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Earnings Call

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Call Participants

EXECUTIVES

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CFO & Member of the Board of Management

Oliver Bate
Chairman of the Management Board & CEO

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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz Conference Call on the Allianz Group financial results for the second quarter of 2024. For your information, this conference call is being streamed live on allianz.com and YouTube. A recording will be made available shortly after the call. We appreciate your time. We know it's a very busy day to day with lots of results.

Today on the call, we will be joined by Oliver Bate Chief Executive Officer of Allianz SE and Claire-Marie Coste-Lepoutre, CFO of Allianz SE. The presentation will be followed by a lot of time for Q&A.

With that, I'd like to turn over to Oliver for some opening remarks. Oliver.

Oliver Bate
Chairman of the Management Board & CEO

Yes. Thank you, Andrew. Good afternoon, busy Thursday, we thought it would be good to pick a Thursday, not a Friday, like others, but unfortunately, many others are there. So again, also from my side, a big thank you for being here with us today. We had a very strong quarter. Actually, the best quarter, if I remember correctly, we ever had in terms of financials, but also on other dimensions, and I'm going to go a little bit into the difference.

Because of the strong delivery, we have upped the share buyback program, when in the beginning of the year, we talked, there was a lot of question, does Allianz stick to its payout strategy? Very much, we do. The long-term average, let me remind you, is around 75% that we're about at depending on how you run the numbers, it's more accurate to use absolute numbers. I was advised by Andrew, as I'm very happy he's here with us now, EUR 6.9 billion, which is a very strong contribution plus, and that's very important.

We've built a track record over the last few years of being very disciplined. So we are recycling the gains out of the U.S. from selling a subscale position in the mid-corp space, into investing into scale in Southeast Asia or better to speak of ASEAN. We look at it a little bit in this way by assuming from zero to a -- if not the leadership position in Singapore with taking majority of NTUC income and there'll probably be questions around that.

Now those results are quite remarkable in light of, and you've heard it from various competitors today of continued challenges. By the way, in all segments, let me go through all three, we had elevated NatCat activity again, in Germany, this is the third out of the last 5 years where we had significant losses out of weather events that the portfolio balance very nice, still below 100 and the overall portfolio still go strong.

The second one, we still are coming back from very fast rising rates and competing with very high crediting rates on the banking side. So the present value of new business in Life and the margins are now very strong. That's coming back.

And the third one, very much in difference to other active asset managers. We're having extremely strong inflows also at PIMCO, and that continues into July, I mentioned that earlier in some comments in the press, EUR 11 billion. So it's -- it shows that you can win in the businesses if you're really strong one.

Second, the diversification that people always think it's a cause for discount, we believe it's a strength and it shows, particularly again in times of massive stress in the world economy, in world politics that we have been very based.

We are also very pleased with the performance improvement continuations that we have seen in Latin America, in the U.K. and Australia, which are helping our results and help balance out some of the other activities, that they are still very, very tough. Claire-Marie will talk about it a little bit more.

Claims inflation continues to trend above CPI inflation, as car manufacturers are making not enough money from selling cars. So after sales and service are stores of profit, they're raising prices continuously for spare parts and for repair. Our prices, so we need to really bring our scale to the benefit of consumers and bringing that out, just to give you a number, if you go through our German steering tariff, we save on average on Costco claim of EUR 1,000, which we then can pass on in terms of lower prices to our consumers.

So the scale in Claims where we've been building out solved and continues to do that continues to pay back as it does pay back what we're doing on NatCat prevention and portfolio underwriting, I'll share that with you.

So overall, we are on track to meet our outlook for 2024 on the back of 6.5% higher volume, 5% more operating profit, almost 8% more core net income and the solvency moving up to 206%. So that's it. Let me go a little bit more into details. The first one is talking about -- and I think it's very important not just for the public, but also for you, our shareholders, how we put our purpose into practice.

And again, looking at the floods in Southern Germany, just to give your some numbers in 11,500 claims and average claim size of EUR 25,000 workloads increased more than 45% (sic) [46%] and the current loss estimate to be around EUR 290 million. (sic) [EUR 292 million.]

A big thank you. We already handed to our employees earlier today, it's real work for everybody involved, and we had to be there. We were there before anybody else showed up, by the way, big kudos not just in terms of dedication, but speed.

We deployed 600 claims assessors, moved them down to Bavaria from outside of Germany, particularly kudos to Allianz [indiscernible] service. I'm going to talk about that in a little while again. It's now more important to talk a little bit about insurance and services because without Allianz [indiscernible] services, we would have not been able to deploy 6,700 air dryers urgently needed. One day only until the first loss assessment typically, it normally took in the past 3 to 4 days. And within 2 weeks, we basically had everybody inspected that needed to be inspected with getting exceptionally strong feedback, not just from clients, by the way, also for the first time from the media and political leadership that makes us very proud.

For you more relevant is that despite that, our loss share relative to market share is lower and it's trending lower. We provided you on the right-hand side of Page 4, with some data on Flood Bernd. That was in the July '21 versus the last one here in May of '24 and we keep on investing in NatCat modeling, real-time risk assessment and proactive loss prevention.

Now, the key thing is particularly sending SMS warnings to clients and bringing things down. I don't know whether you know but in a very short period of time, we found out that the WiFi systems were down due to power outages and we got Starling into the system very quickly. I'd like to thank them for making that technology available at very short notice and allowing us to really do the work in a way that was useful. It's probably one of the most important inventions in the last few years.

So we're investing in technology to speed things up and make them more precise also needed. And that's a small interesting technical vignette as we move into more sustainable housing and installing. For example, more wooden houses than others, fast inspection to prevent total losses is super important as mold builds within a couple of days.

So there is a true economic cause behind being not just very good but also very fast. So this shows that you can be good and do well at the same time. And we are continuing to build on this advantage.

By the way, behind that is a really important question that is do you have scale? We could not do that if we didn't have 14% market share in this area, actually 20% because you have to have certain minimum size to move. So that's the first example of what we do, bringing more value to the community and more value to shareholders at the same time and how it works, and we expect over the next few years, even more benefit as we bring technology into the homes and into the assessments.

The second thing that I would like to talk about is there is a never-ending debate about an M&A versus returning capital. It's quite sad to see that growing the company is seemed to be more critical than returning capital, but we have been extremely disciplined over the last few years. Here again, as I mentioned earlier, the U.S. mid-corp we've looked at, we try to build it out into a market-leading position.

The capital requirements and the return on that would have been too large relative to what we believe we can do. So we exited the position and we have been working for a long time on building the partnership with the Singaporean community to acquire income, the #1 P&C company in Singapore, a leading health provider and a strong life company that has lots of upside to put it mildly.

And this acquisition aimed to really give us double-digit ROIs over time. But more importantly, creates a very strong home base for us. We've been domiciled in Singapore since 1991, but we have never had an operating business in the city state. Now we do have it, and it's the leading franchise, and we're very proud of having won the trust of the community to do so. So these are the two points that I really wanted to highlight in terms of strategic developments.

The last one, maybe that's not on the slide, we continue to enjoy not just flows but strong performance. In the Asset Management segment, they are fully in line, if not ahead of plan. And there is more to come, particularly in terms of productivity over time. It's a very important subject for the segment and for the industry at large, I think, because of pressure on active management coming both on margin and volume. And we are fully aware of it. We are fully working on it. And you can see it's quite rare to see numbers like the ones we've seen. By the way, flows for AGI in July have also been positive in case that somebody wants to ask that.

And with that, I hand over to Claire-Marie.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Thank you very much, Oliver. Let's move to Page 7. And as you can see here, overall, I'm very pleased with our results in the first half of the year. From my perspective, they clearly demonstrate sustained strong momentum in terms of performance when you really look at it quarter-after-quarter, together with the resilience of our operating model as we navigate it through an environment, which I've seen inflation remaining sticky in many markets. We have seen as well some volatility in the capital markets. And while the first quarter a bit benign in terms of loss experience, the second quarter has been quite active from a weather cap perspective but as well from a large loss perspective for us.

So in that context, we delivered record operating profit at EUR 7.9 billion and as well a record shareholder core net income at EUR 5 billion, which is up almost 8%. And exactly, as mentioned by Oliver, and what is really nice also in those numbers is that all our segments are seeing business volume growth and as well contributing to the profit growth as well.

So, if you look in a bit more details in Property & Casualty segment overall, so clearly 8% growth midyear, out of which the majority of that growth is coming from -- is coming from pricing, while we had 1% of volume growth in that number. We emerged with an operating profit that is at an excellent level of EUR 4 billion. That is also up versus last year, while we had a much higher level of natural catastrophes at this point in time and also similarly on the large loss side. Life finance continues very good -- very strong growth trajectory from my perspective as well. We achieved a record level of operating profit. And we continue to add growth with an excellent level of margin, which is basically generating a value of new business that is up 12% compared to last year for the first half of the year.

Asset Management, exactly as mentioned by Oliver, clearly an environment that is not easy to navigate. Still in the first half of the year, we have accumulated almost EUR 50 billion of net inflows, which is a very strong performance. And our third-party asset under management are basically at the highest level since beginning of 2022. So that's also a very strong performance for the asset management side.

Overall, given also slightly reduced cost income ratio, we continue to see an improvement of our operating profit on the asset management side. So all of that give us clearly confidence and also like the underlying momentum we see in terms of performance into our business towards the second half of the year and also our 2024 operating profit guidance.

I will now go in a bit more details into our second quarter results. And after that, we can enter into our Q&A session.

So moving to Page 9 and looking at our results per quarter. Here, you can clearly see the strengths that those results demonstrate in terms of momentum. Overall, we see almost 9% growth and an operating profit that is very close to the first quarter 1, despite the elevated level of natural catastrophes and large loss we have seen this quarter.

If I go into the Property & Casualty segment. First, in terms of volume, we see double-digit growth that is coming both from pricing and volume. Secondly, our combined ratio emerged at 93.5 into the second quarter, which is within the range I guided to 93 to 94 for the year, and that's leading to an operating profit of EUR 1.9 billion. That is slightly above our quarterly expectations.

And as mentioned already, given the elevated level of natural catastrophes and large loss we have seen this quarter, which send overall at EUR 700 million versus last year, this delivery is supported by a very strong underlying performance of the business, which is particularly nice to see as we are clearly earning the benefits of our pricing actions that we have started to take in 2023 to counteract against the inflationary environment we were seeing.

On the Life & Health segment, we continue with an excellent trajectory. We have EUR 1.1 billion of value of new business and a double-digit operating profit growth. And on asset management, again, and as mentioned already by Oliver, despite an uncertain context when it comes to the Central Bank intentions, we have seen another quarter of double-digit net inflows and with our slightly improving cost income ratio and our third-party asset under management growth, our operating profit grew as well by close to 6%.

Let's now move to Page 11. And let's have a look at our balance sheet. Here, you can see that we maintain a strong level of strength with our Solvency II ratio that is up 3 percentage point compared to previous quarter. And our sensitivities, which I think in the current environment, right, is a very important element to look at are broadly unchanged and pointing out to a good level of resilience of our capitalization.

Let's move to Page 13, sorry, and let's have a look in a bit more detail at our Solvency II ratio development. I think for this quarter, we have a very simple outcome, in terms of those 3 percentage point improvement. We have 2 percentage points which are coming from our organic capital generation, net of tax and dividend. We have a lot of various effects, which are coming on the market side, but ultimately, they emerge close to 0.

And on the management action side, we also have a lot of different elements. But overall, it emerged by almost 1 percentage point positive. So overall, a strong Solvency position, we feel really confident about. And this confidence is as well further reflected in our extended share buyback program of EUR 500 million that we have been announcing yesterday evening.

Let's now move to P&C on Page 15. And let's first look at growth. So I think this page is a very good page that is clearly highlighting excellent level of growth we see across our portfolio. Our growth overall is at 10%, out of which 3 percentage point is volume. And we see more growth in retail, which is at 12%, with motor particularly strong at 15%. Commercial is as well strong. And in those numbers, you have some benefits from the hyperinflation countries, but even adjusted for this, our growth level is strong at 7% for the quarter.

On this page in a bit more detail, maybe you can see here a well-spread growth structure across our entities. But maybe in particular, you can see Italy, Spain, Australia or Germany that are particularly strong for the quarter in terms of growth. And on the commercial side, maybe looking at AGCS here, you can see that we have bit of softening on the rate change on renewals when you compare year-end with CSM. And -- but still, I think if you look at it at the lapse and geographies level, we continue to see good areas for growth, as you can see as well in our overall level of internal growth for AGCS.

Let's move to Page 17. And here, you can see on the left-hand side that our operating profit is at EUR 1.9 billion and is ahead of our outlook midpoint for the year. This is a very strong result given the elevated level of NatCat, weather-related and large loss we have seen this quarter, and this is clearly demonstrating the strength of our diversified portfolio.

If you look at our overall combined ratio, which is at 93.5%, as mentioned already right in the middle of our target range of 93% to 94% for the year. But if you go in a bit more details into that one, two elements I'd like to mention. So first of all, our expense ratio that is improving quarter-to-quarter. Here, you have a bit of positive seasonality effects that came into the 24.2%. But fundamentally, we continue to see good trajectory of productivity enhancement. And you should expect to continue to see our expense ratio to move towards the 24.5%, we have guided towards -- for the year.

And then if you look in more detail into the 93.5% on the attritional side and you look at our attritional and discounted loss ratio that is at 72.4%. In this number, you have 1.4 percentage points of impact of the New Caledonia Riot event. So adjusted for this, our attritional is at 71%, which is better than both last year and Q1. And I expect this to continue -- basically, this effect to continue to show up as we are clearly earning the benefit of the pricing actions into our attritional loss ratio.

And I also expect that over the year, we are going to see the effect of New Caledonia event to earn out so that we converge towards our 71% attritional loss ratio and discounted. So if we look in a bit more detailinto the combined ratio. On the retail side, we are at 94.7%, which has improved by 0.8 percentage points compared to last year. And that's actually really good because we have in that number as well, 4 percentage point of NatCat event. So that's clearly the fundamental improvement we see in the underlying.

On the commercial side, despite the higher level of NatCat and New Caledonia, here, we still are emerging at a strong level of combined ratio.

Let's move to Page 19. On this page, quarter-after-quarter, I would say, continue to be a very strong page, where you can see the quality of our diversified portfolio. The impact of the large floods in South Germany is clearly visible there. Germany emerged with a combined ratio of 99.8% for the quarter stand-alone with 14 percentage point impact of NatCat. So that's -- and that's still, I think, a strong level to emerge at.

But you can also clearly see on this page, all the entities that have been also pushing quite actively for improvements like in U.K., Australia that is doing an amazing job and also Latin America would be another example of that one. And what you also continue to see on that page, is a very strong performance of some of our entities like Italy, Central Europe, Switzerland, who will be a few of them that are particularly strong also on that page.

On the commercial side, AGCS as well sees a good level of performance despite 5 percentage points more NatCat this year compared to last year. And trade is slightly negatively impacted in terms of combined ratio by a technical effect, but basically still operating at an excellent combined ratio of 81.4% and also with further strong growth of the operating profit, clearly.

If we look on Page 21 at our operating investment result that is slightly up for the quarter compared to last year. Clearly, here we see the effect of IFRS 9/17 together. We are earning the higher yield levels, but they are more or less neutralized by the higher interest accretion as we are unwinding the previous year's discounting benefits.

So if rates keep a bit stable, then you would continue to see that effect going forward. So let me recap on P&C. For the quarter, we delivered an operating profit at 26% of our outlook midpoint guidance despite an elevated level of natural catastrophes and large losses during the quarter.

For both retail and commercial, our growth momentum continues. For retail, in terms of profitability, we clearly see the earning of our pricing actions that were basically pushed through against the inflationary environment that are coming through as expected. And on the commercial side, we continue to operate at a very good underlying level of profitability. So clearly, all of that puts us on a good trajectory for the future.

Let's move to Life & Health, and let's have a look at Page 23. And here, you can see as well a continuation of the new business momentum we have seen in the previous quarters. Our PVNBP is up 6.5%. But it is in reality up 15% if you adjust for a large Allianz contract we had in 2023. And that is clearly visible on the page. I think when look at the spread of the growth across entities, and even at U.S. had a strong quarter considering the fact that we had a promotion last year in the second quarter.

The growth is also of good quality because we are growing at 93% in our preferred lines of business, and we are growing at an excellent new business margin of 5.8%. So overall, this is leading us to a value of new business of EUR 1.1 billion, which is in line with last year. And so overall, I clearly think an excellent development on the new business side for our Life & Health business.

CSM, on Page 25. I think also really clean quarter from a CSM development perspective. So first of all, the CSM release is in line with the 8% to 9% range we expect for the year. Remember, for the year, we expect EUR 5 billion total year. The normalized CSM growth is close to our run rate. We always see as well a bit of seasonality in the second quarter and third quarter, whereas normal CSM growth is expected a bit lower. But first half of the year, if you look at it, we are at 3% CSM growth against 5% expected for the full year.

And then, if you look at the work of the development of our CSM. Here, we have negligible economic variances for the quarter, and we had a slightly negative non-economic variances, which are mainly linked to the lapse activity. And by the way, this is negative on a gross basis, but this is positive on a net basis, because a lot of the lapses we have seen are actually part of the reinsurance portfolio of AZ Life, so it's not impacting our net CSM ultimately.

What is also important, I think, is that our CSM sensitivities are unchanged, and they are as well confirming the robustness of our CSM against market movements.

Let's move to Page 27. And here, you can as well see clean translation from our CSM release to operating profit. We have lower negative variances this quarter, and we have higher results from our pure unit-linked business, in particular stemming from Italy and from Mexico. And this is leading us to a strong operating profit against our outlook and a 15% growth year-on-year.

On the right-hand side, you can as well see our very well-diversified portfolio in terms of contribution to this outcome. So I think it's visually very clear as well here. So overall, on Life, we continue to see a strong growth at a very good margin level together with growing CSM, which is positioning us well for the second half the year too.

On the asset and asset management side on Page 29. As mentioned here, I really think that the bond market has been a bit uncertain in the first half of the year, given the inflation landscape and the debate on the timing of Central Bank rate cut. But we have seen EUR 14 billion of net inflows in that context, which together with the EUR 34 billion we saw in the first quarter means a 5% growth of our third-party asset under management year-to-date, clearly very strong growth from that side.

On Page 31, you see as well that basically this growth is translating into a revenue growth of 5% year-on-year. And this growth is mainly driven by the asset under management because our margins are slightly down but still at a very strong level and very stable. I think when you look at it also quarter-after-quarter. And our performance fees have normalized compared to last year. Remember, last year in the second quarter was an exceptionally high level of performance fees.

If we go to Page 33, our operating profit growth is at 6%. That's also supported by a stable cost-income ratio. And without performance fees, which are always a bit volatile, right? So I think it's always a bit difficult to do those quarter-to-quarter comparison with performance fees. Our operating profit growth is at 10%, which is clearly very strong. And as mentioned by Oliver, so we have seen slight improvement in our cost income ratio, but we also expect to -- towards year-end, further improvement of our cost-income ratio to come through on the asset management segment overall.

So on asset management, our operating profit is in line with our full year guidance. We are very well positioned to capture the market momentum if the direction of rates clarify, and that makes us also confident for the second half of the year. Corporate segment, I'm going to skip. It's better than expected. There is nothing I'd like to mention in particular.

And then, if we go to Page 37, which is also a very clean page in terms of translation from operating profit to net income, we had -- sorry, we had less noise compared to last year on the non-operating item side. What I'd like to mention is simply the normalization of our tax rate, which is fully in line with our expectation for the year. Last year, we had a pretty exceptionally low tax rate linked to some one-off events.

So overall, this leads us to a shareholder core net income of EUR 2.5 billion, which positions us well very well towards our yearly trajectory. Also maybe worth to mention the fact that our ROE for the first half stands above 17%, which is also a very strong performance in terms of return on capital.

Let me wrap up on Page 39. Overall, I clearly think a very pleasing first half of the year, both from a performance and a resilience perspective, given the strength of the contribution of both all our segments and also many, many business units across the group, when you look at it also in the further details we are providing. Our capital position is strong. And while I think you can always see volatility in our numbers, given the overall situation, midyear, we are clearly confident to fully meet our financial trajectory for the year.

This confidence is as well reflected in the extension of our share buyback program by EUR 500 million. And I think extend now for 2024, we have a total payout of EUR 6.9 billion, which is made of our newly agreed a 60% dividend payout policy with EUR 1.5 billion share buyback. This level of EUR 6.9 billion, I think, is a very strong level, this is clearly demonstrating our commitment to attractive shareholder return, while in parallel, we continue to optimize the deployment of our capital as well as through M&A as already mentioned by Oliver and presented in more detail.
With that, I hand over back to you, Andrew.

Question and Answer

Andrew Ritchie

Great. Thanks, Claire-Marie. Okay, we're ready for our Q&A session, just some housekeeping. [Operator Instructions] So with that, the first question is from Andrew Sinclair of Bank of America.

Andrew Sinclair
BofA Securities, Research Division

Two for me then. And you'll be pleased to hear they're both focused on growth. So the first was actually on capital deployment. You've been really good in terms of your capital deployment, in terms of buybacks over the last few years. I think you've exceeded your planned targets for buybacks. But just really trying to get an idea of actually how much you've net spent on M&A over the current plan period, so acquisition costs, minus disposal proceeds?

Back the envelope, I think you've done well on your buyback targets but not actually spent net that much on M&A. I'm just trying to get an idea of how much firepower you have left?

I think, you'd probably intended to spend around EUR 4.5 billion net in this plan. And that's before you outperformed your earnings target. So I came to understand on that. And then the second question was just on P&C, great pricing again. But where and when are you looking to take a little bit more volume in P&C? It seems, the results at this level, there's potentially scope to push a bit harder on exposure.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Andrew, maybe on your first question, so I would not have the exact effect on the M&A, but maybe I take your question slightly differently. When you look at it last year, for the full year, right, our cash generation was around EUR 8 billion. And out of that, we had EUR 1 billion that was more exceptional type of remittance. Still we project similarly around EUR 8-plus billion of cash being generated for us because we also constantly have this type of logic of exceptional remittances actions, we feel strong about.

And out of that, we are paying EUR 6.9 billion in terms of total payout for the year. So that leaves us with approximately EUR 1 billion that we are also actively deploying. And I'm sure, I mean, if we look at it historically, we will potentially be in this side of order of magnitude. I think, the key point is as well the point that Oliver made previously, the fact that we are extremely rigorous, when it comes to deciding how we deploy capital, either in terms of organic growth or in terms of M&A. And what is the expected return on investment associated to M&As in particular, which will be double digit and with an expected return that is fairly short term.

And then I'm sorry, I did not understood fully your question on P&C growth. Was that related to the fact is that pricing or volume? And how this is more nuance?

Andrew Sinclair
BofA Securities, Research Division

Just scope for pushing for a little bit lower volume. I think pricing has been great and the combined ratio is in really good places. Can you push a little bit harder to take a little bit more volume? And if we are, in particular, are you ready to push harder?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Yes. So I think the short answer is, yes, we are ready to push for more growth, definitely for more volume growth. I think, you have to nuance also a bit between retail and commercial. I think clearly, on the retail side the majority of the growth has been pricing currently also because we have seen higher inflationary effect coming through even compared to our projections.

So we are balancing clearly the margin and the volume there. But what is super -- I mean, super important for us is that we consider that we are well positioned to capture more of the volume growth given the fact that we have been ahead compared to many competitors in terms of pricing actions. So that put us in a good situation in terms of volume growth as well. And that's what we see in some of our markets like, Germany would be an example of this to mention one.

Another dimension where we are clearly pushing is definitely the level of retention, where we have been doing okay, but not as good as we want. So we have definitely also focused actions associated with retention. And on growth, we will have also more actions that we will certainly cover in more details in the Capital Market Day in December.

Andrew Ritchie

The next question is from Michael Huttner of Berenberg.

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

Thank you. Yes, fantastic results. And thank you for the EUR 500 million. I have two questions, which I hope a little bit -- I thought that AXA, almost like, sort of, gone it down like a challenge saying, well, we're selling our asset management and then sellers a while back. And I just wondered how you see particularly with AGI, which has been lost part of its U.S. business, how you think about that?

And then the second question is kind of tricky one. There have been lots of headlines in coming through about income insurance, your Singapore acquisition and the local concerns there. I just wondered how you see that. I know it's a great franchise and a very strong local player, but it doesn't actually make a lot of money. So -- and my feeling is if you try to address all the concerns which are local, you won't make much money either. So I just wondered how you see that?

Oliver Bate
Chairman of the Management Board & CEO

Let me hit these two points. The first one is Asset Management is a super strong pillar. We're one of the largest and most profitable third-party asset managers in the world. So I don't want to comment on others. We are very happy with the business that we have, and it has -- continues to have great margin inflows and performance. That may not be the case in other places. So I think we look very different from competitors.

Actually, I think we're one of the very few left now in Europe that have a strong Asset Management business in the U.S. there are a few, but not many in our industry. Second, and we believe it's actually a strong combination for wealth management clients with what we're doing on the Life side as we systematic have been pivoting from spread businesses and spread business in Life to more modern products.

I wish that would accelerate a bit more, but we can talk about it another time. So it's a very strong combination. And if you are performing both well on the Life side, the Asset Management side, maybe a third one on the Health additional components and makes a very powerful combination, not just for clients, but for shareholders.

If you ever, Michael, run what is the return on assets under management from a client perspective, you need to add the margins of both businesses, I think they look very strong and better than most wealth managers in the world, just a small hint and we're intending to build that out.

Second, on income, very important story. So the so-called messages, and I think you captured it nice, came a long time ago when the Singapore in community and enterprise, in particular, thought about how do we get this business to be more successful, both in terms of volume and margin. And they decided to corporatize it. So it was a mutual corporative company that went through a long corporatization process. And already, at that time, 2.5 years ago, a lot of local noise came up around will the purpose of this institution serving particularly the working class in Singapore be fulfilled as they are the market leader in P&C in the #3 in Health and still the #5 in Life. They used to be much better.

And exactly because they have been losing market share and profitability relative to industry leaders, we were approached by the community and says, how can we combine the capabilities that you have. By the way, in each of these segments with the franchise that we have and how do we bring income into the 21st century and make them very successful. By the way, many things have already been done. For example, if you look at the digital capabilities that income has to service its clients, they're actually very, very good.

The key thing is, there is a lot of upside in terms underwriting pricing. There's a lot of upside in claims. There's a lot of upside in product design. And there's also a lot of upside in procurement, particularly on the Health and the Claims side that we've been building out in Allianz over the last many years in order to make sure that the margins really improve. And that's actually the story.

The story is to bring income back to be the leading franchise in the state of Singapore and combine that with what we are bringing. This is, by the way, why we are in partnership with Enterprise, right? So we're buying 51% at this point in time. With enterprise, this is not a sellout. They will be involved, and they'll make sure that all the franchise and the customer access are here to serve us. So we really believe in bringing the best of both things.

And you can see that in, for example, Life in Germany, where we have both the highest customer satisfaction, the lowest unit cost, the highest growth numbers and the best margins.

Andrew Ritchie

The next question is from Peter Elliott from Kepler Cheuvreux. Peter, are you on mute? Peter, you still there? Okay. Let's move on to -- I think, Peter, you might have to rejoin or may be you are on mute. So let's move to William Hawkins from KBW.

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

Can you just comment again, please, on your capital management decision-making cycle? How you balance it between annual decisions or opportunistic through the year? This time last year, I thought you were moving to an annual cycle. And now we've got this really nice surprise overnight. So can you just help me understand how your capital management cycle is working, please? And I suppose appended to that. Should we extrapolate EUR 1.5 billion now? Is that the new normal?

And then the second question, on New Caledonia, does that EUR 260 million dropped to profit? Or have you done something to smoothen it away? I'm just not sure how excited I should get about underlying profits in the context of New Caledonia. And if I may ask, Oliver, in your prepared remarks, you talked about the benefits of diversification, and I get those. Arguably, diversification can also lead to tail risk that's beneath the radar and New Caledonia does feel a little bit like that. So I'm wondering if you've learned anything further about portfolio or risk management, given that outsized loss from a very small region.

Oliver Bate
Chairman of the Management Board & CEO

Yes, that's a great question. Let me start with that. No, no, no. I think it's a very good question, actually. The issue is very simple and is unrelated to others. We are helping the local community. And I really mean you know your shareholder, so whoever represented is, we're really helping the community that has been devastated by factually a civil war.

And it's very important that what we learned from this. We have a wording there to cover man-made cat, so to speak, riots, which is, by the way, not just there for New Caledonia, but all of France, including the Mainland. But if you have the military, the police, the fire brigade and the emergency rescue not exiting for 2 weeks and you leave the population completely alone facing rioters. Then the question is, can insurance cover losses? And the answer is clearly no.

So, we're obviously revisiting and rewriting the policy wordings to really make sure that we don't have to cover losses that emerge because public security is out of control or non-existent. So that's the learning, but it has nothing to do, whether that's a New Caledonia or in the middle of Paris. And that's something that is very, very important because we have -- we always operate under the assumption, the rule of one, by the way, as you may know, we are suing the French government for negligence with other insurers on making sure that we get reimbursed because we don't believe that the second, no, we don't want to leave our clients standing in the rain at a time when their buildings and their business have been totally destroyed.

So I don't want to go into any of the legal details. But your question, Peter, is a very good one. In the largest form of the portfolio of running something that is the biggest P&C portfolio in the world, is an interesting learning experiences in terms of financially tail-risk with all due respect, that's very small.

Yes. So one. The second one -- what was the second question, sorry? On capital management. Yes, maybe Claire-Marie because I don't want to dominate them.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Maybe like if you allow me, just maybe to add, William, on two points. So basically, I think as well on this New Caledonia situation, right? The way we do manage our SRCC accumulation is basically done against the total sum insured and the level of political stability we expect in a country, right? So I think in that case, which basically makes also the loss pretty different is the fact that the level of political stability was absolutely extremely different compared to what we were expecting also in terms of tail management.

So there will be follow-ups in terms of underwriting. But definitely, I think in terms of logic of the way we are also underwriting and managing the accumulation, we will simply, if you want, maybe stress test further the level of political stability and level of expected destruction level we may expect because also in that loss, what happens is that there were explicitly targeted buildings from a certain population that also led to a higher level of destruction of those buildings, which is a very specific profile of the loss compared to the scenarios we are traditionally running from that perspective.

Then I think you asked also related to New Caledonia, if there was any specific effect related to runoff. Definitely not. So the level of runoff we have seen both in the first quarter, second quarter is in line with our expectation. And by the way, if you look at the overall level of runoff at first half, it's actually slightly lower compared to our expectation for the year.

What we have seen in the first quarter -- in the second quarter runoff as well is, as usual, as an example, on trade, a lot of reserve recycling between PY and CY as an example. Then I think you were asking the question on why this -- on why the share buyback now. As you may remember, I think, -- I mean, first of all, clearly, we are extremely committed to optimizing our capital deployment, and that's also what the share buyback is clearly about.

When we came out with our full year number. We had just announced a new dividend policy moving from 50% payout to 60% payout, which was a commitment, right? And clearly, also with uncertainty on how the year will be developing also given the fact that we had seen in particular, I think there are a very high level of inflation, but as well as the fact that the world is a pretty uncertain place to put it this way. But now with our first half numbers coming through, we feel more comfortable. And as such, that's why we have decided as a sign of confidence as well extend our share buyback program by EUR 500 million.

So should you read anything into that one in terms of future pattern and what would be the level that I will not do right? What I think is important is the fact that we are extremely committed at optimizing our capital deployment, whatever shape or form this is taking as we have so far clearly demonstrated.

Andrew Ritchie

Okay. Peter, let's try again. I believe your microphone is now working. So Peter, the next question is from Peter Elliott of Kepler Cheuvreux. Hello, Peter. Okay. Let's not try again. Let's take the next question then from James Shuck from Citi.

James Austin Shuck
Citigroup Inc., Research Division

So my first question is really on the capital deployed for organic growth through the SCR. So I think it's EUR 0.9 billion that's deployed to that increase at 1H. It seems to be a relatively high number versus peers. It's kind of annualizing at about a 7-point absorption of your own funds generation. I'm just keen to know where that is being deployed. If I look at others, there's really a strong story about diversification, particularly on the P&C side, so you don't really see the SCR coming up to growth.

So kind of, keen to understand the mix between Life and Health and P&C and why that's not diversifying away. And then secondly, on the topic of M&A, I often think that we kind of spoke a bit too much on the insurance operations. When we think about PIMCO, there are some strategic gaps at PIMCO. I think about private credit or even on the passive side. How are you thinking about potentially transformative deals for PIMCO? And if that wasn't needed, how would the funding come about?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

So thanks a lot, James. Let me start with the question on the capital deployed for organic growth. If you look at our quarter, basically net capital generation. So net organic capital generation, we are 2 percentage points, which is well within the range of what we expect for the full year, right?

For the full year, we expect 6 to 8 percentage point of Solvency II organic capital generation. So 2% is definitely in. And when you look at it for the first half, right, we are at 3 percentage point of organic capital generation. We have seen in that number clearly as well a very strong level of growth, right, which basically is coming through all our segments, in particular, both P&C and Life & Health, right? So we have also a very strong fundamental growth.

So from my perspective, that's the direction we should be taking also for basically further development of our Solvency II ratio. And what we do internally, clearly, we are managing very strongly in terms of what we call our Solvency II -- Solvency II ROE or basically also different type of KPIs, which are connected with the Solvency II value creation, both for our P&C and Life & Health business, and that's what we are using.

Then when it comes to comparing the level of diversification of our model to competitors, that I cannot really do because I don't have -- I don't have the model of competitors. Still maybe what you need to know as well is that we are constantly working on our capital deployment. And also, we are fine-tuning currently also with further bottom-up and top-down initiatives that also will continue to come through in the rest of the year from that angle.

Then on the M&A side, Basically, we have three areas we are looking at in terms of M&A. For P&C, we are clearly looking at further consolidation into our leadership markets because we think that we need to be in a leadership position to be able to exercise the full power of our machine when we do on an entity. We have clearly appetite also for Asia and in particular, ASEAN, but also eventually the Pacific area when it comes to further deployment more broadly.

And when it comes to PIMCO, to Asset Management, I think there are two angles to it. The first one is that we are also opportunities in terms of distribution to further strengthen the logic of the convergence between Life and Asset Management. As an example, the AlTi deal we did in the -- at the beginning of the year is along those lines. Basically investing into platforms that basically provide us with wealth insurance or wealth management opportunities that we can then capture for both our Life and our Asset Management business.

And then for PIMCO, we are -- I mean, we are open to find a good opportunity as well for PIMCO, maybe more related to either smaller shops or to teams, because we believe also that teams are much better in terms of our ability to integrate them as well from a culture perspective also to earn quicker and better the benefits of our acquisition. So that's more the logic of what we are looking at for PIMCO.

Andrew Ritchie

The next question is from Will Hardcastle of UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

The first one is just on the extent of the Motor combined ratio improvement. Clearly, the pricing and portfolio actions taken effect -- is there more to go? I guess, it looks like pricing is still in excess of inflation across the board. And so we've got some more earn through to come. And perhaps on a specific questions related to Germany and U.K. would be helpful, perhaps some volume commentary.

The second one is on PIMCO. And in light of recent interest rate changes, thinking about the opportunity here, can you try and explain what historically has been the time that PIMCO has obtained the greatest new net flows? So is that historically correlated to short or long end rates steepening or flattening? Anything perhaps on credit versus sovereign would be great.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

So on Motor, so indeed, our overall combined ratio at the end of the second -- for the second quarter stand-alone is at 93.9%, which is clearly improving compared to last year, because 1 year ago for the second quarter, we were at 99% in terms of combined ratio. So clearly, we see here the benefit of the actions that have been taken.

Across the board, we indeed see -- we continue to see higher level of inflation. And we are -- we continue to take actions that we also -- we passed well or we passed well also associated type of volume we would like to capture. Clearly, also, we continue to see the highest level of both inflation and rate on the Australian and U.K. portfolio. So -- and also maybe just for -- to help you to further reflect on the development of the combined ratio in Motor.

I mean, a very significant positive effect that came into the development of our combined ratio, came from Australia and U.K. where both teams in the countries have done, I think, a splendid job at pushing through and taking the right actions while also managing from a volume perspective pretty nicely.

For both, I think, at -- so Germany, overall, we see both pricing growth and volume growth coming through into the portfolio there as well. I think the team has done a very nice lob on the Motor side. And for U.K., overall, clearly, we have taken strong rate action and also that came with a slight negative volume effect, which I think is normal given the actions we have taken.

Oliver Bate
Chairman of the Management Board & CEO

Let me add something that is quite interesting because I expected even more questions. So we keep on seeing inflation, as I said earlier, still coming. But particularly in core Europe, Australia and others, we were one of the earliest movers on pricing. And that has two effects.

One, exactly, as you said, there is momentum coming as these price increases, price stems things through into earned premiums. That's still lagging a bit. So there's more to come. But more importantly, a lot of competitors, and you had some news today out of Germany and other places, have to still massively price up just to close the losses they are making, which provides opportunity for us to grab market share as we can now be more specific and targeted in terms of further price increases. This is why we said earlier, as we move forward, we're thinking about grabbing more customer market share for those that still have to catch up.

In Germany, particularly the case because the market leader was fairly late in that, but also some of our competitors were lows to come. So you get two effects. One, we will have better pricing coming in already, and we will -- we are trying to get more market share. Now when we are at right level of profitability, not while we were still catching up. And that's a very important thing for you to know in the community. Thank you for asking the question.

Andrew Ritchie

Sorry. Will -- could you clarify again your second question on PIMCO flows? Could you -- I'm not sure we're not quite sure, exactly what you were after?

William Fraser Hardcastle
UBS Investment Bank, Research Division

Yes. Thanks, Andrew. Look, in simple terms, historically, the commentary will be rates going lower, typically generating more flows as the attraction comes on to the fixed income side. I was just trying to understand if there's any more detail on that. Is there anything in terms of steepening of the curves or flattening of the curve, is sort of the perfect setup or is it a bit more complicated than that?

Oliver Bate
Chairman of the Management Board & CEO

It is more complicated, but it's a very good question. Typically, you need the curve to steepen, in order for that to be case. But also people tend to forget that PIMCO, at least in terms of earnings profile has changed a lot over the last 10 years. So the earnings component coming in out of structured products that we have are increasing the share of performance fees is increasing. So it is no more as simple as that.

So certain funds like the dominating income fund, that's the key driver some of our other products, it is not, but it is correct as rates move forward and the yield curve [indiscernible] that's generally a very benign environment. It's also true that PIMCO does well when volatility is highest and certainty is highest, because this is when people really look for somebody to protect their value. So with high volatility, we also see a lot of flows into our top performance fund. Maybe that's an answer without being Dan Ivascyn and trying to even replicate 2% of what he would see here, but very happy to follow-up on that.

Andrew Ritchie

Our next question is from Andrew Crean of Autonomous. Andrew, we can hear you.

Andrew Crean

Two questions, I suppose. One on U.S. commercial where whether your peers is sort of going slightly against the grain and suggesting that market is ready to harden further and you should have improved results. Is that the way you're seeing it for ACS or is it more about holding the line?

And then secondly, talking about capital, you got a lot of senior debt which doesn't qualify in terms of your capital. Is there a possibility of substituting some of that for qualifying debt and bolstering the capital position and perhaps that could provide source funds for M&A?

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

So maybe on U.S. -- Andrew. So maybe on U.S. commercial, I think here, I mean, as always, you have to be quite nuanced per line of business, sub-line of business to really assess where the rates are standing. So I think it depends a bit, but we see some line of business where clearly the rates have softened quite a bit. That would be the case for cyber. That will be the case also for maybe public D&O would be another example of this one or some part of liability.

But now you see some counter movements where we start seeing some hardening. But as well, I think there is a property side, which was really hard, where we expect also to see now some softening to start coming through on the property side. But now also well ahead of strong of the -- sorry, cat period on the U.S. side that may also impact the rate structure on the U.S. commercial.

But maybe a short story long, it depends a bit, but what we see is that some softening starting to happen maybe on the property side, and that's the most recent development here. Yes.

Then when you look at our capital structure, indeed, we have a bit more senior debt compared to some competitors. But overall, we are quite happy with our capital structure. We will retain some flexibility along and we are always carefully looking at what makes more sense given the level of capital we are at and what are the various elements we have to optimize always as well in terms of risk, if you want, cost profile.

Overall, I mean, let me remind you as well, right, our Solvency ratio, I think, is at a very strong level of Solvency ratio, we are above 200%. So we are quite comfortable from that perspective as well. If we would have to do something, we are always open to do something, and so we retain that flexibility, and that's what we like in the structure we have.

Andrew Ritchie

We've got a follow-up question from Michael.

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

Two questions. You talked at the beginning, and I think again, now on the cost-income ratio in Asset Management. I felt very vulnerable suddenly because I was thinking I'm going to become automated -- as I disappear and somebody must much more efficient is seen replace me. But maybe you can talk a little bit about where the cost/income ratio would come and whether it's now or later or something, that's fantastic.

And then, on the point of scale, I agree completely, but and you said you want to be bigger in the main markets and that thing. Could you be a little bit maybe more specific or give us a better feel? You kind of alluded to it by talking about the capacity in debt, but any kind of indication where you -- how big the deal you would consider to become that much bigger in particular or any markets? I think you also mentioned, I think, indirectly Australia.

Oliver Bate
Chairman of the Management Board & CEO

So Michael, always nice to hear you. So the story on M&A hasn't changed. We hate large deals because they typically don't create value. We know that and you've seen that or at least takes forever. If you run it really properly what we like and have done in the last 10 years is bolt-ons exactly where we feel we'll build market share.

If you compare the portfolio of Allianz today, across P&C Life Health, it's much, much stronger because we exited the marginal players, think about the Middle East or we combined with partners, think about Africa, we are now 4x the size of anybody else or we include there is one or two markets left in Europe where we are not at scale, and we are thinking about what to do, one, for example, is Belgium, right, where we thinking about what to do, and we have no rush because we make good money there.

So the point is always building local market share and then building market share in businesses that scale globally in terms of know-how or capital management or the commercial. So there's nothing new and nothing large. The point, I think, before on the sub-debt component was, if you want to really invest more. Do we have some flexibility, EUR 4 billion or EUR 2 billion more? Yes. but it's nothing that is eye watering. So we don't want to surprise the market with something eye-watering unless it's a once in a lifetime, and I haven't seen one. So let's just go back to that.

The key thing is actually for us, now that we have spent many years now building our franchises in terms of productivity, in terms of profitability and in terms of customer and employee satisfaction to benchmarks, how do we grow organically stronger. And just to give you a little bit of a peak, we are first quartile in terms of customer acquisition, unfortunately, we're not first quartile in terms of customer retention. So the biggest opportunity for Allianz to grow is actually to reduce churn. Right? So to tell you that.

And the second one, which is an internal issue in the industry, which actually with technology, as you mentioned, it will become easier and with a very strong brand, and that's what we're seeing, and I'll give you a data now. As the Allianz brand gets stronger and stronger and customers seek us out our ability to cross-sell if we do it properly, increases massively.

So I'll give you an example from the U.K. that is really stunning, but please treat it as an example, not as a general rule, as we now rebranded to Allianz and the flow business of LV, cross-selling ratios now from home -- Auto into Home is 40%, that is 8x what it used to be. So there's a lot to be done. We've worked on technology. It cannot be extrapolated. I use it as an anecdote. So there is a lot to be coming. We'll talk about it in the Capital Markets Day in more detail. So the biggest opportunity for Allianz is organic growth and that we need to get much better at.

Andrew Ritchie

Sorry, Michael, I didn't quite understand your question on cost income for asset management. Are you talking year-end or are you talking longer term, because you even talked about AI...

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

I think, my feeling was that, there's a lot to come by the end of the year. That's -- if there's any other indications longer term, that would be nice too.

Oliver Bate
Chairman of the Management Board & CEO

Yes, we're hoping that it gets better by year-end also.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Yes. So exactly, I think like so you will always have a bit of volatility also associated with your performance fees, right? What we had guided towards was 61%, but I think like, I think, would be -- I mean, I would say, mid-range between -- around that level will be a good logic between 60% to 61%.

Andrew Ritchie

Our next question is from Vinit from Mediobanca.

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

I hope you can hear me. I have two questions, please. One is on the Solvency II capital generation [indiscernible] Insurance. On the capital generation, according to [indiscernible] I'm just curious that once we talked about how the finance Life in U.S. strong towards kind of, I think, some of that. But in second quarter, maybe you've done something about it. Obviously, growth is lower, but then you have Germany Life [indiscernible] So I"m just curious, whether that's -- was there any management action behind this [indiscernible]

Andrew Ritchie

Sorry, Vinit. Vinit, your line is very, very hard to understand, you're on a speaker phone or something?

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

No. I'm on my head-phones. [Technical Difficulty]

Andrew Ritchie

So I think let's address your first question first. The first question, I think, just to summarize is, you want to understand a bit more about our capital generation, which in the second quarter was a bit higher than the first quarter because we had mentioned some growth constraints in the first quarter, but we still had growth in the second quarter. So how come our capital generation was closer to normal? Is that roughly the gist of the question?

Vinit Malhotra

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

That's precisely it.

Andrew Ritchie

Okay. Great. Let's answer that question and we'll come on to your second question.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

So indeed -- so we had -- so basically growth in both quarter -- in the first quarter, we had some seasonality effect, in particular, related to some of our businesses that get underwritten beginning of the year a bit more strongly. So you would have, in particular, the Health business in France, that would be a good example of those seasonal effect we saw. We also had a particularly strong effect coming from AZ Life, if I remember right, also so in the first quarter, which is a bit explaining the difference between the 2 quarters in terms of growth profile, just associated with the seasonality effect.

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

German Life -- German Life also grew in 2Q, 35%. That's quite big as well.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

Then it's a different point because indeed, we had also -- I mean, we as mentioned, right, we had growth in the 2 quarters. I was more mentioning the fact that you had specific type of profiles, which basically generate different type of capital requirements, linked to the way they basically come into model. So that's why you have a different effect.

Then when it comes to explaining the German Life growth we had indeed in the second quarter, particularly strong growth on the annual [indiscernible] side, which was related to both single premium and also recurring premium businesses that basically went particular into perspective product. And what is also quite strong related to the recurring premium is linked to some of our corporate pension business, because we see that more and more of our corporate clients needs to have good pension offering to basically retain their employees. So that's a very strong area of growth as well for [indiscernible]

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

I'll keep it brief. The motor question was more about, Oliver, your comment that you're saving about EUR 1,000 or [EUR 2,000,] a number there and passing on some of that to customers. If it is a correct understanding that you're probably going to be pricing motor a little lower than where the market is because you're already ahead of the curve.

Oliver Bate
Chairman of the Management Board & CEO

No more differentiated. So -- and I think what will happen is the differentiation. And it is a great question, will accelerate now. The more we are able to target and to convince clients to go into the steering tariffs. Just to give you a number, if I remember correctly, about 55%, moving to 60% of our Costco clients are going into the steering tariff. I expect it to trend up over the next few years, the benefits that are coming through claims and the benefits we can pass on to clients will just increase.

The issue is how many competitors have the ability to do that. There's not too many other than the market leader, so that competitive advantage should build itself out over time. And I think that's often not understood by investors. That's why I mentioned it. No, it's nothing here to do with capital consumption, a totally different story. We need to really analyze while we have more capital consumption in P&C than others, but we'll get back to that.

Andrew Ritchie

Okay, Vinit. And the final question today is a follow-up question from James. So James, you've got the honor of the last question. Go ahead.

James Austin Shuck
Citigroup Inc., Research Division

I just wanted to ask about AZ Life. It's -- it's growing fantastically well as interest rates have gone up, and we've seen very strong flows and very attractive margins. And I just kind of hear a little bit about how you see the risks on this book, particularly as we move to kind of a rate cutting cycle eventually as that comes through, both in terms of the kind of risk to the life in-force of that lapses and to the new business value outlook?

Oliver Bate
Chairman of the Management Board & CEO

Maybe Claire-Marie can pick this up. In fact, we're always transparent on lapsation, across the portfolio globally, by the way, we have higher lapses over the last few quarters that we fully reflect nothing to be concerned about anything. In fact, on AZ Life, a huge a significant part of the lapsation is happening on the ceded portfolio that we did in Lucy in 2021.

So that just confirms the power of the deal we did at the time, had to really securitizing exactly what is not better placed on our balance sheet. So we are very comfortable with the business mix. We've also changed James, a lot of the management levers, I think we spent quite some time in the past explaining that an IR can separately pick this up, but we are very, very comfortable with that. What we want to make sure going forward is that we leverage third-party capital intelligent even more, so we don't really grow the size of the balance sheet.

So the strategic objective we'll talk more about it at the Capital Market Day, is keep on growing in the U.S., keep on growing returns without growing the balance sheet too much. That's really the objective. And we'll detail that going further a little bit more. And we are obviously always looking at what happens if the business goes into a recession, we're happy to provide you with data longevity data over the last 25 years, we have exceptionally strong performance on credit in the portfolio. That's something that we are very, very carefully monitoring. So it's a very good question.

Claire-Marie Thomas Coste-Lepoutre
CFO & Member of the Board of Management

So indeed, I agree. Maybe just like to mention overall on net flows. The second quarter was actually the first quarter where overall, I mean, since the rates went down -- went up sharply, where we have seen overall, of course the, entire Life portfolio of Allianz, positive net inflows, which I think a very good situation to be at.

When it comes to the specific situation of AZ Life, as I was mentioning, so if you look at it growth, we have negative net flows for AZ Life of minus 0.6%. But if you look at it post reinsurance, we are in positive territory for AZ Life overall. So that's really, I mean, again, demonstrating the strength of the management of the portfolio of AZ Life.

And then exactly building on the point of Oliver, when you look at the track record of the AZ Life team, they are really, really good at managing, I mean, a diversified set of products across the market. And basically, they have a very good track record in terms of also managing the financial risk associated with those products. They are usually sophisticated. This is a hugely sophisticated team that has been capable historically to manage that very well.

And obviously, that's also part of our overall risk management framework where we are engaging in details into their various exposure to various type of events.

Andrew Ritchie

And that concludes, that was our last question. So thank you very much, everyone, for dialing in. And thanks on this busy day, and enjoy the rest of the summer. Thanks very much.