all kinds of asset managers.

Holger Klotz

There are, right now, no further questions in the line. So last possibility. [Operator Instructions]

There are no more questions. Then with that, I would close the audio web conference today. Thank you for your participation and attention, and goodbye.

Giulio Terzariol
CFO & Member of the Management Board
Thank you, guys. Have a good rest of the day. Bye.