S&P Global
Market Intelligence

Allianz SE XTRA:ALV

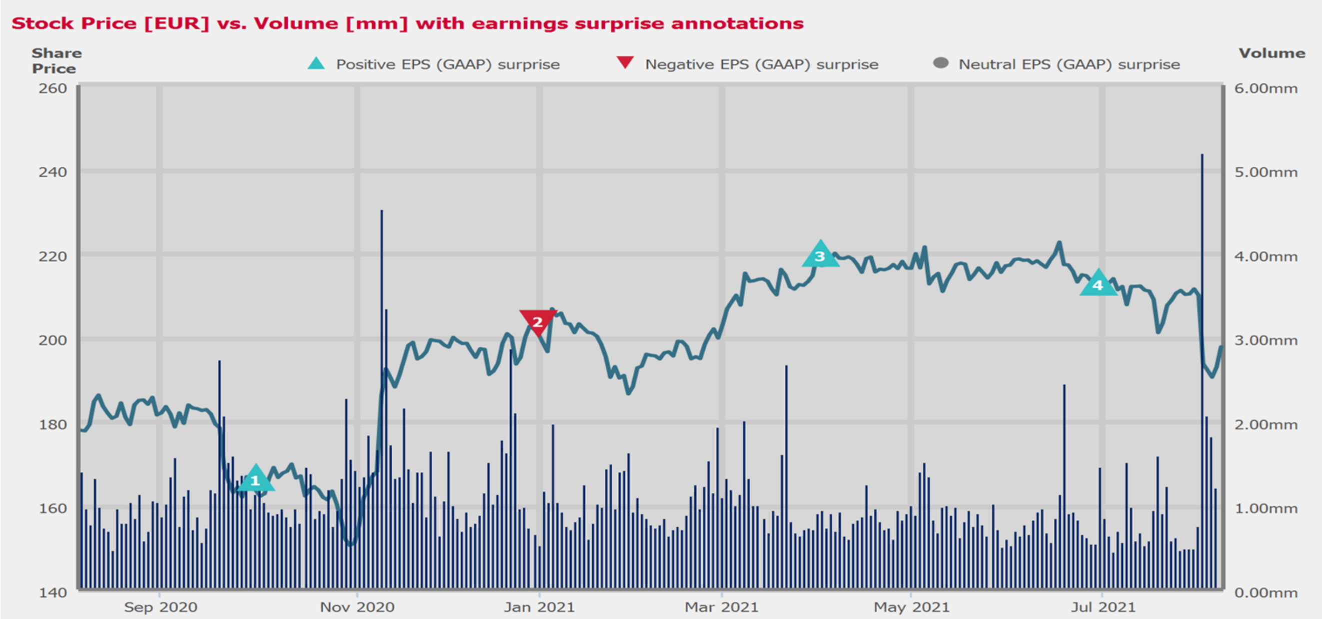
FQ2 2021 Earnings Call Transcripts

Friday, August 06, 2021 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	4.33	5.22	▲20.55	4.18	20.31	NA
Revenue (mm)	32792.50	34349.00	▲4.75	NA	142925.15	NA

Currency: EUR
Consensus as of Aug-06-2021 5:31 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	4.04	4.89	▲1 21.04 %
FQ4 2020	4.64	4.39	▼2 (5.39 %)
FQ1 2021	5.18	6.20	▲3 19.69 %
FQ2 2021	4.33	5.22	▲4 20.55 %

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Call Participants

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Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results of the second quarter 2021. For your information, this conference call is being streamed live on the allianz.com and YouTube. A recording will be made available shortly after the call.

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

Oliver Schmidt
Head of Investor Relations

Thank you, Tracy. Yes, good afternoon from my side as well, and welcome to our conference call. Today, I'm joined by our CEO, Oliver Bäte; and our CFO, Giulio Terzariol. As always, Giulio will guide you through the details of the quarter. But before that, Oliver is going to share some personal thoughts with you. Oliver, over to you.

Oliver Bäte
Chairman of the Management Board & CEO

Yes. Good morning, good afternoon, good evening, wherever you are. Thank you for joining us for this call. This has been an extraordinary quarter, actually an extraordinary weekend and extraordinary day today. And I wanted to speak directly to you as our investors and our analysts and share a view on the health and the performance of our company as we stand today.

As you've seen, Allianz reported very strong results that really reflect the resilience and power in delivering our strategy. And I think it's very important to note that this is not a one-off, that is the outcome of continuous investment in resilience and earnings power that you are seeing, and I'll talk about the drivers of that in a second.

Demand for our products, if you've seen, and services, gross income, profit flow, cash flow are on the rise everywhere. And I think that's very, very important to understand as is customer and employee satisfaction, very important. And as you may remember, November 2018, we said we're not just targeting financial outcomes, they are the result of our unwavering focus on our customers and employees, their needs and their ability to deliver.

Now the last 18 months have been incredibly tough period for our customers, you all, you're also customers, and our employees, and throughout, we have tried to dedicate ourselves to your success and your well-being. And let me just give you a couple of examples.

In the Property Casualty insurance, we have been really, really, really hit as an industry with substantial natural catastrophes, less individual, very large ones like we had them a few years ago, but now what we're seeing out of climate change, the number and severity are increasing across the board. Second, the demand for our Life and Health product is extremely strong, dynamic. Revenue growth is seen everywhere and the margins are great.

If you had asked me 3 years ago, can we really, given the interest rates that we are operating at today, not the one we are envisioning in November of 2018, get the new business margin above 3%. That is coming out of really new products that are protection-oriented and they have the right balance between what customers need and want and get us benefits and the returns for shareholders, I would have found that a tall order. Today is the reality, even in markets that are structurally challenged, like, for example, France, we've been able to innovate and come up with products that are outstanding in demand and in margin.

Our Asset Management businesses continue to grow and reached again a new historic high, not just in terms of assets under management, also in profitability. So we have momentum in all our business segments. And beyond that, our capital position remains strong. People focus a lot on Solvency II, and I think that's totally fine. By the way, we called the RT1 bond early in order to get flexibility, made a lot of money on doing that. Despite that, we had 206, well above the 180 target and what we really need to operate.

And cash flow generation from the businesses to the holding is extremely strong. So that's why we've moved the outlook to the upper half of our target range. And that's why we've also been honoring our promise to do the second half our

EUR 1.5 billion share buyback program that because of COVID we need to pause last year, and we are delivering on our promise. And we will continue to deliver on our promises to you, our customers, and our employees.

Now Giulio, our CFO, will speak to you in detail about these outcomes. But before we move into the numerical discussion, and I know you need to focus on all the numerics to think about what the valuation points are, I'd like to address 3 topics.

The first one is customers. I want to address, for example, the storms and the floods in Europe and express our solidarity and support with the people that have been affected. This is not a cynical move on, oh, now we're going to make more money, sell more flood cover at higher prices, that really highlights the role our industry and Allianz particularly play in helping to rebuild homes, helping to rebuild the lives of our customers and keep on highlighting to policymakers that climate change is not a problem in terms of the warmth of the air, it is actually affecting our lives in a very negative way.

Second, regarding the support of our employees, Allianz is doing a lot to continue to support our people in under COVID restrictions. Remember, Europe may be doing better. Many parts of Asia are not yet out of the woods and are suffering. Africans are suffering and we need to continue to put our emphasis on also making vaccination efforts much more successful there. And we need to make sure that in Europe, we don't stop the vaccination efforts. Allianz is actually a part of a corporate participation in the federal vaccination campaign and we need to continue.

Last, of course, I would like to provide you with a brief update on the context and perspective related to the disclosure earlier this week regarding the reassessment of risk related to the AGI US Structured Alpha funds. As mentioned in our release, these things are highly sensitive from a legal standpoint. So there's very limited things that we can say about this at this point in time. I'm sorry for that, but you all know how U.S. litigation works.

Now I can spend a lot of time in terms of what we're doing the flood victims in Europe. By the way, it's not just Germany, it's also in the Benelux countries. We've had storms earlier this year, particularly in June, in all parts of Europe, for example, in France and in Eastern Europe. We're doing our best to support our clients wherever we can, not just by the way by paying money, but getting drying machines, organizing logistics, bringing things that really help people deal with that.

The second part, I've just mentioned, the vaccinations, pretty pleased. I say that also in terms of you potentially being clients, make sure the only answer to COVID is not lockdowns, it's not policy, it is about getting vaccinated. And we need to convince the people that have doubts that this is the only way out. It is the only way out. At least that's what we believe. And think about it. In Allianz, alone in Germany, we have been given more than 23,000 COVID shots in terms of first and second vaccinations to our people. That is including their relatives and we believe that is what has to be happening. If you think about the fact that we have about 45,000 people in Germany, that's a pretty encouraging rate of things that we have done.

Now third, and you're probably waiting for this, I want to address the disclosure in terms of what we actively announced Sunday evening after a reassessment of risks related to the Structured Alpha funds at AGI US LLC. Trust me, this was not an easy week for us, and it was not an easy decision. We really, really moved and spent hours in the Board of Management. We consulted with our Supervisory Board. But because of new information obtained on very short notice at the end of the week with respect of the pending regulatory proceedings, particularly the involvement of the US DOJ and our reviews, we had to reassess the risk associated with the Structured Alpha funds.

In light of the investigation and litigation, please do understand I cannot go into details, but rest assured that the underlying issues will be thoroughly reviewed and we would like to address them in due course. And any conduct by individual employees that was not in line with our ethics, our standards, will not be tolerated and would trigger consequences for those who potentially violated them.

This reassessment of risk caused us to publish our ad hoc disclosure, which you have seen on Sunday evening. For the non-Germans, you need to understand, in difference to the U.S., we have to go out immediately whenever we hear something that may be material for a purchasing or a sale decision. And we recognize that taking the step on a weekend had a considerable impact on our share price. But we have to be absolutely committed to being transparent with our shareholders and not just follow the rule of law by line, but also in its heart. And we made this disclosure, therefore, in accordance with the applicable laws.

Particularly here in Germany, given what has always been happening in the last few years, a credible early communication is fully in line with our principle of transparency in our culture. It's not just the legal necessity, and our decision to inform the market immediately about important developments, therefore, was both legally driven, but also reflective of what we would like to stand for. Now please recognize that it is in the interest of our shareholders and the company to respect the integrity of the reviews and the process of these authorities. We are not just fully cooperating, we have actively reached out and partnered with the authorities in charge of the Structured Alpha investigations, the DOJ and the SEC.

And with respect to our civil proceedings, which we disclosed early last year, we will continue to fend the interest of our shareholders with both discipline and vigor. Now it is important to put our most recent disclosure, however, into perspective, especially in the context of Allianz, very strong global operations and our strong track record. First, we want to underscore that this outcome is not reflective of our ethos, of our culture and certainly not of our performance. As investors ourselves, as one of the largest in the world, we understand our clients' displeasure, what happened around the Structured Alpha investment and for some that may have not met their expectations on performance. As a company that prizes integrity, we do not measure the impact of this outcome in terms of financial terms alone. We are clear that confidence and trust are affected and that it is paramount for us to restore that as quickly as possible.

In light of the pending investigation and litigation, again, please understand that I cannot go into details, but be rest assured that the underlying issues will be thoroughly reviewed again in full cooperation with the authorities. And last but not least, I would like to say that we are above all a meritocratic organization that will take every opportunity to learn from every lesson that can be, and improve further in terms of what we do.

Now we also want to say that what has happened in the Structured Alpha sphere is no indication of the performance, the ethics or anything that happens at Allianz Global Investors. It's a very smart part -- a very specialized part of what Allianz Global Investors does. And they have made enormous programs since the fall and winter of 2019 when we decided together with our Board here that we want to overhaul the structure, organization and leadership team of Allianz Global Investors. The success has been extremely strong and that starts with investment performance that is now so much better than it was -- what it was in prior years; 77% now outperform in terms of 1-year views, 69% in 3 years, 48% of the mutual funds are now in the top decile of the 3-year Morningstar peer ranking, numbers that we hadn't seen for a long time before. From that flowed much better net inflows, and from those we have seen very strong financial results. You see that -- saw that this quarter, and we believe it's going to continue into the future.

And we want to make sure that everybody understands Allianz Global Investors is core to what we do, our activities in the U.S. are core to what we do. And that then leads me to the last comment in this regard. Asset Management is a core pillar of what Allianz does, a core pillar of our business model and a core part of our value proposition to customers. In fact, life insurance offerings and asset management offerings are integrated and are converging. Whether you today buy a product that is called life insurance or asset management, our product is often nomenclature and we really believe we are uniquely positioned to get the best out of combining both. And we're probably the only shop in our industry that is so strong, both in life and asset management.

With that, I'm basically through with my comments. The numbers speak for themselves. I think we have the confidence to move forward. And when people say, well, are you not afraid about the potential financial impact? Yes, it will leave a scar on our skin, but it will make us stronger. Just think about the numbers, the next 3 years at a minimum, we should be generating every year about EUR 9 billion plus, growing 5% earnings. We'll talk about that at the end of the year, but that's what the market says, that gives us EUR 27 billion of cash, lots of buffer, lots of ability to face not just the challenges from this one, but be able to invest in our future, to invest in our people, to invest in our clients and to invest in you.

And with that, I'll hand over to Giulio. Thank you.

Giulio Terzariol
CFO & Member of the Management Board

Thank you, Oliver, and good afternoon to everybody. As Oliver said, the numbers are speaking for themselves, but we'll still go through the numbers and explain the numbers. So if we go to Page 3. As you can see, the results for the 6 months have been very strong with a good revenue growth of 5%. Also, the operating profit is EUR 6.7 billion level, which is not only better than the last year, but also is significantly ahead of our outlook of EUR 12 billion divided by 2. And that's also the reason why we are upgrading our guidance for the 2020 -- for 2021.

The shareholder net income is very strong at EUR 4.8 billion. And then when you look at the contribution by segment, you can see that all segments did a good job delivering operating profit and also delivering strong operational KPIs. The combined ratio in Property-Casualty is much improved compared to last year, and this is basically in line with our 93 target. And new business margin is at the target level of 3% and the value new business is with EUR 1.2 billion, very good. And then the cost/income ratio is below the 60% level with inflow number of about EUR 65 billion for the 6 months. So very strong operational KPIs, which are supporting clearly the operating profit delivery.

If you go to Page 5, the second quarter is basically a representation what happened during the 6 months. As you remember, we had a very good first quarter. The second quarter has been basically at the same level like the first quarter. Indeed, in the second quarter, we can even see an improvement on the revenue side. As you see, our revenue grew by 12.6% and those segments have contributed to the growth of the revenue. This applies to the Life/Health business to asset management, but also to Property-Casualty.

If you remember, in the first quarter, the growth in Property-Casualty was slightly negative. But now you can see a good plus of 3.6%. The operating profit stands at EUR 3.3 billion. So that's pretty much consistent with the operating profit that we had also in Q1. And then the net income with EUR 2.2 billion is a very solid number. And also in the second quarter, you can see that the operational KPIs pretty strong, but I'm going to speak about those KPIs more in details in the rest of the presentation.

At Page 7, the solvency ratio is solid at 206%. We have a drop of about 4 percentage points compared to the level of March, but that's also expected because we performed repurchase of EUR 1.6 billion of hybrid. Otherwise, as we're going to see in a second, the operating capital generation is very, very strong and the sensitivities are more or less in line with the sensitivity that we showed to you at the end of -- for the end of March.

Now if we go to Page 9, and that's a good news. The operating capital generation is coming pretty strong. As you remember, we had a first quarter with a capital generation of about 4% in the second quarter. When you remove from the capital generation, the dividend and the taxes, we are at 3%. We see now little bit more growth coming in the Property-Casualty side compared to what we had in Q1. So this is clearly taking down a little bit the operating profit generation, capital generation.

But overall, we are at 7% for the 6 months. And we have therefore also upgraded our guidance for the year to a number which is in excess of 10 percentage points of capital generation. Otherwise, under capital management action, you can see the impact of the dividend. The normal regular accrual of the dividend. And also, you can see the impact of having repurchase EUR 1.6 billion of hybrid. So all in all, this leads to a comfortable solvency ratio of 206%.

Now coming to the segments. Starting from P&C, starting from the growth in P&C. We have achieved an internal growth of 3.6%. You can see that we've had a nice development in Germany. We had a nice development in Australia, also in Eastern Europe. And then clearly, you can see a strong recovery at Allianz Partners. Obviously, Allianz Partners was affected last year by the COVID situation, especially travel.

Now we see a recovery. We are not at the level of 2019 yet, but especially in the United States, we are seeing a recovery, so we expect to see premium growth also in the remainder of the year. In the entities where we see a negative growth, this is driven either by the underwriting actions that we have undertaken in the course of 2020. This applies to AGCS. So you can still see the effect on the underwriting actions that have been taken throughout the course of 2020 also in the second part of 2020.

And then in other cases like Spain or to certain degree also the U.K. or France, we are really focused on keeping profitability. So sometimes, we see there is some pressure on rates. We try to keep our profitability and preserve the margin. All in all, it's a good picture. And then also when you look at the -- price momentum is stable. So for the time being, we also see that the prices that we are able to get in the market are also consistent with the loss trend that we are experiencing. So a good picture for our underwriting performance of -- to date.

Page 13. The operating profit has increased by about EUR 200 million. And that's driven by the improvement in the combined ratio. Here, you can see there are a lot of moving pieces. On the one side, the natural catastrophe load is significantly higher compared to last year. The expense ratio is also higher, but you might remember that last year, we had a one-off pushing down policy, one-off pushing down expense ratio for the quarter. But when you look at the 26.4% for the second quarter, it's definitely better compared to the 27% that we had for the full year 2020.

And then you can see that in the second quarter this year, the runoff has been a little bit more elevated, 4%. When you look at the 6 months view of the runoff, we are at 2.5%, which is pretty much in line with what could be a normal expectation. Last year, we had a COVID impact. This year, the COVID impact is basically neutral. So when you put all together, and when we run our analysis, we can say that the level of performance -- underlying performance is pretty much consistent with the level that we had last year. And more importantly, is on target with a 93% combined ratio. You can see this even easier if you look at the 6 months number.

Now on Page 15, the combined ratio for the entities. Clearly, in Germany, the combined ratio is elevated, and that's because of the significant amount of natural catastrophe. If you adjust for that, you can see that there is a very strong underlying performance in Germany. We had also a little bit of positive runoff offsetting the load from the natural catastrophe. There you can see lot of strong performance at the OE listed below like U.K., Australia, France, Italy, especially Italy, Eastern Europe and Spain.

And then as always, Latin America and Turkey, they tend to have higher combined ratio. But here, we should keep in mind that the interest rate level is much higher. So you can run at a combined ratio of 100%, still generates value for the shareholder. AGCS is 97%, which is in line with the 98% that we want to achieve by the end of the year. And then what is clearly a little bit of an outlie, if you want, is the combined ratio of Euler Hermes is at 63%, but I think you know by now that the development of claims in the credit insurance is extremely favorable. So from that point of view, we achieved a combined ratio which is exceptionally good.

We're also exiting the state schemes in most of the countries. So moving forward, we are very encouraged to see this kind of performance coming out of Euler Hermes. Overall, a good quarter. Clearly, with a significant amount of natural catastrophe, but despite that, we've been able to achieve a 93.9% combined ratio. And also when you look at the 6 months, we are at the level of 93.4%, which is very close to our target to 93%.

At Page 17, we are showing the investment results, which is up compared to the prior period. This might appear surprising because usually, there is an expectation that the investment result is going to go down. But what happened this quarter, we had a strong performance from dividend, from our also private equity funds. That was the opposite last year because of the COVID situation. So overall, the dividend income has been very strong, and this is supporting clearly our operating investment results. We are landing now when you look at the 6 months figures at EUR 1.3 billion of operating investment results, our assumption for -- in the plan was about EUR 100 million to EUR 150 million lower than this. So this is definitely a positive compared to the assumption that we have put in our outlook.

And now, let's come to Page 19. Life business. I'm very pleased the performance of our life operations. And this is a strong performance across all KPIs, but we can start from the present value of new business premium, which is up 70%. Here, we have a couple of effects, which I'm going to explain in a second. But even if you remove these effects, the growth rate of the present value of new business premium is 36%. Now you might say that's easy because last year we had the COVID situation, which was bringing down the production. But I can also tell you that the adjusted number is higher compared to the production that we had in 2019. So I know your concern was always, are you going to be able to do the product changes and still get the production in the system, and this is a proof that we have been able to do so.

On top of it, we are managing very aggressively our in-force business. So in Italy, we have been able to renegotiate a large contract of EUR 2.6 billion with a better condition. And also in France, we are offering to our customer the new product. We think the new project is more suitable to the current environment. So we are basically bringing in-force customers into the new solution. That's also a good event. When you look at the new business, margin is for the quarter above our target of 3%. And then all the segments have contributed both to the growth of the production and also to the improvement of the margin. So that's a pretty good performance across all business lines within the Life segment.

Page 21. The operating profit is 30% above the prior period level. Here, we have basically 2 main drivers. One is the increase of the loading and fees of 6% and this reflects the growth also in the unit-linked business. We have been able to grow reserves significantly in our unit-linked business. On top of it, the investment margin is over EUR 1 billion. There is a part of stabilization compared to what we saw last year, but also I will say this level of investment margin is even better than our expectation. That's because the markets are extremely favorable, benign at this point in time.

Also you don't see this in the numbers because we are always including the commission in our expense picture. But if you remove the commission from the expense line, in reality, we are managing expenses on a flat level. So basically, we have a combination of increasing loading, also better investment margin, the expenses are flat. So this is definitely good for the operating profit development. And then on the right-hand side of the chart, you see that all lines of business are contributing to the growth in operating profit. So a very good picture for the segment.

At Page 23, we are showing, as always, the numbers for the selected entities. Overall, the new business margins are increasing or stable at the majority of the OEs with just a few exceptions. And then when you look at the operating profit, we see a nice or strong swing in operating profit at Allianz Life U.S.A. This is not surprising. Last year, the volatility was higher. This year, the volatility is very, very low. So automatically, you see a very strong performance in the United States.

Italy, it's a very good story. We are approaching the EUR 100 million of operating profit per quarter, and that's because the unit-linked business is really doing very nicely in Italy. And then in Asia Pacific, as always, you see that there is fundamentally a growth trajectory not only in the production or in the VNB, but also in the operating profit. So overall, a strong picture when you look at the delivery for the single entities.

And now at Page 25, the investment margin is strong at 21 basis points. You know that our expectation was to have a new business investment margin between 70, 75 basis points for the year. So we are running definitely higher than that. You can see the current yield is very strong at 95 basis points. Here, we have the same explanation like for the P&C business. The dividend that we're getting out of our equity investment is pretty strong, stronger compared to what we had last year.

You can see that we are constantly reducing the guarantee level. So overall, this translates in a good investment margin even if we didn't have any meaningful contribution coming from the net harvesting. You see the net harvesting is very low at 1 basis point. So I think the number of 21 basis point is a good number. The quality of the number is even better because basically, there is no support coming from net harvesting.

So overall, very good performance on the -- in the Life segment, both with respect to the new business and also to the operating profit and especially, I think we are getting confirmation that the action that we put in place are paying off, and we see that [indiscernible]

At Page 27, asset Management, also the underlying performance is strong. We had again a quarter with record level of assets under management. We decided not to use the headline again. What is more important is that all asset classes and regions are contributing to the growth of our third-party assets under management. So that's a strong picture that shows also that our strategies are performing.

And when you go then to Page 29, on the inflows, we had for the quarter, EUR 26 billion of inflows. This time, you see very strong inflows at AGI. And that's the highest level of inflows for the quarter at AGI, and AGI has been able over the last 6 months to record EUR 30 billion of inflows. In the case of PIMCO, the inflows at EUR 9 billion, they look relatively small compared to what we are used to. But here, we need to recognize that we had an outflow of a large mandate of about EUR 18 billion with very low fee. So fundamentally, there is no real impact on the revenues or on the profitability and we adjust basically the inflows of PIMCO for these outflows. We are back basically to the EUR 25 billion plus of inflows that we are used to.

When you look at the composition of the inflows by asset class or region, you see also that every class has contributed to the development. And also you see that we are getting more inflows in the mutual fund, which is usually good from a performance point of view because we have a higher fee margin in the mutual fund business.

A final comment, over the last 12 months, I like to say sometimes things on a 12 months perspective, on a rolling perspective. We have been able to record EUR 120 billion of inflows, which is a very strong number. And also, if you look at the quarterly development in total was pretty much consistent quarter-by-quarter. So a good trend for the asset management operation.

And now coming to Page 31. Clearly, when the assets under management and the inflows are doing well, you're going to see also an increase in the revenue which is 16%. If you adjust for the FX effect, we are even over the 20% level. And both PIMCO and AGI have contributed to the nice growth in revenue. One driver, as I was saying before, is clearly the increase in assets under management, but the other driver is also at least for the quarter, you see an improved fee margin. The improved fee margin is a consequence of the better business mix.

And then at Page 33, as always, when the revenue are growing, you get also extra -- an additional growth regarding the profit. You don't get just the growth because of the revenue increase, but also because of the operational leverage. So all in all, we are getting to a very good growth rate of 29% for asset management. And if you remove the exchange rate, which has been kind of negative because of the U.S. dollar depreciation, we would have had even a 40% -- above 40% growth. Both PIMCO and AGI are contributing to the growth in operating profit.

The cost/income ratio for the segment is about 59% and one of the major drivers for the improvement is the big reduction in the cost/income ratio of AGI. In total, the segment is posting EUR 1.6 billion of operating profit for the 6 months. If you remember, the outlook was EUR 2.8 billion. So at this point in time, if the markets are staying stable, we are going clearly to expect to see in the second part of the year at least the performance that we saw in the first part of the year because we are also starting from a higher assets basis, so a very good news regarding the underlying performance of our asset management operations.

And now moving to Page 33. It's enough to say on the corporate operating profit that the numbers are better than prior period, and they are also better compared to our expectation. And then at Page 37, as always, we are showing the nonoperating items. There are no major development, maybe just a couple of comments. The impairments are very low. We are basically now seeing impairments in the system and the restructuring expenses are more or less in line with the amount of restructuring expenses we had last year. And then finally, the tax rate at 25% is in line with our expectations. So the combination of the strong operating profit and also of favorable below the line development is leading to a net income of EUR 2.2 billion for the quarter.

So all in all, at Page 39, I think we have really a strong delivery for the 6 months. It's also nice to watch that the delivery has been consistent between Q1 and Q2. So we're not jumping up and down. So there is a consistency of delivery. That's basically something that if you go back and you look at our performance last year, you are trying to adjust for the COVID noise was already developing about a year ago. So that's definitely a reflection of the strong action that we have been putting in place over the last years. And our strategy is clearly delivering also the operating profit performance that we would be better than what our expectation was at the beginning of the year.

We have upgraded our outlook, as you know, to the upper half of the range. You're going to ask me why not the upper end. We start with the upper half and then we'll see as we go where we are going to end up and then also we have today announced a buyback. This is something that we committed to do a few -- a couple of -- 2 years ago, 2020 was last year. we committed to do last year. Then because of the COVID situation, we had to clearly stop it, but that was always something that we wanted to return to you guys. That was a commitment. And so today, we are coming true to our commitment. We have the capital strength and also the underlying performance. And so we are happy to stay true to our commitment.
And with that, I would like to open up to the questions you might have.

Question and Answer

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

I guess the first question, Oliver, you were quoted on the Wall this morning saying that you'll do everything to put this issue, the Structured Alpha funds issue behind you as quickly as possible. I mean, I guess DOJ inquiries can typically take years. I'm just wondering, is it realistic to think that we can get clarity quickly. And maybe related to that, is there any idea -- can we have any idea when you might be in a position to make a provision for it?

Secondly, just in terms of maybe providing some help on the numbers that we're dealing with. I mean you've given us a EUR 13 billion figure for the value of the funds at their peak, and we know there are sort of $6 billion of claims. I'm just wondering if there's anything else you can give us in terms of numbers to help narrow down a little bit what we're looking at. Maybe what about -- what were the funds at the trough, for example, or anything else that you can give us there to help us?

And then to provide some relief from the Structured funds issue. I was very interested in the back book or the in-force management, the 2 things that you've done. I was wondering if you could say what impact, if any, they might have on capital, P&L, balance sheet, either within these results or going forward in the future?

Oliver Bäte
Chairman of the Management Board & CEO

Yes. So thank you very much. Let me answer it right away, and then I'll hand over for the details of back books, but I can make a general comment on that. So unfortunately, we are so strictly guarded by U.S. law that I'm not asked, but ordered not to comment on anything. And we are following the proceedings of the DOJ. We are not driving them. They drive it, and it can take their time. But we are an active participant. We are not just following it, yes. We are in there and working with them very closely. So we'll do whatever it can be done to create clarity.

The second thing, we cannot make any comments on the numbers. It's just not possible. But remember, there are 2 components to it. There's the civil litigation and there's the DOJ investigation and that may have different time lines. So if and when we have anything to say, we are going to do that as much as possible. We know how difficult your job is to be done. But again, I would like to put that into perspective. And it sounds a bit odd and I'm no more the CFO, so Giulio will forgive me for my bit crude math.

Okay. Before this thing happened, Allianz was not, in my opinion, fully valued close to where it should be valued, right? So any decent analysis shows that our P/E has not expanded the last 2 or 3 years, even though we've been outperforming operationally almost any peer. So when you then look at sort of what the market has discounted in terms of value, you may say that is correct or that is too much, but you have to say what level it actually came down from, and that was not a very high level, the first one.

And if you compare that to a number of the KPIs you see in the current 6 months result, we have a 13% ROE in life insurance. Can you tell me any company with this book and the size and this performance that has 30% our -- in life insurance. I don't know any. Do you have any other insurance company that has a world-leading Asset Management franchise? We're probably the #2 active asset manager in the world now. They're not -- this is not reflected in our numbers. P&L is subdued by natural catastrophes and [indiscernible] the Commercial Lines performance. This is the strongest fortress that exists in Europe. That's not in our share price.

So if you think about what's happening and even what happens, the cash flow generation power is up to $30 billion in the next 3 years, whatever it is. So what the heck are we talking about? So I understand the nervousness and I know some investors can invest as long as we have an investigation. But if you think about the underlying value power, and we are starting a process where this industry will consolidate and I'm absolutely convinced with the strategy that we are pursuing, what you see the additive growth in the segment is very strong.

The second thing I'd like to say, the concern that people have was the life insurance business. When interest rates went down last year again, they said, oh, another shock for life insurance and these people will make no money. The products will be horrific for clients. They will be horrific for shareholders because of the capital requirements. It's nonsense. It's true for the average temperature of the hospital. That's very true. The weak competitors have a problem to meet the guarantees, they have a problem to produce good results, but ask some of your peers, Allianz is not just giving great margin, it is also offering in many markets the best value that you can get as a consumer, and that will make us win.

Sorry for being very confident. But that is what is required at this point in time. So when you're filling your spreadsheet, remember, we're not starting with a 15 P/E, that we are coming down from. Yes, we are starting with a 12 P/E. And that's why I have a lot of optimism. And I'm not ignoring the downside that such an investigation happened. I'm just trying to put it into perspective, sorry to say.

And therefore, the relief on the back book is a specific question. We have said a number of years ago with the launch of the strategy that we are fundamentally changing to do business into products that are more capital efficient, but also better for consumers, and you see this in the cycle because we can offer higher upside and diversification into new asset classes. We're probably one of the leading investors in alternative assets that provide different sources of income than fixed income or buying, I don't know what Tesla offers you in the short term, right? So getting decent long-term sustainable returns. That's one thing.

We've also said that we are going to address the enormous capital consumption on the guaranteed business. Now you can say and go out and say, hey, I'm selling a back book, huge run to somebody, and we're getting rid of the problem now, small problem. You have clients in there that we promised to many years ago that we would be their partner. So we're not taking this lightly, number one.

Number two, as we've just seen in Italy with the transaction, it takes much longer, but it's much more economically successful if you renegotiate contracts, not sell them at a loss and say, "ah, I just sold my loss." And this is what we've done in Italy, taking a traditional product with a 1.5% guarantee, which is not high by the way by Italian standard, but still far too high relative to what is economically sustainable and move it to a 0 guarantee, and these things generate hundreds of millions of additional value, and Giulio will give you the numbers. So we are pursuing the strategy, and we are committed to lift capital out of these back books, but in a way that makes sure that all stakeholders as much as possible are being dealt with in a fair way. And with that, I hand over to Giulio.

Giulio Terzariol
CFO & Member of the Management Board

Thank you, Oliver. And on your question specifically on what we did in the second quarter in Italy, it's a renegotiation of a EUR 2.6 billion of a group business. Just to give you an idea, we brought down the guarantee from 1.5 to 0. So that's a big change clearly, and there is always a trailer. We allow now to put some new business for the next 2 or 3 years. But fundamentally, it's very positive transaction. And when you look at -- in France, we are basically offering to our in-force customers the new products. The new product has more unit-linked component compared to the old product. It's a win-win situation from our standpoint. Clearly, there is less risk, but also from a customer point of view, it's not necessarily good to be at a product with 0 guarantee credit and basically very little. So from that point of view also the customers, they like now solution where they can get more exposure to unit-linked business.

When you look at the impact on our numbers, I tell you the present value of profit, I would say, more correct to say the present value of EVA because every time we speak about VNB or some similar metric, we are speaking of present value of EVA is about EUR 100 million. And why I say EVA instead of profit, the profitability might not change significantly, but the risk is very different. And then when you look at the SCR release, we are speaking about EUR 50 million of SCR release when you combine Italy and France.

We are going to pursue a similar initiative as we go into the future. So we are clearly looking for a similar negotiation. In Italy, we -- clearly, this action in France is going to be performed also for the foreseeable -- for the future quarters. And then in parallel, we are still working on the more traditional back books. But the message here is when we speak about that book, it doesn't necessarily mean that we need to sell a back book, there is also rework, that's the way we call it, that we can do in order to improve the performance or to mitigate the risk that we have in our in-force business.

This said, I'd like to stress again the point of Oliver Bäte that we are making 13% ROE. So again, we have anyway very -- a good performing life business. Clearly, we want to make sure that this book of business is performing as much as possible. So we want clearly to create as much sustainability as possible. But the fact is that our life business has generated double-digit ROE over the last years.

Peter Eliot
Kepler Cheuvreux, Research Division

That's great. Could I just very quickly ask what the other side of the Italy deal is? I -- what you're giving away to get that guarantee reduction?

Giulio Terzariol
CFO & Member of the Management Board

No, the only point is we are allowing the counterparty to put new business for a few years.

Oliver Bäte
Chairman of the Management Board & CEO

But it has the cap per annum that it clearly -- so they cannot put a huge amount of premiums in that. Now the reason you will ask why is this possible? In the Italian pension law, there's an explicit provision that says if interest rates drop to a certain point in market conditions is you can renegotiate and you can even exit the contract. So this is a highly valuable client -- set of clients, but we wanted to make sure that we get to a more even distribution of upside and downside.

Now the other point I'd like to mention is that we'll discuss probably more intensively at the Capital Markets Day that with what we are doing, we're not just looking at increasing ROE or reducing risk capital, we are actually also trying to reduce the volatility and the potential volatility of the capital requirements, which is super important because today, investors are spooked by the life back books for 2 reasons: one, the very low ROEs, which by the way, in our case, is not the case like many others, but because of the volatility in the Solvency II models that you constantly see out of these liabilities. They're often in my opinion, a bit mathematical fake, but they are real because we show them, not because they are there, but they are part of the model.

Now with that, we have the intention over the next years to systematically reduce the risk capital consumption and the volatility while growing earnings. It has been our vision for a while and every time I thought we're turning the corner, interest rates dropped yet again, wait for the end of the year, and this is where we are on route to really totally decouple capital consumption from the growth of the underlying earnings. And that is the objective we are pursuing. So this will become, over time, more protection business and more an asset management business rather than a strongly capital consumptive business that you're used to. This is the strategic objective and it has taken more time because every time you improve, you get another hit on rate. But that's it. This year, we'll show you the turning point.

Now with that, let's go, if it's okay, to the next question.

Operator

We will now take the next question from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Also I appreciate you restricted on what you can say. You did make comments at the press conference this morning just about the process of investigation on the Structured Alpha. Could you just clarify comments this morning and in the footnote of the report that an investigation has been ongoing since July? Or the footnote implies you've just started a new investigation internally post the DOJ intervention. I'm just trying to understand how long -- to give us a sense of timing, how long you have been internally investigating this topic. That's my only question on that topic.

Second question, I'm just trying to interpret the buyback being switched back on. You talk about it in terms of fulfilling a promise which essentially was related to the 2019 financial year, but should we assume that we are back on to, I guess, bolt-on plus buyback as the kind of ongoing capital deployment strategy? Or is that overinterpreting the message? And just the final topic is if you could just give us an update on frequency and severity trends in non-life in your core markets?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So maybe I start from -- that I start from the first one, which was the question about our investigation review. We started a review already last year. So basically, we set up a cross-functional team last year, also with the support of external legal and economic adviser to look into the product performance. So the reviews have been ongoing. But recently, we started also a forensic review. But clearly, we've been looking into this issue now for a long time, and now we are doing a forensic review. So we've not been sitting here just watching waiting. And that's the status of what we've been doing, and we are going to continue clearly to do the review, forensic review and then clearly, we are cooperating also with the DOJ with the SEC. So that's about what we are doing from our side.

And on the buyback, I can tell you, at the end of the day, nothing's changed in the scene. So not going to make forward-looking statements about when the next buyback might be. But as always, we look at our underlying performance. We look at the capital position that we have. And the capital position is a financially underlying performance market development. We might have also be ready to digest some impact coming from the issue we are talking about. But based on where we are going to be, we're going to clearly decide our capital deployment.

So there is no change in our philosophy moving forward. I think the positive is we are generating strong capital, right? We have a capital generation per annum of, I would say, 10 percentage points. So from that point of view, I think this is clearly something that give us flexibility. Also, as Oliver said before, we have been calling some hybrid, which means now we have also flexibility on the financial hybrid point of view. So there are a lot of things we can deploy clearly from a capital point of view and also from a liquidity point of view. So again, nothing is changing, and we are going to evaluate the situation as we go through the next quarter -- we go through next year.

On the frequency severity, I can tell you, Motor is always a little bit complicated to look at the statistics. In the sense of last year, what we saw was basically that as the frequency was coming down, the severity was coming and going up. And now you see a little bit of a reverse as the frequency clearly is going up because we see higher frequency, you can see the severity coming down. If you ask me for a forward-looking statement of frequency severity, the overall expectation will be once COVID is behind us, right, that you're going to see in reality lower frequency in general because there are a lot of things pushing frequency down, improvement in the driving system -- assisted system. And on the other side, the severity is going to go up because clearly it has been becoming more expensive.

But as of now, I will say, you basically almost see that as frequency is going up again, the severity is coming down. When I look at the property line of business, I tell you that I was looking at the statistics in Italy, France and also U.K., you -- I couldn't see a lot of increase in severity. One country where we see some increase in severity is in Germany. And that's related to the fact that overall, the value of the house is going up. And also right now, there is the cost of wood or even the cost of getting a repair is going up. So we see a little bit of severity going up in Germany. This is something that we are watching.

You need to keep in mind that there is an automatic system of adjusting inflation in the price. Clearly, you might have a basis risk effect. Fundamentally, the price of a property policy [indiscernible] this kind of automatic adjustment if inflation going up. So all in all, when I look at frequency severity, I will say that it's rare to see a situation where both frequency and severity are going up at the same time causing a problem. So most of the time, you might see offsetting situation. And I will say there is at this point in time not a significant pressure coming from the loss trends in our different OEs.

Oliver Bäte
Chairman of the Management Board & CEO

Is the question probably answered on the investigation because that's very important for you to understand, Andrew?

Andrew James Ritchie
Autonomous Research LLP

Yes. I think so. I'm still a bit confused as to why there was an ongoing investigation. But clearly you...

Oliver Bäte
Chairman of the Management Board & CEO

Let me repeat. Let me repeat. No, no, no. It's -- yes, yes. That's why I'm -- important that I follow up on your question. So when the lawsuit came in, we immediately started an investigation because the lawsuit assumes or pretends to say that the fund underperformed relative to expectations because it was not clear it was as risky as it turned out to be. So we hired experts into the economic assessment, but also the legal assessment from the very day, and very quickly, the SEC came in, and we have been working side by side, not in addition with the SEC on all of these things.

And then as of May, the DOJ came in and looked at some additional items, and we've also been working with them side by side, voluntarily on these items, side by side. It's also important -- and based on that and also these items, we have additionally launched internal forensic review and a number of additional matters that go beyond the economic performance. And I think that's what you saw. We have neither been complacent nor late nor other. It's just that the matter and the viewpoints have changed, and we have done additional items on top of the additional work. I'm looking at my Chief Legal Counsel who's sitting next to me and looking -- and he says, "Yes, but now shut up."

Andrew James Ritchie
Autonomous Research LLP

Okay. That's great. Can I just follow up? Are you formally changing the guidance on capital generation from 8% to 10% plus? Or is that just for this year?

Giulio Terzariol
CFO & Member of the Management Board

Yes. Okay. I would say that there is a high likelihood that we're going to change the guidance also for next year because this year, we're going to be about 10%. And I will say, next year, assuming that we're going to see higher growth in Property-Casualty compared to what we saw this year, I would now go about 10%, but I think there is a high likelihood that we're going to lend to a 10% capital generation. I can also tell you that on the Life business, basically, there is 0 capital increase because the -- even if we are putting a lot of new business this is very low capital intensive and that's -- the capital intensity is completely offset. Just talking of the SCR, let's forget about the VNB, which is definitely then helping the capital generation. Just speak on the SCR, I tell you that the increase in SCR because of new business is completely offset by the release of the in-force.

Oliver Bäte
Chairman of the Management Board & CEO

And this is a very important point, Andrew. What our objective is for the next few years is really to make Solvency II over time, less and less and less of a relevant issue for us to really guide. It will always be important as a regulatory standpoint in terms of capital distribution, the objective is to become less and less dependent on the number and the volatility of it. That has been the objective now. That the [indiscernible] rate and COVID hasn't really helped to achieve that objective faster, but it's a very important objective for us because we really believe it's a key part for the valuation of this company.

Operator

We will now take our next question from Michael Huttner from Berenberg.

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

Fantastic. I'd stay away from the obvious. So on cash, you gave some really interesting kind of numbers, I think, EUR 9 billion a year or EUR 10 billion a year. And the last figures we've seen, I think, was EUR 7.2 billion or EUR 7.3 billion average. So I just wondered if you can say what -- where is this increase coming from? And the second question is on the asset flows. So we have 2 one-offs, 1 negative, I think, in PIMCO and 1 positive in AGI. I wonder if you can give a little bit more detail about the AGI positive. What is the nature of the profitability or -- I know you can't say, it's live, but anything which would help here?

And the last point, I know you've been -- you've said severity in property, but nat cats are a lot higher. And I know you don't include a kind of budget figure. You just said, well, historically, it's been around that level. But you're going to be raising pricing? Because I imagine you'll be paying your reinsurers more, for example, in the EUR 400 million figure for the floods, you got EUR 100 million reinstatement premium.

Giulio Terzariol
CFO & Member of the Management Board

Okay. So maybe starting from the first point. I think Oliver was referring to net income of EUR 9 billion from a cash point of view, but you know our numbers. And usually, you can use sort of process that 80% of our net income is going to translate into cash. So that would be the relationship that you can hold if you want to use a rule of thumb. As we come into the second question, which was the flows at AGI, I can tell you, it's pretty widespread. So we see, for example, good flows coming, fixed income in equity and also multi-assets. So from that point of view, when you look at different asset classes, all are contributing. Also when you look at the regional contribution, you see a good contribution coming from Europe, but also from the U.S. and Asia Pacific.

And we see also because sometimes you can look at flows from a production point of view where the strategies are developed, and then you can see -- look at flows where the distribution is taking place. So we see also from a distribution point of view, good growth in Asia. And regarding the profitability, I cannot give you the number, but it's overall very profitable flows. We had maybe a larger mandate where clearly the fee is going to be lower. But fundamentally, when we are looking at the profitability of the flows, I would say it's really good.

And then your third question about increasing premium because of natural catastrophe, that might happen. That always is a matter of what the competitive environment might be. But I will say, from a technical point of view, one might argue that definitely something that we're going to look to do to a certain degree. But at the end of the day, as always, price increases are also a function of what in general the market is going to do.

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

And on this net inflow at AGI. So what I'm really saying is, what's the number I can model -- or put it another way, what is the figure now as of kind of almost mid Q3?

Giulio Terzariol
CFO & Member of the Management Board

The way I can tell you that in the first -- in the month of July, it was about -- for AGI was about EUR 2 billion, the flows for AGI.

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

I hear silence. I'd better leave it then.

Oliver Bäte
Chairman of the Management Board & CEO

Okay. Michael, are you fine with the answers or anything else?

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

I didn't hear the PIMCO figure, if there is one.

Giulio Terzariol
CFO & Member of the Management Board

Sorry, what is the question?

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

The question, the net inflows in PIMCO in July?

Giulio Terzariol
CFO & Member of the Management Board

Okay. That's about -- okay, that was as of -- a little bit before the end of July, that was about EUR 5 billion. Basically, you can almost say, when you add up AGI and PIMCO, you can almost say it's about EUR 8 billion.

Operator

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

First of all, Oliver and Giulio, the SCR in your asset management business is about EUR 1 billion. And particularly in light of what's going on, that feels like an extremely low number against EUR 1.8 trillion of funds under management. And you seem to be allocating all to operational risk, not much for market risk. Clearly, for a fund manager, there's going to be a gray area between market risk and operational risk. But I'm just wondering, can you remind us how you get to the EUR 1 billion figure? And do you think that may be a number that you need to review, particularly in the context of the current experience?

And then secondly, please. You highlighted in your life businesses another quarter of an incredibly strong investment margin. I think you still officially were talking about sort of 70 to 75 basis points. I think it was the last thing you said, and you're still at sort of mid-80s, so you're significantly above that. Again, you said something in the call, but can you just remind us, are we at this more elevated level structurally? Or is it going to normalize down to that 70 to 75 this year or next year? And if it does normalize down, what's the driver of that?

And then lastly, please. You flagged in the presentation the 9 percentage points impact on the Solvency II ratio from the various transactions you've been doing. Could you just remind us how much of that comes from the SCR going up and how much from the eligible loan funds going down?

Oliver Bäte
Chairman of the Management Board & CEO

Yes. So maybe starting from the third question. First of all, the way we do the calculation of the SCR for the group, we're using the Solvency II -- according to the Solvency II, by the way, principle is for the sectoral owned fund and SCR, so which means basically what is noninsurance. You use whatever regulation you have apply to those sectors. So for the banking, we are going to use basically what is the regulation for banking. In the case of asset management, we are using whatever regulation is for asset management, which is the SCR is a percentage of the expenses.

So it's not that we are coming up with any kind of special model, we have any kind of Allianz way to calculate the SCR for asset management. This is coming from the framework Solvency II [indiscernible] includes the asset managers with whatever regulation we have for asset management. So that's the way it works. And then clearly, we are going to hold in reality more capital compared to what the requirement is, but again, it's not something that is up for deliberation how much SCR you're going to include in your Solvency II model.

The second question was on the investment margin on the Life side. I will say that we have been running now for a couple of quarters at performance, which is higher compared to our original expectation of 70 to 75 basis points. We need anywhere to consider also that the volatility in the United States is pretty low. So that might have a little bit of a lift that I would not necessarily always consider that KPI. But I would tell you that, at least, I would say, that it's realistic to expect that we will be at the upper end of the range of 70 to 75 basis points as we move forward.

So that's something that I would feel comfortable to say today. Whether we are now at 80 basis points, I think that's I would like to see more evidence as we go through more quarters to make a statement like that, but the 75 basis points [indiscernible] might be more indicative of what the range might be. And then when you think about the impact of the 9% coming from the acquisition that we do, the majority is coming in reality from the own funds. There is not a lot of SCR that we are going to add there. But if I should I should tell you, I would expect to be like 2/3 coming from their own funds and 1/3, even less maybe, coming from the SCR increase.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Great. If I could come back, Giulio. I appreciate what you said about the SCR for asset management being largely a regulatory figure. Correct me if I'm wrong, the eligible own funds, and correct me if I'm wrong, I think there are still only about EUR 2 billion. So it's not as if you have disproportionate coverage to allow for risk that isn't taken in the regulatory model. So I'm wondering, have I correctly understood that EUR 2 billion of eligible own funds? And if I have, is that a reflection of the capital and the cash position of your asset management business? Or is there sort of a somehow bigger capital or cash position in your asset management entities?

Giulio Terzariol

CFO & Member of the Management Board

I would say with the EUR 2 billion [indiscernible] be north of EUR 2 billion, you are correct. I would like to say that's also what you need to keep for S&P to have a AA rating. So you can debate whether it is only EUR 2 billion [indiscernible] twice the SCR, and that's also what basically gives you an AA rating on the S&P.

Operator

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

Farooq Hanif
Crédit Suisse AG, Research Division

Congratulations on the results today. Just going to your investor Capital Markets Day. How are you going to frame targets in this day? Have you decided whether it's going to be some [Technical Difficulty] IFRS, cash or Solvency II. I only ask because of the comments you made about how you believe you're undervalued. I mean should we be really sharpening our focus on Solvency II numbers here to try to understand that?

Secondly, going to your debt headroom. Can you just give us an update of if you needed it for whatever reason, what the headroom would be? And lastly, going back to AGCS and the very strong volume decline, which is over 20%, obviously. Is this still just pulling out of liability lines? Or is it something else? And when does it end?

Giulio Terzariol
CFO & Member of the Management Board

Yes. So your first question about the Capital Market Day. Clearly, we're still going to be focused on IFRS number because at the end of the day, these are the numbers that we discuss every quarter. So clearly, there is a little bit of a challenge because of the IFRS 9 and 17 implementation. We think that we are not going to see major changes because of that. So IFRS is going still to be a way how we communicate our targets. We are going, anyway, also to put a focus on cash generation at the end of the day. That will count how much cash are you able to generate or capital that you can generate and deploy it on buybacks and M&A.

So fundamentally, we are going to have definitely a session related to capital and cash generation. And especially on the Life side, we want to show also like for example, Allianz Leben is capable to produce very stable cash flow -- cash flow generation, also growing cash flow generation. So this is going to be something that we are going to talk about in the Capital Market Day.

Then the other question was on the debt capacity. I would say we have definitely significant debt capacity. So as of now, as of today, I think our leverage ratio is about 22%. And clearly, you can go easily to 25%, 26%. We have been just a few years at 27%, 28% leverage ratio. So from that point of view, the financial flexibility that we have on the financial leverage is pretty high. We also like to preserve it. But in the case, we need to use it, we are going to use it.

And then on AGCS, I think your question was specific on liability, but I can give you a little bit more color in general on AGCS. I would say, as of now, in liability, we are not really growing, but that's an area where clearly cautiously, we're going to look at growth again. Also I would say, an area where we see less growth, but that's because of the strong reunderwriting that we did last year is in Marine and MidCorp. Where we see growth and we are very encouraged by what we are seeing is in financial lines and also in property. And just to give you an idea, in these lines of business, in the 6 months, we have been able to post combined ratio below -- even below 90% on the property side, is also because the nat cats load has been pretty benign. So overall, we see some growth in some areas. But clearly, there are other areas where the reunderwriting was extremely strong.

As we move forward, we are definitely going to look also at potential for additional growth. At this point in time, we believe rates are pretty good. And you need to be always selective. Clearly, you need to have always strong underwriting. But fundamentally, we are at a point where we believe that our reunderwriting ratio and our claims has been successful. The management team is getting more and more confidence as the numbers are flowing through. So I would say that as we move forward, as we go into 2022, we are going definitely also to have a growth agenda and that's also consistent with what we always said, we always said, look, before we start growing, we want to have a good degree of confidence that the level of profitability is going in the right direction.

Oliver Bäte

Chairman of the Management Board & CEO

Yes. Let me reiterate what Giulio just -- it's more about -- not about numbers, it's also about confidence. So we are very pleased with the progress that we've seen in AGC&S, and that's a bit masked by 2 factors. We had some follow-on on COVID from last year and with some policies that are only tapering off in the first half of the year, sort of entertainment, for example. And the other part is they also have some effects this year from natural catastrophes. So some of the flood exposures, they will also get hit by. I'm still confident that they will make the 98% target unless we have a sort of brutal second half of the year, which is no small achievement, given what we've seen. And just to reiterate what Giulio said, we now need to change the tack and make sure after we've cleaned the portfolio that we take advantage of one of the hardest markets that we've seen probably in a decade, and we don't miss -- but we wanted to make sure that before we write something, we know exactly what to write and how to write it, but they're making a very, very good progress.

Farooq Hanif
Crédit Suisse AG, Research Division

If I just quickly can return on your comment on the CMD target. You said that IFRS 17 will make a big difference. Do you mean philosophically or numerically?

Giulio Terzariol
CFO & Member of the Management Board

No, I don't think it's going to make a big difference. So we are already doing runs based on IFRS 17, so we don't see a significant difference, but I wanted just to say, fundamentally, the IFRS 9 and 17 might represent a complication because you need to think on a different accounting standard. But based on what we have seen so far, we will not expect in our case to have a significant difference. But you learn every day something new, that's the reason why I would tend to be cautious and always say there is a new standard coming up. So that's clearly creating some complexity. But fundamentally, I think that should be manageable.

Operator

We will now take our next question from Vinit Malhotra from Mediobanca.

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

Just so the 2 questions I would raise is. One is just on the topic of growth and confidence. So we are hearing all these very positive. We're seeing the life and health resurgence and growth [indiscernible] resurgence and growth in 2Q, and I can see where they're coming from. But I mean, last year, I think the messaging was that growth will be a bit subdued this year. And I think it's coming back a bit more. We've seen it in other insurance reporting in the U.S. as well, the economy as such. So I mean, of course, you talked about AGCS just now, but generally, should we be feeling more bullish about P&C growth as such this year and maybe even a bit more next year? So I'm just curious to know your thoughts on P&C growth.

Second thing is, you reiterated the AGC&S target, but also Germany had a fantastic combined ratio supported by runoff in 2Q. Could you comment a bit about that as well? I'm sure there were other things as well positive in Germany. But is it -- where are these runoffs coming from, and is there more buffer there for even the 3Q flooding, for example, just any idea on the buffer there?

And last thing is more a follow-up, and I apologize for not being attentive enough. Oliver, did you just say that the DOJ investigation or requests or voluntary request for documents was received in May, whereas I think from the press release you've said that last Sunday, we thought -- I thought it just came in. So I'm just curious, just as a follow-up on the finding of these events, please?

Oliver Bäte
Chairman of the Management Board & CEO

Thank you for the question. As I said earlier, I have a really, really strong and really, really, really strict Chief Legal Counsel next to me and he says, whatever we said earlier is the only thing we can say. I do apologize. But there is no delaying or nothing. We are just following through, all right?

Vinit Malhotra

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

Okay. Okay.

Giulio Terzariol
CFO & Member of the Management Board

For your question, maybe I start from the growth rates. First of all, sure we're going to see more growth also coming from Allianz Partners to a certain degree, maybe more on the NPE basis, not so much on the gross basis also from Euler Hermes. And when we're looking at the other geography, I will say that, yes, the situation is further stabilizing. We might see also more growth in other geography. When we speak about growth in Property-Casualty, I'm always anyway very cautious, very easy to grow and then you can regret one day. So it's all a matter of whether you have quality growth or not, and quality growth is always going to be a function of the pricing environment.

So from that point of view, I would say the trend I would expect that we're going to go back to the growth that we had before COVID. If you remember, we were running at 3% to 4% growth. I believe that's our natural growth capacity or capabilities. But again, at the end of the day, growth for me is always a function of the pricing environment.

Coming then back to your question on Germany. Yes, I tell you, Germany has a very strong balance sheet, and that's also a consequence that we have been kind of cautious. I always told you also last year, and that we have been very cautious in booking our reserves. You remember, last year, we [didn't] release a significant amount of runoff or was very low, so fundamentally, there is a strong balance sheet, and Germany is definitely one of the company where we have a lot of quality in the balance sheet. But even more important, Germany has been one of the -- of our subsidiary having one of the strongest developments on the underlying over the last year.

So I'm very -- always very pleased when I have meetings with our German team because they're very structured, they're very focused on driving our strategy, our agenda. They have embraced that strategy. You can see that the combined ratio, the target is much better compared to the combined ratio that we had a few years ago. I can also tell you, Oliver is also spending always a lot of quality time with Germany, likes to play with them and spend time with them. So I have to say, it's a nice development that's important for us because Allianz Germany at the end of the day is almost 20% of our NPE on the Property-Casualty side. So having a strong German business is clearly a very good starting point for the profitability of our Property-Casualty segment.

Operator

We will now take our next question from Ashik Musaddi from JPMorgan.

Ashik Musaddi
JPMorgan Chase & Co, Research Division

Just a couple of questions I have, if I may. First of all, the EUR 750 million buyback, I mean, how do we think about this? Was it just coming as a regular capital management exercise? Or was it done to showcase your confidence on the capital regulators' confidence on the capital? So that would be one.

The second thing is, I mean, Giulio, you mentioned that we are going to ask you why not towards the EUR 13 billion, why EUR 12 billion to EUR 13 billion. I mean clearly, you're running -- the current run rate is giving you EUR 13.5 billion. So what are the elements that will take it down from EUR 13.5 billion? I mean one is clearly flood losses, but is there any other things that you would flag that was very supportive in first half may not happen in second half?

And second -- and the third one is the 93% combined ratio guidance you have for P&C versus 93.5%. You are running at first half and then you have the European flood losses. So I mean would you say that 93% is still achievable? Or would you say that, that might be on the optimistic side?

Giulio Terzariol
CFO & Member of the Management Board

Okay. So first of all, on the buyback of the EUR 750 million. If you remember, we talked about also the buyback in the first -- in the call for the first quarter. Indeed, one of you even put headline, the buyback is back. So from that point of view, you can see this is not something that we have been thinking between Sunday evening and Thursday night. So that's something that was basically in our thought process for a while. And as I said before, that was part of the EUR 1.5 billion that we committed. So no, there was not any sort of spontaneous decision a couple of days ago.

On your question about the projection for the remainder of the year. Fundamentally, on the P&C side, it's a little bit about the amount of natural catastrophe that we're going to see. So -- and also, I would say, so we need to clearly having started the second quarter with the event of burns. We are a little bit cautious because we still have the hurricane season in front of us. And then also I will say that the investment income is going to be higher than plan. But in the second part of the year, we don't expect to run with the same level of investment income that we had in the first part of the year. So fundamentally, I will not necessarily take the EUR 2.9 billion of the first quarter -- for the first half and 2 x 2 for the Property-Casualty side then we're going to see clearly what happens, but we'll be cautious in doing that.

On the Life side, we have been running EUR 2.5 billion of operating profit. Now you can do this time too, if you believe that the markets are going to be always stable. We need to be a little bit cautious and thinking that we might get at some point in time, some volatilities also on that one, I will not necessarily draw x2. And in asset management, reality, a very good reason to do x2. I still wouldn't do that just because of being a little bit prudent. But at the end of the day, I would say yes, definitely. There is a possibility if markets are very stable, if natural catastrophe are very, very -- they are pretty much flattening.

As we move forward, there is a possibility that we are going to end up with the second part of the year, which is close to the first part of the year, but you need to make the assumption that we're going to have another 6 months of very, very stable markets. And based on my experience at some point in time, you get a little bit of volatility. And this can take away EUR 100 million of profit from our life segment. This can dampen a little bit the development in the Asset Management. So from that point of view, I would say, we had a very good first half. You can look at the numbers, you can definitely say there is strength in underlying. And then at the end of the year, we see where we are. But it looks, we are heading for a good operating performance in 2021.

On the 93.4% combined ratio versus 93%. First of all, my comment would be, if you just look at the natural catastrophe at 3.1% for the 6 months, you just normalize that to the normal level of 2, you can see that we are better than the 93%. So from an underlying point of view, I feel very confident about our ability to achieve the 93%. And then the amount of natural catastrophe clearly can create a little bit of noise up and down. This doesn't change for me the fundamental fact that on the underlying basis, we are 93% for sure. And then if we're going to have a few more basis points because of natural catastrophe, in my opinion, this doesn't make any difference.

Oliver Schmidt
Head of Investor Relations

Okay. Before we continue. It's half past, and we have time for one last question, and then we have to close the call. Tracy, one last question, please?

Operator

We will now take the last question from Fulin Liang from Morgan Stanley.

Fulin Liang
Morgan Stanley, Research Division

I'm lucky I got the last one. Sorry, I got only 3 very quick questions. The first one is your U.S. Life business, obviously, new business growth very, very strongly. Just wonder, is that -- are you actually taking shares in the market? And or specifically, actually, you do if you're kind of increasing your shares there?

And then secondly is just very quickly, we know that you wanted to actually expand your footprint in the U.S., especially in the P&C side. But will the whole kind of DOJ thing affect or change your views -- change your risk assessment on the U.S. market in general?

And then last one is the Solvency II market movements was 0 actually year-to-date for the first half, which means the movement in the second half was negatively kind of wipe out the whole kind of movement -- positive movement in the first quarter. Actually, but if I look at the interest rate, it's better than the beginning of the year, the equity market is better than the beginning of the year and then the credit spread is also kind of very stable. I just wonder, actually, why we shouldn't see a positive year-to-date kind of market's impact and what actually have I missed in those market movements?

Giulio Terzariol
CFO & Member of the Management Board

Maybe starting from the last question. When you look at what happened in second quarter, in regard to the market movement is just slightly negative. So if you look at the slide, Page 9, we have minus 0. If you run the calculation and you [access on the own] funds, that would be a negative impact of about 50 basis points. And the point is, yes, rates have been kind of stable and also the equity market has been okay. But we have also sensitivity to credit spread. In reality, there was a slight widening of the credit spreads of the government bonds, and there was a little bit of a narrowing of the credit spread on the corporate bonds and we are exposed to negative -- to positive spread widening in the corporate bonds. But we are really speaking of a very minor amount. So basically, almost [indiscernible] slightly negative. And if you're looking for the explanation, why it's not been completely neutral, it's because of the credit spread development.

Your question about appetite in the United States for acquisition, I don't think there is any change fundamentally to our strategy. I think we need to separate our strategy, our underlying performance compared to the situation that we are discussing, but I wouldn't say that because of [election] we're going to do y and z.

And then to your first question, it's about the market share in the United States. In order to see whether we are growing or not in the United States, we need to wait to get the statistics for the second quarter, which are not available yet. My -- I tell you anyway about what happened in the prior quarter. We are not necessarily growing market share and fixing this annuity. That's also a line of business where we continue to be strong, but that's not where we are putting the primary emphasis. We are emphasizing the IVA business or which basically is hybrid VA or registered index annuity. And in that line of business, I would expect -- we're seeing definitely good progress. And as we are putting even more focus, I would expect that we are going to be one of the key players. We have also launched a product for the advisory channel. So I'm pretty confident that we're going to see a good growth trajectory in our Life business in the United States. But with respect to your specific question, whether we are gaining market share now, we need to wait for the statistics of the market.

Oliver Schmidt
Head of Investor Relations

Okay. This concludes our call. Thanks to all of those who have joined. We wish you a very nice remaining day and a nice weekend.

Oliver Bäte
Chairman of the Management Board & CEO

Thank you, guys.

Giulio Terzariol
CFO & Member of the Management Board

Thank you very much. Have a nice weekend.

Oliver Schmidt
Head of Investor Relations

Thank you, and bye-bye.

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