S&P Capital IQ

CONTENTS

Allianz SE DB:ALV

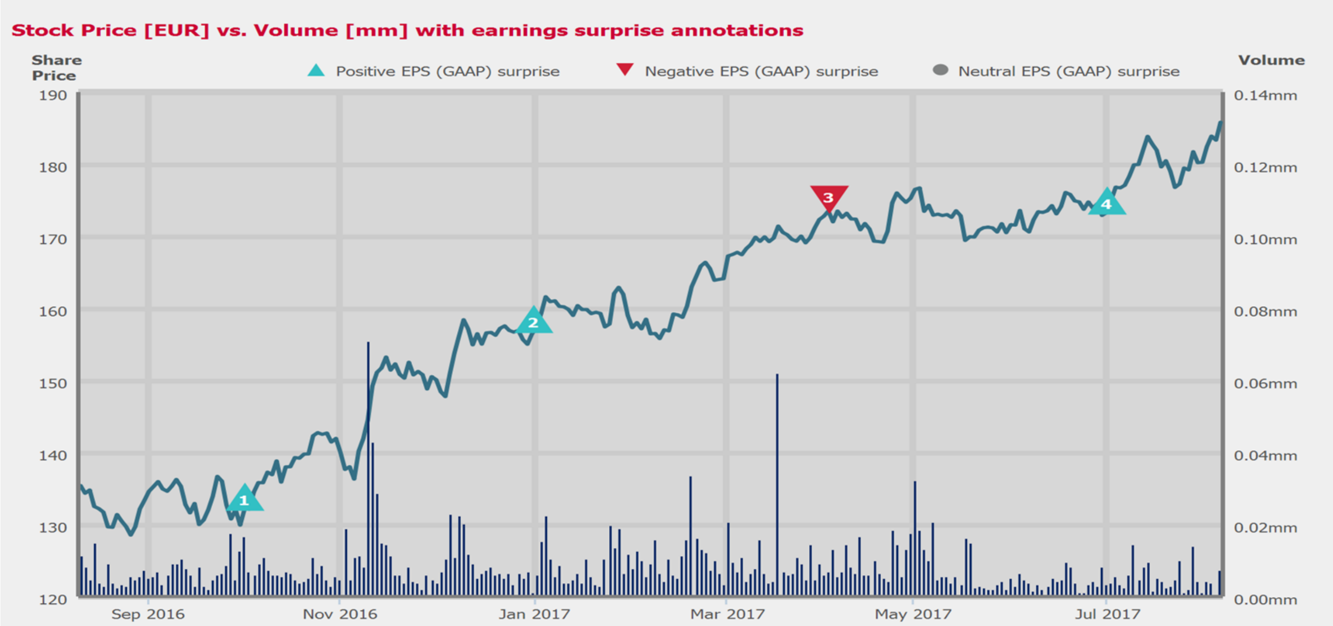
FQ3 2017 Earnings Call Transcripts

Friday, November 10, 2017 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	3.67	3.52	(4.09 %)	4.14	15.86	17.03
Revenue (mm)	27505.29	28300.00	2.89	30683.94	125925.67	123824.09

Currency: EUR
Consensus as of Nov-10-2017 12:46 PM GMT



- EPS (GAAP) -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	3.53	4.08	1 15.58 %
FQ4 2016	3.55	3.83	2 7.89 %
FQ1 2017	4.12	3.99	3 (3.16 %)
FQ2 2017	3.56	4.45	4 25.00 %

Call Participants

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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results for third quarter 2017. For your information, this conference is being recorded.

At this time, I would like to turn the call over to your host today, Mr. Oliver Schmidt, Head of Investor Relations. Please go ahead, sir.

Oliver Schmidt
Head of Investor Relations

Thank you, Paul. Yes, good afternoon from my side well -- as well, and welcome to our quarterly conference call.

Before I hand over to Dieter Wemmer and Giulio Terzariol who will conduct today's call together, let me remind you that this will be Dieter's last conference call in his function as CFO of Allianz. At the beginning of next year, Giulio will take over as his successor. Now Dieter and I will be on the road in Frankfurt and in London, and Dieter will join us for our Inside Allianz Series event at the end of November. So most of you will have the opportunity for personal goodbyes later. That's why I want to keep it brief today, and I don't want to spend too much time on farewells.

But allow me to quote just 2 numbers. When Dieter became CFO of Allianz at the beginning of 2013, our share price was almost exactly EUR 100. Today, as you know, it stands almost exactly EUR 200. And not to forget, while we doubled our share price over those last 5 years, we paid some pretty decent dividends as well. In my view Dieter, that is an achievement you can be really proud of.

All right. I promised to keep it brief, so that's all from my side for now. Dieter?

Dieter F. Wemmer
CFO & Member of Management Board

Thank you very much, Oliver, and let's hope that after this call, the share price is still at EUR 200. So good afternoon to the colleagues here in Europe, and good morning to the ones dialing in from the States. I will start with the 9 months page, and then I hand over to Giulio Terzariol, and we will do the Q&A then together as to warm up for the new condition.

Okay, 9-month figures. Our net income is 5% up, and that's where the third quarter did less than the previous 2 quarters. Actually, I could summarize the third quarter pretty easily. It is like Q2 minus the hurricanes and earthquakes. That is, I think, from a storytelling [perspective], already is a summary, and we will then go through all details to confirm that this summary is [objective].

The growth in all segments is actually holding up very nicely. Overall 9 months growth, 3.5% before FX; and on constant currency, 2.2%, clearly driven -- continue to be driven by Life and Health and Asset Management, which has the stellar fee income story. Operating profit, EUR 8.4 billion, contributed EUR 2.5 billion in the quarter. And again, Life and Health Asset Management clearly is the driver, Property-Casualty affected by the hurricanes of the third quarter.

And with this is one, I will hand over to Giulio to dive into Q3.

Giulio Terzariol
Director

Thank you, Dieter, and good afternoon and good morning to everybody. I'm obviously pleased to be here to report on our third quarter results.

If we move to Page 5, the main message is twofold. First of all, we had a strong internal growth of 5.5% with contributions coming from all segments, but especially coming from the life segment. And this combined also with the increasing operations margin is leading, as we will see afterwards, to a growth in value of new business of 29%. And then on the operating profit, EUR 2.5 billion of operating profit is a good performance, especially under consideration of the intense cat activity that we had in the quarter. And as you can see in the waterfall, net-net, at the end of the day, the impact on our operating performance in P&C was about EUR 400 million.

On the Life/Health results, you see a little bit of a normalization, but the 1 -- plus EUR 1 billion is really more than our usually normalized rate. So it's, again, a very good quarter. In Asset Management, the underlying performance is very good. We saw dampening coming due to the FX effect. So all in all, I think EUR 2.5 billion, as Dieter was also referring before, is a very good performance. Just another think is if you look at the development of the net income, it's exactly in line with the development of the operating profit. This is a kind of unique coincidence, but the message here is there was not really major happening below the line.

If we move to Page 7, speaking of our capital position. Both the shareholder equity and the solvency ratio are up, and notably, the solvency ratio is up by 8 percentage points. This is before we do any deduction for the announced EUR 2 billion buyback. After deducting for the EUR 2 billion buyback, the solvency ratio will be 222%. On the sensitivity, they are very stable compared to the sensitivity that we disclosed in the previous quarter. So the message here is we have continuity in the resilience of our solvency ratio, and also, we are increasing our solvency ratio.

If you go to Page 9, I can give you a little bit more insight on all the drivers of the improvement in the solvency ratio. Part of the improvement, I will say half of the improvement, is coming from the operating generation, and this is reflected in the slides with the 8% improvement, but this is before taxes and before accounting for dividend. Once we account for taxes and dividend, we have a 4% improvement.

The second driver is driven by the market development. And in this quarter, both -- the interest rates went up, the equity went up and also the credit spread narrowed. So the combination of having all movements going into a direction led to an improvement of our solvency ratio of about 4%.

There is one thing that I'd like to highlight. On the business evolution, you see there is a negative number, which means we are releasing capital as we put in new business and we are releasing the in-force business. And this is a consequence of the actions that we undertook over the last quarters or the last years, I will say, to change the business mix. And now we see how the change in business mix is also coming through the evolution of our solvency requirement.

Now if you go to the segments, moving to Page 11. We can see that we had a growth rate of 2.2%. About 40% of this growth rate is driven by price and 60% of the growth rate or 2.2% is driven by volume. When we look at the different entities, clearly Allianz Partners is standing out with a growth rate of 12%, and this is driven both by travel and also by international health. Otherwise, you can see a lot of positive signs on this slide with 2 exceptions. One is Turkey, and this is the reflection of the change in regulation. We have touched up on those changes already in the last quarter. And the other one is Italy. This is a reflection of the contraction in motor TPL. We see anyway in Italy some signs of stability coming through, so most likely, that number -- that sign is going to change as we go into 2018.

If we move to Page 13, we come here to the driver of our operating performance. And as I was saying before, the main issue in the third quarter has been the cat loss coming from the hurricanes in the U.S. and the Caribbean. On top of that, we had also 2 earthquakes, especially a major earthquake in Mexico, and we had also some storms here in Germany and in Austria. The cat loss for the quarter was EUR 530 million. This is in comparison to only EUR 30 million in the previous quarter, so the swing is about EUR 500 million. On the other side, you can see that the runoff is a little bit higher compared to what we usually expect on the quarter. But important thing to note here is when you look at the runoff on a year-to-date basis, it's very much in line with our past experience.

On the expense ratio, you can see there is an uptick of 40 basis points. This is mostly driven by the loss of the crop business in the U.S. So if you adjust for that, maybe I see the expense ratio is relatively stable over the prior year level.

And then I would like to make a final comment. When we have this kind of cat activity in the quarter, usually you should assume that we have also additional smaller weather-related events. So at the end of the day, the number we mention here with respect to the cat loss doesn't include other events, which are anyway impacting our performance in this quarter. And this is totally larger, that when we have this kind of cat activity we are going to have also other minor events. The bottom line is when we try to normalize our results to get to the underlying performance, we end up with a combined ratio which is below 95%, and this gives us confidence that we are going to hit our 94% combined ratio in 2018.

At Page 15, you can see the impact of the natural catastrophe to the various entities. And obviously, when you look at AGCS, you can see that, that entity has been particularly affected by the impact of the cat losses. The other entity that was affected by cat losses was France, and that's because of the business they have in the old colonies in the Caribbean. And then just look at Germany. You can see the combined ratio deteriorated by about 5 percentage points. 1.6% is due to cat losses, but as I was referring before, there are also weather-related impacts, and this was the primary driver in reality for the deterioration of the combined ratio in Germany. So all in all, I would say, when you adjust for cat losses and for weather-related events, the picture is, again, very consistent with the performance that we saw in the prior year quarters.

Moving to Page 17. We see that our investment income is overall resilient. And especially when you look in the quarter to the interest and similar income, you can see that the number is really flat, indeed even slightly increasing. On a year-to-date basis, also the operating investment results is very consistent and is flat. And the point is we see more resilience than we were indeed expecting in our operating investment results. On the current yield, you see that it is 2 basis points lower compared to what we had in the third quarter 2016, but the current yield is indeed even 1 basis point higher compared to what we had in the second quarter of '17 and in the first quarter of this year. So that's, again, the proof of some resiliency that we are seeing right now on the investment results.

Now moving to Page 19 and speaking about our life business. The present value of new business premium is up 5%. If I remove FX effects related to the U.S., that number will be even north of 6%. And in general, we see strong growth in most entities. There is one exception or one notable exception, which is the U.S., where we are preserving profitability over volume. Now if we adjust our growth rate for the U.S., the growth rate is 11%. This tells you a lot about the strength of the growth that we are recording in most markets.

The new business margins improved by 60 basis points, and this is pretty much widespread across all the lines of business, with the exception of unit-linked, but this is due just to a geographic mix. Because Taiwan is getting more premium this year, and in Taiwan, the new business margin is lower than the average new business margin for the segment. If you combine this nice picture to the fact that we have 77% of the business in what we call preferred products, I think you get really strong picture about the value and the quality of the business that we are generating on the life side right now.

Moving to Page 21 and speaking about the operating profit. As I said before, the operating profit remains strong at almost EUR 1.1 billion. And this is, again, another quarter with a very strong performance and also is above the outlook if you consider the outlook of EUR 4 billion divided by 4. The investment margin is lower compared to the prior period by about EUR 125 million, and this is driven by lower harvesting, especially in Germany. Last year, we had the derisking, and so we were selling [BTP], and this was automatically creating realized gains. And also, we had some harvesting, if you want, in our French operation. That's just a little bit of a normalization. Again, results are extremely, extremely strong.

If we move to Page 23. The value of new business is up 29%. You see an improvement basically in all operation, I will say. And I would like to come back to the U.S. As you see, in the U.S.A, the value of new business is up 137%. That's again the point, we are looking for profitability. We are now looking at volume. The premium might go down, but the value of new business growth, which is what counts, this is going up significantly compared to what we had 1 year ago. So I believe this slide is again a proof to the quality of the results. And especially when you see so many plus signs in order of magnitude that we see, this gives you an idea about the level of effort that we'll put to increase our new business margin over time.

Going to Page 25. You can see here we were down on investment margin. Here, you can see a reduction on the net harvesting by 20 basis points. Indeed, the net harvesting for the quarter is only 4 basis points. And so this means that the investment margin that you see below of 23 basis points is pretty much the level which you could expect as totally normalized. One point not here, the reduction in net harvesting is about 20 basis points, but this is largely cushioned by the profit sharing and the IFRS. So you get a little bit of a sense that there is a lot of cushion even when the net harvesting is coming down. And our investment margin of 23 basis points is the normalized level. This produced an investment margin of about EUR 1 billion. And as you saw before, this leads to an operating profit of EUR 1 billion plus. So this gives you an idea about the resilience and the underlying performance that we might see on the life side.

Now at Page 27, we go into the Asset Management segment. We had in 2017 over EUR 100 billion of inflows, which is a huge achievement, especially considering all the noise about passive versus active. And when you look at the third quarter, also the third quarter got its fair share of this EUR 100 billion with EUR 30 billion-plus of net inflows. And this is PIMCO, but I would like to highlight that also AGI had another quarter with positive inflows. The market development has been positive. But on the other side, the FX effects have dampened the growth in assets under management. The fact is the underlying performance and the net inflows remains very strong also in the third quarter.

Moving to Page 29 and looking at the revenue development in Asset Management. The internal growth of the revenue was 5%. And when we adjust for the seasonality or volatility of the performance fees, the underlying revenue base is up 9%, which is a very good result. On the fee margin, you can see that PIMCO is very much stable. In the case of AGI, you see a reduction of 1 basis point, but about half of it is driven by the technical factors associated to the sale of Korea. So if you adjust for that, the fee margin in AGI is 47.5%, and this is just slightly reduced compared to the level that we had last year, and this is indeed flat compared to what we saw in the other quarters.

Moving to Page 31, on the operating profit development. As you see, the operating profit is slightly down compared to the quarter a year ago. But if you adjust just for the FX effects, you get to a growth of 1.4%. If you also adjust for the volatility of the performance fees, then you get to a growth in operating profit which is well in excess of 5%.

A final comment on the cost/income ratio, which is up 1 percentage point. We had some one-offs, small one-offs in the quarter. The point is when you look at the 9-month development, the cost/income ratio, as Dieter was showing in the first slide, is down 1.6 percentage points, and this is more a reflection of the underlying improvement happening in our Asset Management segment.

Page 33, I'm going to be very quick. We can just skip it, and then we go to Page 35 where we can see the nonoperating items. As I was saying before, there is really not much happening below the line. Maybe the only thing could be the effective tax rate, as you see, is 28%. That was 30% in the prior quarter, which is also, more or less, what could be an expectation. The reason for the 2 percentage point improvement is twofold. On the one side, we had a small release of a provision. This makes for 1% of the improvement. And the other 1% of improvement is just related to the composition between taxable and tax-exempt income.

And with this, I will turn it over to Dieter for his final remarks.

Dieter F. Wemmer
CFO & Member of Management Board

Okay. Thanks so much, Giulio. And let me summarize on Page 37 where do we stand and how are we doing with respect to our ambition 2018.

I think EPS growth is on a good track. Our ROE is still below our 13% target, but I think we have less of an earnings problem because, I think, the earnings have developed, since we put up the target, very well. But our equity did even better. So our EUR 2 billion share buyback program, which we announced on top to our Q3 results and we have not yet mentioned today, is certainly also helping to get our ROEs in the right perspective. That ratio between strong earnings and adequate equity results into the right number.

The combined ratio is 94% after 9 months. But it was a very difficult quarter as the industry and most of our peers have shown, so we are -- feel comfortable about our next year's target.

Our life OEs, are they making the 10% ROE? We are convinced that we are getting it to a very strong number, maybe not 100.0 but already in the direction of 100. Life new business margin, we talked about we are on target. PIMCO cost/income ratio, interest rate sensitivity, we are pretty much on target. And also, IMIX is actually a latest measurement of our -- asking our employees on Work Well and engagement, and 72% is a very recent number where our NPS measurement is already some time old and will be updated this next round of market surveys.
So with this one, I think I would move to the Q&A. And happy to learn what already interests you beyond what we gave you already.

Question and Answer

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

I guess the first one is on that buyback. Thank you very much, Dieter, for the -- your farewell present. I guess, net of that buyback, I put you at 222% solvency, so still above top of the range. And I guess, by midyear, barring unforeseen circumstances, we should be again well above. I was just -- I mean, obviously, you might have M&A opportunities. You could have adverse market development. But taking those out, I'm just wondering if you could share your thoughts on whether there's anything that would prevent you from continually repeating the buyback. I'm just -- is there anything in the sort of quality of solvency capital? Anything anywhere that might limit your thinking there? The secondary question was on the Asset Management division, some really strong inflows. I note your comments that October has done very well as well. Are there any large mandates in there? Or is there any reason we shouldn't sort of think that's actually a pretty sustainable level? And I guess, also in the past, you've given some guidance on performance fees in the pipeline. Are you able to -- and obviously, they were low this quarter. Are you able to hint at what we might expect toward those going forward?

Dieter F. Wemmer
CFO & Member of Management Board

Okay, Peter. Thank you. I'll take the first question and including the asset management. So share buyback, I think your calculation is pretty correct. I have also, on my end result, 222% post share buyback. So there is nothing which would stop us to do to continue our solvency management. However, I would not make now this to be a quarterly or half-year event. I think there could be also other business opportunities we could look at and the group will look at. So -- but it is -- we promised more dynamic in our capital management, and that is what we continue to do. And the liquidity comes along with the capital generation, as I mentioned already several times on various road shows, so we feel very comfortable that we can handle this. The inflows continue to be, at PIMCO, very broad. In particular, what is really nice when you look at the geographical diversification, it is really a global inflow, which makes it, I think, a very strong inflow. And therefore, we have not any lumpy one-offs in it. It's not -- obviously, the EUR 18 billion, EUR 17 billion is one cash [indiscernible]. So it is really broad and mainly retail funds. The performance fees, yes, they are quite varied. You have to remember that, therefore, it's a bit different with previous years. We had strong performance fees in prior years from carried interest from BRAVO I. That fund has to be paid back completely, so, therefore, it doesn't have -- almost no performance fees in the PIMCO calculation in Q3. And the next carried interest which will come due, I think, is starting in '19. '18 is -- maybe at the end of '18 but probably more 2019 is then Bravo II to be harvested. That means the PIMCO performance fees are all out of the normal mandates, those segregated accounts, hedge funds, et cetera. And Q3 is not a performance quarter to be calculated. So that is, in Q4, coming, and that is linked to their capability to produce alpha. So based on what they did so far in the 9 months on delivering alpha, that is certainly a positive indication. But as you know, alpha can also be a very volatile guess, so we have to wait until we complete the calculation in December and then we know how much performance fees we will see in the fourth quarter 2017. Did this answer your question, Peter?

Peter Eliot
Kepler Cheuvreux, Research Division

It did in great detail.

Operator

Our next question comes from James Shuck of Citi.

James Austin Shuck

Citigroup Inc, Research Division

Dieter, it's James Shuck from Citi here. I had 3 questions, if I may. The first one is around the capital generation in the quarter. So this is the third quarter we've seen 4 points of capital generation, net of dividends, the third quarter in a row. So kind of annualizing it around the 16-point level. I think previously your guidance had been 8 to 10 points net of dividends. So just thinking -- are we seeing a step change in that number? Or any one-offs we should be thinking about? The second question is around the P&C combined ratio. So I think -- I mean, my numbers were normalizing around 95%. Maybe there's a bit of kind of large losses and weather-type things that mean you're a little bit below that, I think, based on the comments you made. Dieter, you previously indicated that this was the division that potentially could surprise the greatest positively, I think. And I'm kind of just keen to understand where you think you are with the plan. Because the 94% by 2018, kind of starting point is a normalized level of 95%, obviously some headwinds here and there. So I just kind of -- are you running ahead of plan? Is it still the division that excites you the most? Because when we look at the sources of the beat so far, it seems to be coming from Asset Management and Life and Health rather than P&C. And then just my final question was actually on German Life and Health profitability. I'm kind of looking for a bit of help here. Because 2016 benefited from a high level of harvesting that boosted the investment margin. I think you'd indicated the underlying investment margin was around 95 basis points. Where do you see that margin kind of going to? Because I think it's around 80 annualizing at the moment year-to-date. And I get lost a bit around the profit -- the potential profits signature from the U.S. because a lot of the geographical improvement in Life and Health has come from the U.S., and obviously, you've seen very strong sales of fixed index annuities there in recent years. And I suspect the profit signature is quite front-end loaded. So as that falls away, I'm just interested to get some insights into the sustainability, particularly in the U.S., please.

Dieter F. Wemmer
CFO & Member of Management Board

Okay, James. I'd start with capital generation. Indeed, I think our -- in particular, when you look at our chart with the Solvency II waterfall, the business evolution, that means that it's a -- the difference between released capital and new consumed capital is currently a little bit stronger than we expected. We are also watching whether this is stable development over the quarter. And look, our additionally announced share buyback, and that we do it now after Q3, is also an expression of our confidence that we see the quarterly development of our solvency ratio into good faith. So I'm not sure that we are already ready to change the guidance. We -- give us more quarters to learn because you have also to remember that we are just in quarter 7 of the Wave 2. It just started 1/1/2016, so it is not yet a long learning. And also, our life books are still complicated beasts, which -- when you translate it into Solvency II terminology. So our comfort and confidence is high, but we are not yet changing the guidance. Let's put it this way and leave some work to do for Giulio.

Giulio Terzariol
Director

Yes. I can pick up the other 2 questions, the one on the combined ratio for P&C and also the one on the life profitability. For the combined ratio for P&C, there are 2 ways we can look at these numbers. First, if you take the combined ratio of the third quarter of 96.9%, as you see, we had a cat loss which was definitely more than what we usually expect, so you can definitely normalize that number by 2.2 percentage points. Then, on the other side, the runoff is a little bit higher so you can normalize also that number by 1.1 percentage points. So you end up somehow below the 96%. And then, as I said before, there is a lot of weather-related activities going on in the quarter. So when you also normalize for that, you get to a combined ratio which is definitely below 95%. And that's the reason why we are very comfortable that we are going to get to the 94%. If you go to the Page 14, by the way, you're going to see there is a table where there is 9-month results. On that table, when you look at the 95.4% combined ratio, that's somehow almost implying the normalized level of nat cats and the runoff that usually we would expect. So you're at 95.4% on a 9-month basis. And then, again, we had the issue that we have more weather-related losses and also large losses, so again, it doesn't take long to go below the 95% level. That's the reason why we feel we are really on track to get to the 94%. If you ask me, are we ahead of schedule, behind schedule? I would say this is a German company, so we are at schedule, and that's my view on the combined ratio for 2017 and what this means for 2018. On the life results, our investment margin for the quarter is 23 basis points, and this is pretty much the normalized level that you would expect. Indeed, we said it should be about 95 basis point on a full year level, so if you take the 23 basis points times 4, you get pretty much there. When you look at the investment margin in the previous quarter, they were higher than the 23 basis points. So I will say what you see right now is a sort of good indication of a normalized level. And from that point of view, you should expect this kind of performance also with some plus and minuses to come through in the future. On the U.S. business, I am not fully sure I share your view on the front-end loaded profit in Allianz Life. I was the CFO there for many years. I wouldn't say that. The profit emergence is just smooth across the duration of the policy. What is our expectation for Allianz Life? We expect to have an underlying performance which is still growing. Even if premiums are coming down, the book [value] is growing. The only thing to consider, this year, the profitability of Allianz Life is very strong also because the volatility is very low. And when you have such low volatility, then you get really too good performance also on the VA business, which is not a major business for Allianz Life. But we shouldn't forget we have EUR 30 billion of liability, and those EUR 30 billion liability are performing very nicely in this kind of environment. So the bottom line is the underlying performance is -- for Allianz Life is going to go up, and then there is always some plus or minus associated to some volatility. Does this answer your question?

James Austin Shuck
Citigroup Inc, Research Division

Yes, absolutely.

Operator

Our next question comes from Michael Huttner of JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I was tempted to ask just one, but now it's too tempting to ask more. But the main question is really what's your view -- both Dieter and Giulio, what's your view on disclosure? Are you happy to continue with this, what I think, is a very nice quarterly disclosure? Or would you move to -- like your peers, to something [indiscernible]. That would be my one question. The second...

Dieter F. Wemmer
CFO & Member of Management Board

Sorry, Michael. Michael, the line was -- is relatively poor. Could you please repeat the question? Thank you.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Sorry. Just what is your view on the topic of disclosure and -- quarterly disclosure and whether you're happy to continue with what you have now or whether you'd be looking to reduce it like some of your peers have done? The second question is your -- I know you're saying you can still improve. Can you actually say where you can improve? I can't see any significant areas of improvement. The small -- like maybe Brazil can improve, I don't know. Maybe -- you said the weather-related might be normalized, I don't know. But I can't see where you can improve anymore. There's no pockets of underperformance, and I just wondered if you can say where there's -- where you see any variances going forward. And the last question is a kind of fishing question. Inflation is picking, up. I don't know how you see that, but my feeling is that the reserve releases -- the very nice level of reserve releases we've seen might start coming down. And I just wondered what's your thoughts on that.

Giulio Terzariol
Director

On the disclosure?

Dieter F. Wemmer
CFO & Member of Management Board

That's your call. I am -- I have done my Q3.

Giulio Terzariol
Director

How we see that, we had some conversations here internally about whether we want to continue to do full disclosure for Q1 and Q3 or not. And at the end of the day, the decision has been that we are going to continue to do disclosures in Q1 and Q3. And to be perfectly blunt with you, one of the reasons why we decided to do that is also because you don't want to maybe decrease the level of disclosure just right when you have a new CFO coming up. The point is we should also get some sort of recognition if we continue to do this kind of disclosure that we are doing now and all other competitors are getting to much less disclosures. So if we are going to see that this is going to be appreciated by you or by the investors, we are going to be very happy to continue to provide quality information. But if we see that this is not the case, then, clearly, we are business people here and we are going to make a cost-benefit analysis and potentially change how we do things. But the idea is to continue to do it. And we believe that providing quality information to the investor community can be a value add, but we are going to see what the numbers are going to say. So that's on the disclosure. On the combined ratio, yes, indeed, we are doing very good. And I would say, there is maybe not a huge amount of improvement, but that is exactly the point. We just need a little bit to get to the 94%. Anyway, we have definitely pockets where we can get better. So just think about Latin America. There is still room for improvement. When we look at the different portfolios that we have in the different [areas], there are portfolios where we can get better. And the third level would be to work on the expense ratio. So when you start improving on some regions, when you start improving on some portfolio, when you get productivity improvement and potentially, you might see also great increases from the cat activity that we saw this quarter, I believe that we should be well positioned to get some additional improvement. And the last question was?

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Reserve releases.

Giulio Terzariol
Director

The reserve releases, I -- one of the good things -- one of the many good things that Dieter did is also to leave a very strong balance sheet. So not concerned about our ability to have also a healthy support from our balance sheet in the future. Maybe Dieter, you want to say something.

Dieter F. Wemmer
CFO & Member of Management Board

Yes. Well, actually, Michael, we -- I think that this is quarter number 54 of reserve releases, that is a pretty long track record. And I think we have managed, over this time, our reserves very well. And I think I can also say without giving our business secrets away, the balance sheet and reserve strength is, as of today, higher than the day when I started. And that is not going away in the next [6 weeks] I can tell you.

Giulio Terzariol
Director

On P&C, I would make one remark. We are not going to give individual countries and OEs, but I just discussed yesterday with my colleague, Axel Theis, who is responsible for the global P&C besides his geographical [call], he discussed with me a list of more than 100 larger and smaller portfolios where we have, behind each portfolio, action items. And that is the way how we manage our segment-based combined ratio performance. So therefore, I think we are well on track with our promises.

Operator

Our next question comes from Arjan van Veen from UBS.

Arjan van Veen
UBS Investment Bank, Research Division

Two questions, if I may. Firstly, on capital generation. Can you give a bit more color around the profile of the Life book in terms of the shift mix? Also, new business, you're shifting more to lower capital-intensive products you're releasing. Therefore, on the back book and whether that can accelerate. And particularly, when you look at your Solvency II cap gen disclosure, where your Life capital generation is running quite a bit ahead of the IFRS profit and whether we can kind of expect that to continue? And then just kind of a question on that point. It's coming through the own funds development rather than SCR, which -- so maybe just if you could explain that why we shouldn't be seeing SCR releases given that mix shift? And then the final question, just on the U.K. adverse large loss development, I think one of your peers saw something similar. So I'm just curious as to what that is and actions taken?

Dieter F. Wemmer
CFO & Member of Management Board

Sorry, I didn't get the last question. What was it?

Arjan van Veen
UBS Investment Bank, Research Division

The U.K. large loss development and then...

Dieter F. Wemmer
CFO & Member of Management Board

Okay, yes.

Giulio Terzariol

Okay. Maybe I can pick it up. On the capital generation, indeed, what you were referring to which is the release of capital coming from putting capital like business compared to the capital-intensive business we had in the past is coming through the SCR. So if you go to Page 9, you can see there is a minus EUR 0.2 billion of business evolution, which is exactly what you were referring to. So it's coming through the capital generation. Now I can give you a little bit an idea what we are talking about. We had, this quarter, EUR 12 billion of present value in the business premium. And I would tell you, this EUR 12 billion of present value in the business premium is more or less in line with the release of reserves that we have, broadly speaking. So it means if you take EUR 200 million, divide it by EUR 12 billion, you got to about 1.5% plus. And you could say this 1.5% plus is the difference between the capital consumption on the old business and the capital consumption that we have on the new business. And so that gives you a little bit idea what we see. Do we expect to see this also in the future? I would say, yes. Indeed, we had this business evolution also in the second quarter. So fundamentally, we should see this also playing around moving forward. Obviously, I always put a caveat there is -- they are complicated model, there is always potentially some noise. And also one thing to consider, the third quarter is a weaker quarter from a premium point of view compared to other quarters. So you might see depending on the premium products and depending on the quarter, you might see a little bit more of a positive business evolution or a little bit less. But fundamentally, this is the trend. On the U.K., yes, we saw large losses in the U.K. this quarter. So there's definitely something that has affected the performance, but we see also that especially on our property business, there are some challenges. And as Dieter was referring to, this would also be part of one of the portfolio where we're taking action so that we can have a better results as we go into next year.

Operator

Our next question comes from Thomas Seidl of Bernstein.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

First question on the ROE target, 12.4% it is now. My question is, what does it take you to get to the 13%? Is the EUR 2 billion buyback plus -- the earnings growth you're planning for next year already sufficient to get it to the 13%? Or is there anything else you're going to do capitalize to get to the 13%? Second question on Life, I mean, year-to-date operating profit at 84% versus midpoint full year guidance, Dieter, so what has surprised you over the last 9 months to have such a strong outperformance? Is there anything structural we should consider going forward? And the third question is on the P&C investment income side. Assets under management down, reinvestment rate below running rate, yet regular investment income even slightly up different from the Life side by the way, so what's going on? How is it possible to produce slightly increasing regular interest income in the P&C side with a falling asset base?

Dieter F. Wemmer
CFO & Member of Management Board

Okay, Thomas. I think the first 2 questions and then Giulio talks about the P&C investment income. The first question, how to get to the 13%. I will probably not answer to the details you would like to hear it because we are not doing now a forecast of our 2018 net income. I think you have to wait some time before we get there. And I only said that share buyback is certainly a measurement, which supports the stronger ROE, that is the only point I made and I hope that this sentence is correct actually. If my math is right, EUR 2 billion makes about 20, 25 basis points in our [indiscernible]. So on operating profit, we are, I think we had a very, very strong first 9 months, where the first 6 months contributed even stronger. I think EUR 2.5 billion in Q3 is in peer comparison, a very good number, maybe even stronger than our previous numbers in distance, but as absolutely number, of course, smaller. What did surprise ourself? I think that the ability of the Life results, and we had, just a second ago, a lot of debate about investment margin and is it moving up or down. I think that 2017 euro operating profit for a quarter was really de minimis real-life gains and actually, a weaker dollar because, although Giulio is coming from there, but he's overthinking in dollar. Actually, the average investment margin drops when the dollar gets weaker because we have the highest investment margin in the U.S., and it's a strong contributor, that means the average investment margin for the portfolio is, as a number, shrinking when the dollar is coming in weaker. So I think all this included, the third quarter Life result is, to me, a real evidence that we have turned the Life business into a very positive direction. And the other surprise in the operating profit is obviously, this is a stunning development at the PIMCO inflows and TGI also nicely holding up, I think even optimistic guys, and I was also always very positive about PIMCO's capability. But to assume that such big numbers that was certainly out of expectation naturally. I think what we are fully aware is that the group is very robust with its 3 segments and that we play very well together as a team, and that is being shown in the numbers.

Giulio Terzariol

Yes. On the operating investment results and the stability that we see. Clearly, when you look at the current yield, this is coming down a little bit. There was 2 basis points. If you translate that into an operating profit for the quarter, there would be something about EUR 20 million. But on the other side, we're getting more yield from real assets especially from equity, so that's the point where we are able to compensate the decrease in the interest income through other sources of regular income like kind of regular income like dividend. But in general, we are pushing more the alternative assets where we can get a yield pickup. That's the reason why you see the stability on the interest and similar income. You don't see much of a drop in operating profit performance from an investment point of view.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

May I follow up on the capital side. So I appreciate of course you don't want to discuss next year earnings, but why EUR 2 billion buy because I think in the past, you often discussed that you need to deploy more than EUR 2 billion capital management to get to the 13%, now you're doing EUR 2 billion. Why EUR 2 billion?

Dieter F. Wemmer
CFO & Member of Management Board

Why EUR 2 billion? First of all, I would say, we adjust in the final completion of the EUR 3 billion share buyback, which we announced in February. So adjust on an automatic buying program with one of the large banks, I think it is being finished mid-December. So obviously, you don't start the new share buyback program in the week before Christmas. That is a pretty useless time of the year for share buyback programs. So it is a 2018 event. I think the EUR 2 billion is a strong signal that we can do more in the year than the EUR 3 billion. But, as I said before, we are not putting it on some evergreen automatic formula that you can calculate at once what announcement will be. I think capital management will always take into account where the company is standing, what are the opportunities in the market and what is the specific situation, how we see the foreseeable future developing. All this comes true together and that leads to our decision of the EUR 2 billion.

Operator

Our next question comes from Paul De'Ath of RBC Capital Markets.

Paul De'Ath
RBC Capital Markets, LLC, Research Division

A couple of questions please on P&C. So the expense ratio, you've mentioned, needs some improvement still, and it's been a couple of quarters. Now that you've been talked about -- you're probably disappointed with -- and what actions are you actually taking to improve that? And when can we see that benefit coming through? Would it be kind of towards the end of next year or sooner than that? And secondly, on the hurricanes and the ongoing impact from that. So have you seen any change in the pricing environment for AGCS? And linked to that, what's your view on reinsurance and prices going up there to reduce your reinsurance cover, if prices increased significantly?

Giulio Terzariol

Okay. So on the P&C expense ratio. First of all, yes, there is no doubt that we need to do better on that. We have started taking action already this year, for example, I'm not sure you remember, the first quarter where we had statutory costs at AGCS, and we also look in other entities where we can do to get to a better expense ratio. So we are putting strong focus in the current planning around into the topics specifically on the expenses. And this is also going to be something which is on my personal agenda as we move into 2018. So there is definitely a big portion we want to see the expense ratio to move downwards, and I don't think we are going to be happy we see in the future, the continuation of what we had in the last years. On the hurricanes, I will say, it's too early now to see when -- that see anything on the pricing side. You can speculate about what is going to happen. And this morning, Dieter was really clear anyway on the reinsurance side. We didn't have a lot of retrocession to reinsurance companies, so we will expect anyway to get rate increases coming to us. What is going to happen, the primary markets, it's a little bit too early to speculate on that. In theory, one should expect rather increases than not something different, but again, we need to wait to see how the whole thing is going to play out.

Operator

Our next question comes from Andrew Ritchie of Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Just a question on the capital-efficient Life products profitability. I'm assuming, but it seems to the case if I look at the U.S. Life profit and the capital-efficient profit, the capital-efficient products outside the U.S. are still loss making, I guess, because of new business strain. Can you update us on when you think those products will start to be breakeven and start to contribute profit? So that's the capital-efficient outside the U.S. The second question, Italy. Italy Life is making 7% ROE. You make a statement in the comments that you're still confident that will be a 10% ROE in 2018. Is that driven by the numerator or denominator? And I guess final comment, it sounds like you don't believe this is the moment where AGCS switches from a soft market strategy to a hard market strategy or is that possibly the case? Obviously, you have been cautious in that division. It doesn't sound like you're thinking the market may change to give you a lot of new opportunities there.

Dieter F. Wemmer
CFO & Member of Management Board

Okay, so starting from the capital Life products, your questions pretty much referring to Germany. And I will say that right now, depending on the level of production, we are kind of sometimes getting to the positive, sometimes it could be a small negative. So I believe fundamentally, we are very close to get to a stable breakeven. So it really depends on the strength of the production because, as you said, there is a sort of strain that we get into our IFRS numbers. So that's on the...

Andrew James Ritchie
Autonomous Research LLP

Would you expect it to be profitable next year?

Dieter F. Wemmer
CFO & Member of Management Board

I would say, maybe next year could still be swinging depending on the quarter between plus or minus, but then I would expect this to become profitable starting 2019. But next year, it could still be in between depending on the level of production.

Andrew James Ritchie
Autonomous Research LLP

And could you clarify what the loss is at the minute?

Dieter F. Wemmer
CFO & Member of Management Board

What the loss is, it's called, the capital Life...

Andrew James Ritchie
Autonomous Research LLP

The loss, the amount of loss.

Dieter F. Wemmer
CFO & Member of Management Board

Yes, it's very moderate. It's EUR 13 million, 1-3. So as we -- as I told you, swinging from plus to minus. On ROE for Italy, it's both, it's both the denominator, it's both denominators. So when you look at the ROE of Italy, which is about 7.5%, consider this is annualized and this includes also the -- we got the hit on Atlanta in the first part of the year. So if you normalize for that, the ROE will be automatically normalized 9%. Then you would expect, anyway, some improvement and then we're also going to work on the capital of the company. But again, read the number right now, more as 9% when you adjust for the one-off and then you're really close to get to 10%. And the last question, I didn't get. So you need to repeat the last question.

Giulio Terzariol

Well, I can. Look, I think all this pricing changes in the short term, we will certainly see that people who urgently needs capital or need to replenish reinsurance coverage, they probably pay more. What is really the midterm pricing change we will see, in which areas, which customer groups and how broadly will it affect the market. If you all believe that we are too conservative here, then it is an additional upside for our business.

Operator

Our next question comes from Nick Holmes of Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

First question is on U.S. Life. We need to ask, is your hybrid variable annuity, basically taking over from the fixed indexed annuity. If you can basically remind us of your strategy there and also your view of the DOL? Second question is on unit-linked growth. And how sustainable do you think this is? And the third question is on Italian P&C. You say the runoff is extraordinarily high. I wondered, do you think next year, we should see a correction to this?

Dieter F. Wemmer
CFO & Member of Management Board

Okay. So starting from the Life business and starting from the hybrid VA versus the FIA. Now the [indiscernible] is not taking away because the hybrid VA goes through the security channel and the regular FIA goes also through the security channel that is mostly on the agency channel, if you want. So I would not say that there is a cannibalization between the 2. On the DOL has been delayed until 2019. So I would tell you, the DOL has been somehow inspecting us in the first part of the year, also because we had to do all the preparation to get there, instead of maybe doing other things. But right now, the DOL is not having a major impact on what we are doing. On the unit-linked and the growth in unit-linked, I would say, fundamentally, yes, the trend line is sustainable. But, clearly, depending on the market condition, you might have some volatility. So I think we had the distribution. We have all it takes to have a story, continuous story on the unit-linked business, but absolutely, if we have a big chunk in the market, you're going to see volatility. There is no doubt about that. And with respect to the runoff in Italy, yes, I think the runoff in Italy has been consistently very healthy. It's going to flatten down a little bit over time. I will say, yes, most likely, we're going to see less positive runoff coming from Italy for next year, but we still expect the performance of Italy to be very, very good and very healthy.

Nick Holmes
Societe Generale Cross Asset Research

Can you quantify the Italian runoff? Can you give us any sort of sense of the size of the impact on your overall runoff?

Dieter F. Wemmer
CFO & Member of Management Board

I have memory losses right now, so I don't think I can quantify that now.

Operator

Our next question comes from Vinit Malhotra from Mediobanca.

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

Just one thing -- one factorial check please, the AGCS, which is tend to be very volatile, of course, ex the NatCat is around an 88% combined just on Slide 15. Is it just an assumption that a lot of the runoff comes from here? So that's a quick fact check question. The second question is on the -- just how you view the emerging market as investment opportunities or what have you because there's been a lot of volatility in the currencies of some of these markets, including areas where you are exposed to, which is Turkey and Brazil. Do you intend to hedge or how do you think about that? And just last, third question, if I may. There's been a lot of chat around, in the Asset Management world, around performance-based fees, so not performance fee, the performance-based fees and have heard a story that AGI also has 2 or 3 funds being tested. How do you think of this trend also from a broader PIMCO and other -- any other perspective that you can offer here?

Dieter F. Wemmer
CFO & Member of Management Board

Well, maybe I start here. The AGCS is clearly a contributor for the runoff in the third quarter. And AGCS was always and also in past quarters and years a reliable contributor to run off results. The investment opportunities in emerging markets, that is -- you mean buying businesses, you don't mean investing in bonds, Vinit.

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

Well, at the moment, to be just safe, I do mean bonds and other exposure. Buying companies is something I don't want to talk about...

Dieter F. Wemmer
CFO & Member of Management Board

Okay. Because I -- you were a bit -- I think on this one. We have in total, at the moment, EUR 7.6 billion of emerging market bonds and that is a bit -- in some, that is our exposure after hedging. So in -- on nominal, it would be a bit bigger. I think it is a long discussion, I think, as involved in many other places. Do the additional coupon pay for the FX risk? That is the $50,000 or $60,000 question to discuss. We have quarters where it didn't work out in other quarters and in particular [indiscernible] of emerging markets. So you have to be a bit flexible and practical on this question, and we have with PIMCO, I think, an experienced bond manager in this one also, PIMCO, is not always getting it right and there are also different experience here. But altogether, we are not big in running the FX without hedging. The Asset Management question on the performance basically, yes, you are right. Allianz Global Investors is testing it in some smaller funds. I think it is more a pilot in the sense. PIMCO, I think, is just very simple thing. We have a strong and long track record on alpha, and when you want our funds, you pay the fee for it. And I think on income funds maybe the track records are bit more stable. The active equity managers have also deal with this question, how they get along with this. The pressure from passive is in this category much bigger. I think, if you are a good alpha producer, you should also get your fee for it. And whether the performance-based fees are the answer to deal with the passive challenge, I personally do not believe it.

Operator

Our next question comes from Farooq Hanif of Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

Just on the new business margin in the U.S. How much of the improvement has been macro-driven? You spoke about volatility being low. And how much is kind of structural mix on the new hybrid VA product? And presumably, if long-term yields go up, that will improve the margin. Secondly, going back to Italy in Non-Life. Could you just clarify kind of what is driving the high reserve releases of the industry you've seen? And kind of what is likely just a run out? And then on pricing, is it that motor is stable, and the nonmotor is positive or is it that you expect motor actually to itself to start doing positive? And lastly, going back to some of the questions on the attritional loss ratio. Could you sort of quantify the level of kind of large losses versus what you had expected to be a more normal level?

Dieter F. Wemmer
CFO & Member of Management Board

Yes. So may be on the U.S.A. When you look at the development quarter over last year quarter and there is an improvement of about 2%. I would say, a lot of that improvement was driven by the economic. Now the other point is Allianz Life has been keeping the pricing discipline through time and so that's where we see that other [indiscernible] as the spreads are narrowing. We are kind of continuing to price aggressively where Allianz Life is always going to adjust the price. The point is in the new business value, you are going to see our new business margin, you see more of the impact coming from the movement of interest rate, but then there is a consideration, which is related to the credit spread narrowing and widening. And that's where -- this is more an IRR consideration, and that's where Allianz Life is very diligent at keeping the pricing and sacrificing on volume. And this translates into then the value on a new business that you saw. On the runoff for Italy and where is this coming from. Again, I don't like to go too much into the details of what is generating that runoff. The point is it's been relatively stable over the last years, but, as I said before, eventually we are going to -- need to see healthy runoff from Italy, but is now going to be as significant as there are no [indiscernible] seen to date. On the pricing, we think that there is more stability coming to price in Italy. So the situation was definitely more challenging a few quarters ago. And now we see the situation is getting more manageable. Indeed, also when we see the performance of Allianz Italy compared to our plan, we see that the performance is better than what we were anticipating. So that is also a sign of stability. And on the attritional loss ratio, we do our internal calculation, but the different -- the reason why we are not sharing with you those numbers regarding the large losses, or the weather-related loss is very simple. On the NatCat, that's pretty much of a, if you want , very clear definition. On the other one, it's a little bit of a local definition. So the number, the quarterly number can be a little bit less compared to the very [indiscernible] standard definition used at the group level for the NatCat. That's the reason why we don't share those numbers. But I can tell you that the gap between what we see this quarter and what is a normalized level is significant enough that we can be very confident to tell you, this has an impact on the numbers.

Operator

Our next question comes from William Hawkins of KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Giulio, welcome to the frontline. Hope you are enjoying yourself.

Giulio Terzariol

Thanks.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

So following up slightly on some of the other questions. The Life 10% ROE target at the end of next year. Can you just remind us briefly how you think you're going to get there? Because, I know, you said a bit Italy, but from my count there's still 5 pretty large operating entities that are still below where you want it to be. So this isn't just one big market, there's a few big markets that need addressing. And can you try and give us a bit of a balance between again, 23 percentage points is quite a lot. How much of that is going to come from earnings? I assume in aggregate not very much, understanding what you said about Italy. And how much from -- a question on that. Could we have a big step forward at the end of this year, given the particular capital management measures are sort of the full year issues? And then secondly, much of your program so far, much of your successful earnings have been focusing very much on getting great margins, we've seen great combined ratios, great new business margins. As we go into 2018 and 2019, is there any feeling that Allianz wants to be rebalancing back a bit more towards volume growth and capitalizing on your superior margin performance? And then lastly, to the extent that those are quite medium term questions, very short term. There's been a bit of sort of cautious commentary coming out of Allianz about the weather and natural events in the fourth quarter as well, German weather, wildfires in the U.S. and that kind of thing. How conservative should we be about the events that we've seen month-to-date in terms of how they're affecting you -- sorry, quarter-to-date?

Dieter F. Wemmer
CFO & Member of Management Board

May be I start with the ROE of how we get to the 100% because on the group level, on the segment level, we are already over the 10%. How we get to 100% or almost 100% of capital with a 10% ROE. If you take the quarter numbers, you can adjust for Italy, we are already 90%. And there, we know, there are a couple other entities like Switzerland, which is not a 10%, but we know that we're going to bring Switzerland up to 10%. So we feel very confident that we are going to get very close to 100%. It's not necessarily to be 100%, but it's going to be very close. There is just one caveat. Clearly, if next year, we have a lot of volatility in the financial market, maybe in that year, we might miss the 10%. But on a sustainable level, we think that we are on good track. And keep in mind that just adjusting for Italy, we are a 90% of capital with a 10% ROE. On the new business margin, yes, you are raising good points. We are not necessarily thinking to rebalancing from margin to volume, but we feel confident with the profitability. And at this point in time, we are not going to push for higher new business margin or higher profitability, we would like to see volume come in the level of profitability that we have right now, but you're touching the right point. At this level, profitability is more about pushing the growth instead of pushing further the new business margin. On the fourth quarter or October events, yes, we had a wildfire in California. We had also a few storms here in Germany. I can give you a little bit of sense about the wildfire in California. We expect that the number could be about EUR 100 million and also the cat losses in Germany, they could also grow in the EUR 100 million direction. So the October month has been definitely challenging from that point of view. And you can take this as information that you may use to do your projections, but that's also the reason why we say we said that we are going to be at the upper end of the range and since we saw this was in August, and since we saw a lot of activity in the third quarter, and we see also activity in the month of October, now we are saying that we are going to be in the upper half but not to the upper end of the range. This is part of our consideration. And so this is for your reference. And then you had another question that [indiscernible] I think was your second question, but I didn't get it.

Operator

[Operator Instructions] We will take our next question from Michael Haid from Commerzbank.

Michael Hermann Haid
Commerzbank AG, Research Division

Two questions. One, again, on the SCR, the minus 0.2 business evolution. My understanding is that all segments play a role here and could you provide kind of a breakdown, first of all, breakdown between P&C and Life and Health, how this minus 0.2 comes as a result? And then maybe also what is the gross and -- gross capital changes with respect to traditional products with guarantees and the capital-efficient product. I understand that you don't want to make a forward statement, but just for this minus 0.2. Second question with respect to retro. When I look like your losses from the hurricanes, then they are below what you said the maximum loss, which you could incur. That said, and I assume that you have mostly excess of loss retro protection. Does this mean that you have no recovery from retro in the third quarter for the hurricanes?

Dieter F. Wemmer
CFO & Member of Management Board

Michael, it's Dieter. Let me start with the business evolution. That is all Life because our P&C growth has resulted more or less in a flat development. So for the fixed number, as the Life number and obviously, Asset Management has nil and it's almost nil. And P&C is also very flat. I think, so our retro number is really very low, we have left around EUR 50 million of losses seeded in the [indiscernible] and that is actually on our Caribbean cover to be very much in detail. But that means also, as a message, we have still full reinsurance cover if any further events coming up. So we did by no means, we'll run out of coverage for the rest of the season. We are not paying any reinstatement premiums, and we also don't need to knock at -- urgently at doors of reinsurers and ask for new coverage, which is that knocking is at the moment a bit more expensive. But therefore, we wait very relaxed on the renewals. I think the cat covers are usually done April 1, so let's see where the market is when we discuss April 1 renewals.

Michael Hermann Haid
Commerzbank AG, Research Division

Coming back to the minus 0.2 business evolution, so this is all basically Life and Health and is it in the net figure? It is in the net figure?

Dieter F. Wemmer
CFO & Member of Management Board

It is a net figure. You want now to break it down in to risk capital of the new business versus the lease capital of the [indiscernible]. That is a bit more tricky. Yes, the in-force number is a bit bigger. The new business is, of course, in year 1, not so consuming because the policies have first to grow and with the size of a good investment income, therefore, it is, yes, I would say, it is maybe EUR 100 million more of gross versus the net, to make it very simple.

Oliver Schmidt
Head of Investor Relations

Okay. So we're almost through with our time. So we have -- we've time to take one last question, if there's any, please.

Operator

[Operator Instructions] Okay. There are no further questions. So I'd like to turn over back to our hosts.

Oliver Schmidt
Head of Investor Relations

Thanks, Paul. Thanks, everybody, for joining the call. Thanks for your questions. And we wish you a very nice and pleasant weekend.

Dieter F. Wemmer
CFO & Member of Management Board

And also for me, a goodbye, and I will hope we see some of you in London or at other opportunities. Otherwise, I really want to thank you for 20 quarters of very interesting discussions after our quarterly result and also we are very grateful that you are all following our company and dialing in every quarter, following our announcement. So thank you and goodbye.

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