S&P Global
Market Intelligence

Allianz SE XTRA:ALV

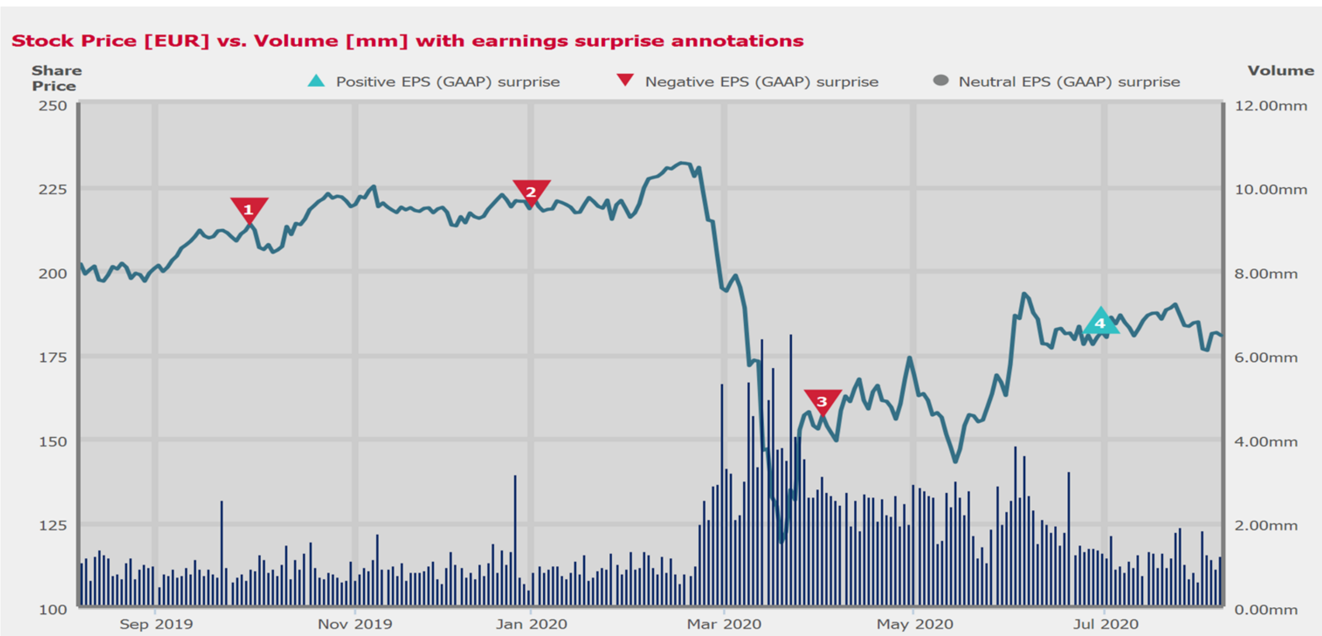
FQ2 2020 Earnings Call Transcripts

Wednesday, August 05, 2020 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	3.40	3.73	9.71	4.18	15.24	NA
Revenue (mm)	30691.00	30943.00	0.82	NA	141167.65	NA

Currency: EUR
Consensus as of Aug-06-2020 12:02 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	4.71	4.66	1 (1.06 %)
FQ4 2019	4.54	4.44	2 (2.20 %)
FQ1 2020	4.00	3.21	3 (19.75 %)
FQ2 2020	3.40	3.73	4 9.71 %

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Call Participants

EXECUTIVES

Giulio Terzariol;CFO/Member of Management Board

Oliver Schmidt
Head of Investor Relations

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

Ashik Musaddi
JPMorgan Chase & Co, Research Division

Farooq Hanif
Crédit Suisse AG, Research Division

James Austin Shuck
Citigroup Inc., Research Division

Jonathan Michael Hocking
Morgan Stanley, Research Division

Michael Hermann Haid
Commerzbank AG, Research Division

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

Nick Holmes
Societe Generale Cross Asset Research

Peter Eliot
Kepler Cheuvreux, Research Division

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Presentation

Operator

Ladies and gentlemen, welcome to the Allianz conference call on the financial results of the second quarter 2020. For your information, this conference is being streamed live on Allianz.com and YouTube. A recording will be made available shortly after the call.

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

Oliver Schmidt
Head of Investor Relations

Thank you, Cathy. Yes, good afternoon and welcome to our conference call. There's nothing specific to be added from my side today, so I hand over directly to Giulio.

Giulio Terzariol;CFO/Member of Management Board

Hi. Good morning or good afternoon to everybody. Hope you are all safe and doing well. I'm going to go straight into the numbers, and then I'm going to be happy to take your questions.

So if you go to Page 3. As usual, in the second quarter, we start showing the picture for the first 6 months of the year. And as you can see, overall, we had a resilient performance. When you look at the revenue, they are slightly down. This is due to a slowdown in the Life business, which is clearly understandable considering the lockdown measures we went through. The operating profit is EUR 4.9 billion. If you adjust for the COVID impact, the operating profit would be EUR 6.1 billion, which is at the level of last year. When you look at the COVID impact in Property-Casualty, it's about EUR 800 million, which is evenly split between Q1 and Q2. And when you look at the COVID impact for Life/Health, it's EUR 400 million. The majority of it is coming from Q1.

The net income is basically following the trajectory of the operating profit. And then when we look at the operational KPIs, the combined ratio is 96.7%. If you do adjustment for the COVID impact, which was 3 percentage points for the 6 months, you get below 94%. There are other adjustments that, positive or negative, that we can do. But still, after doing all the possible adjustment, the combined ratio is still below 94% for the 6 months.

The new business margin is 2.9%, which, considering the environment, is a very good business margin. Interest rates have dropped significantly compared to the level that we had 1 year ago.

And then when we look at Asset Management, when we look at the outflows, we have overall EUR 20 billion of outflows for the 6 months. But as you might remember, in the first quarter, the outflows were EUR 47 billion, which means we had positive outflows again in the second quarter, and this is a sign of the quality of the business.

So overall, I would say, clearly, impacts due to COVID, and also the impact that we have seen due to COVID is according to also the expectation that we set a few months ago. And then the underlying result is also coming strong, in line with our expectation.

If we move to Page 5, on the KPIs for the second quarter. Revenue are down about 8%. This is mostly driven, as I was saying before, by the slowdown on the Life side where the growth rate is being minus 13%, but that's not a surprise considering, as I was saying before, the major [perlustration] due to the lockdown. The operating profit is EUR 600 million lower than last year. Here, you can see the impact of EUR 500 million due to the COVID. If you adjust for that and also if you take into consideration that last year we had the positive DAC offsets impact due to -- in the Life business in the U.S., you can see that the operating profit is basically stable at the level last year and also above the EUR 3 billion mark. And the net income, as I was saying before, is basically following the trajectory, the operating profit. So overall, EUR 2.6 billion operating profit for the second quarter. In the first quarter, the operating profit was EUR 2.3 billion. So you can see that as markets became more stable, we see already an uplift in the operating performance. But clearly, we still have to digest the COVID impact on our underwriting results in the second quarter.

At Page 7, we are showing the capital situation of the group. Clearly, we are focusing here on the Solvency II capitalization. The capital level at the end of June is 187%, which is 3 percentage points lower compared to what we had in March. So it's a large movement downwards.

This solvency ratio remains at a good, comfortable level. When we look at the sensitivities, they are pretty much unchanged compared to the sensitivities that we had in Q1. And then I just want to draw your attention -- you can see a comment on Page 8 that, as we already discussed in the press, that we applied for a transitional for Allianz Lebensversicherung and also for [indiscernible] and this would lead then to a solvency ratio for the group, including transitional of 217%.

But as also said before, we're going to continue to be focused on managing clearly the solvency ratio of the group without enclosure of the transitional measure for Allianz Leben and [indiscernible].

If we go to Page 9, this can give a little bit of color on the drivers of our solvency ratio in Q2. You can see that the organic capital generation has been healthy on a pretax base and for dividend basis with plus 5%. But then you can see that the pretax market impact was minus 10%.

And the reason for that is basically credit spreads narrowing on the corporate bond side, which is a negative for us. And also another element that we can discuss later in the call is that our portfolio is more quality compared to the reference portfolio. And what we saw in the second quarter was a narrowing of the spread, especially on lower quality corporate bonds or on the financials when we're -- we are underweighted in financials, so clearly, be an insurance company. We don't want to double down. And this leads also to a sort of basis risk, which can impact our solvency ratio. But again, the ratio is pretty stable compared to what we had at the end of Q1, so no major developments there.

Now if we go to Page 11. As usual, we are showing the growth in Property-Casualty for the selected entities. First of all, when you look at the growth in the first quarter for the segment, you can see that the growth is slightly negative. That's also a consequence of the lockdown measures. There are a couple of maybe highlights here on the numbers that might be a little bit interesting.

I will focus right now just on the AGCS side because it's plus 25%. This has to do with the front-end business. If we remove the front-end business from the numbers, the growth rate at AGCS will be 5%. And as you can see, this growth rate is driven by rate changes. So that's a good growth rate because it's not driven by chasing volume, but it's driven by hardening of the market and also us taking action on the pricing side.

Overall, when you look at the group, you can see that there is an acceleration of rate changes on renewal. In Q1, the rate changes were 3.9%. As we present, as you look at the second quarter, they are 4.5%. And I would also say that the acceleration is mostly driven by AGCS.

Now if we go to Page 13. We can see that the operating profit for the segment has decreased by about EUR 240 million. EUR 140 million of decrease is due to the underwriting results and EUR 100 million is due to the investment results. When we look at the underwriting results and the combined ratio, clearly, we have the impact due to COVID.

For the second quarter, the impact due to COVID was 3.1%. Then, on the other side, we have been, if you want, a little bit lucky on the NatCat side because the NatCat load was only 90 basis points. Usually, we would expect the NatCat load to be more like 200 -- 2.1% for the second quarter. Then, you can also see a very good expense ratio, 25.7%. Here, we had a few one-offs that have to be adjusted. Adjusted for the one-off, the expense ratio will be still very good at 27%. And then you can see that the run-off is only 80 basis points.

And here, we have been deliberately on the conservative side because, clearly, there is -- always some uncertainty about what might happen in the future. The point is when you start adjusting the numbers for the COVID or for the higher -- for the lower NatCat, you normalize the run-off and we adjust expense ratio for the one-off. When we do all these adjustments, we end up, for the second quarter, with a combined ratio, which is definitely below the 94% level. So that's, again, a sign that the underlying performance is healthy.

When we move to Page 15. Here, clearly, we see that the COVID impact had diverging effects on our entities. Maybe just a couple of comments. One is on the AGCS, where you see a combined ratio of 117%. Thereof, 18 percentage point is due to COVID. So if you adjust the AGCS numbers for COVID, you get to a 99% combined ratio, and that will be in line with our expectation.

Then you can see clearly that the Euler Hermes, the combined ratio is over 100% or 101%, which is according to the expectations that we have in this environment. And then otherwise, you can see a lot also very good combined ratio, which is a reflection of the underlying performance, which is good, plus, in some cases, we might have benefited also from lower frequency.

In the United Kingdom, there you see EUR 200 million of operating profit, which is a consequence of a one-off of about EUR 100 million. That's also the one-off, which is impacting the expense ratio for the segment.

Now moving to Page 17. The investment income is about EUR 100 million lower compared to what we had last year. Here, there are basically 2 drivers on the -- I would almost say 3, but let's say, 2. One is the lower interest rate level. But this has to do also with lower interest rate level, for example, in Turkey.

So this is also something that we need to consider, which doesn't -- which means also is not necessarily 1:1 in operating profit impact because on the other side also the -- in reality, there is lower inflation, lower interest income, but also a lower combined ratio. Partially it is also due to the conversion from managing market currency into the euro when we do clearly the consolidation. So these are some effects driving down the operating investment income.

But in second quarter, we had also clearly lower dividend, which is a reflection of 2 factors. On the one side, we reduced our equity exposure, and then there is also that companies are paying less dividends. So these are the driver for the development of our operating investment results, which is actually not so far from our expectation. We have always taken a conservative view on what might happen to the investment result. So from that point of view, the drop that you see in the numbers is not necessarily a significant drop compared to the outlook that we had for the investment income for 2020.

Now moving to Page 19 on the Life side. As I was saying before, clearly, production is down. That's a consequence of the lockdown measures. Production was significantly down in April and May, but when you look at June, you can clearly see a recovery. So from that point of view, this is just a temporary issue that eventually is going to go away once the COVID situation is going to one day resolve.

What is good is the development or the level, if you want, for the new business margin, which is 3.1%. That's a very good level considering where the interest rates are right now. And this is also clearly the results of all the actions that we are undertaking to sustain our new business margin in a low interest rate environment. So we are very happy with the work that we are putting on trying to keep this KPI at the best possible level under these circumstances.

Now if we move to Page 21, the operating profit for the Life segment. Overall, we have about EUR 1 billion of operating profit, which is a good result. It's clearly down compared to what we had last year. But you should remember that last year, we had a positive one-off from the DAC in United States. And also last year, we were still consolidating Banco Popular. So from that point of view, I would say that EUR 1 billion is very close to the level last year. It's a little bit lower compared to our plan divided by 4, and that's about EUR 100 million, which we quantified as also being COVID-related. This is the consequence at the end of the day of the volatility that we still see, especially in the United States.

The mix has been a little bit more elevated compared to a normal expectation. And this has, as you know, an impact on our VA numbers in the U.S. But overall, with EUR 1 billion of operating profit, good quarter. If you remember, in Q1, the operating profit was about EUR 800 million, so you can see how we are getting a pickup in operating profit very quickly when the situation is just stabilizing a little bit more.

At Page 23, I would say a very good news, if you want. A picture is that when you look at the new business margin, basically, all companies are showing new business margin above 2%. So that's a reflection of the efforts that we have put there across the board to make sure that the new business margin profitability is resilient. And when you look at the operating profit, the only real striking thing is the development maybe in the U.S., but again, it's a reflection of the one-off last year and plus the elevated volatility this year.

Otherwise, generally, you see a lot of stability in the numbers of the other OEs and Spain. As I was saying before, it's a reflection of the consolidation of Banco -- mainly a reflection of the consolidation of Banco Popular.

Moving to Page 25 on the investment margin. You can see that the investment margin expressed in absolute terms, also in relative terms, is stable. But clearly, when you look at the current yield, you see that the current yield went down significantly in the quarter compared to a year ago. And then on the other side, the harvesting has been higher.

On the current yield, the main factor for the drop is that we received less dividend in Q2, because clearly, dividends are kind of drying up due to the COVID situation. So if you adjust for the dividend, you go back to a normal level of dividend, the current year will be more like 96 to 97 basis points. So we have a little bit of a drag because of the dividend. But overall, when you look at the investment margin, it is relatively stable and also broadly in line with our expectations.

So on the Life side, I would say, new business margin are holding. The operating performance has been good at EUR 1 billion. So you can see, in normal market condition, we can operate successfully on the Life side.

Moving now to Asset Management at Page 27. Overall, our assets under management have increased by 5%. Now you can see there was an increase both at PIMCO and AGI.

But then I will go straight to Page 29, because here, we are focusing especially on the assets under management, the third-party assets under management. Overall, they went up EUR 100 billion in the quarter. This is mostly driven by the market development. Clearly, the markets have recovered, so that was helpful.

Exchange rate have been negative for us because of the U.S. dollar depreciation. But then the real positive note is that we see positive flows, both at AGI and also at PIMCO. And again, beside the month of March, which was very tough from a flows point of view, we had positive flows in January and February and also in the second quarter, and we also see positive flows at PIMCO right now.

So at the end of the day, there was really a situation in a couple of weeks, but the strength of the franchise is, again, very, very strong, and the numbers in second quarter are showing that.

At Page 31 on the revenue side. For Asset Management, we see a decline of about 3% on an internal basis. This is a consequence on the one side of lower performance fees. And then also we have, for the quarter, a lower fee margin. It's about almost 2 basis points of fee margin.

Clearly, here, as usual, we need to be cautious when we look at numbers on a quarterly basis. When we take the 6 months view, the revenue, up 3% on an adjusted basis and the fee margin down only 0.5 basis points. So I would say that the 6 months view gives a better picture of the performance that we have on the -- in Asset Management.

Coming Page 33. The operating profit is good at EUR 640 million. There is a decline compared to the prior period. This is due to the lower performance fees, and to a certain degree, also to a high expense ratio. I would differentiate between PIMCO and AGI. In the case of PIMCO, there's just some volatility here on a quarterly basis. If you look at the 58.6% cost income ratio for PIMCO, it is indeed what we would generally expect.

In the case of AGI, there is also some volatility, but I would also submit that 72.3 is definitely not the number that we are looking for, and that's also the reason why, as you already know, we are taking cost measures at AGI. Overall, results are good.

When you look at the 6 months view for Asset Management, the operating profit is up 5% compared to what we had last year. So a very good first half of the year for our Asset Management operation regarding the operating profit.

Page 35, corporate. You can see lower investment income -- operating profit compared to last year. This is driven basically by the investment income. Also here, we see the effect of lower dividend. Clearly, we expect this to be temporary. Eventually, dividends are going to flow back into the system. But for the second quarter, clearly, we saw a little a bit of a drag coming basically from lower dividend income and also a little bit from lower interest income.

And then at Page 37, as usual, we are showing the nonoperating items. Overall, I will say there is really nothing eye-catching here. The only thing might be the tax rate, which is a little bit higher or significantly higher compared to last year. Again, here, we have some volatility between quarters. You might have, on the tax side, some positive or negative [indiscernible], but when they go in one direction one quarter, and they go in the other direction the other quarter -- the other year, they can make a little bit of a wider gap. When you look at the 6 months view, the tax rate is 24.8%, which is just 1 percentage point higher compared to what we had last year. So indeed, a very normal level of tax rate.

So coming to Page 39. Overall, I will say we have a robust performance. Clearly, that's a different situation. We have an impact coming from COVID. The impact coming from COVID is also according to what we have anticipated. What we do clearly, in this environment, we are focusing even more on the things that we can control. And when we run our analytics, and we are looking at the underlying combined ratio, we see that the underlying combined ratio is developing in the right direction. When we look at the expense ratio, adjusting for the positive one-off, we still have an expense ratio, which is just slightly north of 27%.

A couple of years ago or 2, 3 years ago, we were closer to 29%. And also, as you see, we are doing -- put a lot of effort on the new business margin to make sure that we are adjusting the products and also the mix to the reality of a very low interest rates environment. So from that point of view, I will say that our performance is, again, robust in what we can define as a challenging environment. But despite the challenging environment, we are providing solid numbers.
And with that, I would like to open up to your questions.

Question and Answer

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

I guess, the first and the main question, Giulio. So I was wondering if you could just sort of tell us where you see the remaining sort of uncertainties from here. I think I'm right that you're sort of EUR 0.8 billion to EUR 1.2 billion sort of estimate as the claims impact still stands. But I was just wondering if you could sort of update us on the moving parts. And in particular, I guess, you were sort of sounding a little bit cautious on sort of the motor experience in the aftermath. And I'm wondering if that's sort of still the case?

And related to that, you've decided not to give an outlook at this point. No reason you should have done that, but I sort of understood from interviews with Oliver Bäte a few weeks ago that you might have been considering that. And I'm just wondering where the major uncertainties are that caused you not do that at this stage.

And then if I can add a small one on Asset Management. I appreciate you sort of said that looking at the 6 months view is probably the better one. But if I do just look at Q2, it looked like volume mix was a little bit responsible for the lower margins. So I'm just wondering if that's sustainable or whether we can expect that to recover quickly.

Giulio Terzariol;CFO/Member of Management Board

Yes. Thank you, Peter. So maybe let's start on the uncertainty. The uncertainty is not related to what we have seen, but what might happen in the future. So if you think about that, we are still in a situation where Melbourne is going on a lockdown. We see there are outbreaks here and there happening in Europe. The situation in the U.S. is kind of unstable. So the uncertainty that we are referring to is more about what might happen in the future. When we look at what happens, in reality, things are coming along the way we basically expected. So from that point of view, we had, so far, EUR 800 million of impact in our numbers in P&C. We know that we are going still to see a negative gap to plan in Euler Hermes and to a certain degree also in travel. So when we run the numbers based on what we have seen so far and what we know so far, we would say that the impact due to COVID and our underwriting results should be, by the end of the year, EUR 1 billion, plus. So we're still there.

On the Motor side, we saw basically the numbers that we were expecting to see. So there is nothing -- there is clearly some uncertainty potentially of what might happen in the U.K. or in Australia about business interruption. But from that point of view, I will say that we think, we take -- we took overall reasonable conservative stance.

It doesn't mean that we might not see some deviation, but that should be manageable. So the uncertainty we are referring to was not so much to do with -- or it has nothing to do with what we saw. It's more really about the fact that we are in August and when we go through the corridors here in the halls in Allianz, we see people with masks. So we just need to understand that we are not out of COVID. There is speculation whether we're going to have a COVID 2 or not.

And so from that point of view, we felt that given the uncertainty about what might happen, maybe it's not really absolutely necessary to come up now with a new outlook because there are uncertainty about the futures as well. But that's it. So I will not read anything more than this.

On the Asset Management side. Yes, as you pointed out, there is a little bit of a mix effect. And the point is that the share mutual fund came down a little bit compared to the institutional side. This has not so much to do with the inflows. This has to do also with the market movement that we saw on the different asset classes.

So I will say this clearly, this can move over time, but my expectation for the fee margin is that it is probably going to stay at this level as we move forward. But again, these are just movement that you can see time by time. But there is not necessarily a pressure because they will be different. If you see really pressure coming on the fee margin because of competitive reason that will be a different story [indiscernible] in this more than we saw in the past.

Operator

[Operator Instructions] We will take our next question from Andrew Ritchie with Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Some quick questions, I think. First of all, just a simple one. Why get the transitional approval? I mean, I appreciate your next-door neighbor in Munich has always had that in their pocket as it were. But what are the circumstances you would think it rather than to start sort of shifting to that measure because I think you stressed that for now capital management excludes it still. So why feel the need to do it?

Second question, it's really a broader one. Giulio, I mean, obviously, you managed the U.S. Life business for some time. The level of interest rates in the U.S. has been the dramatic change year-to-date. Just clarify what products -- what kind of products actually work at this level of interest rates? And also does the interest rate effect on the U.S. Life business solvency position, I presume that's very delayed given the RBC, just doesn't really mark-to-market? And do you think that the low interest rate pressures are already captured, I guess, in the group's sort of Solvency II for the U.S. Life business, in particular?

And the final very quick question. I assume your guidance on P&C COVID claims, so EUR 1 billion to EUR 1.2 billion for the year, does not assume an adverse outcome from the various court cases that Allianz is involved with on BI?

Giulio Terzariol;CFO/Member of Management Board

Okay. So maybe start with transitional. On transitional, [indiscernible] point for our decision has been based on the long-term review of EIOPA. There was also a consideration that transitional might not be allowed in the future. So you cannot ask for a transitional in the future. And so that was the point where we said, "Okay, we don't want to be in a situation that one day, we might not be able to apply for transitional because it's always good to have this kind of option."

So that was the trigger point. So in reality, we thought about that already at the end of last year, and that's where we also basically decided to go down this route. So that's reaction to, if you want to, that potential measure that might come with a long-term guarantee review.

On the U.S.A. side, maybe starting from the RBC. Yes, the RBC will not necessarily capture consequences from a lower interest rate. But in the U.S.A., you still need to do a cash flow testing kind of things. So from that point of view, if you see a problem, that will be reflected there.

So clearly, the RBC measure, as you said, is a little bit less market-oriented. So you're now going to capture a few things right away, like Solvency II might do. But on the other side, you still need to do some stress test cash flow testing, so from that point of view, if there is any issue that will be captured by doing that testing.

On the U.S.A. business, you're right. I've been in U.S.A. for a long time. And I have to say that I never saw something like what we are seeing now. So the beauty is that a couple of years ago, we have introduced the IVA product, which is basically is a fixed index annuity product from an economic point of view, but that's in the IVA chassis which basically allow that you can expose the customer also to downside. And once you can create structure that can also expose the customer to a downside, then you can create structure that from a hedge point of view, a more economy cheaper. And this allow you somehow to even have lower interest rate to clearly create optionality that you can hedge in a -- with a lower budget. And you -- clearly, depending on how you cut the risk/reward profile for the policyholder, then you -- then that's the way you create a value proposition. So that's number one. And as you see, the IVA production is already going up.

The second point, I'll just tell you that there is also a lobbying effort in the U.S. in order to lower some of the minimum guarantees on the fixed index annuity side. So that's also something that is discussed now, and there is a lobby effort. So lowering the guarantee also on the fixed index annuity side from the level where they are now from a regulatory point of view, that might also be helpful.

And then sure, the point is also -- and this is not just really for the United States. This applies also to other countries. At the end of the day, we will have to think about introducing riders also having a little bit more of loadings into the product. So we need clearly to think about the value proposition in a different way.

When I talk to my U.S. colleagues, they are confident that despite the low level of interest rates, they can come up with solutions which are good from a customer point of view, there is a value proposition for the customer and also that we can have a good new business margin.

On the new business margin, I want to tell you something anyway. I'm not going to lose my sleep, if eventually, we are not going to have a 3% new business margin, but we need to settle to something which is lower than that. That would still be, in my opinion, a good level of performance. So from that point of view, yes, I would also say that 3 percentage point on new business margin is a good number, but is also a little bit of an arbitrary number, if you want, and also operating a little bit at a level less than that, that will be absolutely acceptable, if we had to go there.

Clearly, we're going to try to keep the 3% level, but it's not absolutely necessary. And that was the final question on the core cases.

At the end of the day, we are not assuming the worst case. The point is you have to think about our reserving, like you have -- first of all, let me say that most of the reserve we have now is adding up. Then we put together, we look at the best case and worst-case in all the situation there. We are not necessarily picking the worst-case for a situation because usually standard diversification.

So from that point of view, I will say we don't have a worst-case in our reserve. But overall, I will say we have -- we tend to go conservative. But clearly, in a situation like COVID, you might not -- you cannot exclude that, potentially, we might see some number, which is higher than what we have reserved for, but I think, as usual, we have been taking conservative stance.

Operator

We'll take our next question from Jon Hocking with Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 3 questions, please.

Just to come back on Andrew's question about the transitionals. Just to clarify, are you going to be reporting the solvency ratio going forward both including and excluding the transitionals? That's the first question.

Second question, just looking at the sort of resumption of lockdowns in various parts of Europe, et cetera. Can you talk through a little bit about the risk here from a sort of 1-event, 2-event situational P&C and how that might play out in reinsurance?

And then finally, on the buyback. The second half of the buyback is, I think, officially suspended. Is there any realistic chance of the buyback coming back or should we view that as being canceled?

Giulio Terzariol;CFO/Member of Management Board

Okay. Starting from transitional. We are going to basically disclose the numbers, so put the focus on the number without transitional. So we're going to see our presentation. And moving forward, you're still going to see the same presentation the way you are seeing right now.

Then on the buyback, I will say, it's still deducted from our Solvency II calculation. We are going to take the decision as we go into the second -- after the summer break. If you look at the sentiment out there, also from a regulatory point of view, I will say the sentiment is not conducive, let's put this way, to a buyback. There are events, sometimes conversation about dividend payment. So from that point of view, I will say, it's more likely than not that we will now go ahead with the buybacks, considering the situation, but we are not taking the final decision yet.

And then you had a question on the lockdown, but it was not -- I couldn't understand the question. [indiscernible]

Jonathan Michael Hocking
Morgan Stanley, Research Division

So I was just thinking, Giulio, whether if you'd come back into some lockdowns in some countries, is that going to count as 2 events for reinsurance? And how do you think...

Giulio Terzariol;CFO/Member of Management Board

Absolutely. So I would tell you, right, I'm not an reinsurance expert, but I will say that if we have a second wave, that will be definitely, in my opinion, consider another event. In regard to the -- conversation with the insurance company are going to be about how you interpret also the first kind of wave, how you aggregate losses from aggregated losses. But the second wave, there will be, I will say, most likely, interpreted or classified as a new event, I will say, the most likely interpretation.

Operator

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

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

And I had -- on the solvency, if you don't have the buyback, is it right that to be around 190%? That would be my first question.

And then on the claims, you kind of implied that most of the claims at the moment, their estimates that you actually haven't seen any reported. And the question I have here is, why is your ratio so much higher than -- I know you can't comment from here, but [indiscernible] reported, I think, 88%. You're reporting 101%. It seems a huge gap. And I just wondered what -- is the extra conservatism that you're building in?

And then the final point is also on -- just on the U.K. If I adjust the U.K. for the one-off in the pension, so the 16 points, I have the ratio of 89%, which is fantastic. And I'm just wondering whether it's sustainable? Or are there any kind of extra positives that's a bit one-off in character there?

Giulio Terzariol;CFO/Member of Management Board

Okay. No, thank you. So on the solvency ratio, if we strip out the buyback for the numbers, the solvency ratio will be about 2 percentage points higher.

Then on your questions about the claims. If I understood the question properly, you are saying that our number seems higher compared to competitors. It might be that we are more conservative, just think about that.

I think it depends also on the business profile, right, I think this makes a big difference. You should consider that, for example, in our case, if you add up Q1 and Q2, I will say that above EUR 500 million losses are coming from AGCS business.

And clearly, if you maybe a competitor not having the same kind of exposure to industrial business, you might see less losses. On the other side, you might see competitors with even -- I saw even bigger numbers in some cases.

So on the COVID numbers, because I'm also looking at what is happening, I will say you can see significant numbers, larger than ours. You can see also numbers smaller than ours. And I tell you, the answer is always look just at the business profile. This is going to help you a little bit to understand why a company might have higher numbers and another company might have lower numbers.

On the U.K., yes, you are right. If you adjust for the one-off, the combined ratio will be about 90%. I would like to tell you, this is the new target, but that's not the case. I will say there is also a little bit of an improvement due to lower frequency in Motor in the U.K. So when you adjust the numbers, I will say that you are very close to the 95% combined ratio that would be also the expectation for the year for the U.K.

Operator

We'll take our next question from Nick Holmes with Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

Two question, please.

First, can you explain more about how the cost effects were? And, in particular, how much are they linked to the policyholder capital? I'm thinking the RSP in Germany, is that the bit that's difficult to model?

And then, secondly, coming back to the transitional benefits. Again, sort of similar question, is there a link here to the cross effects? And is that why you're drawing our attention to it? I mean, if you did implement transitional, would that reduce the cross effects?

Giulio Terzariol;CFO/Member of Management Board

Okay. Maybe let's start from the transitional. I draw your attention to the transitional just because we apply for that. And that's, in theory, also our official solvency ratio, but there is no other reason for that.

And coming to the cross effects. Okay, the first question was if -- what is driving the cross effect. Clearly, there's a difference when you just test the interest rate. And when all the things are going down at the same time, it's, I would say, to a certain degree, intuitive that you are going to get a little bit more of an impact. It's like if you have an option, you're moving the same time the interest rate volatility and so on. The addition is always going to the data they're putting together. All the elements is going to give you a little bit more of an impact, positive or negative, depending on the trajectory.

You touched a good point anyway with the policyholder participation. I will say that overall, yes, the sensitivity, if you will, to the solvency ratio, not only the cross effect, but also the sensitivities across the solvency ratio is a function of, if you want, also the level of buffer that you might have now the RfB has not changed. So this is not a driver for a different level of volatility. But potentially, yes, if you have a lower level of RfB, which is not the case, you would also have more sensitivity.

The same applies, too, if you have annualized gains or not. The higher the annualized gains you have in the local account, the more resilient is going to be the solvency ratio. In our case, we have a substantial annualized gains. If you have less annualized gains, you're going to see more volatility.

One thing, which is critical anyway to understand the volatility of the solvency ratio, don't forget, that's a risk-neutral calculation. So which means you are basically doing a projection, assuming, right now, interest rates, which are basically close to 0. And every time, clearly, you do a risk-neutral calculation, which is a little bit, if you want, far away from what the real-world calculation will be, even if interest rates are low, still risk-neutral calculation is a different [anymore].

So every time you got a projection with basically no interest rates, clearly, in that situation, you're going to have some pressure on the solvency ratio, especially when you do a stress test. You're calculating your own fund, assuming that there is basically no return on your assets. That's the first thing that you do.

And then when you do the [ACR] calculation, you're going to say, "Now I'm even testing that things are going to get even much worse." So it is the level of interest rates, which is predominantly driving, if you want, the volatility of the solvency ratio. We can debate if risk-neutral calculation is the right approach to do a Solvency II calculation -- or a solvency calculation, but that's where we are, right. And from that point of view, it's our job to manage also the solvency ratio, the best way we can.

Has been helpful?

Nick Holmes
Societe Generale Cross Asset Research

Yes. No, that is very helpful. Can I just, Giulio, follow-up very quickly.

Is it possible to say sort of what proportion of the cross effects are linked to the RfB and the policyholder capital?

And then secondly, sorry, just to ask if transitionals were actually implemented, would that remove most of the cross effects? I mean it's just weird that you have transitional cross effects versus peers that have much less, and they obviously have less RfB, hence, my question.

Giulio Terzariol;CFO/Member of Management Board

I will say that you cannot decompose the cross effect in what is RfB or not. I would say the level of RfB that you have is going to determine what is the volatility of your solvency ratio. And also at the end of the day, is going to determine what is the volatility coming from pay here from the cross effect. But you call all say the cross effects, 3 percentage points is due to RfB and 4 percentage points is due to non-RfB.

So the more RfB you have, the less sensitive we are going to basically be when you do the ACR calculation. This sensitivity is going to -- this lower sensitivity is going to apply to everything, to your interest rate sensitivity, to your equity sensitivity, and eventually, is going to be also diminishing, if you want, the cross effect sensitivity. So that's one.

On the other one, what transitional is doing is not changing reality the ACR calculation, which is where you see the impact coming from the cross effect. I is just giving you more on funds.

So from that point of view, transitional is not going to change that because it's just that you can recognize more on fund compared to what you do in the calculation without transitional.

Nick Holmes
Societe Generale Cross Asset Research

That's very, very useful. Sorry, just one very quick final question. Are you going to give a small explicit guidance on the cross effects?

Giulio Terzariol;CFO/Member of Management Board

Yes. We put in comments because we said that we're going to do this. So if you go to page, let me see, it's Page 10, right?

Oliver Schmidt
Head of Investor Relations

Page 8.

Giulio Terzariol;CFO/Member of Management Board

Page 8, you're going to see a comment about the cross effects of 7 percentage points.

Nick Holmes
Societe Generale Cross Asset Research

Yes. Yes. Yes. But are you going to align that to market movements? Or leave it to us to – in…

Giulio Terzariol;CFO/Member of Management Board

No. We are going to give you an update every quarter. So the cross effect there means that when you do a 50 basis point drop in the interest rate, 30 percentage -- 30% movement to the equity and then also you have a 50 basis point widening on corporate spread.

When you take all this combined, compared to the sensitivity you see at Page 7, you need to add 7 percentage point. So you can go to Page 7. You add up all the sensitivity, and then you add up 7, and then you'll get the number, and we're going to provide you this -- because this number can change over time, obviously, we're going to provide you on a quarterly basis with the number. So that's -- this can help you a little bit to -- especially if there are significant dislocation in the markets, this might help you to do your estimates.

Operator

Our next question comes from Farooq Hanif with Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

Going back to the subject of reinsurance. So my understanding is in the EUR 0.8 billion to EUR 1 billion, sort of roughly EUR 1 billion guidance you've given on COVID, you haven't made any material assumption about recoveries. At what point could you start having to go to reinsurers when you have reported claims? And what kind of estimate could you give us on the level of recoveries that you could make under a NatCat policy for COVID? That's sort of question one.

Question two, on the life investment margin, you historically had a sort of 80 to 85 bps guidance. Things have changed. I think you said you would be close to 80 or less.

Can you give an update, given current conditions, assuming that we remain at similar interest rates going forward, what that might do to life investment margin range?

And last point is, again, on the transitionals. I know you've applied for these basically because of EIOPA. Does it change the quality of your conversation with BaFin though? Does it make that a little bit different?

Giulio Terzariol;CFO/Member of Management Board

Yes. So on -- starting from reinsurance. As you said, we didn't take any material number yet in our financials. So obviously we have a little bit of a recovery, but it's not overly material. We are already talking, by the way, to the reinsurance companies, but this is going to be a long process.

Eventually, we could clearly think of recoveries which cost a few hundreds millions. But again, I will say I'm pretty confident that reinsurance companies are going to have a different idea. We'll have a business conversation between business partners, and then we will see what the outcome is going to be.

On the point of the investment margin, I think the last guidance was more 75 basis points. And we also know that the number progressively is going to go down. On the other side, you have also a higher asset base. So the investment margin in absolute terms might stay relatively stable, but the margin express in relative terms is going to go down. But as we discussed also in the past, that's also where we expect that other profit sources are going to provide some support like loading and fees. You didn't see this quarter, clearly, because of the COVID. But if you look a little bit on the trend over the last few years, you can see the loadings and fees are going up.

So the situation is going to be the following. Other profit sources are going to go up on the investment margin. In relative terms, we are going to see clearly an investment margin, which will go down also to 70 basis points. The amount of reserves should still increase, and this might keep the investment margin more or less stable or in an absolute level. So that's more or less the picture that you should expect moving forward.

And then you had a question about the quality of our conversation with BaFin. Of course, our conversation with BaFin is not going to change because of transitional. Again, that's a measure -- that is a precautionary measure because of the fact that eventually there could not be a possibility to apply for transitional.

As you know, by the way, the German market is very standard to have a transitional. So I would expect that the quality of our conversation with BaFin, which is very good, by the way, is going to be the same with or without transitionals. So don't expect major implication, both positive or negative. It's a pure precautionary measure.

If you ask me clearly, eventually, it's like positive, clearly. It's always good to have that in your pocket. But fundamentally, it's not going to change the way we are managing the companies that are applying for transitionals. So the management of those companies is going to remain the same. I will say, yes, there might be a slight positive, but fundamentally, I will say, it's business as usual.

Operator

Our next question comes from Vinit Malhotra with Mediobanca.

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

So my 2 questions.

First one would be just looking a bit more clarity on the P&C investment income, please. So the reinvestment yield being sort of stable year-on-year but the collapse in the similar income, you did mention, obviously, dividend. But could you help us understand that as well whether there was anything -- is it all effect for dividends or -- I'm just trying to understand a bit on how to think of it in the future. Also in the similar context, I was thinking that the alternative assets would be helping offset some of this. Could you comment on whether they did or could help? That's the first topic, please.

Second is on Asset Management fee rate. We've talked about product change but could you just explain that a bit more because when I see the Slide 29, I see mutual funds were a sizable part of this inflow in the third quarter.

So maybe if you could just comment on which kind of products are these, which are the lower fee rate and whether that's the projections we should think of?

Giulio Terzariol;CFO/Member of Management Board

And the point has to do with -- in reality, the institutional side of the house, the performance has been, if you want, stronger, not in the sense of the relative performance to a benchmark, but just there might be longer duration. And so there was a little bit of a better -- more increase in assets under management in those strategy compared to the mutual fund. So it's not the change in product mix that we have initiated or different charges that we are charging on the different asset classes, it's just the mechanical effect of how the market value of the different asset classes have been reacting over time.

You need also to consider that we are comparing now Q2 basically to the situation of Q2 1 year ago. And maybe just to be clear, mutual funds have higher fees compared to institutional funds. So that's the -- once you have a change in mix because of market movement or whatever, you're going to have automatically lower fee margin. But it has nothing to do with us changing strategy, let's put this way, without changing fees. It's just a mechanical effect of the change in market value of the mutual fund versus the market value of the institutional funds.

With respect to your question about alternative assets. Yes, the alternative asset might help, but they help in the sense that, otherwise, the overall level will be lowest when you have less dividend on public equity or you have a drop in the interest rates. Clearly, you're going to see the investment result is going to go down. So definitely, alternative assets are helping our investment performance, but eventually, they cannot clearly remove the direction that you might have when dividends are not paid.

With regard to the expectation moving forward, I will say that if you take the second quarter numbers, so EUR 640 million, I will say that's what you should basically expect moving forward.

Maybe I would put a caveat. On the one side, usually, the harvesting, you see slightly positive. So you should say the number, if you normalize over time, is more slightly negative. So you might even discount the EUR 640 million a little bit.

On the other side, I will say, one day -- yes, maybe we're going to see a little bit more dividend one day. But for the time being, we are taking, on the P&C side, a conservative asset position. So also from that point of view, we are not holding a lot of equity anymore. So for, I will say, at least the next 12, 18 months, I will start from a number, which is slightly below the EUR 640 million and annualize the number to have an idea of what the investment income might be moving forward.

So I can translate for you in -- I can do the math for you right away. I will say that investment income, annualized, are EUR 2.5 billion. There might be an indication of what you might see moving forward. But I cannot predict the future either, right, so we will see what happens. But actually, with EUR 2.5 billion, you shouldn't be hopefully off, yes?

Operator

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

Ashik Musaddi
JPMorgan Chase & Co, Research Division

Just one question I have is on solvency capital. I mean your solvency ratio is about 187 at the moment. And you mentioned that because of some M&A, I guess, it will be 3 percentage points lower. And if you look at this quarter, so far, I mean, interest rates have come down further and spreads have tightened further, which could be, again, negative for your solvency ratio.

So if we ignore the transitional concept, I mean, you're kind of reaching the low level of the solvency that you have always targeted. So how comfortable you are with that? I mean how you are thinking about that solvency ratio. Should we be expecting that you will do -- you'll take some management action to get an uplift on the solvency ratio?

And just one last question on this, again, related to solvency. I mean, is solvency ratio any trigger for you to do that remaining buyback? Or is it just you're waiting for certainty around macro? Or I mean, do you need to be at around 200%, then only you will release back the buyback of EUR 750 million that is remaining?

Giulio Terzariol;CFO/Member of Management Board

Yes. Maybe starting from the buyback. The announced buyback is more -- deciding whether we're going to execute on that or not. It's more a consequence of the regulatory sentiment because once we announce a buyback, clearly, our inclination will be to treat it similarly to the way you might treat a dividend, but the buyback is clearly different. So from that point of view, the buyback decision is going to be driven mostly by the regulatory environment. So this is going to be the critical point. And as I was saying before, right now, it doesn't look like the regulatory environment is conducive to buyback.

On the solvency ratio of 187, first of all, I will say, the 180, as you said, is the low level of our target. Reality is our target. So we don't have necessarily high or low level. Clearly, we like to -- not to drop significantly, let's put this way, below the 180.

From that point of view, clearly, we're going to take management actions, and we have been taking management actions already. We took management action also in Q1. We are disposing July of some equity on the P&C side, which is -- we are going to look also at maybe putting some additional hedge on the credit spreads.

And then clearly, there are other things that we can do in order to try to create some additional solvency ratio. So the back books that we are looking to that, that might be helpful. And then we have always the organic capital generation. So from that point of view, we feel comfortable about the level that we are. We have actions that we could put in place in order to sustain the solvency ratio. We need also anyway to know that if there is a significant market dislocation, the solvency ratio can drop.

But at that point in time, we need to understand that's also the nature of the solvency ratio. Once -- after it drops, usually, there is a recovery cash backup. So from that point of view, we shouldn't be overly scared by some volatility in the ratio. This -- clearly, we are putting actions in place in order to make the solvency ratio as resilient as we might be -- we can.

Operator

We will take our next question from James Shuck with Citi.

James Austin Shuck
Citigroup Inc., Research Division

So a few questions from me.

So just like to get a feel for the volume outlook in P&C. I think normally, you guide towards around 3% to 4% of GWP growth in a normal year. Your book of business is probably a bit more biased towards SMEs than others. And obviously, SME is seeing a lot of pressure. So just keen to understand how you see that evolving, not so much this year, which is a difficult year to predict, but maybe next year? That's my first question.

Secondly, I know it's a number you haven't normally given or like to give, but I would be keen to understand what your central liquidity level is, please. And if you could comment on remittances year-to-date and the outlook for remittances next year given local levels of solvency, that would be very helpful.

My understanding is that local regulators are looking at a little bit more closely at local liquidity over and above the Solvency II ratio. So if you could you just confirm whether that was indeed the case, that would be helpful.

Giulio Terzariol;CFO/Member of Management Board

Yes. Maybe starting from the liquidity. Clearly, I'm not going to give you the number. But clearly, what we have been focusing here has been to secure as much as liquidity as possible in the group. And from that point of view, we have been also, I will say, successful. So we have received the majority of the dividend from our subsidiary and this has been really one of the main focus.

Once you -- when you get into a situation like the COVID one, yes, it's clearly -- you [indiscernible] attention on the [indiscernible]. So for that point of view, I will say, the situation that we have right now is comfortable I think [indiscernible] as you look at what regulators might be doing locally, this depends on legislation by legislation. And but again, as I said before, we've been very proactive in repatriating dividend, and we need to see clearly what the position of the local regulators is going to be next year. But that's the reason why we have works and the assumption that we need to get as much cash in Munich as possible soon because you never know what might be -- what might happen last year.

So from that point of view, in Italy, you say, when you are like [innate], you know the ancient story, a lot of things to prepare for maybe a tougher time. So from that point of view, we feel comfortable about the liquidity position we have as a group as we think clearly about 2021 and also 2022.

On the other question -- or there was about the SME. Yes. Moving forward, yes, we're going to see some pressure on revenue. There is no -- on the P&C side, there is no doubt because the premium is online, so business is a function of the turnover. So from that point of view, we know that revenue, in some lines of business, can come under pressure. And that's the reason why then we need to work very diligently also on other drivers. One is productivity. It's always a driver that we are active in and can activate even more. And then there is always the technical excellence. So there are things that we can do clearly to offset some headwinds that we're going to see for sure.

So as of now, as we are thinking about 2021 and as we look at our underlying performance, and we try to extrapolate what might happen. We are still committed to get to our 93% combined ratio next year and this is despite potentially lower revenue. So for the time being, we are still working towards that goal.

James Austin Shuck
Citigroup Inc., Research Division

Why -- if I -- just very quickly, why the reluctance not to give the liquidity number, Giulio, because it could be a strong differentiating factor for you. You've got a good group structure. You've got an Asset Management business that's very fee-based orientated. And I'm just keen to understand why you wouldn't give that number when it may show you in good light.

Giulio Terzariol;CFO/Member of Management Board

Yes. That's something that's traditionally we've never been giving up. So from that point of view, the tradition has been serving us well over many years. And I'm not going to be one break that tradition.

Operator

We'll take our next question from William Hawkins with KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Giulio, could you elaborate a little bit what you've been saying about the regulatory environment? Because it seem to me [indiscernible] a new beat. You said a couple of times that it's not conducive to a buyback and you said earlier that even conversations about dividend payments are happening. I mean, now it seems to me we have the EIOPA panic in [indiscernible] but actually, BaFin stood by companies such as you.

And since then, we've seen at least one Dutch company restarted buyback. And we've seen a number of other countries, where we've seen a number of British restart their dividend payments as well. So I'm just a little bit confused. You seem to be implying that the regulatory environment is still a point of stress when the facts that I'm seeing from the wider market seem to be pointing to the less stress and less regulatory pressures than there was, say, 3 months ago. So I wonder if you could just help me reconcile that, it seems to me, inconsistency.

And then secondly, it seems like you had a EUR 500 million frequency benefits in the first half of this year. Could you kind of give us any kind of guide about how conservative you've been with regard [indiscernible] using frequency? I mean, have you just done it efficiently, and so that's the number? Or have you held back a lot because you know what the second half is going to look like? I'm assuming you're being conservative, but I'm just trying to work out how conservative you're being.

Giulio Terzariol;CFO/Member of Management Board

Yes. Maybe starting from the regulatory side. Okay. No, we saw, as you said, the Dutch regulator going one way. But you saw at the same time, Italy, as you affirmed, just a couple of days ago, looked at companies had to be very -- still prudent with dividends. So the recommendation was not to pay dividend. That is the recommendation. The same is happening in France.

Now when we speak about BaFin, BaFin has a different view. But the point is -- the point is more that if from EIOPA, from other regulators, that is, let's put this way, a strong recommendation of encouragement not to pay dividend, that's what they say, which is also understandable to certain negative from the standpoint, this has some implication clearly for buybacks because buybacks are considered to be even a little bit more of an issue. So that's what I'm saying.

So you see some -- the majority, also the regulators, are clearly indicating that they are not really supporting dividend. There are a few exceptions. But there are exceptions, and this has implication for somehow for a buyback because, as I just tell you, buyback is seen rightly or wrongly, it doesn't matter, different from a dividend payment. So that's all what we were saying...

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

I'm sorry to come back on that, but it seems to me the 2 major markets, the Netherlands and the U.K., you've actually seen the resumption of dividends. So...

Giulio Terzariol;CFO/Member of Management Board

[indiscernible] not a major market. [indiscernible] is not a major market, I'm not so sure. Maybe Italy might have a different view. And EIOPA is clearly very relevant still in the conversation. So I will say that it's fair to say that the majority of the regulators and EIOPA definitely are encouraging. In certain direction, we had also the ESRB coming out with that. Then everybody is always looking at what is happening on the banking side. So I will say that when you look at the environment, it's definitely clearly more indicating that there is not necessarily encouragement, let's put this way, to pay dividend.

And when we had a discussion on dividend, that's what I'm saying outside Germany, because Germany is a little bit of a different story. This has, anyway, a sort of influence on the decision-making on the buyback. But I definitely tell you, there is -- look also the EIOPA position not changing. [indiscernible] out and when you see also some indication was we're going to think about dividends maybe after the summer break and now they are indicating our dividends until January 1.

And obviously speaking January 1, as in mid-January 1, because nobody is going to pay a dividend on January 1, right? Everybody is going to say let's see the numbers of the year. So that's -- the environment is definitely a little bit -- still not changed in my opinion, with exception, as you said, of the Dutch regulator. I will say the position is still the same.

And I would even say, in some cases, the confirmation about the recommendation from regulator not to pay dividend in a few legislation, also the extension of the period to January, it tells you that overall, I will say, is the same situation, if not slightly worse, compared to April.

On your question about the frequency. Yes, the frequency that we have observed is a little bit higher, the reduction compared to what we have been reflected in our numbers. So from that point of view, we have been a little bit on the conservative side, but we need to say there is also overall uncertainty about what might happen to severity as we go into the second part of the year. There could be also thinking what might happen also for next year, so you want to put -- to keep some powder dry.

It might be also regulators coming back. So from that point of view, yes, we've been on the conservative side, but I believe that being on the conservative side in this kind of environment is also the right approach. And then we will see what will happen in the second part of 2020 and also as we go into 2021.

Operator

We'll take our next question from Michael Haid with Commerzbank.

Michael Hermann Haid
Commerzbank AG, Research Division

Two questions. One on Life and Health and one on Motor.

The operating profit in Life and Health has been very resilient while the new business generation is down. I understand that the IFRS operating profit comes almost exclusively from the in-force and not from the new business.

Under IFRS, that accounting, not all costs are fully spread evenly over the lifetime of the policies. So the new business generates some upfront burden, more so, of course, in local GAAP term, but also under IFRS.

So the lower new business may have led to a positive impact on your IFRS operating profit in the second quarter. Is that so? And can you quantify the impact of that?

Second question on Motor. As you just mentioned, you have seen a reduced frequency in Motor, but also in other lines of business. These benefits will likely lead to some premium rebates and adjustments for 2020, but also lead to people moving to cheaper tariff levels in an environment where normal driving activity takes place. This may lead to premiums which are not risk I think any longer. How do you look at this problem? And what are your expectations for 2021?

Giulio Terzariol;CFO/Member of Management Board

Yes. So let me come in from the second question. Yes, definitely, we can see that the premium might come under pressure on the Motor side. That's also because there's some -- you have Bonus Malus system. You might have mileage-dependent premium. And here, that's where we also have to consider to what extent we want to potentially, and this is a conversation which is different country by country, to have some rate increases in order to consider for what might be higher severity next year.

So that's a consideration that we have. And also, there's a little bit -- one of the reasons why we tend to be also anyway conservative in recognize the full benefit of the frequency right now because we know that the future might be a little bit more challenging. So it's a little bit of being conservative a little bit on the financial side that can help.

But then on the other side, also, we're going to take a clear look at the expectation for severity. As we move in 2021, we are clearly analyzing what the impact on price might be just because of the Bonus Malus and mileages. And then we're going to -- we are on the math. And we need to go for some rate increases, then we're going to clearly to see how we can put that in a smart way into the system. So that's clearly something, which we are considering. And I will say, country by country, we might have a different answer.

On the Life side. I'll just tell you, first of all, for the biggest book that we have, which is Germany, in reality, it doesn't really makes a difference from a debt point of view whether we do more or less production. I would even tell you that in the case of Allianz Germany, on an IFRS basis, less production means a little bit less profit, but it's not really that material when you look at the totality of the book.

In other countries, it might be that you have a little bit less of the -- a little bit of an impact. But usually, I will say that we have lower production. The other acquisition cost, they stay stable. So I wouldn't necessarily say that lower production is helping the profitability because, in reality, what you do, you defer more the variable cost. But what the fixed costs, in reality, they don't get really deferred. So you should rather get under IFRS accounting a slight negative impact due to lower production, not a positive impact. But we are speaking of very -- if you ask me, it's not significant, so the impact, one way or the other.

Operator

We'll take our next question from Michael Huttner with Berenberg.

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

I had 2 questions, additional questions.

You mentioned many times that your combined ratio, once you adjust it for everything, is below 94%. And my question is how much below? And maybe you should think about the ounce on a 6-month basis, you can -- it doesn't have to be so positive maybe.

And then the other way of looking at it, what I'm trying to do is find out the answer to how conservative you've been. If I look at the solvency capital generation, the 5% ratio and when Generali, and I know you don't look at your peers, but when they reported that, they said, "Yes. Look at that number. It was so strong because we were more prudent on reserves. And reserves are our best estimate under Solvency II." But I can't -- I'm not sure I could see the same impact in your Solvency II. In other words, what I'm trying to say is the only impact I'm seeing that I'd like some indication is that the -- you have less reserve releases.

Giulio Terzariol;CFO/Member of Management Board

I cannot speak about Generali. So from that point of view, it's -- yes, I can't speak to them. I just -- the difference between us and Generali might be that we had the same reserve basis between Solvency II and IFRS where it might be that Generali doesn't have the same reserve basis. So that's -- might be the difference. So we don't differentiate between IFRS and Solvency II best estimate reserves. But I cannot speak to Generali, so you need to confirm with them how they do the Solvency II versus the IFRS basis.

On the cost combined ratio, I will say the number is -- let's put this way, it's now 93.9%, otherwise, I wouldn't tell you that the number is below 94% obviously. But also on the other side, it's now 93.1%, otherwise, I wouldn't tell you the number 93%. So from that point of view, I will say, it's, let's say, it's below 90 -- 94 by -- more than a few basis points. And from that point of view also, we see definitely that there is the right direction, and these are confident to the 93%. Clearly, we need to see how this COVID is going to play out over time, but from what we see, the underlying performance is okay.

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

And just on the reinsurance, there was a question where you said that you might get some recoveries with a couple of hundred million or maybe more. And but just to confirm, you haven't booked any of this. So if you do get a recovery, it would be a positive to the IFRS numbers.

Giulio Terzariol;CFO/Member of Management Board

We have booked some amounts. So it's not that we didn't book anything. It's not a material amount. But if we get 0 recovery, we would have a little bit of a shortfall. And if we go for a few hundred millions of recovery, we would have definitely an uplift compared to the number that we booked for the time being. But it's not that we didn't book. We booked 0. So we booked an amount, but it's not really, really significant.

Also the way we booked it, in reality, what we do is we look at the gross impact that we might have across the different legislation. So as I was saying before, we look at what could be the different worst case, then we look at what the recovery might be and then we apply some sort of the diversification to all these numbers and then we derive sort of net reserves and the booking. But as we did this kind of consideration, we also consider somehow that we might have some -- we think we're going to have some recovery.

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

And just as a follow-up question [indiscernible]. Ashik asked a couple question on solvency, and you basically said you're actually quite comfortable. But I imagine that you're comfortable because what you know today versus what's in the slide pack. What is the solvency today?

Giulio Terzariol;CFO/Member of Management Board

The solvency today? I was -- solvency -- no, but I was -- solvency today, I would say -- I don't check every single day. I was just looking the end of the month. I will say, rates went down a little bit. Equity market, as of July, were up slightly. Credit spreads where it was, a little bit of a narrowing on the government bonds, a little bit also on the corporate bonds. If you ask me, it wouldn't be so much different from the level that we have -- we announced. I would say, you can say the level that we are now in the different effects have been more or less washing out, but that was one week ago.

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

But you'll see some management actions in July?

Giulio Terzariol;CFO/Member of Management Board

Yes. You can, yes. We had some management action on the P&C side, but this is -- this might be to 1% of solvency ratio. So that's what the management action that we did in July might be doing.

Oliver Schmidt
Head of Investor Relations

We have a couple of minutes left. So I would say we take one last question, if there's any.

Operator

[Operator Instructions] We have no further questions at this time. I would like to turn the conference back to your host for any additional or closing remarks.

Oliver Schmidt
Head of Investor Relations

Thanks, Cathy. All right. Then, yes, we say thanks to everybody for joining the call. We say goodbye. We wish you all a very nice remaining afternoon. Thank you.

Giulio Terzariol;CFO/Member of Management Board

Bye guys. Stay safe.

Operator
That concludes today's presentation. Thank you for your participation. You may now disconnect.