S&P Capital IQ

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Allianz SE DB:ALV

FQ3 2009 Earnings Call Transcripts

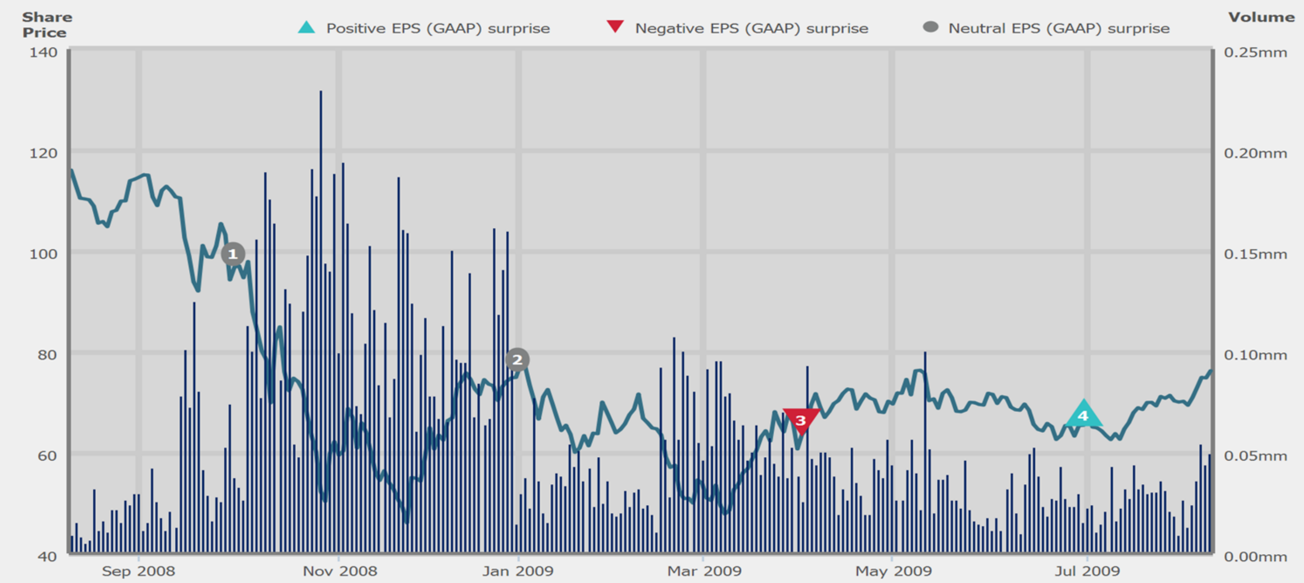
Monday, November 09, 2009 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2009-			-FQ4 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	2.83	2.94	3.89	2.46	9.20	10.76
Revenue (mm)	21788.17	22020.00	1.06	15556.00	89317.29	91142.89

Currency: EUR
Consensus as of Nov-09-2009 1:04 PM GMT

Stock Price [EUR] vs. Volume [mm] with earnings surprise annotations



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2008	(8.56)	(4.48)	NM
FQ4 2008	(5.51)	(6.92)	NM
FQ1 2009	0.47	0.04	1 (91.49 %)
FQ2 2009	2.71	4.14	2 52.77 %

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Presentation

Oliver Schmidt
Head of Investor Relations

Good afternoon, ladies and gentlemen. Welcome to our conference call for the results of the third quarter 2009. As always, we will talk you through the presentation first and then answer your questions. The call will be conducted by our new CFO, Oliver Bate. Oliver, the floor is yours.

Oliver Bäte
Chairman of Management Board & CEO

Thank you very much, ladies and gentlemen. Welcome and good afternoon. It's a pleasure for me to welcome you to the presentation of our results for the third quarter of 2009. It's my first time, so please bear with me.

I'm happy to report some good numbers, which should make it a little easier today and let me go through it, as you are used to. I'll start the presentation with a view on the highlights and then go into the group thereafter into the segments piece. The total presentation should be around 40 to 45 minutes, and then we should have enough time for Q&A thereafter.

We had revenue growth of 5.2% and what is very good news is that we're growing in Life & Health very strongly, also at very good margins. Financial Services growth has been 14%, as Assets under Management in Asset Management reached almost EUR 880 billion, which is the highest ever. The operating profit is at EUR 1.9 billion, it's up 23% over the third quarter of 2008.

Now on the segments we have the following results: The P&C combined ratio is now below 97% at 96.9% with only 1.9% runoff.

Life/Health operating profit is at EUR 859 million and Asset Management inflows and the cost income ratio of below 60% now are at the very top of our industry.

Our net income stands at EUR 1.3 billion, it's up 143% for continuing operations. And our solvency ratio is still very strong at 164%, including the dividend accrual which is, as always, 40% of net income.

Now let me please turn to Page #3. What you can see there is a very nice trend from a low point in the operating profit in the fourth quarter of 2008, continuously up to EUR 1.929 billion. And the net income is up EUR 778 million. Now we have no more loss from discontinued operations, so that directly trends into -- translates into a net income of EUR 1.3 billion all the way through. Now, of course, please note the third quarter of 2008 was, of course, affected by the financial crisis and that has left a mark on our continuing operations in the past year.

Now if we turn to Page #4, you can see the development of our shareholders equity over the last 3 months until the end of September. The equity, shareholders equity grew by 14% to EUR 39,352,000,000.

A significant part, an increase in unrealized gains to now a little over EUR 6 billion. Now the solvency is 164% . I would like to turn your attention to a caveat in the footnote. Solvency is obviously related to rules and we have one position in the private equity sector that we consolidate in the holding that is worth anywhere between 2 to 3 points that we might, at some point, have to deduct from the solvency ratio, so please bear that in mind. And as I said before, we have accrued dividend of EUR 1.4 billion, 40% of net income, but be careful to prorate this to year end because capital markets have been volatile recently again, and net income can be affected between now and the end of the year even though we have only 6 weeks left out and we are also, obviously, at Allianz bearing mind that Solvency II is around the corner so we're watching our capital position very carefully and we are going to maintain a very conservative stance on capital as we did in the past.

You can also see that on Page #5, the key message here on a conglomerate solvency level, we are protected under no stress scenario. Our solvency ratio should fall below 150%.

That's all I want to say on the intro. Let me please go on to the Group section, Page 7 and onwards.

Here you see the development of the revenues. We have recorded EUR 22 billion for the third quarter of this year and the growth number on the total growth side would be relative 4.3%. The internal growth number is higher with 5.2%.

Now the development in the segments varies quite significantly. The strongest growth in terms of internal numbers we've recorded in financial services up 14%, Life & Health was up 13.5% and P&C is down 2.4%.

Now what explains the significant difference between the total growth and P&C and the internal growth has something to do with how we account for the U.S. crop business. The way we have it netted, it's about a EUR 300 million effect if you exclude that from this expense, almost all of the numbers that you see here. It goes out both the gross and the net. This is the main driver in those 2 segments. For the rest, the usual explanation is foreign exchange changes and changes in consolidation. So we have consolidated for the first time our Turkish subsidiary.

Now double digit grows in Life & Health, we've seen in many of our competitors, so the growth number in of itself is one strong factor. You will also see later that our profitability is as good as the topline development.

Now on the operating profit development, please turn to Page #8. You see the segments as in the past. Let me start off with Life & Health. The Life/Health profit are up to EUR 859 million, Financial Services at EUR 332 million and P&C stands at a little bit over EUR 1 billion. While the number and the trend on this chart doesn't look positive, let me remind you of 2 or 3 items. The first one is that our combined ratio is now below 97%, with 1.9% runoff in the range that we consider to be sustainable over time. And the combined ratio improved compared to previous quarters, and I think, I would like to also point out for the first time in 5 quarters, we see a positive development in the operating profit. We've seen 5 quarters of continuous decline, this is the first quarter, where we have an increase in P&C. Now we don't want to call this a turn in the overall trend. It's a positive sign that our underwriting actions are taking hold.

Now one note on the corporate development, you might wonder what the EUR 258 million are really all about. One is foreign exchange effects, a result of EUR 120 million. It's largely related to a positive base effect relative to the third quarter of last year, which didn't repeat itself, and operating net interest, which decreased by about EUR 75 million due to lower interest rates. And we'll be talking about lower interest rate income a little more as we go through this presentation.

I would like to turn your attention now to Page #9, the non-operating items. The most outstanding element is obviously the change in realized gains and losses, it's up relative to prior year quarter, EUR 680 million. You can see the explanation on the right-hand side. Of course, significantly lower impairments accounts for the bulk of the change, also had, however, lower realized gains on the equity side compared to prior year. And let me get your attention for the last line, the big swing in unrealized gains did not come from equities, it came from fixed income, where the swing was more than EUR 5 billion.

Now when we go through the other lines, interest expense from external date hasn't really changed. When you look at the number for consolidated private equity investments, it's minus EUR 34 million. These EUR 34 million are all related to 2 consolidated private equity investments we hold in MAN Roland and Selecta, where we had a write down on intangibles, basically customer franchise value is behind that. So that's not a goodwill charge so to speak. We had restructuring charges of about EUR 60 million, they have 3 components. The first one is the common vest integration of about EUR 18 million, our restructuring at our private equity company and at real estate of EUR 17 million and the restructuring of our Irish insurance company, a market that you know is in turmoil, where we're doing restructuring work, it's another EUR 18 million, so that adds up to EUR 53 million, and EUR 7 million are due to various other smaller items.

Now the acquisition-related expenses that have trended up here in the page are sort of money well spent. It's mostly related to the money we spent on the B-shares for PIMCO. Whenever PIMCO has higher profitability, we pay more for the B-shares. So out of the EUR 112 million, EUR 108 million are related to that.

And then we have other non-operating items which is a mix of the trading result here which is a positive EUR 111 million. And within that, we have various items, hedge gains on various strategic holdings and EUR 92 million on gain on the Hartford warrants, which we're going to spend more time on later.

And on the other hand, amortization of other intangibles, we have incorporated that outside of private equity of a minus EUR 36 million, so that adds up to the EUR 75 million you see here on this page.

So much for non-operating. I would like to then turn to Page #10. There's nothing much to be said on duration on net income. Out of operating profit, maybe 2 comments on the tax side. Effective tax rate onto third quarter stood at 27.4%, which is below the 30% that we typically plan for. That's all related to a positive deviation from next non-taxable investment income.

And the minority interest reduction is basically proportionate to the reduction of operating income we have and the units that have minorities. So as in credit, for example, Portugal the entities generate low operating profit, obviously, the share of the minorities goes down as well.

So that is the derivation of the net income. No more charge from discontinued operations. We are glad.

So that was the Group section, ladies and gentlemen. I'd like to move now to the P&C segment, which starts on Page #12. What I mentioned before, operating profit is at EUR 1 billion, it's still 18% below what we had in the third quarter of 2008. But again, after 5 quarters of continuous downward trend in operating profitability for the first time up. And if you see the analysis of the changes relative to the prior year, there are 2 things that are noteworthy. The first one is most of the change is related to lower investment income, which is down from a little over EUR 1 billion to EUR 811 million. That is due to lower interest rate levels, by and large, and I'll talk about that a little more in a second. And the EUR 64 million we have on the underwriting is less important this quarter and is also more important, it is basically driven by the reduction in the top line, which is outweighing a reduction in claims. So there's no more increases in claims that is driving this as our underwriting actions appear to take hold and is related to the top line that we are letting go in order to improve the margins.

Now if you take the numbers for 9 months, however, on 2009, our operating profit for P&C stands at EUR 2.9 billion, which is down EUR 1.5 billion versus 2008, so it's a large number and has 2 key drivers. I would like to remind you EUR 800 million is basically out of the underwriting results. Claims there increased by about EUR 260 million, runoff is lower relative to prior years and particularly to the previous year which was lower about EUR 340 million. And there is a smaller item, expenses were up in the first 2 quarters by EUR 200 million, this quarter, it's almost flat. So that explains the underwriting results deterioration of about EUR 800 million out of the EUR 1.5 billion. And then the EUR 700 million are due to lower dividends, lower interest rates and higher cash position that we are holding in the economic crisis which further reduces interest income.

Now another portion that reminds us why the difference can be explained with an extraordinary effect in the first quarter of 2008, which feeds into the 9 months perspective we saw in Germany, a real estate portfolio, which gave us a gain one-time of EUR 238 million that also obviously needs to be taken into account.

So that gives you indication of what has been driving the change. Now I would like to pay -- turn you to Page #13 where we give an overview, as always, on the pricing in our units. Now I'm very cautious at these trends because the numbers are always over-interpreted. For us they are only indicators of what happens in the business. So far we only see at the year end really what happened in the portfolio. We always look at price impact on the renewals and tariff increases that we do, which basically take into account on the right-hand side, the bonus-malus effect, but they don't take into account the discounts that we sometimes have given particularly in the agency for us. So I would like to have these numbers interpreted with a lot of cautions. Now, however, what you see in this -- for the first-time we're having the lines on the lower end, you see a gradual improvement from the first quarter of this year to the second quarter of this year and to the third quarter of this year in all of the columns. So we see a positive trend which is apparently stabilizing itself by far and not good enough to balance claims inflation fully now so that the comments I made before we're not yet out of the woods and we're still in a soft market environment where price trends are not in all markets up to where claims inflation is. So we need to continuously work on this, particularly in Continental Europe.

Now I have a couple of good news. In the credit insurance arena, price increases are in excess of 10%. AGCS was also able to raise prices and their number of announcements from our competitors, particularly in the tough markets, for example, like Italy that prices are going up.

So we are having our eyes on the pricing trend and we see some positive momentum. It would be, however, to summarize too early to call it or sum up yet.

Now the topline development, which you can observe on Page 14, that's reflected statements in essence. You see in some markets, we are still seeing declines in overall portfolios. Like in Germany or Switzerland or Italy, we're still working on cleaning the portfolios and taking underwriting action where needed in difficult lines, for example, in motor liability or motor fleets. And in other areas where the fundamental price trends and the market growth sometimes driven by the underlying economies like in South America are positive. There we are growing as strongly as we can with good profitability. And all other areas we're trending to be very cautious and we're very willing to let market share and topline growth go if it doesn't meet our profitability requirements.

As I said before, out of the EUR 600 million that you see in the decline, the change in the program structure alone contributed 3 percentage points or EUR 300 million.

So let's go please to Page #15, which gives you an overview for our most important units on the combined ratio trends. For the third quarter, our combined ratio is, as mentioned, below 97%. The loss ratio stands at 70.2%. The expense ratio at 26.7%. This is a seasonal effect as you see, third quarter expense ratios generally tend to be a little lower. And so that needs to be interpreted with caution. You also see that 3 of our largest units are still working and running with combined ratios at 100% or above, that's Germany, that's France. Credit insurance, however, the credit insurance i.e. [ph], combined ratio is already 20 percentage points better than in the second quarter and we're working very hard to improvements. However for the remainder of the year, we do not expect any significant improvement yet. The outlook is that over 2010 it will improve. On France, as you know, we've been affected in the first quarters by weather-related event and later on by larger recessionary trends. We're working very hard on the large claims area and getting price increases through and in Germany, we have a host of things that we are doing. Let me just explain to you the difference because people are asking, so where the 10% difference relative to the third quarter of 2008 coming from. And I can -- basically, there are 3 major drivers that explain about 80% of the difference. The first one was hail storm and large claims. They account for about 5% of the difference versus prior year. Then we have negative runoff that has of about 2 points that is basically related to larger claims from prior year. Here, we have changed the reserving models. It's very important to understand and we've done so for the loss adjustment expenses where are also now working with triangles and just not proportionate anymore. This has affected the way we account and it contributed to the runoff. And then we have 1 to 1.5 percentage points on the restructuring of the claims handling processes as you know that we have restructured the German operation and we're still working on making all of those processes working very smoothly. We've had some opportunity cost for that and we're working very hard to make this thing non-recurring as we go forward. So that gives you an indication of what caused the difference in Germany, 2 percentage points are all kinds of other issues. Overall cost, by the way, would've been flat. We have one major effect in Germany is related to the recessionary environment. We have what we call in Germany the contribution to the general pension securities scheme, which was 40 added just in the third quarter a number of more than EUR 17 million. So this is large sums of money that also need to be taken into account. Without that, the cost position year-on-year would've actually improved in Germany.

So much for the combined ratio development. Before we move on, you can have 2, it's like a Janus head, you can take 2 perspectives on this portfolio. You can say, well, they're still suffering from challenges in the 3 large units and that is a problem and we need to see fixture. And you're absolutely right. There's a different perspective in saying despite these challenges, our portfolio performed so strongly in the rest of the world that we could show below 97 percentage point combined ratio. And that was only 1.9% runoff. And this is how we like to look at this.

Now there's another perspective on it, which we are trying to describe on Page #16, please, where you see the development of the accident year loss ratio. Now the upper left-hand quadrant shows you the development, including and excluding Cat of the accident year, loss ratio and for the first time we believe we might see the emergence of a trend. Again, it's too early to call it spring, but we have now had about 4 quarters of a good trend and we are now for the first time, excluding Cat, below 71%.

And we're also, and again, let me remind you, because I know it's not common practice now, are very conservative in terms of how we manage our reserves and we reserve the runoff. We refrain from making major moves on runoff in order to make the calendar year ratios look good.

Now the upper right-hand side, just on what has driven the development between the third quarter of '08 to the third quarter of '09, what you can see here is that the price trend is still not balancing frequency and severity. So we have no reason to relax, but we really need to continuously work on that, but as I said before, when you look at the year-on-year change, most of that is topline -- has been top-line reduction driven.

Now let's talk about expenses. Not something to write to grandma and Jubilee about yet. So let me go into the details, both on administration expenses and acquisition expenses. It's important to talk about absolute development as much as it is to talk about ratios.

Now the first when you do the movements and we've now none then also for the acquisition expenses -- when you look at the net increased number, this still shows a positive, which is not fantastic news so, i.e. -- they are still net increases even though they are at low levels. Now please bear in mind on the P&C side, we had still significant investments in fund and in other places in order to improve our infrastructure and we have to do that. We have restructuring, and I just mentioned, the German pension plan, and that is just the admin side, the significant part of that pension is actually is in the acquisition costs that is the balance to the EUR 17 million that I mentioned earlier. So EUR 12 million are also in the EUR 30 million increase on the acquisition side.

Now the other thing that you noticed and that's why I'm always cautioning to over interpret these numbers is what you see in terms of reclassification and method changes. Because of the way we're introducing our new cost accounting system which will help us manage our cost much better going forward. We still have adjustments and quite some of them in the various units, not only between admin and acquisition, but also between the various lines of business. So that is unfortunately adding volatility, hindering us from doing straight-line extrapolation on what we see. What I can assure you that we are continuously working on making these numbers, not only more stable, but over time showing continuous improvement and productivity. So, for example, if you look at the admin expense numbers and compare '09 with '08, you see a net reduction of about EUR 20 million on the total allocated numbers. And we'd like to see them also accounting for after reclassifications going forward.

So that's what we're going to talk about. We're working on the programs. Some of you have questions on the past, "Well do you need new programs?" No, I don't think we need new programs, we need to execute the ones we have. And it's going to take time because we need to take complexity out of our products. We need to really move our operations to lower-cost locations and that all is under way, but it takes time to materialize.

Now moving away from the cost discussion please to investment income, which is very significant in importance on Page #18. Two major driver, of course, are what is the average asset base and what are we earning on this asset base. The asset base relative to prior year is basically stable. You see an increase in debt securities and reductions equity based on what we've done and a slight increase here in cash, which I think is understating the challenge as you see here in the second. And you see on the right-hand side that the current yield is down about 25 basis points in comparison by the quarters, which would be about 100 basis points over the full year.

Now in difference to Life, which we will see later with the duration of a little below 4 years, the reduced interest rates price themselves very quickly into our portfolio. So as you will see in the second investment income is down reflecting these lower rates and is going to remain low as long as interest rates are so low.

Now a further challenge that often underestimated is that in a recession, we hold more cash than we usually do in order to be able to meet increasing demands on the claims payout side. That is one thing to bear in mind. And in the units where our combined ratio is close to 100%, we also have less contribution to the reserves and to the asset base, so you also have a lower asset base to earn money on as you look into this.

So let's look at Page #19, where you can see the effects and the operating investment income that you can see here is down 20% from above EUR 1 billion down to EUR 811 million, which equates to about 8.3% of net premiums earned, even though it will be better to look at it in terms of the percentage of the Assets under Management as the equivalent basis.

The key driver, of course, is interests and similar income that stands at EUR 865 million from which we always subtract the investment expenses. Now when you look at the changes, the EUR 184 million reduction, EUR 120 million are due to lower interest income from lower rates. EUR 40 million is based on the dissolution of the French sub-cash pool. We had cash flow below the holding level in prior years, which inflated somewhat the earnings in the previous years, but also the investment cost on a net basis. It's almost a wash and we have EUR 24 million of the reduced asset base due to lower premium income, as I said before, and the effects of higher combined ratios, particularly in the markets where we are above or at 100%.

The question always is what does that mean looking forward. What is the right number? What can we earn over the year? The various assumptions I think we believe around EUR 800 million to EUR 850 million per quarter is what we believe, so anywhere between EUR 3.2 billion and EUR 3.4 billion, we would see as prudent in terms of our assumptions, as long as we have this low short-term yields. That is what we have and we are planning for.

So this would be it for now on the P&C segment. I would like to move now to Life & Health. Page 21 gives you the overview of what happened to operating profit. It's now at around EUR 860 million, dramatically up, so to speak, from last year to third quarter, but, of course, that quarter was already significantly impacted by the financial crisis. So we've seen still a return from low levels from last year.

Now in order to interpret these EUR 859 million, I'd like to tell you that we would consider to be about EUR 150 million out of those EUR 859 million to be above the normal level, i.e. recuperating losses from prior year. So anywhere between EUR 700 million and a EUR 750 million number, we would consider to be normal.

Now when you look at the drivers on the right-hand side, you see the strong swing in the investment results. The technical result is basically stable and we have a positive development at the expense result. Now I would love to tell you, this is due to great management, it isn't. It's mostly accounting-related, as we have changed the accounting systems on the Life side and the accounting methodologies. So this is mostly a technical effect that is related from that.

So these are the drivers of operating profit, and I would like to now move to the growth side on Page #22. What is very nice to see is that growth is very strong in many, many of our core markets. In New Europe, it's down because of the economic digits we have in Europe, but also because we are more heavily relying on bank distribution and, as you know and have seen over the last year, banking distribution is highly volatile. We had that in Italy where it's now strongly back. But so there's less stable also because the portfolio is still smaller and it's down in the U.S. for the right reasons because we cut our VA product in the first quarter and just relaunched it in August. So the topline is down, but nevertheless, we believe we would have good growth overall also in the United States for this year.

Again the good news, we're growing in Germany, we're growing in Switzerland, we're growing in Italy very, very strongly, we're growing in Spain, we're growing in France, we're growing in Belgium and we're growing in Asia-Pacific. And we're not just growing in these markets, we're also growing in both product segments, those in the traditional products and the investment-oriented products. So we are very happy with the balance of the growth that we are seeing across markets.

Now if you then go and say, "Well, growth is fine, but we know that in Life, profitability is an issue," I'm very happy to report that we're not just growing, but profitability is also good. Why is profitability good? Page 23 shows you the present value of the new business premium and our new business margin. On this page it looks like that this margin is actually down. First let me comment. The 2.4% new business margin is very good. And it's also very important to understand how we calculate that. We are, as you know, from our MCEV calculations are very conservative in how we do that. We're using the June swaps rate and September 30 volatilities and we are not using huge liquidity premiums as that is gotten used to in the marketplace, that's the first measure. The second one is that we have had changes in our economic parameters that reflect lower interest rates. If we look at this on a like-for-like basis, this margin would have been at 3.2%. A very, very good number and it's even above the target that we have. So the 2.4% is actually a very good number that drives up the value of our new business by 4%. If you take the conservative assumption of 3.7%, if you look at on internal growth basis, i.e. adjusting for foreign exchange, by and large.

Now it's not just true on an overall basis. What you can see on Page 24 is that we're having positive margins and positive value of new business now across all of our regions. That includes the U.S., where as you know we went through very difficult times in the fourth quarter of 2008 and the first quarter of 2009. And you see that on the right-hand side, the development of the U.S. Life new business margins. We have now also back in positive territory, which is very good news. And Europe is still extremely strong with 3.1%. And even in Asia, where a lot of people are not making money, we have a positive margins of 1.5%.

Now for the last time, I would like to do a split up on the development of the operating profit in the United States, that is Page 25. The swing of EUR 400 million that we had over the year is basically driven by EUR 337 million in the fixed annuities and fixed indexed annuities. Business -- the lion's share coming from the credit spreads improvement in interest rates and lower impairments and various other points. The VA net effect is a mixture out of lower impairments and some market movements and the balance that we would call a breakeven and then you have about EUR 67 million all kinds of other effects on cost and other items. So that's explains to you, I think, quite nicely the overall swing we had on the operating profit basis in the United States.

Now let's turn to flows. Yes, I really like to look at flows and particularly at the operating asset basis operating profit in Life is a difficult to interpret number. Our operating asset base has significantly grown and not just because of the market effect you'd see on Page 26, which at EUR 13.1 billion, but also due to the fact that we had positive net flows. The last quarter, it was EUR 6.5 million, now it's another EUR 4.5 billion. And you have net increases across all regions and markets, except for in Europe, where we are flat.

So I think that should be a very good news. You see that reflected on Page 27 on the left-hand side, the average asset base is up 9%. And that explains and as you will see later, that our investment income is still very stable despite the fact that current yields have trended down in Life, not as much as in P&C, but has trended down here as well. So the growth in the asset base is overcompensating the reduction in the current yield.

And what you can obviously also see and we've disclosed this for the first time is that we've had a shift from equities and debt securities and is obviously having effect on our income as well. The end of period assets by the way at the end of September would've been already EUR 310 billion, i.e., further up from what you see here.

Now Page 28. As mentioned before, we are counterbalancing the effects from your lead through significantly increased Assets under Management so our interests and similar income has risen by 7.4% to almost EUR 3.6 billion. And we believe that this is not a one-off, but as long as the asset base grows as it does and we're very comfortable, we have a relatively stable debt yield of 1.2%. We believe we can maintain this level of income for the foreseeable future.

So that would be the overview for the Life business, which shows very nice development, both in terms of topline margin and assets development.

Financial Services. Page #30 gives you an overview for the segment that you know contains 3 items. The most dominant one being Asset Management. Then our banking activities and alternative investment management, which we group here. We just saw as the non-material from an earnings standpoint.

Operating profit is almost doubled to EUR 332 million, driven and major impact here is Asset Management, which grew from EUR 186 million to EUR 368 million. Banking had a minus EUR 20 million development, the minus EUR 20 million is basically the set up cost of Allianz Bank in Germany and it's still in line with our forecast and the setup cost that we have planned for the bank. So no negative surprises. And if you have might have questions around the Eastern European units , I also don't have any concerning news about that. They're operating in a very difficult environment, so gross development might not always be as forecasted, but we have in defense too many other competitors or banks operating in Eastern Europe. No major problems, not the least because we don't have large commercial loan books. I would like to state this upfront, so we don't have too many questions. We are there in a very, very selective area in terms of financing and almost always only personal lines business and very selective personal lines business. So we are not expecting any major headaches from that side.

So let me move to Asset Management, which is a great story, Page 31. Internal growth of operating profit amounts to almost 80%. There are 2 major drivers, net fee income is up and other income, which is basically performance fees. They're very significant this quarter, but bear in mind this is a seasonal effect. We do earn the performance fees towards the end of the year, so it kicks in, in the third quarter and with some effect in the fourth quarter, so it cannot be normalized over the year. And I would also like to comment on operating expenses, it looks like it's negative because it added EUR 18 million. The reality is the opposite because this is the integration of common vest. If you will take out the well-managed integration, the effect would've been positive. So Asset Management was able to grow the profitability while increasing productivity, something that's very good. And I would like to point out that a cost/income ratio of 59% is truly remarkable. We are planning with an over time cost income ratio of about 64% or 65%. This is what you consider to be in the normal range so that number is really outstanding. I wouldn't say sustainable always, but we celebrate it as long as it is there.

Now on Page 32, you can also see that this is not just good from an internal perspective. For the first time, we're trying to look at this a little bit relative to peers, peer averages and the various quarters. And we believe AGI are doing a very, very good job in terms of managing productivity. And not just the productivity, but also flows have been very good as you can see on Page 33. And this is not just absolute numbers, let me again point to a few comparison as we find that appropriate. We're not picking any particular, but we have a global peer group that we tend to look at. And Page 34 shows you the inflows. Now those numbers are necessarily more volatile, but here, I think also AGI is showing a good record.

Now flows translate into Assets under Management helped by the market, Page 35, gives you the numbers. We are now at almost EUR 880 billion in terms of third-party Assets under Management, which is a growth of 11%. So double-digit, and the total Assets under Management are now significantly in excess of EUR 1.1 trillion, because those would include the insurance assets they manage. And the net fee and in commission income that you see on the right-hand side is also up on a nominal basis, almost 20% on an internal growth basis i.e. adjusted for excess is still almost 10%.

Now the key driver here and that you see from Pages 36 following, is our high-performing fixed income business. They are doing great on Assets under Management on the performance and operating profit. Last year, as you remember, they had less like very much of the market because almost nobody anticipated the decline of Lehman Brothers, which really hit also PIMCO. They are now back to the top of the class and operating profit is also very good. Their cost/income ratio is actually below 48%, which is truly remarkable.

On the equities side, Page 37, we are not yet there where we like to be. However, after 2 quarters of net losses, we are now in the positive territory. We've earned EUR 15 million in the quarter and for the year, we hope to be in black numbers. This is due to very stringent cost management which we instituted and you saw that in, as I mentioned in the initial phase, we still have some net outflows despite the fact that Assets under Management have been growing from EUR 130 million to EUR 137 million helped by the market. We still have EUR 800 million outflows, while they're down, we really need to watch that and support the Asset Management business. The same holds true for performance, which is depressed for most of the -- along equity managers and we also believe that we can turn this into even better numbers going forward.

So that would be the comments we would have for the Asset Management businesses and Financial Services. So I'd like to summarize what I just told you. On Page 39 before we move to the questions.

Revenue growth of 5.2%, Life/Health grows strongly at very good margins. Financial Services grow double-digit and Assets under Management reached EUR 880 billion, almost.

Operating profit stands at 1.9%, up 23%. The combined ratio after 5 quarters of decline is now below 97%, even though we have booked conservative runoff of 1.9%.

Life operating profit stands at EUR 860 million and Asset Management inflows and the cost/income ratio of below 60% are clearly at the top of our industry. So very happy with operating performance, even though we believe in P&C we still below what we would consider a normal level and have to work very hard to improve the situation significantly going forward.

Net income is at EUR 1.3 billion, up 143% on continuing operations. And the solvency continues to be very strong at 164%, including a 40% dividend accrual. And we consider the strong solvency position to be the real competitive assets. We -- just to hit the question, before we get into the questions, we plan no capital increase either a real one or a camouflaged one.
And with that, I'd like to open the floor for questions.

Question and Answer

Operator

We will now take our first question from Will Morgan of Goldman Sachs.

Will Morgan
Goldman Sachs Group Inc., Research Division

I have 2 questions, please. The first one is you very helpfully gave some guidance on where you think the investment income should be in P&C. However, presumably the effect of yields on your portfolio would be a reduction, not only in 2010, but also in 2011. So could I just clarify, are you talking about a run rate that we would expect for 2010? And if so, could you just comment on how you would see the trend going into 2011, whether you would expect stabilization or for that yield to continue to trend down, given the duration of your book? The second question just relates to your Life business. Looking at the new business margin, obviously, you described some of the trends that made it increase year-on-year. But relative to the second quarter, you're seeing a reasonably solid increase. Clearly, I mean things like [ph] have improved. Although looking at kind of long bond yields, I mean, they've almost come down, if anything. I just wonder if you could talk through what's really driven that change? That would be very helpful.

Oliver Bäte
Chairman of Management Board & CEO

Okay. Well, I got 2 questions let me just repeat. The investment income, I think I would like to answer in 2 sections. The first one is sort of 2010, new normal environment and then separately a comment in 2011 because I consider this to be a very difficult one. Now for the 2010, if the numbers stay as they are, investment income given the lower environment would trend anywhere between EUR 3.2 billion and EUR 3.4 billion. So that's significantly below what we have communicated so that to be the underlying operating profitability, if you remember, what Michael and Helmut talked about during the year when we had this about EUR 8 billion operating profit for the normal year. So that is the lower investment income part. Now that doesn't mean that it has to stay that way because we have been extremely cautious in terms of how we have structured the investment strategy and we have such a strong capital position that we can consider to be doing smart investments without taking any more risks so that number can be slightly improved. But you see you will not see significant jumps until interest rates go up again. Now that leads into the second part of your question, Will. Our economists believe that interest rates are expected to trend upwards, but to be honest, if I knew exactly where they would be going, I wouldn't be sitting here. But maybe somewhere else and doing much better. So what I'm trying to say is we're very cautious to predict an increase in yield, but I also would not say it will stay down all the way. So we are firm and that's by the way we're making not strict forecasts. I can be reasonably professional in terms of telling you something about 2010, but I wouldn't like to speculate, if you allow me please, on 2011. Okay? Now in terms of the new business margins on Life, we said overall, 2.4%. If you compare the new business margin development between the various regions. And I think your question was, "Well you had Q2 1.8%, now it's 2.4%. What's the difference?" It's basically driven by a regional split so we had product and product mix changes that are very significant in Europe, for example, the new business margin is up from 2.7% to 3.1%. Asia-Pacific by the way went the other way from 2.0% to 1.5%, that's a mix effect between markets and products. But the most important mix is that we had a swing from a minus 0.6% in the U.S. to a plus 0.7%. So moving to U.S. into positive territory has made all the difference here. Is that a good answer?

Will Morgan
Goldman Sachs Group Inc., Research Division

Just on the first interest rate question again. If I could just rephrase it. If we were to assume the current yields prevailed for the next 2 years, would we still expect to see a decline in the investment yield of your P&C portfolio in 2011?

Oliver Bäte

Chairman of Management Board & CEO

Yes, of course. If you prorate this just -- but I wouldn't do that, I would be very clear that the 3.2% to 3.4% is what we have for now, but if nothing changed, that is the number that would stay. With P&C, with the duration of just below 4 years, so that would automatically reprice itself downward. And we have to be very cautious here not to make errors. Now the other reason is, by the way, and I would like to point that out because that's typically mixed up. This is not just an effect of interest rates trending down. What is also we are holding significantly a larger share of the assets in cash, as I mentioned before, and that depresses margins further. So if we could get better, for example, cash flow forecast, then the earn yield would go up because while interest rates are lower, we would hold less money and cash. So we have a few levers to work upon that give us some upside. But by and large, we'll stick to what I've just said. Okay?

Will Morgan
Goldman Sachs Group Inc., Research Division

Yes, that's great.

Operator

Our next question comes from Michael Huttner of JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I had 2 questions please. The first one is on German motor. Can you say what the combined ratio is at 3Q? And I know Allianz has this focus on profit rather than market share. Certainly listening to your competitors' conference calls, they seem to doubt that very much. And I just wondered if you can explain the lack of progress, if you will, from our point of view in German motor. And if there's any upside, it would be helpful. And then the second is on the debt. I was looking at your figures for certificated liabilities and this is from the interim report and it's really clearly presented. So it's very helpful. Full year rate was EUR 9.5 billion. 6 months '09, so June '09 was EUR 6.8 billion. And 9 months '09, for September '09 was EUR 8.25 billion. And I know there was EUR 1.5 billion issue in July. I just wondered, given your huge cash pile in non-Life, why did you issue that bond and why do you have that going up and what might be the trend number in debt? Is it stuck where it is, basically?

Oliver Bäte
Chairman of Management Board & CEO

Yes, good questions. Now let's talk about the tax for motor insurance in Germany. It's really a challenging segment. And the total motor combined ratio was 113.8%. So we are not making any money in German motor in the third quarter, and that includes a negative runoff of 1.7%. So these are the facts and I gave them to you as they are. Now are we happy about these results? No, we are not. And we're working very hard. As you know, we have announced a number of measures in particular in terms of cleaning the fleet portfolio. That is a significant part. But before I move on, I didn't understand Michael, the second part of your question. You said that listening to competitors' calls, you were not convinced that...

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I am convinced, but your competitors are not. Generally made a long presentation saying Italy better, France, okay and Allianz -- sorry, Germany well, Germany because of hook over in Allianz, no hope at all. I mean it was mostly a conference call. They didn't talk much about anything else. So...

Oliver Bäte
Chairman of Management Board & CEO

Yes, well, of course, now I understand the question. Well, we generally try to refrain from comments about our competitors, right? So I'm not going to comment on those, but I now understand at least what they were saying. I think it's very clear and I've made this message also this morning to the journalists. We care for profitability, we cannot care for market share as the primary dimension. So that is absolutely clear and we are absolutely determined to improve the profitability in motor. And there were questions by somebody say, "That means you are not the market share leader in terms of premium." I would say, so be it. We should not be defending market share for the sake of market share only. Now we also have to obviously make sure that we don't lose profitable customers, so that is not contradicting each other. So we will make motor more profitable over time. Second observation is trends in the motor market, to my mind, are significantly driven by the overall level of capitalization and in an industry in the share of those competitors that have very strong balance sheets and are in the form of a mutual because they can, for a significant period of time, burn the capital that was accrued over the very hard years. As you know, we had a positive cycle between the end of 2002 and 2006 when we basically, the market, topped in terms of profitability. And since then, the market has gone south in terms of profitability, particularly in motor. Now the situation has been exacerbated by the fact that new business in motor has gone down significantly because of the economic crisis. And a lot of new business actually flows through other channels than traditional agents or direct channels, for example goes through motor dealers in the OEMs. And that is putting additional pressures on traditional players and on the mutuals. So this intensifies competition to a degree that has led to significant losses in the market. So by and large, we have a situation in Germany that is worse than in most other markets in Europe. In Italy, for example, you do not have large mutuals that can drive prices this way. So that explains, at least in my mind, the motor situation. Let me repeat, we will do everything we can to make this overall profitable. So the second question was to our consolidated statements page. I think the 78, you had? Increased the senior bonds from 4.1% to 5.3% and money market securities went down from 4.1% to 1.7%. So the overall number that we have in terms of equivalent instruments went down from EUR 8.2 billion to EUR 7.0 billion. And we really did the new issuance to basically profit from the very good spreads and low interest rates that were offered in the market, i.e. 4.75% in euros. We wanted to really make sure that we reduce our funding costs and I think we've been very successful. By the way, if I look at what competitors said, because shortly after us, 2 major competitors did exactly the same thing.

Operator

Our next question now comes from James Quin of Citigroup.

James B. Quin
Citigroup Inc, Research Division

Two and a half questions please. The first one is on the Asset Management business. We're still getting quite substantial amortization costs coming through below the operating profit figure. Now obviously that's due to the very strong performance in the quarter. But I was just wondering if you give a sense of what is the maximum amounts of amortization that we still have to go over the next 2 or 3 years? The second question is back into the P&C business. The combined ratio for the first 9 months was 98.2%. But other than credit, I guess, it's a bit hard to see where the improvements are coming from that you would be expecting to get you down, I think, to the sort of the new 96% base. I mean clearly, the claims costs are running on your numbers presumably about 2% or 3%, which is higher than the increase in pricing. It doesn't necessarily expect -- it's not like you expect a lot higher reserve releases. And so I was just wondering where you would see the levers to be able to drive the improvement, other than perhaps, obviously, drive credit. And the third question, which is just aligned to that. On the expenses slide, you've got some quite big reclassification and method changes and I just wondered if you could explain what are those?

Oliver Bäte
Chairman of Management Board & CEO

Yes. James, okay. Lake me take them in turn. Very good question. Now on the amortization, as you know this is the so-called B-shares in PIMCO. When we acquired PIMCO 10 years ago, there was a participation outstanding that we would and had a deal that we would either call or they would put the interest in the company and the structure is a real win-win for shareholders because when the profitability is very high, then the expenses are high and the other way around. Now what we always also said is that from 2005 onwards, these numbers should go down consistently over time. They were EUR 677 million in 2005, EUR 523 million in '06, EUR 488 million in '07, and they have been trending down further and further in 2008 with EUR 278 million. And we're expecting it to be EUR 245 million by even lower in '09 and it should taper off in '10 and '11, with about EUR 180 million in '10 and, about EUR 115 in '11. So these numbers are going to go down consistently over time and operating profitability should continuously improve. It's very important, these things are acquisition costs. They were part of the original deals so there's nothing to do with retention so anything and the like. It really ensures continued internal turnout interest of the management into success. And I think we're very happy with the acquisition that we have made.

James B. Quin
Citigroup Inc, Research Division

So there's no changes to that than which would be...

Oliver Bäte
Chairman of Management Board & CEO

No. The only thing that's why I said earlier, maybe I wasn't clear, is because of the exceptional profitability of PIMCO. Now obviously the cost for the B-share re-acquisition is also high at this point in time, okay? But we have the few B unit outstanding. They are all amortized but I don't want to go into the details. So this is just reflecting the underlying but the deal has been very good and it trends down over time. This is really what you need, I think for the valuation. Now P&C, I think it's a very good question to say, well, it's 98.2%. Let me reiterate a few points. We said at the second quarter when you asked us, well, it's all terrible. Where is this going? Helmut and myself were sitting and saying you're absolutely right, but please bear in mind we have a number of extraordinary effects this year that we would like to go through and that answers part of your question. Let me do it, if I may, not by cause but by country because that makes it easier. The first one we have an effect of about half a point in Germany that we would consider to be temporary. The first one was the significant claims we had in the winter. And we had also hail storm effects in July, significant events, 2 weekends. One in the beginning, one in the end that had very severe effects. So while you could say some of the larger claims we had due to the recession, they will stay here, but particularly, the weather ones, they are very, very large and we have some cost items that I mentioned, for example, the German pension support scheme, which were truly unplanned and very, very large. I mentioned the EUR 17 million before just for the P&C segment. That's a large item, which we hope we don't see again. Then in France, you have at least one point in total impact on the portfolio that is related to recession. Let me give you an example. In the year where we had the largest number of claims above EUR 5 million, which was 1991. We had 4 of those claims in the total year. In the first 9 months of this year, we had more than 10 of those large claims and the number has been not receding over the last few weeks. So we have recession-related claims in France that we have not seen before and we are working very hard with our new technical head that tried to be making sure that we get these things under control. Also because not many other companies in France have that, I have to just openly state as it is so we have to really get that fixed. But the good news is we believe that should be getting under control. We, for example, canceled a number of segments and client relationships in the highly exposed areas of industry and the other part is we had significant weather-related events as well. That is not just the Cat events. There were some closer, but other hailstorms and floods that have affected us in the higher net base. As you might remember over the last few years, we increased our net retention and that obviously is impacting us when the going gets tough. So we believe some of that, at least, should not be reoccurring. And then we had significant impact, as you know, in Italy, from Bersani and from the integration. Now just to put it very bluntly, I think it's about the regulator has called the number of companies and asked for capital increases, an indicatory for price increases. Allianz now accounts to, in our numbers for almost 45% of total market profitability that is obviously unsustainable and prices have to go up. And we are now below 100% in the combined ratio in Italy and that is better than most other companies, at least I have seen there. So we believe that it's a turn in the market. Will it happen immediately? No. Also in Italy, let me remind you our results are impacted by the earthquake in the Abruzzo mountains in April, that also overall gives for the group and effect if I take these things together of about 0.3% of the group combined. And then there is the credit insurance, which I mentioned, which adds another 50 basis points to the overall picture. So I don't want to add these numbers all up because that would be not professional, but it shows you that we have, overall, about 2 percentage points in the overall combined that we would consider to be temporary. And that is before any effects on the cost side that we've been working on and that eventually have to come to the bottom line. And that's why we're announcing not new measures on the cost side, but it really has to come through with what however we have launched. I don't think it would make any sense to launch yet another program, but really focused on executing what we have in the machine. So that is, I think, where the improvements should come from. They should not come, and I think you made this on a side remark from reserve releases, we don't believe that it's good practice to show 5%, 6%, 8% run-offs and then declare that as a sustainable. We don't believe that it's a sustainable for no company. And we believe the band anywhere between a base of about 2% maybe in some good years, 3%, 3.5% is an acceptable run off. Now on the expenses, you correctly said we have still some very significant variations in the costs and I have to tell you, I'm not very happy about that either. But in this particular case, in this quarter, by and large, the effects that you see in admin and acquisition can be traced to AGCS, our large industrial lines carrier. As you know we have taken the Marine portfolio out of firemen's fund and into AGC&S and we are doing other kinds of improvements in the structure of AGCS. For example, they're moving to a branch structure and in that process, they are significantly restructuring their cost accounting and that explains the large part of the swing. First comment. Second comment, as of next year, the first quarter, major reclassifications are basically disallowed and have to go through Munich here. So we should see a significant reduction in reclassifications. Now hold your breath, it's not through yet, but we need to have it in order to make our cost base more steerable and the cost accounting system is brand-new. We just introduced it this year, so we're working on it. It should give us the levers in order to really now manage our cost base much better than in the past. We started on the admin expenses a few years back. By the way, there you see a net reduction in the absolute amount, but we also need to get our acquisition cost under control because it's truly obvious in an environment where we're losing topline, we should not see an increase in acquisition cost expenses. So that's my comment on the cost accounting.

Operator

Our next question now comes from Deutsche Bank, Spencer Horgan.

Spencer Horgan
Deutsche Bank AG, Research Division

Three things, I think, please. Firstly, in terms of Asset Management, you mentioned that inflows and particularly, in this quarter, they seem to be really very big. In fact, it's a record number, I think. I just wanted to get a view -- are there any particularly large Mondays that have come in this quarter I'm just trying to get a sense of whether that's an exceptional, just a reflection of the formative PIMCO and the spare money that's floating around? Second point was just to make sure I understand the message on dividends. So you've accrued roughly 4%, 5% for the year, which is up from 3.5% last year. Is there any reason we shouldn't use 4% as a base? I hear what you're saying in terms of wanting to maintain balance sheet strength, but I guess increasing the dividend from 3.5% to 4% don't really make a material difference to the balance sheet. So maybe if you could just set my mind clear on that one. And then just lastly, on Solvency II, I think you gave us a broad view of what solvency variance would look like on a quiz 4 type basis at the end of last quarter. I wonder if you have an update on that number and then may be also you could give us your view on how Solvency II is developing, because I guess there's a lot of consultation papers and so and so forth floating around at the moment.

Oliver Bäte
Chairman of Management Board & CEO

Yes, Spencer. Good questions. On the Asset Management inflow, I have to tell you I'm not aware of any large mandates that has really driven this. We're not aware of that. A lot of the inflows are really sort of coming from all kinds of directions into the product portfolio's PIMCO. By the way, this is not just the absolute return funds, it's all of their products. So For example, as you saw there they started 2 new [ph]. They have solution businesses, all of them are growing very strongly and it's an effect of the extremely strong performance. Now what you're asking, is this sustainable? That's obviously related how well they can maintain the record and we are confident they can, but you cannot have these inflows obviously pro-rated forever. And at some point, there's a certain saturation and a reversion to mean, but for the time being, they grow and continue to grow very strongly. To be precise, out of the Asset Management's inflows in the third quarter of the EUR 33.2 billion, we had negative flows, if you've seen, of about EUR 0.9 billion in equities and positive flows of EUR 34.1 billion, which is truly staggering number in the Fixed Income segment. So the second question was around the dividend. Let me reiterate, we are accruing 40% of net income. So there's number for the first 9 months is higher than the number for the last year. But let me, again, very cautious on prorating that and it has a number of sectors. First of all, even though while some, I think, there's only 6 weeks until the year end and we haven't heard any major bad news, we are not through with the years. We've had lots of capital market volatility in the last few weeks and that can influence net income significantly as you know. So there can be downward effects. Second effect is we really guarding our solvency. I mentioned before we have 3 points that we have to, sort of in our minds, deduct potentially for private equity investments. We have to hold so we would watch that and we have Q1 to come as well for the next year because as you know, we are paying later in next year our dividends. So we want to see how that is developing. I think the prudent management of our balance sheet that we've taken of the last 18 months has paid off very nicely. So we're trying to stick to our knitting here and are not causing, or really just for causing the rally. We see where we are. And one thing I promised, if the 40% of the net income is higher than it was before, then we will stick to our knitting. Okay? But we need to get through the story first and then we'll talk about what the dividend is and the fine legal remark of course is we can only propose to the Supervisory Board. They can make a different decision. We have all kinds of influences on that as well as we are still a German company. Now Solvency II, we have given you an update. We don't do an update quarter by quarter. So we don't have a precise number here. And the second reason, since many of the pipes are moving now because of all of the consultation papers and what will be accounted for and what are the requirements. I can give you a broad range and it would basically tell you we're about between 175% and 220%, 225%. Why such a significant range? Again, there are number of parameters that are fluctuating all over the place in terms of what types of risks are being assessed and particularly what is counted for as available. I'd like to remind you a lot of people focus on the requirement side of Solvency II. That's actually overstated a lot. What is really important, it's really important to take into account what is the available capital, how our participation is being accounted for. And again there's a lot of insecurity, so we wouldn't like to give a number, however, we feel well-capitalized even under Solvency II scenario and we're working very hard with the regulators to make sure we get a sensible outcome on the discussions. At this point in time, we feel a lot of the discussion is influenced by events during the crisis. So everybody is trying to be overly conservative. And all of the individual levers, if you then add up the numbers, they don't make any sense. So we'll have to see when the first internal models come into place, the numbers are being looked at and I'm very hopeful that the regulators will understand that whatever comes out needs to make sure that this industry can prevail and functions very well. So on Solvency II, we think we are on the right track to meet the requirements that are coming. The one dimension that is always forgotten in this debate, because we always talk about Solvency I or Solvency II, is the rating that we have from Standard & Poor's and from Moody's. Please remind you, and A.M. Best, I don't want to forget, even though it's a little farther away, we are very proud and that we have a stable outlook, AA rating. I think from the international insurance company, the only having that rating still. And that is a very important aspect of what we manage for, the once we have managed our Solvency I requirements. I'm mentioning it because on the Solvency I, the capital requirements for interest rate risks are not so prevalent. They are in the capital ratings and so we're paying close attention to meeting the requirements here. And that adds to our -- the necessity for us to be conservative on the capital side. So that would be it, I think from my side, Spencer, on Solvency II, if that's okay.

Spencer Horgan
Deutsche Bank AG, Research Division

Yes, very interesting.

Operator

We'll now move to KBW, and William Hawkins for our next question.

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

First of all, Oliver, on Slide 26, when you mentioned the net inflows, as you said, they're actually down slightly on the second quarter and there appears to have been a step down particularly in German Life and in the U.S. I just wondered if you could give any background. The new business performance seems to be okay, but those 2 net inflows look a little bit light. And then secondly, that was and you've already given us very useful information on the combined ratio. But I did just want to be clear in Germany, with the negative reserve developments and the claims handling costs, on the last quarter's conference call, I got the impression that these were perceived to be very short-term issues that were would fall to 0 very quickly. They clearly haven't fallen to 0 in the third quarter. So would you just like to have when those particular numbers may disappear?

Oliver Bäte
Chairman of Management Board & CEO

William, I've got it. And we'll prepare on the second one. Let me hit the first one first. Yes, it's true, we had -- in the number of markets, we had stronger flows in the -- during the first time. Now let me hit it one by one, in Germany, it was EUR 2.2 billion in the second quarter, it's now EUR 1.2 billion. We had a significant pent-up demand issue in Q2. So the Q2 and so far have been a little bit misleading because a lot of people that wanted to do investments in the first quarter and did not invest in the first quarter did that during Q2. So if you want to say so, we had a catch-up effect in Q2 relative to Q1. So I would call the Q3 number a more normalized number. Then on France, the number was 1.1%, now it's 0.8%. We've reduced consciously one thing because competitors have increased the rates they're offering in the market, above what we would consider to be sustainable levels. So when you look in France, what is the risk-free rate that you can earn on deposits and earn on the capital market, what some insurers are offering and guaranteeing, even though they were doing it only for one year, but they do it every year, we find some of these products unprofitable. So we've cut back on growth because we want to protect our margin. On Italy, it's the reverse. It was EUR 0.1 billion, we're now at plus EUR 0.8 billion, so we have EUR 700 million more particularly because we have launched a very, very interesting product that offers minimum guarantees and some interesting upside in the capital markets. In Western Europe is basically flat. New Europe is a little down, I mentioned that before, because of the recession and the dynamics we had in the topline. And in the United States, again, it's basically a balancing effect. We had catch-up of EUR 1.7 billion. For the second quarter, it's now EUR 0.6 billion. Asia-Pacific is basically flat. So this explains the difference between the 2 quarters, at least from our perspective. Now the more serious question is around Germany and what do we expect. We have lots of discussions, I think, there was a significant project with our involvement also from the group with the actuaries in Germany. And the good news is that we do not expect further negative impact on the runoff side. That's our current understanding and I think that's very good news. And we keep our fingers crossed that is turns out to be the way. Because with actuary analysis, you all know we only know after the fact of what it really says. The claim handling effects should taper off during 2010. We have lots of people working feverishly in terms of making the fixes, which is particularly training our claims handling employees in the use of new technology. Let me spend a minute on that because it's very important. We've introduced new processes. We've introduced new technology and we have had a lot of new people handling this new technology. And there are very simple things that have to be re-learned. So, for example, on how to close claims and now with people have to actively close claims, they didn't have to do that in the past in a sense of paper files pile up on the desk and eventually somebody would tell them to get these things done. We don't have that today and so we needed to introduce a new claims closure process to make sure this is really happening. And as long as we have no more major weather-related claims, which we never know, and by the way, I personally believe the underlying current trend in weather-related event is going up, or down. The underwriting discipline should pay off in motor at least our plans tell you so. Now I would like to put a point of caution around it and just to hit off something around on the outlook. We are in the middle of our planning dialogues. For example, we haven't really sat down in detail with our German colleagues on all of the portfolios, so even if I wanted, I cannot give you yet a full picture of where the year is going to go fully. I can tell you that by the end of the year, what are the perspective is on in the details. So this would be my answer on Germany. And again, our understanding is no more further negative impact on the run-off for Germany.

Operator

Our next question comes from Fabrizio Croce of Kepler.

Fabrizio Croce
Kepler Capital Markets, Research Division

Actually, 3 ones. Does your lower ROI already include some dilution for the inflation-linked bonds or did you not yet enter these asset class? And are we speaking so only about the duration effect? The second point is your command ratio is pretty much deteriorating, mainly due to NatCat. The question is, is it not time to revisit a bit the reinsurance coverage? And third is, in terms of goodwill impairment, due to lower growth in Italy, actually triggers some goodwill impairment by end of this year?

Oliver Bäte
Chairman of Management Board & CEO

Okay. Fabrizio, I got your questions. Let me start with the interest rate. I think return on investment is what you want to say with regards to investment income. This is not reflected by any move into inflation-linked bonds. We don't disclose our investment policies in detail, but what you see is we don't have an effect from any particular investment. The combined ratio effect on weather related events is actually a very good question. I think our overall reinsurance strategy is the right one because we are seeding less profit to reinsurers and in our portfolio, that's a good idea. However, I would tell you that we've had a number of weather-related events just below the Cat attachment points and we're actually carefully analyzing that and saying should that have any impact. So it's a good catch here. And with our team, we're carefully looking at it. The last one goodwill impairments, it's very, very important to understand that in Italy, we have only a small goodwill from the acquisition of Lloyd Adriatico at the end of 1990s, right? So we don't have any Italian goodwill from the minority buyout. Why? Because it was a transaction between equity holders and it's offset against equities. So it's a step-up acquisition so there's no goodwill that is at-risk here in the group accounts. I think I would like to use, I think we're over time already, right? So let's hit 2 more questions.

Operator

We'll now move to Redburn Partners and Paul Goodhind.

Paul F. Goodhind
Redburn (Europe) Limited, Research Division

I have 3 questions, please. On the non-Life side of the business. Firstly, could I ask about the recession reclaims in France? I'm intrigued by this because are you saying that these 10 large claims that you've seen, is that a correlation or a cause with the recession? And the point is really, do you have actually specific linkage between these claims and the recession in terms of other actively through the recession? Or are you just saying this is the most likely cause because we can think of no other cause? And the reason I ask this question is because your competitors haven't suffered as badly from these large losses as you have. So it seems to be quite Allianz-specific, to some extent. That's the first question. And the second question relates to your new business disclosure on Page 13 of the presentation. And I was intrigued by your comment that said that the increases that you're showing here are not net of discounts that your agents or brokers can offer your customers. Can you quantify what these discounts might be in terms of the size of these effects? And why haven't you included that in this slide because it would quite good to actually see the effective rate change on the new business.

Oliver Bäte
Chairman of Management Board & CEO

Let me start with the last one. I wish I could tell you. We don't have the systems yet in order to really monitor the discounts. The way you see that eventually is in the pricing after the season. So when you see the effective average rate in the portfolio, so you know. You don't see that yet as the leading indicator. This is where I would like to push this through eventually. What we need to measure, at one point in time, is if you want to say so a new business profitability in P&C as much as we do that a new business profitability in Life and we have to do it and we will do it, but we don't have the number as of yet. Just that's the honest truth.

Paul F. Goodhind

Redburn (Europe) Limited, Research Division

So we to amounts of 2%, 5%? What sort of flexibility do your distributors have on the pricing? I don't really have a feel for the quantum.

Oliver Bäte
Chairman of Management Board & CEO

It's not a lot. It's actually very small on the overall portfolio. So it's not in the percentage rate because it's only applies to very selective segments of the portfolio. So you cannot say well they show a positive EUR 1.8 million, but in effect, there's a EUR 1.4 million negative because of the 3% discount. It's actually in the basis point, a larger basis point area, but it is in certain segment significant and I wish I could tell you, but I don't have the leadership tools yet that we need to apply to that. That's just what it is. And call a spade a spade. Now on the non-Life in France, you're absolutely right. But we are not completely alone. Just the extent to which these large claims have affected us is not seen in the portfolio of others, at least in terms of what we can see and after runoffs. Now you ask whether this is a correlation or a cause. Now what we know, I've looked at 10 of these large claims over EUR 5 million, 4 of them occurred in the segment that we call category 4s, i.e. requires heavy reinsurance. So that's very, very dangerous types of risks that we are carefully looking at. So we are looking both at what has the underwriting policy been there and how it has been affected. Most of them, however, are fire risks. So they're not liability claims, they are fire risks and typically happens if you have a big drop in the economic activity that, funnily enough, these fire risks increase in frequency. So there's a very strong relation. Out of another 2, we know we have a suspicion of arson, this is the point you just made. And then another two we don't understand yet. So by and large, there's a significant correlation and 4 of the cases I believe there's a cause-and-effect relationship between them. Now can it also be left in underwriting, I can tell you yet as of September 1, we have a new head of technical in France, Pascal [ph], who joined us and who has a significant project under way and I think by the end of the year, we can tell you what the causes are.

Paul F. Goodhind
Redburn (Europe) Limited, Research Division

That's great.

Oliver Bäte
Chairman of Management Board & CEO

But they should disappear from what I know because we've been re-underwriting the commercial line segment aggressively. So, for example, the category 4, we've canceled a lot of the risk and had double-digit price increases, we sometime have the same effects of profitability and the segments should improve considerably.

Operator

Our final question comes from Andrew Broadfield of Morgan Stanley.

Andrew Broadfield
Barclays PLC, Research Division

Two questions. I hope you can answer them quickly. I have just one question. You've talked about Solvency II, but not IAS-39. And I know that's been bothering you guys a little bit and in terms of the Cowen [ph] exposure. I just wondered whether you might be able to give me, as short as possible, overview on where you see yourself, where you see that and if that has any business implications for you. And secondly, just on M&A, given the -- your comments first and what was going on in the market and the available assets out there. And also your comments around caution around the capital position. If we were to roll forward 6 months and the world is still sort of largely where we are now and your capital position is strong, is that part of your motivation for keeping -- being cautious? You want to keep the powder dry for M&A or is it purely and solely for the reasons you mentioned so far?

Oliver Bäte
Chairman of Management Board & CEO

Yes. Let me start with the last -- the second question, M&A. We have -- obviously, there is no large transaction in the market that is not being shown to us, right? So we see all of the flows, but I would like to reiterate what we said in the past, we have no particular transaction that we are contemplating to do right now. So that is -- we obviously are monitoring the developments very, very carefully. But we have nothing right now that we're looking at and so we really are cautious on the capital position, which by the way, means that we don't have to do a rights issue or anything else at this point in time. And we really like to keep our powder dry in general to be cautious because it served us well, and actually to be honest, sometimes surprised what others can get away with. But we are really trying to stay conservative on the capital position. What might happen at some point next year, I cannot tell you. If we have dramatic industry consolidation, we obviously have to look at it, but we look at it then. For now, we stay conservative. On the IAS-39 is the following. Generally, the fact that the IASB has taken a look at it in light of the crisis was a positive development. So for example, positive is that they are maintaining 2 categories i.e. as a cost position, as well as a fair value category. So also positive that they're now acknowledging there's obviously a relationship between accounting and the business model which we really, really appreciate. But what is really negative is that reclassifications can only be done in very, very specific situations because they don't want to have managed any leeway. But it doesn't reflect our business model because of the purpose of holding of certain positions can change and is actually a part of our business model so that is not so good. Most important, however, is the treatment of equities, which is highly negative. Because you either have the choice to use a fair value option via the P&L or you can have it call it an equity and only then the dividend income can be shown in the P&L and this would cause huge problems, particularly on the Life side, because we would not be able to account for gains on the sale of equities, which should happen over the course of a lifetime of our financial investment. We would really want to have that changed and we would like to have a separate category almost like the available for sale category and make sure that we can really show both the changes and the realized results, including impairments to our shareholders. And show that in the P&L. And it's very important that people recognize that there is a huge problem, even in the positive case, that we have gains on disposals, because we would never show them, but we would have the obligations to share these gains which are invisible with our policyholders in the Life side. So how would we be able to account for that because these obligations would be P&L relevant. So that would create absolute havoc. But that's just the insurance view. Now there's another view which is equally important and that is what we call a level playing field. Relative to banks, banks are allowed to basically account their credit risks with the acquisition costs, right? And we have to account credit risk on a mark-to-market basis. So that for us the changes in the spread directly flow through the P&L, and for the banks it's not the case, which is the opposite of what it should be economically because our business model is long-term and a lot of the funding of the banks are short-term. So you create huge problems on the competition side and distortion of competitive dynamics which we cannot accept and we are aligning ourselves with competition to make our competitors to make sure we speak with one voice and the insurers are all very unhappy with this and we'll move against the proposal that you're seeing here which is now called IFRS 9.

Andrew Broadfield
Barclays PLC, Research Division

Okay. So I mean this sounds like if it went through, which you hope it doesn't as it is, then that potentially draws quite a strong business model change.

Oliver Bäte
Chairman of Management Board & CEO

Well, it would create, but we're working on making sure that this thing doesn't happen.

Oliver Schmidt
Head of Investor Relations

All right, with this, we would like to say goodbye to everybody. Thanks for joining the call, and have a very nice remaining afternoon.

Oliver Bäte
Chairman of Management Board & CEO

Thank you, gentlemen. Thank you very much for bearing with me.