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Market Intelligence

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Earnings Call

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Call Participants

EXECUTIVES

Giulio Terzariol
CFO & Member of the Management Board

Oliver Bate
Chairman of the Management Board & CEO

ANALYSTS

Michael Flämig

Stephan Kahl

Tom Sims

Unknown Analyst

Presentation

Operator

Good morning, and welcome to Allianz Second Quarter Results Web audio conference. The conference is scheduled to last up to 60 minutes. As usual, our CFO, Giulio Terzariol, will guide you through the quarterly results, and we'll then take your questions. I hereby hand over to Giulio, please.

Giulio Terzariol
CFO & Member of the Management Board

Now, thank you, Helge, and good morning to everybody. As you can see, we had very strong results for the first 6 months of the year. And I will say, if I need to summarize the results. I will say that we see very solid performance in property casualty. And I would even say that in the commercial business, in property casualty, we see outstanding performance, and we see a nice resilience in our retail business. And all this leads to a combined ratio of 92% with operating profit of slightly shy of EUR 4 billion for the segment in property casualty. In the Life Health business, we see strong business margin.

And also, we see that the in-force business is reliably delivering good profits. So, all in all, we had EUR 2.5 billion of operating profit, which is in line with our expectation. And in Asset Management, sure the environment is a little bit tougher, especially because of the development in the course of 2022. But we have a nice contribution coming from asset management to our results of EUR 1.4 billion. We see also inflows coming back. In total, we had EUR 18 billion of inflows, especially coming from PIMCO. We see also some momentum as we go into July. So when we put all this together, we have an operating profit of EUR 7.5 billion, which is 15% ahead of the prior period. And also, if you look at our outlook, divided by 2, we are basically 6% above our outlook. So I think it's a very good result for the first part of the year.

When you look at the shareholder core net income, you see EUR 4.7 billion of profits, which is 90% higher compared to last year. Here, clearly, we need to adjust for the impact of [indiscernible] in 2022. If we do so, we still get to a 15% increase in core net income, which is in line with the increase that we see for the operating profit. So a very strong performance, I would say, across the segment and especially a very strong operating profit and also a strong core income. That's a picture as we look at the 6 months. As we go into the second quarter numbers, I would say we see broadly a coping pace of the performance for the 6 months, with strong delivery coming from property casualty.

The operating profit is slightly short of EUR 2 billion. profitability in Life and Health is in line with the expectation. The asset management is more or less in line with the profitability of Q1. The core net income is at EUR 2.5 billion, which is a 23% increase compared to last year. And here, we have 3 effects. The operating profit increase of 7%. We have less restructuring compared to last year. And also, we had a more favorable tax rate. Since I'm going to speak at length about the results of the second quarter, I skip directly to the next slide, which is the development of our solvency ratio. Overall, our solvency ratio stands now at 208%, which is a 3 percentage point of improvement compared to the first quarter of 2023 and even a 7 percentage point of improvement compared to 2022. We need also to consider that now we are reflecting the buyback of EUR 1.5 billion that was not reflected in the number per end of March.

So the improvement adjusted for the buyback deduction is even more notable compared to what we are showing in the slides. Sensitivities are pretty much unchanged or exactly unchanged compared to what we had in the previous quarter. And now we can go to the user waterfall, where you can see that a substantial contribution to the increase of our solvency ratio is coming from the organic generation. That's exactly what we like to see. The market impact has been relatively flat. And then under capital management action, you see, as always, a deduction for the dividend accrual. And then we have also the impact of the buyback, which was about 4 percentage points on the solvency ratio. On the other side, we had a net issuance of debt, and there was a positive 2 percentage point of impact. So bottom line is a strong solvency ratio at 208%. And clearly, we have the capital flexibility that we can deploy in the remainder of the year or next year as we always do.

And now we come to the segment presentation. And I would say this picture, Page 11, is really good. We can see a nice growth of 11.4%. There's nothing new actually. We had also a strong growth in Q1. If you remember, we had also good growth in the course of 2022. If you look at the split of the growth between premium and volume, you can see that 7 percentage point of the growth is coming from price and about 5 percentage points is coming from volume. I will say volume is mostly driven by companies like Allianz Partners, and we look at prices is coming from especially Continental Europe. So that's a clear indication that we are reacting to the inflation that we are seeing. And you can see this even better when you look at the rate change or renewal. As you see now, there is an acceleration compared to what we had in the second -- in the in the previous year.

So these are all indications that we are taking action, clearly to react to the inflation that we see, and this should bode well for the operating performance of the segment as we go into the second part of the year and also as we go into 2024. So that's a very strong picture. You can see also that we have a nice good growth numbers and a good renewal rate changes across all operating entities. Now moving to the operating profit. The operating profit is up 11% compared to last year or EUR 200 million. And this is driven by higher revenue. It's also driven by a slightly lower combined ratio.

And also, we have a higher investment income. When we look at the combined ratio, the combined ratio is basically a little bit improved compared to the second quarter last year. You can see that we have lower nat cat load. On the other side, also the runoff is lower. So I will say that the 2 positions are basically neutralizing itself so overall 40 basis points of improvement, if you want, on the underlying combined ratio even adjusted for run-off for nat cat.

So from that point of view, a solid performance. As you see in commercial lines, we are at a very nice combined ratio of 86%. In retail business, we are running 95% which is a resilient number considering the environment. And as you see, is also pretty much consistent with the number that we had last year. Now when we take a look at the performance by entities, I would say there are a few entities where there is some work to do, like in the United Kingdom, also in Australia and to a certain degree in Spain. But we have a lot of companies delivering very strong results. And I would like to highlight also the strong performance at AGC&S with a combined ratio of 88% for the quarter. And when you look at the 6 months, which is always a little bit more representative as opposed to just the quarterly slides.

When you look at the 6 months, we have a combined ratio of 90.8% for AGC&S, so a strong performance in AGC&S. And that's not just AGC&S as I was mentioning before, in commercial lines, we are posting very, very strong results overall comforting picture. And as we look now at the other driver of operating performance at Page 17, we can see that the investment results has improved by EUR 80 million compared to the preceding period. Here, clearly, we see the positive effect coming from higher interest rates. On the upper right-hand side, there is a so-called economic reinvestment yield. You can see that right now, we are running at 4.6%, in 2022 the number was 3.3%. If I look back in 2021, the number was 1.2%. So this gives you a little bit idea of how much more investment income we are slowly, slowly accumulating.

Clearly, this momentum is going to continue also as we will go into the next quarter. So overall, strong performance in P&C with a very solid combined ratio growth in revenue, growth driven both by volume and by price. And then also, we have increased investment results. Now coming to the Life segment. Overall, here, the main message at Page 19 is that the new business margin is stable at a good level. That's really a strong level. So our target is 5%. We are right now close to 6.2% for the quarter, close to 6% for the 6 months. So we are very happy with the profitability of the business and also volume is up. Here, the situation is a little bit more volatile.

So the growth is driven mostly by the United States. In Continental Europe, the situation currently is a little bit more challenging. But overall, when we put all numbers together, we get to a nice growth in present business premium, which translates into also a good growth in value of new business. At Page 21, we are showing this new KPI which is the CSM. The CSM again, is a sort of present value of future IFRS profits. And as you see, the normalized CSM growth, which is the sum of CSM coming from new business from the expected in-force return from the CSM and of the CSM release. This normalized growth is 1.5%.

So if you annualize the number, you get to a CSM growth of 6%. If you take the 6 months as a point of reference, you annualize the normalized CSM growth for the 6 months, you get to a 5% growth in CSM.

Why I mentioned this number because that number is important, there is an expectation that the future profit growth is going to be consistent with the growth in the CSM.

Otherwise, economic variances have been slightly negative. This is driven by FX translation effects and also by some valuation changes on real estate. Noneconomic variances have been slightly positive. And this CSM release is at 9% of the CSM, which is in line with our expectation. So that's a new metric. I personally like it. It gives some insight into the development of the overall business.

And what is also important, we see that there are no major surprises as we look into this new metric things are coming broadly in line with our expectation. Page 23, the operating profit is EUR 1.2 billion, which is brought in line with our expectation. When you look at the 6 months, we had EUR 2.5 billion of operating profit, which is exactly our outlook divided by 2.

So from that point of view, everything is going according to what we were expecting. The comparison to prior period is not really meaningful in this case, and that's because we had some noise coming from the first time implementation of IFRS 17 as we had to do the competitive for the last year. So the focus should be on the current performance.

And as I said before, this is coming in line with our expectations. And I'd like to mention the ROE, which is basically at a 15% level. So that's a strong ROE, reflecting the fact that our in-force book has good quality overall. Now coming to Page 25, here you can see basically on the operating profit development, the point that I was making before. In the case of U.S.A., you see a big increase in operating profit. This has a little bit to do -- this has to do with the noise coming from the first time implementation of IFRS 17 last year.

Otherwise, if you adjust for that, if you look at the other companies, you can see that there is overall a nice stability in the development of the operating profit in Q3 compared to what we saw last year. So in -- I would say, summarizing the results on the Life side, within according to expectation, that's totally fine because we know that we have quality book overall.

And also, we know that we are pushing our business, which is profitable and also from a risk point of view, absolutely manageable. Now let's come to the Life -- to the Asset Management segment. Overall, you can see that the assets under management are basically flat over Q1 2023. And if you look at year-end 2022, we are up a couple of percentage points.

So overall, we got stability in the course of 2023. This is not the stability that we had last year because of the big shock in interest rates. So that's very important because this stability is going to help the profitability as we go clearly into the second part of the year.

If we look then at Page 29, the evolution or third-party assets under management. We see overall flows. They are coming from PIMCO. There was also an acceleration PIMCO towards the end of the quarter, and we saw also positive flows in the month of July. So we think that could be an inflection point that we're going to see more flows as we go into the second part of the year.

And otherwise, the market movement -- the fixed movement was slightly negative, and that's mostly because of the U.S. dollar depreciation. But I said, again, assets under management are stable and this should clearly support the performance as we move into the second part of 2023. On the revenue side, the revenue side, adjusted for FX and consolidation effects are 2% down.

That's not unexpected because here, we are comparing second quarter 2023 versus the second quarter of 2022. What might be eye catching in this slide is the reduction of fee margin it's AGI. This has to do with the fact that in the second quarter last year, we still had the AGI U.S. business. And now this business is not part of the group anymore.

So the fee margin is going down. But on the other side, we have also less expenses, so in reality, the impact on the total profitability of the company is not necessarily to be derived by the lower fee margin. And now when we look at the operating profit for the quarter, we see basically a reduction of 7% compared to last year.

But I would say results are broadly in line with the first quarter 2023 results and they are also in line with our expectations. Clearly, the expectations have to be adjusted to the environment in total. For the 6 months, we have an operating profit of EUR 1.4 billion. And our outlook for the year is EUR 3 billion, considering that we should see some more momentum in the second part of the year and considering also that we usually get more performance fees in Q4 compared to the performance fees that we get in the preceding quarter, we are still positive that we should be able to achieve the EUR 3 billion of outlook for the segment.

Now coming to corporate overall results are in line with expectations. They are lower compared to last year. But last year, we had a strong benefit coming from inflation in bonds. Now inflation in bonds generated less income, which is also potentially a good news in the sense, this could be in anticipation that inflation might come down. But what is more important the profitability is in line with our expectation, even a little bit ahead. If I look at the 6 months, the operating loss for the corporate segment is about EUR 300 million, and our expectation will be that we have about EUR 400 million operating loss.

So we are running a little bit ahead of our expectation also in this segment. And finally, we come to the core net income. The core net income has improved by 23% compared to the 2022 level. Here, we have the increase in operating profit. Another driver of the increase in net income is the lower amount of restructuring and then also the tax rate has been lower this quarter due to some positive one-offs.

So we will combine all these 3 effects, we get basically to this nice growth in the core net income. When you at the core net income for the 6 months, we are at EUR 4.7 billion, which is, in my opinion, a good representation of what could be a normalized level of core income when you adjust for the classical one-offs or noise that you might pick up due to different items. So when you annualize the EUR 4.7 billion, you are at EUR 9.4 billion, I would say, EUR 9.5 billion. That could be a reasonable expectation for our core income on a normalized level.

So coming to the end. Before I get your questions, I would say strong delivery across, I would say, all segments. Obviously, clearly adjusting also for challenges might be coming from the environment, but you see a nice increase in business volume, especially driven by Property-Casualty. You see a 15% increase in operating profit. That increase is also the increase in core net income once you adjust for the one-off last year. Strong solvency ratio. And as always, we continue with our deployment of capital.
We announced a buyback in May 2023. We are now proceeding with the buyback of strong set of results. We are also optimistic about the fact that we will continue to show good performance as we go into the second part of the year. And for this good performance, as always, I'd like to thank the employees of Allianz because that's the result of what they do every day. And with that I'd like to pick up your questions.

Question and Answer

Operator

[Operator Instructions] With that, we take our first question from Stephan Kahl from Bloomberg. Okay. I hope the line is open. Just give us a few seconds to bring you in line. Okay. Stephan, your line is open now.

Stephan Kahl

A short question on the outlook. Some people expected you might narrow down your outlook for this year, for example, saying you will end up in the upper half of your forecast range. Just wondering, why didn't you do so with the second quarter earnings? What keeps you back at this point? Or why are you still cautious on not being more optimistic on your outlook for the current year?

Giulio Terzariol
CFO & Member of the Management Board

Thank you for your question. We are fundamentally optimistic. So from that point of view, we are looking positively into the second part of 2023. We usually don't change the outlook. So we do this in exceptional cases. It's -- we changed the outlook more towards the end of the year. So we tend to be always a little bit conservative and cautious. But fundamentally, if you ask me, it's hard to imagine that we are not going to end up in the upper half of the range of. So something really unexpected should happen for us not to be there. But again, we have a tradition not to change the outlook so easily. So that's the only reason why we didn't do that. But again, I want to reiterate that at this point in time, based on the level of performance that we have achieved and also considering how we see the next 6 months developing, it's really hard to imagine that we're not going to be in the upper half of the range.

Operator

The next question comes from Abbot [indiscernible] from [indiscernible].

Unknown Analyst

Three questions, please. One is, we talked about commercial real estate during your last call, Mr. Terzariol has your opinion changed on that? Or are you still of the opinion that you are well covered there and have no losses to expect? The second question is the next year insurance alliance you and others left. Is it really so easy to bring Allianz and the whole leadership of the global insurance world out of a program where everyone thought that was a good thing. Does it need only a letter from a couple of prosecutors in the U.S. to drive you out of that? And the third, 90.8% for 6 months on AGC&S combined ratio. We hear from industrial insurance buyers that they're very subdued about the situation and the resistance is growing and the interest in captives. How long will this last this beautiful world of a combined ratio below 91% and higher profits from investments?

Giulio Terzariol
CFO & Member of the Management Board

I am not sure I got the second. You have other questions, [indiscernible]?

Unknown Analyst

I got 3 questions.

Giulio Terzariol
CFO & Member of the Management Board

Okay. Perfect. I'm not sure I got the second question. Maybe -- the next year insurance alliance. Okay. Perfect. Sorry. Okay. On the first question about the commercial real estate. No the position has not changed, and I would also differentiate between commercial real estate equity and commercial real estate debt. On the debt side, we don't see any major issue because of the loan-to-value, which is about 55%

because of the quality or the portfolio that we have in commercial, in nonresidential real estate. Basically, we don't see any kind of default. So from that point of view, we feel very good about the commercial debt real estate. On the commercial estate equity, we will see some pressure, but we need always to -- remember that this is part of the Life portfolio. And so from that point of view, clearly, in this case, there is a participation of the policyholder, which goes both ways.

And over the long term, clearly, the policyholders are benefiting also from the development of the real estate because you need to assume that this development is going to be positive. But as the volatility comes in and out, the majority of the volatility impact is basically absorbed by the policyholders. So I think it's something that makes sense both from a customer point of view, from a shareholder point of view, and I don't see any major issue that we are going to have from Allianz point of view, and real estate will continue to be clearly part of our asset allocation knowing that, clearly, there is some volatility and there is some cycle.

So our position has not changed compared to Q1. On your question about the net 0 insurance alliance. At the end of the day, we have a fiduciary duty to protect our shareholders. So from that point of view, it would not be responsible to not take the action that we have taken because the legal system in the U.S. or the political system can be very, very tricky. But what is important, we can achieve our objectives regardless. So it's not that we change our commitment to what we want to do. And I can tell you that we are spending a lot of time and resources and money in all these issues regarding sustainability. But we were going to do this basically not being part of an alliance because this is going to expose our shareholder to risk that they don't need to take, and we can still achieve our objective. So there is no change in our commitment to do what we think is the right thing to do.

And on the AGC&S, I like to see this combined ratio forever. If I could have my way, I had to say that what the team in AGC&S has done has been remarkable. And I would say the improvement that we see in the performance is not just because the market is strong, it's also because the market is stronger, but that's also because of the good work that the team has done. And to your specific question about capital coming capital coming in and so on. I would say it's not going to happen so quickly. I think because, first of all, some participants had some losses. There is still uncertainty about the impact of nat cat, also the funding has become more expensive.

So I will say that at least for the foreseeable future -- I would say, for the next 12 to 24 months, I don't see pressure coming from there. Then clearly, what is going to happen 5 years down the road, that's a different story. But for the time being, I don't see this pressure coming this side. We also see that the -- a few years ago or last year, there was still a hard market. And now I will say the rate increases you're getting are more just in line with inflation. And also if you don't pay attention, there are some lines of business where you might even see a weakening of profitability. So right now it's really time to really manage carefully the business in order to keep this kind of profitability.

Unknown Analyst

Can I have one small question?

Oliver Bate
Chairman of the Management Board & CEO

Yes.

Unknown Analyst

Could you comment on recent claims events and Allianz exposure, for example, Slovenia and Austria and especially the Fremantle Highway, the ship that burned in the North Sea.

Giulio Terzariol
CFO & Member of the Management Board

Yes. I don't -- okay, I can tell you. I don't have data now. Now for Slovenia, basically, we are not really strong in Slovenia, we adjusted range of our creation company. I would expect to see some, I would say, double-digit million numbers coming from Austria. But since you asked about nat cats, one nat cat that you didn't mention, but I think it is note worthy to mention is Italy, where we had a lot of hail. So on that, we are going to we expect to -- have over EUR 200 million of impact. So all in all, I would say the first 6 months -- 6 weeks of the third quarter being a little bit more intense, but that's part of our business.

In the first 6 months have been running at nat cat load of less than 1%. And it is kind of normal that we might see some more nat cats as we go into the Q3 and Q4. So definitely, in Q3, we're going to see normalization nat cat. At this point in time, I will say that the nat cat load for the quarter is going to be definitely at the plan level, which is about 2.5%, and it might be even higher depending on what happens in the remainder of the quarter. But again, this is kind of normal. And on the boat, we don't have any meaningful exposure to the issue in -- with the Boat in Holland.

Operator

Our next question comes from Michael Flamig from Boersen-Zeitung.

Michael Flämig

I have three questions -- two, please. The first one on AGC&S on a broader basis. Mr. Terzariol you said the performance of Commercial Lines is outstanding. Is this a level this business can deliver in the next quarters too? The second one, restructuring expenses are coming down in the first 6 months from EUR 500 million to EUR 100 million. Is this only a snapshot or do you see a trend to less restructuring expenses by Allianz? And the third one, the AGI margin is down 2 you mentioned that these are U.S. exit-related effects. Are you satisfied with the rest of the AGI business? Or do you see a need for improvement there?

Giulio Terzariol
CFO & Member of the Management Board

Very good. So the first question -- thank you for the questions. The first question was the combined ratio in integrated commercial. I would expect that we're going to see a strong combined ratio, about 90 -- could be in 90 to -- like plus or minus, depending on the situation also as we go into 2024. So from that point of view, there is definitely an expectation that this segment is going to provide a good delivery. As you know, we're also putting together joining forces with this integrated commercial efforts. So this should lead to higher -- potentially higher growth. I believe before we see the growth is going to take a little bit of time, but there should also be a driver of performance down the road. And also clearly by joining forces, we should also be able to get some efficiency and also we should be able to get some improvement in the technical results.

So overall, the expectation is that we're going to have strong performance in commercial lines also as we move forward. Not only in the second part to 2023, but also as we move forward into 2024. On the restructure, I would say, yes, we are going to run Allianz at a lower level of restructuring compared to what we had in the previous year. So our expectation now is that the restructured amount be between EUR 400 million to EUR 500 million, and we'll be running at EUR 800 million in the last year. So from that point of view, the quarter maybe a little bit lighter compared to what you see on a normalized level. But fundamentally, the amount of restructuring is going to be lower. The reason is because we have already restructured the loss. So there is a point where you can now continue to restructure, restructure, restructure. So from that point of view, we have done a lot of work over the last years.

This said, we are still targeting to get an expense ratio improvement. We've been able basically to improve our expense ratio by 2 percentage points over the last 5 years. And as we look forward, we want to improve our expense ratio by about 30 basis points per annum. So from that point of view, we are still looking at improving our efficiency in the next years. And the last question was? Margin, yes, I would say, because your question was whether we are happy or there is room for improvement? There is always room for improvement everywhere. So even when we have a combination of 90, we are still looking for how we can do a little bit better, how we can grow more. So fundamentally, that's always our attitude. I would say, in the case of AGI, in reality, we had set ourselves a cost income target range of 65% to 67%.

So I will say that we are basically -- we expect to be at that level where we see anyway, things that we need to look at. In the case of AGI, it's the amount of products we have on the shelf and with the old products that we have on the shelf have the scale that is made in order to get to the right efficiency level.

So there's signs that we're going to take a look. And potentially, there is some room for improvement there, and this might help to push the cost income ratio towards 65%. What we need to recognize, right now for asset managers is particularly tough, right?

So we are taking numbers basically almost at the low point of the cycle as we are going to see, I think, more stability moving forward and potentially more revenue coming through, we should also see that the cost income ratio are at least stabilizing, if not improvement. So there is some work to do, but that's normal. It's definitely not [indiscernible], let's put this way, very good business, providing good results. But clearly, we are going to look at the possibility to make the company even stronger.

Operator

Our next question comes from Cynthia Chong from Mellow Street. So if that doesn't work, I suppose we go for the next caller in the line. And the next one is Ben Dyson from S&P Global Market Intelligence.

Unknown Analyst

Okay. just a start. I wanted to ask quickly about on the P&C side. You mentioned that those are couple of countries where they might need some work. I think it was the U.K. and Australia and what were the ones that you mentioned [indiscernible] what actions you're taking to improve [indiscernible] what were you doing there? And yes, I just want to know, just a request for a repeat of something you said earlier about the potential new free cat load. I missed a bit of an audio drop out. I was just wondering if you could say what you -- could repeat what you -- said to Ms. [indiscernible] about the [indiscernible] Q3 cap, given some of the [indiscernible] we've seen.

Giulio Terzariol
CFO & Member of the Management Board

Okay. No, thank you. I think you were breaking up. I believe the second question was on capital deployment. And I -- if I understood it properly?

Unknown Analyst

Sorry, the second question was on catastrophe load -- natural catastrophe load.

Giulio Terzariol
CFO & Member of the Management Board

Okay. Sorry. Now you were breaking up a lot. Okay. I got it. Okay. On cat load, I'll just tell you. So I would expect based on what we are seeing. So for the quarter, we're going to be definitely at a cat load of 2.5% as our nat cat load. And depending on how the remain of the quarter goes, we might end up even a little bit higher. Hard to say now, but based on what we saw so far, I think it's pretty safe to say that the 2.5% on a nat cat load is going to be achieved unless we have a total absence of nat cat in the last 6 weeks, which will be nice, but it's hard to believe as I was saying before, that's normal. And when you look at the nat cat load for the first 6 months has been less than 1%. So from that point of view, even if we have a higher net cat load in Q3, this is going to be to still be relatively benign year 2023.

As always, we need to see what happens with the hurricane season. We don't have a major exposure to the United States and also we buy rate at a relatively low level. So from that point of view, unless you have an accumulation of hurricanes, that shouldn't be a big issue for us. But yes, that's where we stand right now. So expectation for the quarter is that we are going to be at a budget of 2.5 and potentially depending on further activity, we might end up higher. On the other question about Australia. So the combined ratio in Australia is about 98%. We need to also recognize this is not a specific issue with Allianz because when you look at the performance in the market, I would say that you can see there is some pressure there in motor and also in property.

Your question is, what are we doing? We are doing substantial rate increases. So from that point of view, we are putting -- in the first half of the year, we put already rate changes, which were close to 10%. And as we go into the second part of the year, the rate changes are accelerating. We have an expectation that the numbers are going to improve already in Q -- in the second half of the year. So that's not a case where we need to wait 2 years, right, to get to a better performance, but already as we go in the second half of the year, we expect a 98% combined ratio to come down. But the response to your question is clearly, rate increases because the pressure on the combined ratio is coming basically from inflation that has been pretty elevated in the case of Australia.

Operator

Our next question comes from Tom Sims from Reuters.

Tom Sims

I have a follow-up question on real estate. I see -- if I'm understanding your report correctly, it looks like your asset allocation for real estate decreased a little bit. I was wondering if that is mainly from revaluations or disposals or maybe both? And whether you would be expecting to maybe make some sales in the quarters ahead? And if so, where? And of course, we all know about the issues in the United States, but I would be particularly interested in hearing your views on the outlook for the real estate sector in Europe and Germany, in particular.

Giulio Terzariol
CFO & Member of the Management Board

Not for the question. So I would say, fundamentally, we are not increasing our exposure to real estate, although opportunistically, it might make sense to do so in certain cases, but it might be still a little bit early. And we are also not decreasing our exposure to real estate, so we stay relatively stable, and that's very important. As we make our choices about SAA, we also clearly carefully selecting which balance sheet we are going to push some assets. As I was saying before, the majority of our real estate assets are in the Life business, where we have a huge amount of so-called discretionary benefit, which means if there is an impact on the valuation of the assets, also the discretionary benefit to the policy is reduced. We are speaking of about EUR 100 billion of this discretionary benefits. So we have significant amount of cushion. In the case there are changes to the valuation of our assets.

In the case of commercial real estate equity, we see a little bit of a valuation reduction. It's nothing major where we see 3% to 4%. We might expect to see something similar also as we go into the second part of the year. But there is not a meaningful impact on our numbers because, again, on this future discretionary benefit because of the older participation. That's very important to me anyway to stress again the point. It's not that we say there is a policyholder participation. So we don't care. We really care about our policy holder. We strongly believe that over the course of a cycle, it's very good to invest in real estate.

So -- and we can ensure anyway, credit and stability to our policyholders. So the mechanism in our Life business is done in a way that the volatility basically it can be neutralized overtime. So the policyholder doesn't see this volatility come in the crediting rate. And so the crediting rate are stable. Overtime, they are higher compared to running with the risk-free location. And from an accounting point of view, a lot of this volatility gets cushioned. So that's a little bit recipe behind running Life business. So there can be some pressure. But again, this is not going to be noticeable, let's put this way or a problem from a shareholder point of view and from a policyholder point of view. I think it's a good trade, what we do in investing also in real estate over the long term.

Operator

At the moment, we don't have further questions. [Operator Instructions] I see no further questions coming in. That means we had our last question from Tom. Then with that, we conclude today's earnings call. Thank you for your attention. We say goodbye and wish you a successful rest of the day and for those who go on vacation, happy holidays.

Giulio Terzariol
CFO & Member of the Management Board
The same from. Thank you for your time, and have a good vacation if you're going vacation. Thank you, guys.